



HADLOW
COLLEGE

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MINUTES OF THE AUDIT COMMITTEE

HELD ON 14 NOVEMBER 2007

Present:	Mr N Coffin	-Business (Chair)
	Mr G Charlton	-Business
	Mr P Wilson	-Business
In attendance:	Mr J Allen	-Clerk to the Governors
	Mr M Lumsden-Taylor	-Director of Finance
	Mr R Shaunak	-MacIntyre Hudson
	Ms Z Longstaff-Tyrell	-Baker Tilly
	Mr B McNicoll	-Observer

The meeting commenced at 14.00

APOLOGIES & DECLARATIONS OF INTEREST

1. Apologies were received from Mr J Boxall. There were no declared interests against any of the agenda items. The Chair welcomed Mr Bob McNicoll to his first meeting as an observer prior to the Board being asked to confirm his nomination as a non-governor co-opted member of the Audit Committee. The Clerk confirmed that Mr McNicoll attended a briefing induction session on the role of the Audit Committee held prior to the meeting.

MINUTES

2. **RESOLVED** that the minutes of the meeting of the Audit Committee held 13 June 2007 be approved as a correct record and signed by the Chair.

SUMMARY ACTION LIST & MATTERS ARISING

3. The College report '*Summary Action List*' was received (copy attached to the signed minutes).

Minute 80: Approval of the Audit Plan 2007-08 is an agenda item.

Minute 85: The Board at its meeting last July approved the terms of reference for an Estates Committee that will meet for the first time in January 2008 to oversee the capital projects. The Capital Works Register is an agenda item.

Minute 88: It was confirmed that the IAS received feedback on the completed assessment of their performance for 2006-07. The internal auditor noted the concerns expressed on reporting matters and confirmed that these would be addressed.

Minute 91: It was confirmed that the concerns of the Committee on the potential impact on internal controls arising from the growth of

partnerships and new capital projects was reported to the Board. Remedial action is being taken with changes being made to the college's staffing structure and new procedures being proposed to oversee the development of partnerships. These new procedures are to be considered at the next meeting of the Finance & General Purposes Committee.

4. It was **RESOLVED** to note the Summary Action List.

AUDIT ROLL FORWARD ACTION PLAN

9. The Audit Committee now receives as a fixed agenda item the copy of the '*Audit Roll-Forward Action Plan*' listing progress against all audit action points (copy attached to the signed minutes).
10. Of the 19 audit recommendations as at October 2007, College management confirm that 8 have been completed (42%) and 11 are outstanding (58%). Seven of the 11 outstanding points relate to the 3 recommendations on the implementation of the Customer Relations Management System (CRM) and 4 recommendations concerning Partnerships (Employer Engagement). All of these recommendations are being addressed in the new Corporate Business Strategy that is being finalised at present.
11. Of the 11 outstanding recommendations listed, two are high risk (CRM implementation; and register maintenance where it has been agreed to leave this risk permanently on the Risk register because of its importance), and the remaining 9 are medium risk. The internal auditor confirmed that at the next visit there would be a follow-up on all previous recommendations to confirm if they have been satisfactorily implemented.
12. The Committee reviewed the commentary against all of the outstanding audit recommendations and noted that the responses were both appropriate and timely.
13. It was **RESOLVED** to note the Audit Roll Forward Action Plan and to receive at the next meeting the following updates:
 - (i) Progress update on the piloting of a central procurement system;
 - (ii) Headline summary from the new Corporate Business Strategy to be made available.

