



HADLOW
COLLEGE

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MINUTES OF THE AUDIT COMMITTEE HELD ON 14 NOVEMBER 2013

- Present: Mr B McNicoll
Mr J Standen
- In attendance: Mr M Lumsdon-Taylor Director of Finance
Ms L Brown Vice Principal
Ms C Johannes Head of Finance & Projects
Mr D Fisher Baker Tilly
Mr L Rogers MacIntyre Hudson
Mr J Allen Clerk

The meeting commenced at 09.00.

WELCOMES, APOLOGIES & DECLARATIONS OF INTEREST

1. Apologies were received from Ms L Currie and Ms S Hart. Mr J Standen was welcomed to his 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 20 June 2013 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(ii): Board Assurance Framework is an agenda item.

Minute 81(iii): Internal Audit Strategy 2013/14 is an agenda item.

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

FRAUD

5. The College report on the incident of fraud that has been reported to the Chair of the Audit Committee, the police, Skills Funding Agency and both College auditors was received (copy attached to the signed minutes). As this was a confidential matter still subject to a police investigation, it was agreed that details of the fraud would not be recorded in the minutes.
6. From an audit perspective, the Committee sought assurances that additional safeguards have been put in place to further add to existing internal controls on BACS payments. It was confirmed that the relevant procedure has been updated and a copy of the amended procedure was attached to the report.

7. As discussions are still on-going with the College's insurers, it was agreed for any updates to be made available either to the Board or Audit Committee.
8. It was **RESOLVED** to note the report.

AUDIT ROLL FORWARD ACTION PLAN

9. The Audit Committee received the '*Audit Roll-Forward Action Plan*' listing progress against all outstanding audit recommendations (copy attached to the signed minutes).
10. Of the 5 audit recommendations as at June 2013, College management confirmed that 2 have been completed with 3 outstanding. Detailed reports were attached covering the high risks related to Commercial Floristry and Fisheries & Hatchery. As the audit risks that were first identified with these two areas have been addressed with robust business plans and KPIs now in place for both commercial areas, it was agreed that these two actions points have been fully addressed and can be removed from the roll forward action plan.
11. The remaining action point (Amber) related to the process for curriculum health checks, and it was noted the Vice Principal and auditor will meet during the follow-up audit visit to conduct a final review of the recommendation and resulting actions taken by the College.
12. It was **RESOLVED** to note the Audit Roll Forward Action Plan and the Supplementary Reports on Commercial Floristry and Fisheries.

BOARD ASSURANCE FRAMEWORK

13. The College report 'The Role of the Audit Committee for Compliance, Risk and Oversight' was received (copy attached to the signed minutes).
14. The Committee has been in the process of considering its future role in light of changes to recent government policy, economic climate and developing governance. This is timely in light of the Finance Act 2012 and the new flexibilities afforded to Colleges. The Committee has agreed three components that together will provide assurances to the Audit Committee, these being:
 - Publication of an annual 'Corporate and Social Responsibility Report';
 - Implementation of a new set of 'Performance Indicator Dials'; and
 - The adoption of a 'Board Assurance Framework'.
15. The proposed Board Assurance Framework (BAF) was included in the report. The BAF identified a range of key areas across the Hadlow Group and the sources of assurances that can be sought against

each identified area. The Committee's oversight duties need to be broadened to cover all areas where risks are identified. The starting place for agreeing on the components of a BAF is the College's Risk Register.

16. The internal auditor advised that a good way forward would be to add an additional column to the Risk Register to state where assurances should be sought to give comfort to the Audit Committee.
17. It was agreed that there must not be a duplication of reports from Committees to the Audit Committee. Instead, the Audit Committee needs to receive confirmation that a robust Board Assurance Framework is in place, and how assurances are to be sought against identified areas.
18. It was **RESOLVED** to seek approval at the December Board meeting for the proposed Board Assurance Framework, and for the detail of the framework to be worked on by the Clerk, Vice Principal and Director of Finance with outcomes of the work reported to the March meeting of the Audit Committee. Outcomes arising from the review will also help inform the future direction of the Committee.

INTERNAL AUDIT ANNUAL REPORT 2012/13

19. The '*Internal Audit Annual Report 2012/13*' was received (copy attached to the signed minutes).
20. The Internal Audit Service (IAS) confirmed that management have taken or have planned appropriate and timely action to implement recommendations.

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.
21. It is the opinion of the IAS that Hadlow College has adequate and effective management, control and governance processes to manage its achievement of the college's objectives.

22. It was **RESOLVED** that the report be included within the Annual Report from the Audit Committee and be recommended for approval by the Board at its meeting on 12 December 2013.

INTERNAL AUDIT STRATEGY & AUDIT PLAN 2013/14

23. The Committee received the proposed '*Internal Audit Strategy & Audit Plan for 2012/13*' (copy attached to the signed minutes).
24. It was confirmed that in response to the new flexibilities, the internal audit plan is based on a more thematic approach combining different stand alone audits into clusters. A total of 35 audit days are proposed at a fee of £24,875.
25. It was **RESOLVED** to approve the Internal Audit Plan 2013/14.

