



MINUTES OF THE AUDIT COMMITTEE HELD ON 8 NOVEMBER 2012

Present: Mr N Coffin
Mr B McNicoll
Ms S Hart
Mr L Currie

In attendance: Mr M Lumsdon-Taylor Director of Finance
Mr R Shaunak MacIntyre Hudson
Mr L Johannes Macintyre Hudson
Mr D Fisher Baker Tilly
Mr J Allen Clerk

The meeting commenced at 09.30.

WELCOMES, APOLOGIES & DECLARATIONS OF INTEREST

1. There were no apologies. Ms L Currie and Ms S Hart were welcomed to their first meeting of the Audit Committee and introductions were made. There were no declared interests against any of the agenda items. The Clerk confirmed that the meeting was quorate.

MINUTES

- 2 **RESOLVED** - that the minutes of the meeting of the Audit Committee held 29th June 2012 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 81: Internal Audit Strategy 2012/13 is an agenda item.

Minute 90: The strategic risks from the Risk Register were presented to the July Board meeting.

Minute 93: Ideas to further develop the role of the Audit Committee will be an agenda item at the spring meeting of the Committee.

Attached to the Summary Action List was a letter from the local MP that confirmed details of the Government's indebtedness with reference to unfounded public sector pension liabilities and Private Financial Initiative (PFI). The letter was made available for information purposes.

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

AUDIT ROLL FORWARD ACTION PLAN

5. The Audit Committee received the '*Audit Roll-Forward Action Plan*' listing progress against all outstanding audit recommendations (copy attached to the signed minutes).
6. Of the 7 audit recommendations as at November 2012, College management confirm that 2 have been completed with 5 outstanding. The two high risks related to Commercial Floristry and Fisheries & Hatchery, and detailed reports on both these risks were attached to the roll-forward action plan. The floristry update confirmed the good progress being made and the unit broke even for 2011/12. If the 2012/13 Business Plan is implemented successful this action point will be deemed to have been completed. Likewise there has been substantial improvement in Fisheries & Hatchery in 2011/12, and again, if the 2012/13 Business Plan is fully implemented, this action point will be deemed to have been completed.
7. It was **RESOLVED** to note the Audit Roll Forward Action Plan and the Supplementary Reports on Commercial Floristry and Fisheries.

SUSTAINABILITY PRESENTATION

8. The Committee received a presentation on the progress made by the College in the area of sustainability. The presentation provided information on 2011/12 targets and achievements; the launch of the campaign 'Less...'; 2012/12 targets; LSIS and the cultural shift that has occurred within the College.
9. It was **RESOLVED** for the Audit Committee, on behalf of all governors, to support sustainability and to welcome and endorse the work undertaken by the College in this important area.

CORPORATE AND SOCIAL RESPONSIBILITY

10. The College report '*Corporate and Social Responsibility*' was received (copy attached to the signed minutes). Tabled at the meeting was a landscape document that visually disclosed corporate and social responsibility credentials. As confirmed, the wider remit of the Audit Committee in terms of compliance, risk and oversight will be considered at the spring meeting.
11. It was **RESOLVED** to note the report.

INTERNAL AUDIT ANNUAL REPORT 2011/12

12. The '*Internal Audit Annual Report 2011/12*' was received (copy attached to the signed minutes). During 2011/12, the following areas were reviewed:

IAS Plan Area	No of recommendations
Corporate Governance	0
Risk Management	0
Key Financial Controls	0

Marketing	1 Medium
Student Enrolment	1 Medium
Work Based Learning	1 Medium
Catering	1 Low
Department Review	1 Medium
Follow Ups	2 Outstanding
TOTALS	7

13. The Internal Audit Service confirmed that management have taken or have planned appropriate and timely action to implement recommendations.
14. 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.
15. 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.
16. 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 13th December 2012.

INTERNAL AUDIT STRATEGY & AUDIT PLAN 2012/13

17. The Committee received the proposed '*Internal Audit Strategy & Audit Plan for 2012/13*' (copy attached to the signed minutes). The following areas will be subject to audit review during 2012/13:
- Corporate governance
 - Risk management
 - Key Financial Controls
 - Planning & Funding
 - Higher education Contracts
 - CRB Checks
 - Human Resources

- Departmental review
 - Follow-up
18. It was agreed to focus the audit on human resources on compliance with Border Agency Requirements and to use spare capacity to undertake a review of capital projects. It was confirmed that the area to be subject to a department review would be decided after the current round of business planning has been completed.
19. It was **RESOLVED** to approve the Internal Audit Plan 2012/13.

FINANCIAL STATEMENT AND AUDIT FINDINGS REPORT

20. The Committee received a copy of the '*Financial Statement and Annual Report 2011/12*' (copy attached to the signed minutes). The Financial Statement Auditor (FSA) confirmed to the Committee that the '*Financial Statement and Annual Report 2011/12*' records the continuing strong financial performance of the College.
21. It was confirmed that the draft accounts would be subject to review from the Finance, Commercial & Resources Committee on 28th November 2012.
22. Financial Statement Auditors (FSAs) are required to issue two audit opinions:
- An opinion on the financial statements
 - An opinion on the regularity of financial transactions
23. The financial statements opinion is addressed to the College. The regularity opinion is addressed to the College and the Skills Funding Agency (SFA).
24. The Audit Findings Report raised an internal control issue relating to record keeping of expenditure around Discretionary Support Funds; and an internal control issue around the use of nominal ledger codes for bank accounts. Management accepted the recommendations and it was confirmed that these have since been actioned.
25. No breaches were identified against Covenants but it was noted that the College exceeded its own informal measure of borrowing not to exceed 30% of income. It was reported that with growth forecasts for this year, the internal target would be met for 2012/13.
26. The financial statement auditor has issued an unqualified report (satisfactory) on the 2011/12 accounts.
27. The Audit Findings Report raised no internal control issue relating to regularity audit. An unqualified regularity audit opinion was confirmed for 2011/12.
28. Both audit opinions are confirmed in the Financial Statements and Annual report for the year-ended 31 July 2012.
29. 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 13th December 2012;
- (ii) that following a review of the accounts, the Audit Committee confirms that the accounting policies are appropriate for the College; and
- (iii) that the reports be noted.