INTERNAL AUDIT ANNUAL REPORT 2006-07

14. The '*Internal Audit Annual Report 2006-07*' was received (copy attached to the signed minutes). The report was presented by Mr R Shaunk (MacIntyre Hudson). During 2006-07, the following areas were reviewed:

IAS Plan Area	Area Reviewed	No of plan hours	Type of Review	No of recommendations	Priority
Corporate Governance	Corporate Governance	10	Process Compliance	1	Medium
Risk Management	Incl. Disaster Recovery	10	Process Compliance	0	N/A
Departmental Review	Broadview Project	25	Systems Audit	7	Medium
Strategic Planning	Strategic Planning	30	Systems Audit	0	N/A
Viability of Educational Programmes	Viability of Educational Programmes	25	Systems Audit	0	N/A
Student Enrolment	Student Enrolment	10	Systems Audit	0	N/A
Grant Income	Grant Income	20	Systems Audit	0	N/A
Sales & Debtors	Other Income	25	Systems Audit	1	Low
Significant Partnerships	Divisional Employer Engagement	25	Systems Audit	8	High (2) Medium (6)
Computers	Computers	20	Systems Audit	3	Medium (2) Low (1)
Catering	Catering	25	Systems Audit	1	Medium
Follow Ups	Follow Up recommendations	15	Systems Audit		Various
TOTALS		262 hours			

15. The Internal Audit Service confirmed that management have taken or planned appropriate and timely action to implement recommendations.
16. The IAS concluded that the policies, procedures and operations that are in place to:
- establish and monitor the achievement of the college objectives are **good**
 - identify, assess and manage the risks to achieving the college's objectives are **good**
 - advise on, formulate, and evaluate policy, within the responsibilities of the principal as accounting officer, are **good**
 - ensure economical and efficient use of resources are **adequate** ensure compliance with the college's policies, procedures, laws and regulations are **adequate**
 - safeguard the college's assets and interest from losses of all kinds, including those from fraud, irregularity and corruption, are **adequate**

- ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes, are **adequate***.
17. It is the opinion of the Internal Audit Service that Hadlow College has **adequate and effective management, control and governance processes to manage its achievement of the college's objectives**.
 18. It was **RESOLVED** that the report be included within the Annual Report from the Audit Committee and be recommended for the approval by the Board at its meeting on 11 December 2007 and for a copy of the report to be sent to the Audit Service of the LSC; and
 19. The Committee received the proposed Audit Plan for 2007-08 (copy attached to the signed minutes) and it was **RESOLVED** to approve the Audit Plan 2007-08 including the fee of £20,800 and for the Audit Plan 2007-08 to be included in the Annual Report from the Audit Committee for the Board's approval.
 20. The Committee received a briefing paper on recommended best practice on internal control statements (copy attached to the signed minutes). It was agreed to give further consideration of adopting elements of the best practice in the Annual Report from the Audit Committee from 2008-09.

FINANCIAL STATEMENT AND AUDIT FINDINGS REPORT

21. The Committee received a copy of the '*Financial Statement and Annual Report 2006-07*' (copy attached to the signed minutes). The Financial Statement Auditor (FSA) confirmed to the Committee that the '*Financial Statement and Annual Report 2006-07*' records the continuing strong financial performance of the College. The College recorded a surplus of £298,000 (pre FRS 17 adjustment) with an actual surplus of £220,000 after Post FRS 17 adjustment.
22. The financial statements and annual report confirmed on page 22 the following opinion from the FSA:

In our opinion the financial statements give a true and fair view of the state of affairs of the College as at 31 July 2007 and of the College's surplus of income over expenditure for the year then ended, and are properly prepared in accordance with the Statement of Recommended Practice – Accounting for Further and Higher Education.
23. The financial statements and annual report confirmed on page 23 the following opinion from the FSA:

In all material respects the expenditure disbursed and income received during the year ended 31 July 2007

have been applied to purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

24. The Committee received and reviewed the '*Audit Findings Report*' issued by the FSA (copy attached to the signed minutes). The report reviews any control issues that arose during the work of the financial statement and regularity audit and provides the Committee and Board with a commentary on the financial performance of the College during 2006-07. The report identified two audit issues relating to stock and fixed assets disposal. Management agreed with the recommendations and the Committee reviewed management responses and deemed that they were timely and appropriate.
25. The auditor brought to the attention of the Committee discussions that have taken place with the Director of Finance on the recording of exceptional expenditure. This relates to £82k of exceptional costs (£32k restructuring costs and £50k of professional fees relating to KCAS). To be shown separately in the income and expenditure account requires the expense to fall into one of 3 categories in accordance with the criteria set out in FRS3. It is the view of the auditors that the £82k does not meet the criteria of FRS3 and therefore the expenses have to be recorded in the overall income and expenditure account. The disclosure of these expenses is to be subject to further discussion at the next meeting of the Finance & General Purposes Committee. It was also confirmed that the recording of the disclosure does not affect the operating surplus and contributions to General Reserves confirmed in the accounts. The issue is about how best to record the exceptional costs, i.e., below the line or above the line within the income and expenditure account.
26. It was **RESOLVED**
- (i) that the '*Audit Findings Report*' be included within the Annual Report from the Audit Committee and be recommended for the approval by the Board at its meeting of 13 December 2007;
 - (ii) that the Letter of Representation on the audit of financial statements be approved by the Board at its meeting on 13 December 2007 and signed by the Chairman;
 - (iii) that the Letter of Representation on regularity audit be approved by the Board at its meeting on 13 December 2007 and signed by the Chairman;
 - (iv) that following a review of the accounts, the Audit Committee confirms that the accounting policies are appropriate for the College; and
 - (v) that the reports be noted.

ANNUAL REPORT FROM THE AUDIT COMMITTEE TO THE CORPORATION AND PRINCIPAL (INCORPORATING THE ANNUAL REPORT ON THE COLLEGE'S ARRANGEMENTS FOR RISK MANAGEMENT)

27. There is a requirement in the Audit Code of Practice that states that the annual report of the Audit Committee is to be written for both the governing body and the Principal as the accounting officer of the College.
28. To help manage the business of the governing body, it is suggested that the annual report becomes the summary document explaining the work of the Committee during the course of the year. The annual report should be prepared as early as possible after the year end, after the internal audit annual report has been received, so that it is available to the governing body for consideration at the time the annual financial statements are signed. The report should be signed and dated by the Chair of the Audit Committee.
29. The Code of Practice sets out a model text and format of the annual report which has been used for the Annual Report 2006-07. In addition, the 2006-07 report incorporates an annual report on the College's arrangements for risk management.
30. The Audit Committee **RESOLVED** the following opinion for 2006-07:

AUDIT COMMITTEE'S OPINION

Based upon the work and the opinions made available to the Audit Committee from the internal audit service and the financial statement auditor, and in particular after considering the Internal Audit Annual Report and the reports from the Financial Statement Auditor, the Committee is satisfied that the College's whole system of internal control are adequate. The Committee is satisfied that where weaknesses have been identified they have been responded to in an appropriate and timely manner.

31. It was **RESOLVED** to recommend to the Board at its meeting on 13 December 2007 the approval of the '*Annual Report from the Audit Committee 2006-07*'.

TERMLY REPORT ON RISK MANAGEMENT

32. Under this agenda item, the Committee received the revised Risk Register that incorporates the risk management scoring system, use of a traffic light system for each identified risk, an executive summary with a headline summary provided of all high risks identified. Any risk over a score of 10 is confirmed as a high risk and the risk, along with the actions proposed to mitigate the risk, are summarised in the headline summary table of all high risks identified. Added to the risk register was the

Capital Works Risk Register (copies attached to the signed minutes).

33. The Headline Summary of Key Risks confirmed three new high risks giving a total of 13 high risks. The three new high risks were:
- Residential accommodation
 - Transport from Medway Towns to Canterbury Site
 - Relationship with KCC following recent funding announcement
34. The consolidated Capital Works Risk Register identified the following two high risks:
- Current scheme does not meet budget limitations
 - Safety during investigations/demolition/construction on live student campus
34. The Committee reviewed in detail each of the 15 identified high risks and the actions being taken to mitigate the risks.
35. It was **RESOLVED** to note the Termly report on Risk Management

WHY FARMING MATTERS

36. The Committee received a written brief and short presentation from Glyn Charlton on the subject '*Why Farming Matters*' (Copy attached to the signed minutes). The presentation outlined the changes that have occurred over the last 4 years at the College's farm. It was **AGREED** that the presentation should also be made available to the full Board.