FINANCIAL STATEMENT AND AUDIT FINDINGS REPORT

26. The Committee received a copy of the '*Financial Statement and Annual Report 2012/13*' (copy attached to the signed minutes). The Financial Statement Auditor (FSA) confirmed to the Committee that the accounts record the continuing strong financial performance of the College.
27. It was confirmed that the draft accounts would be subject to review from the Finance, Commercial & Resources Committee on 29 November 2013.
28. 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
29. The financial statements opinion is addressed to the College. The regularity opinion is addressed to the College and the Skills Funding Agency (SFA).
30. The Audit Findings Report raised two internal control issues relating to bank reconciliation and stock control. Management accepted the recommendations and it was confirmed that these have since been actioned.
31. The financial statement auditor has issued an unqualified report (satisfactory) on the 2011/12 accounts.
32. The Audit Findings Report raised no internal control issue relating to regularity audit. An unqualified regularity audit opinion was confirmed for 2011/12.
33. Both audit opinions are confirmed in the Financial Statements and Annual report for the year-ended 31 July 2013.
34. 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 12 December 2013;
- (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

- 35. The report from the Finance Directorate on '*Internal Control Systems Framework*' was received (copy attached to the signed minutes) and was presented by the Head of Finance & Projects. 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.
- 36. 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.

CONFIDENTIAL SESSION

- 33. 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 FROM THE AUDIT COMMITTEE TO THE CORPORATION AND PRINCIPAL

- 34. 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.
- 35. 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.

36. The Code of Practice sets out a model text and format of the annual report that has been used for the Annual Report 2012/13. In addition, the report incorporates an annual report on the College's arrangements for risk management.
37. The report proposed the following opinion from the Audit Committee for 2012/13

AUDIT COMMITTEE'S OPINION

Overall, based on the information provided to them by the College, the work, reports and audit opinions of the College's Internal and Financial Statement & regularity Auditors, the opinion from the Audit Committee to the Corporation is that reliance can be placed on the College's systems and arrangements for risk management, control and governance processes and for securing economy, efficiency and effectiveness.

38. It was agreed for the Clerk to circulate the annual report to the two members of the Committee who were not in attendance to ensure that they are comfortable with the proposed opinion from the Audit Committee.
39. Subject to Committee members agreeing to the proposed opinion from the Audit Committee, it was **RESOLVED** to recommend to the Board at its meeting on 12 December 2013 the approval of the 'Annual Report from the Audit Committee 2012/13'.
40. 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.

RISK MANAGEMENT AND RISK REGISTER

41. The College report outlined the new risk management processes, the new format for the Risk Register, and the minutes of the Risk Group meeting held 22 October 2013 (copies attached to the signed minutes).
42. The Committee welcomed the detail of the new format of the Risk Register, and as ultimately all governors are responsible for the oversight of risk, it was **RESOLVED** for the Director of Finance to present the revised Risk Register to the Board meeting on 12 December 2013 for formal approval.

MONITORING OF COLLEGE PERFORMANCE & ASSESSMENT OF RISK

43. 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.

- 44. The Committee noted and welcomed the assessment of ‘no concern/no risk’ made against each of the 9 audit performance indicators.
- 45. 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

- 46. 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 2012/13:

		<i>Satisfaction</i>			
		<i>Rating</i>			
		<i>High</i>	<i>Low</i>		
		<i>1</i>	<i>2</i>	<i>3</i>	<i>4</i>
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

47. It was **RESOLVED** to seek Board approval on 12 December 2013 for the annual appointment of Baker Tilly to be the College's Financial Statement & Regularity Auditor for the period 1 August 2013 to 31 July 2014.

ANY OTHER BUSINESS

48. The Chair placed on record his appreciation of having the Head of Finance & Projects in attendance at this meeting and at future meetings.

DATE OF NEXT MEETING

49. Thursday 06 March 2014 @ 09.00

The meeting closed at 11.30.

Signed: _____ Date: _____

CURRENT AUDIT COMMITTEE SUMMARY ACTION LIST

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	Who
7	Reported Fraud Incident: Updates to be reported to the Board (December) or Audit Committee (March 2014) depending on when final outcomes are known	Board 12/12/13
18	Detail of the Board Assurance Framework to be worked on by the Clerk, Vice Principal and Director of Finance with outcomes of the work reported to the March meeting of the Audit Committee.	04/03/13
38	Clerk to circulate the annual report from the Audit Committee to the two members of the Committee who were not in attendance to ensure that they are comfortable with the proposed opinion from the Audit Committee	04/03/14
42	Director of Finance to present the revised Risk Register to the Board meeting on 12 December 2013 for formal approval.	04/03/14