FINANCE DIRECTORATE INTERNAL CONTROL SYSTEMS FRAMEWORK

30. The report from the Finance Directorate on '*Internal Control Systems Framework*' was received (copy attached to the signed minutes). To support the monitoring of College performance at an audit review level, an internal control and systems framework is used as a monitoring tool to keep the Committee informed in underlying control adherence in line with the Financial Regulations and audit best practice. The report is presented quarterly and reports on headline fiscal data covering the College's financial position and cashflow, with operational monitoring in the three areas of income, expenditure and global.
31. Amber assessments were brought to the attention of the Committee and it was **RESOLVED** to note the report and the actions being taken to address amber assessments.
32. It was **AGREED** to add to future reports Balance Sheet Ratios and compliance with Covenants.

TERMLY REPORT ON RISK MANAGEMENT

33. The Committee received the College's 'Global 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 (Copy attached to the signed minutes).
34. The Headline Summary of Key Risks confirmed the following high risks:
 - HE Recruitment and retention
 - Failure of hardware/network/remotes
 - Partnerships
 - WBL
 - Functional Skills
35. A detailed discussion took place on the risks identified for Higher Education. Although recruitment targets have not been met, if the

College can maintain retention at 90% then the income variance would not be substantial. As there were two identified risks, it was **AGREED** to record two risks in the Risk Register – one dealing with HE recruitment and the other with HE retention.

36. The Committee reviewed in detail each of the identified high risks and the actions being taken to mitigate the risks.
37. It was **RESOLVED** to note the termly report on Risk Management.

CONFIDENTIAL SESSION

38. It was agreed by all in attendance that there was no need to go into a confidential meeting with auditors without college management being present.

ANNUAL REPORT 2011/12 FROM THE AUDIT COMMITTEE TO THE CORPORATION AND PRINCIPAL

39. 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.
40. 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.
41. The Code of Practice sets out a model text and format of the annual report that has been used for the Annual Report 2011/12. In addition, the report incorporates an annual report on the College's arrangements for risk management.
42. The Audit Committee **RESOLVED** the following opinion for 2011/12

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 meets and exceeds required standards. The Committee is satisfied that where weaknesses have been identified they have been responded to in an appropriate and timely manner.

43. The Audit Committee welcomed the continuing good performance of the College and wished to place on record its appreciation of the work of the Director of Finance & Resources and all members of the Finance Directorate.

44. It was **RESOLVED** to recommend to the Board at its meeting on 13th December 2012 the approval of the 'Annual Report from the Audit Committee 2011/12'.

MONITORING OF COLLEGE PERFORMANCE & ASSESSMENT OF RISK

45. The College report 'Monitoring of College Performance & Assessment of Risk' was received (copy attached to the signed minutes). The Audit Committee is responsible for making assessments in the area of audit. Assessments are to be carried out at each meeting of the Committee through a standing agenda item 'Monitoring of College Performance & Assessment of Risk' with an overall assessment for audit being made available to the Board.
46. The Committee noted and welcomed the assessment of 'no concern/no risk' made against each of the 9 audit performance indicators.
47. It was **RESOLVED** to inform the Board of the following overall assessments:

Audit	No Risk/No Concerns
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(The auditors left the meeting at this point)

ANNUAL REAPPOINTMENT OF THE FINANCIAL STATEMENT AUDITOR

48. 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 it was **RESOLVED** to confirm the following assessment for 2011/12:

		Satisfaction			
		Rating			
		High	Low		
		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 Funding Bodies 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			

Re-appointment Recommendation:

Yes

49. Although a positive assessment, it was **AGREED** to request to Baker Tilly for there to be greater consistency with on-site finalisation, so that no additional queries were raised post the audit visit.

DATE OF NEXT MEETING

50. Thursday 28th February 2013 @ 09.30

PROCUREMENT OF CLERKING SERVICES

(The Clerk left the meeting at this point and Ms Z Stafford-Wren joined the meeting to minute this item).

51. As the minutes relate to a named individual, it was agreed to record these separately as confidential minutes.

The meeting closed at 11.20.

Signed: _____ Date: _____

CURRENT AUDIT COMMITTEE SUMMARY ACTION LIST

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	Who
10	The wider remit of the Audit Committee in terms of compliance, risk and oversight to be considered at the spring meeting.	DoF & Clerk
18	To focus the audit on human resources on compliance with Border Agency Requirements and to use spare capacity to undertake a review of capital projects. It was confirmed that the area to be subject to a department review would be decided after the current round of business planning has been completed.	DoF
32	Finance Directorate Report – to include Balance Sheet Ratios and Covenants	DoF
35	To record two risks in the Risk Register – one dealing with HE recruitment and the other with HE retention.	DoF