

AUDIT COMMITTEE CHAIR'S ANNUAL REPORT 2007/2008

1. Introduction

The Annual Report to Corporation, which complies with the requirements of the Audit Code of Practice, deals with audit activity relevant to the year 1 August 2007 to 31 July 2008 and reviews the work of the Audit Committee in relation to this period. It also incorporates a review of the Annual Internal Audit Report from RSM Bentley Jennison, the College's internal auditors.

2. Committee Membership

Jane Hore	:	Chair – Member of Corporation (Attendance 100%)
John Eade	:	Co-opted Member of the Audit Committee (Attendance 87.5%)
Sarah Smith	:	Staff Member of Corporation (Attendance 40%)
Bob Russell	:	Member of Corporation (Attendance 40%)
Anne Swietlik	:	Member of Corporation (Attendance 60%)
Ken Applegate	:	Member of Corporation (Appointed to committee from 1 September 2008, attendance 50%)

In attendance

Teresa Miller	:	Vice-Principal Finance and Resources
Julie Roper	:	College Accountant (10 March 2008)
James Myhill	:	HR Manager (10 March 2008)
Ruth Harrison	:	Head of Quality and Workforce Development (from September 2008)
Internal Auditors	:	RSM Bentley Jennison: Mr M Jones, Mr D Harris.
Financial Statements: and Regularity Auditor.	:	KPMG: Mr B Lumsden, Mr J Whybrow
Charles Reynolds	:	Clerk to the Corporation

3. Meetings Scheduled for the Period

Audit Committee met on eight occasions to consider work relating to the period 1 August 2007 to 31 July 2008 namely:

Monday 2 July 2007

Monday 1 October 2007

Monday 26 November 2007

Monday 10 March 2008

Monday 12 May 2008

Monday 30 June 2008

Monday 29 September 2008

Monday 24 November 2008

4. Internal Audit Service Reports Reviewed

• Internal audit plan 2007/2008	2 July 2007
• Risk Management	26 November 2007
• Estate Management	26 November 2007
• Payroll Advisory Review	26 November 2007
• Partnership Advisory Review	26 November 2007
• Examinations Advisory Review	26 November 2007
• Internal audit progress report	26 November 2007
• Strategic Financial Planning	10 March 2008
• Human Resources	10 March 2008
• Internal audit progress report	10 March 2008
• Non-LSC Income	12 May 2008
• Curriculum Development	12 May 2008
• Internal audit progress report	12 May 2008
• Hardware Replacement	30 June 2008
• Assets and Inventories	30 June 2008
• Governance Thematic Review	30 June 2008
• Internal audit progress report	30 June 2008
• Draft internal audit plan 2008/2009	30 June 2008
• Payroll	29 September 2008
• Draft Annual Internal Audit Report 2007/08	29 September 2008
• Follow-up	29 September 2008

This was the fifth year that RSM Bentley Jennison provided the internal audit service to the College. The programme of internal audit work reviewed covered the plan agreed for the period 1 August 2007 to 31 July 2008 and reflected the importance of the audit of 'risk'. During that time, a total of 52 actual days (56 planned) of activity took place. The Audit Committee reviewed and recommended a detailed Annual Internal Audit Report to Corporation at the meeting held on 29 September 2008. It is pleasing to report that the programme of internal audit activity was delivered against the plan and on time.

All ten internal audit reports reviewed during the year, (which assessed the levels of risk material to the achievement of each system's objectives and judged whether they were adequately managed and controlled), were found to provide either substantial (7) or adequate (3) assurance. In addition the Follow-up report indicated reasonable progress had been made in implementing the recommendations made, and accepted by management, within the internal audit report during the year. Whilst this is a pleasing outcome when measured against the benchmark performance in 2006/07 this outcome reflects a slight downturn in performance in terms of levels of assurance with 70% outcomes seen as substantial compared with 77%. With respect to recommendation for action made it is the view of the internal auditors that the College's satisfactory performance reflects a continuing management response to address the issues of concern identified. On the theme of appropriate enforcement and follow up, the Audit Committee continues to applaud the use of an audit action plan and the efforts of the Vice Principal Finance and Resources to meet the dates for action close outs. This systematic approach, which is monitored at each meeting, needs continued support from within the College, as timely closure of actions is crucial in maintaining internal audit control of identified risks. However Audit Committee members are concerned to ensure that all College staff recognise the importance of implementing recommendations as agreed in action plans and that 'compliance re audit recommendations is not optional'. In addition the system of managing the implementation of audit recommendations has been strengthened by the involvement of the College Quality Manager, and her team, to systematically monitor and review performance.

