

# CORPORATION OF DERBY COLLEGE

## AUDIT COMMITTEE



*Minutes of the meeting held in the Lees Brook Suite at the Prince Charles Avenue campus on Thursday, 29 November 2007 at 9.30 a.m.*

**COMMITTEE MEMBERS PRESENT:** Sean Bambrick  
David Curtis (Chair)  
Tony Wain

**ALSO IN ATTENDANCE:** John Callaghan, Deputy Principal: Planning and Funding  
David Coates, Clerk to the Corporation  
Jon Mold, Finance Director

Colin Howarth, KPMG LLP (External Audit)  
Julie Hetherington and Negat Sultan, RSM Robson Rhodes LLP (Internal Audit)

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10.	<p><b><u>DECLARATION OF INTERESTS IN ANY OF THE ITEMS ON THE AGENDA</u></b></p> <p>The Chair reminded those present to declare at the start of the meeting interests held in any matter to be discussed.</p> <p>No interests were declared.</p>		
11.	<p><b><u>APOLOGIES FOR ABSENCE</u></b></p> <p>Apologies for absence had been received from Richard Horsley and Debra Martin.</p> <p>The meeting was confirmed to be quorate, with three members of the Committee present.</p>	Clerk	29 Nov.
12.	<p><b><u>MINUTES</u></b></p> <p>AGREED that the Minutes of the meeting held on 12 October 2007 be confirmed as a correct record and signed by the Chair.</p>	Chair	29 Nov.
13.	<p><b><u>ACTIONS OUTSTANDING AND MATTERS ARISING</u></b></p> <p>There were no actions outstanding and the following were discussed as matters arising from the Minutes.</p> <p><b><u>Internal Audit Annual Report (Minute No. 5 refers)</u></b> It was confirmed that there had been an under-delivery of 7 days which had been discussed and resolved by the Finance Director with</p>		

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**Capital Programme Management (Minute No. 6 refers)**

Grant Thornton were scoping with the Finance Director the content of this review, and would come back to the next meeting if any additional resource days were required in order to complete the work.

**AUDIT REPORTS**

**14. 2006-2007 FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER**

The Committee received from KPMG the Management Letter for the work carried out on the 2006-2007 financial statements. The purpose of the letter was to set out any issues which had come to the attention of KPMG whilst carrying out their work, and to come to a conclusion in the financial statements on whether the accounts gave a true and fair view of the state of the College's finances. KPMG had given the College a clean opinion in this respect. The work also included completion of the final regularity audit and KPMG reported that they had no further observations to make on this work. The report provided confirmation that:-

- unqualified opinions would be issued in relation to the financial statements and regularity audits;
- all audit work was substantially complete; and
- adjusted and unadjusted audit differences to international accounting standards had been identified.

The report also provided confirmation that the College was able to make a full compliance statement in regard to its corporate governance and risk management arrangements, and the provisions of the Combined Code on Corporate Governance for the year ending 31 July 2007. The regularity audit work had also been completed, and KPMG had no additional observations to make on the work undertaken.

The report reviewed progress on the implementation of actions from the previous management letter, noting that all points had now been implemented as recommended. In final remarks, KPMG confirmed that there were very few matters arising, and the College and KPMG continued to have a very good working relationship and a positive approach to discussing technical points of detail and agreeing solutions.

Members of the Committee discussed with KPMG the content of the report and the need for the College to maintain strict disciplines over its focus on cost and driving further efficiencies in the organisation as a continuing priority. The Committee concurred with this view, adding that it is important for the College to maximise income but continually review the cost base, given the ever changing structure of the College. The meeting heard from the Finance Director that a

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proactive approach to cost control was being undertaken by the Senior Leadership Team. This was an important point looking forward if the College was to achieve the projections set out in its financial forecast for 2009-2010 and the projected surpluses anticipated at that point.

The Committee also worked through the detailed recommendations made in the report noting the close monitoring of staff recruitment and succession for the delivery of the prisons contract with OLASS. There was debate on the basis of the depreciation charge calculation for the Joseph Wright Centre and whether the decision to assume a 50 year useful economic life for the centre with a residual 50% value at the end of that period was the right treatment for the charge. It was accepted that the policy had been correctly applied but considered that this should have been an explicit decision of the Corporation as an extraordinary item at the time that the assumption was made. The Chair proposed that the Finance and Resources Committee should be asked to review the basis of this decision and confirm the Corporation's position, based on a clear rationale of advantages and disadvantages, to give specific confirmation of the accounting practice.

AGREED that the Management Letter on the audit of the financial statements for 2006-2007 be received, and the Corporation be recommended to accept the report at its meeting on 10 December 2007.

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15. **2006-2007 DRAFT MEMBERS' REPORT AND DRAFT FINANCIAL STATEMENTS**

The Committee received for information the draft members report on financial statements which would be discussed by the Finance and Resources Committee at its meeting on 5 December 2007. The main point for the Committee remained the issue discussed in the context of the management letter on the need to maintain the proactive approach to cost control in the College, and the significant contribution being made from income by the prisons contract, and the need to derive further value from this arrangement.