CONFIDENTIAL SESSION

37. It was agreed that there was no need to go into a confidential meeting with auditors without college management being present.

(The auditors left the meeting at this point)

ANNUAL REAPPOINTMENT OF THE FINANCIAL STATEMENT AUDITOR

38. The College report '*Annual re-appointment of the Financial Statement Auditor*' was received (copy attached to the signed minutes). The Audit Committee reviewed performance against agreed criteria and this was summarised as follows:

Satisfaction Rating

High **Low**
1 **2** **3** **4**

		1	2	3	4
Independence and objectivity					
Q1	Has the auditor provided information about its policies and processes for maintaining independence and has this covered:	X			
	a) the rotation of audit partners (or equivalent)	X			
	b) the nature of any other services provided to the college	X			
Audit strategy					
Q2	Was the audit work planned with college management in a timely and appropriate way?	X			
Q3	Did the auditors communicate to the audit Committee and college management at the start of the audit where relevant:	X			
	a) the audit plan?	X			
	b) terms of reference	X			
	c) the audit approach	X			
	d) the level of audit materiality adopted for the audit, justification for this amount where applicable?	X			
	e) the timetable of the audit and for oral and written reports to the audit committee?	X			
	f) the extent of any reliance to be placed by the auditors on the work of other auditors?	X			
	g) the approach to tracking and reporting on the implementation of recommendations from previous visits?	X			
The audit approach					
Q4	Was there appropriate liaison with the college's other auditors where necessary?	X			
Q5	Was the audit work carried out on the agreed dates and to the agreed plan?	X			
Q6	Did the audit team comprise staff of sufficient seniority, experience and expertise?	X			
Q7	Was there appropriate staff continuity from previous visits?	X			
Q8	Did the auditors appear to be conversant with the requirements of the LSC and any other laws, regulations and standards?	X			
Q9	Was the college informed of any material events during the course of the audit?	N/A			
Conclusion and reporting of the audit					
Q10	Were written reports clear, concise and delivered on time?	X			
Q11	Were the recommendations in draft reports accepted?	X			
Q12	Were the recommendations considered constructive in improving the college's control environment and were they also considered practical and effective?	X			
Q13	Did the auditors adequately consider the appropriateness and effectiveness of the college's risk management processes, and were any recommendations for improvement considered to be practical and effective?	X			

Q14	Did the auditors attend audit committee meetings and deal with queries raised at the committee adequately?	X			
Q15	Did the auditors discuss with the audit committee any areas for improvement in their audit approach?	X			
Q16	If any audit report resulted in a qualified opinion, were the issues of concern and the impact on the report discussed with college management and the audit committee at a sufficiently early stage?	NA			
Q17	Has there been a good working relationship between the auditors, college management and audit committee?	X			
Q18	Has the auditor been sufficiently thorough in approach and robust in dealing with college management and staff?	X			
Q19	Have college staff provided positive feedback on the quality of the audit work	X			
Q20	Were ad hoc queries during the year adequately dealt with?	X			
Q21	Is it recommended that the incumbent audit provider be re-appointed for the forthcoming year?	YES			

39. It was **RESOLVED**

- (i) to recommended that the Board at its meeting on 13 December 2007 approves the annual re-appointment of Baker Tilly as the College's financial statement auditor and regularity auditor for the period 1 August 2007 – 31 July 2008; and
- (ii) To note the report.

DATE OF NEXT MEETING

40. Wednesday 27th February 2008 @ 1600.

The meeting closed at 16.30.

Signed: _____ Date: _____