Audit Committee also reviews and monitors College management of risk at each meeting and sees this as an essential requirement in providing assurance on audit activity to Corporation. Indeed the system used for this process, which was again devised by the Vice-Principal Finance and Resources, has been identified by the internal auditors as a model of good practice.

The cost to the Corporation for providing the internal audit service for the year to 31 July 2008 as reported in the Report and Financial Accounts was £20,000 inclusive of VAT.

5. Review of the work of the Financial Statements and Regularity Auditor

The Financial Statements and Regularity Auditor for the year to 31 July 2008, KPMG, presented the Management Letter and Financial Reports relating to that period to the Audit Committee held on 24 November 2008 and subsequently to Corporation at the scheduled meeting to be held on 15 December 2008. At the time of producing this report it was the view of the auditor that there would be 'unqualified opinions' on both the financial statements and regularity audits. A final regularity report was also provided

The cost of providing this audit service to the Corporation, including for LOWESTOFT AND WAVENEY EDUCATION SERVICES LIMITED, for the

year to 31 July 2008 and as reported in the Report and Financial Accounts was £25,000 inclusive of VAT. In addition to this KPMG also provided additional services to the College with reference to the property development regarding VAT. The cost of this additional work was £35,000 inclusive of VAT.

Total fees inclusive of VAT paid to auditors for all work provided in the year as detailed in sections 4 and 5 above were therefore £80,000. This compares favourably with total fees paid in the previous year which totalled £110,000.

6. Financial Management and Control Evaluation

In addition to reviewing the work of the Internal and Financial Reporting auditors Audit Committee was for the first time required by the Learning and Skills Council (LSC) to approve on behalf of the Corporation, as part of the Framework for Excellence initiative, a Financial Management and Control Evaluation of the College. This document will be used by the LSC to determine measures of effectiveness for the College with respect to financial management and governance, and includes the development of action plans for improvement. The document is to be submitted to the LSC by 12 December 2008 and significantly relates, but not exclusively, to activity in 2007/08. It is of concern to Audit Committee members that the opportunity to seek approval for such a document from Corporation, and not Audit Committee, was not seen as necessary by the LSC, especially in view of the proposed use of the information provided and the potential impact on the College.

7. Other Relevant Matters

7.1 Risk Management:

Within the Annual Internal Audit Report 2007/08 RSM Bentley Jennison observes that

“the College continues to enhance their Risk Management arrangements and in our opinion the Board can take substantial assurance that the controls upon which the organisation relies to manage these risks, as currently laid down and operated, are effective ”.

In addition to this positive statement KPMG also state the following in Section Four of the Audit Highlights and Management Letter which deals with Corporate Governance

“The College has made a fully compliant corporate governance statement. We are required to review this to assess whether the description of the process adopted by the College in reviewing the effectiveness of the system of internal control is consistent with our understanding of the process and report any inconsistencies in our opinion..... We have reviewed the corporate governance statement and consider it consistent with our understanding of the processes followed by the College during the year”.

It is therefore pleasing to note that the College continues to be fully Turnbull compliant.

7.2 Audit Committee Opinions

The Audit Committee has reviewed thoroughly the work carried out by the College Auditors and, in particular, RSM Bentley Jennison. Based upon this we endorse the 'Overall Assurance and Opinion' statements contained in Section 3 of the Internal Audit Annual Report:

"In our opinion, for the 12 months ended 31 July 2008 Lowestoft College has adequate and effective risk management processes, control processes and governance processes to manage the achievement of the organisation's objectives".

Audit Committee is however concerned to ensure that all actions resulting from audit reports are implemented within the agreed time scale and will continue to vigorously monitor and review performance accordingly.

To this end I believe the Annual Internal Audit Report received by the Corporation to be a fair assessment of the state of the College's internal control systems and the extent to which they could be relied upon at the time of audit.

Jane Hore
Chair – Audit Committee