The report included the following:-

- the independent auditors report from KPMG and the opinion that the financial statements gave a true and fair view of the state of the affairs of the College at 31 July 2007;
- the opinion of KPMG that, in all material respects, the expenditure dispersed and the income received during the year ended 31 July 2007 had been applied for the purposes intended;
- the declaration the Corporation would be asked to make and approve the accounts on 10 December; and
- that the College had adequate resources to continue its operational existence for the foreseeable future.

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In anticipation of the Finance and Resources Committee receiving the final draft of the accounts for consideration, the Committee reviewed the detail of the report presented, and made a number of suggested amendments and corrections to the text and presentation of some of the figures which the Finance Director noted for inclusion. Included within these changes were suggestions about wording on Corporate Governance emphasising the Committee's views on the responsibility as provided and the future focus on this matter for the Committee.

AGREED that the draft Members' Report of Financial Statements for the year ended 31 July 2007 be received and noted.

## OTHER ITEMS OF BUSINESS

### 16. OUTLINE VALUE FOR MONEY FRAMEWORK

The Chair led a discussion elaborating on the duty of the Committee in its terms of reference for reviewing the College's arrangements for securing value for money and advising the Corporation on the same. At the last meeting (Minute No. 6 refers), there had been an initial discussion on the subject, and it had been agreed that Grant Thornton would undertake to draw-out the value for money implications within individual internal audit reviews in the year, and consider the inclusion of a value for money audit as a significant substantive item for review in 2008-2009.

A suggested set of criteria for making value for money judgements was put forward by the Chair for general discussion, and the Committee heard from the Finance Director the commitment of the College to take very seriously value for money in all aspects of its decision-making. It was accepted by all present that the subject of value for money was an implicit part of decision making, and that the College used a range of external indicators to benchmark and assess the extent to which it achieved public value. It was suggested that a way forward would be for the College to consider including value for money as a criteria for decision-making in the reports to Finance and Resources Committee and the Corporation, and to undertake a form of self-assessment of the College's performance in relation to value for money, as a starting measure.

It was agreed that this matter would be returned to for further discussion and consideration by the College and internal auditors over the coming months, and for further discussion at future meetings of the Committee.

AGREED that the subject of value for money be further discussed between College management and the internal auditors, and with the Committee at its next meeting.

### 17. PROGRESS REVIEW OF THE VAT HEALTH CHECK REPORT

The Finance Director confirmed that further to the discussion at the

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last meeting (Minute No. 5 refers) the current partial exemption method had recently been reviewed by HMRC and there were no proposed changes to be made. In addition, and with the guiding support of HMRC, a further £15k past VAT paid in recognition of the treatment of VAT on the leisure Centre charges had also been reclaimed on the basis of this provision being VAT exempt.

AGREED that the report be received and noted.

**18. FRAUD RISK SELF-ASSESSMENT**

The Committee reviewed with the Director of Finance the College's fraud risk self-assessment which had been presented to KPMG as the College's external auditors as part of the year-end financial statements audit review. Completion of the self-assessment was required in order to meet International Standard of Accounting (ISA) regulation no. 240.

The self-assessment review had been presented to KPMG and it was confirmed that the assessment did not conflict with the audit opinion.

The Committee welcomed the comprehensive nature of the self-assessment review, and the identification of potential risk areas and actions being taken by the College to mitigate the risk of any potential fraud. It was noted that the internal auditors would be undertaking a review of fraud and anti-corruption in the College and would test through the process of protecting the College against fraud risk with relevant managers.

AGREED that the fraud risk self-assessment review be received and noted.

**19. PROGRESS REPORT ON INTERNAL AND EXTERNAL AUDIT RECOMMENDATIONS**

NOTED the good progress being made by the College with the implementation of internal and external audit recommendations.

**20. ROUNDHOUSE AND JOSEPH WRIGHT CENTRE – CAPITAL WORKS RISK MANAGEMENT PROGRESS REVIEW**

The Committee had previously agreed a framework for managing the risks with the Roundhouse and Joseph Wright Centre developments. It was requested that this be a standing item for future meetings with a summary report by exception of any changes and shifts in the risk register with regard to either of these projects. The Committee heard from the Finance Director how the internal capacity had been resourced and strengthened to accommodate these projects, and that external reports on the post-investment appraisal would be reviewed by the Finance and Resources Committee at its meeting on 5 December. There had also been a National Audit Office review of the

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Joseph Wright Centre, and this document was intended to be an item for discussion at the next meeting.

AGREED that the capital works risk management be the subject of a progress review at future meetings of the Committee.

**21. AUDIT COMMITTEE ANNUAL REPORT**

The Committee reviewed a copy of the proposed Annual Report of the Committee for the year 2006-2007. It was noted that the final text regarding the KPMG Management Report still needed to be included, and that this would follow after the meeting.

AGREED that subject to the final inclusion of the text of the discussion around the KPMG Management Report and the Committee's wish to examine value for money, the Annual Report for 2006-2007 be approved for signature of the Chair and submission to the Corporation.

**22. ANY OTHER ITEMS OF URGENT BUSINESS**

**Colin Howarth, KPMG**

The Committee conveyed its best wishes to Colin in his retirement from KPMG at the end of December.

There being no further business, the Chair thanked everyone for their attendance and participation and closed the meeting.

The meeting ended at 10.55 a.m.



D M COATES, Clerk to the Corporation

Signed as a correct record on Tuesday, 22 April 2008

..... Chair