

MINUTES OF THE AUDIT COMMITTEE HELD ON 24 NOVEMBER 2011

Present: Mr N Coffin
Mr B McNicoll

In attendance: Mr M Lumsdon-Taylor-Director of Finance
Mrs L Brown -Vice Principal
Ms F Thomas -MacIntyre Hudson
Mr D Fisher -Baker Tilly
Mr J Ericson - Baker Tilly
Mr J Allen - Clerk

The meeting commenced at 09.30.

WELCOMES, APOLOGIES & DECLARATIONS OF INTEREST

1. Apologies were received from Mr J Boxall. There were no declared interests against any of the agenda items. The Clerk confirmed that the meeting was quorate with two members in attendance.

MINUTES

2 **RESOLVED** - that the minutes of the meeting of the Audit Committee held 16 June 2011 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: Internal Audit Strategy 2011/12 is an agenda item.

Minute 89: Register maintenance is an agenda item.

Minute 89: Piloting of hand held register is reported on under the agenda item Finance Directorate Internal Controls.

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 5 audit recommendations as at November 2011, College management confirm that 2 have been completed. The two high risks relate to Commercial Floristry and Fisheries & Hatchery and detailed reports on both these risks are attached to the roll-forward action plan. There is one outstanding low recommendation on Health & Safety which has been completed but is left on the action plan for on-going review (student identification on campus).

7. The supplementary report on the progress made in the implementation of recommendations arising from the commercial review of Floristry was received (copy attached to the signed minutes). The report outlined the actions being taken and progress made to date in addressing the internal control weaknesses identified during the recent audit. The Committee welcomed the improvement in the financial performance of this area with the aim of breaking even by the year-end. The aim is to strive towards achieving the balance of supporting teaching and learning whilst not being a financial liability to the College.

8. The supplementary report on Fisheries was received (copy attached to the signed minutes). The financial performance of this area was reported to the last meeting of the Finance, Commercial & Resources Committee. It was confirmed that following the identified financial loss and internal control weaknesses, the approach now being taken is to revert back to basic principles and to run fisheries as a curriculum resource, Consideration will be given in the 2012/13 Business Planning Cycle on whether this area can be re-launched as a commercial activity.

9. It was **RESOLVED** to note the Audit Roll Forward Action Plan and the Supplementary Reports on Commercial Floristry and Fisheries.

INTERNAL AUDIT ANNUAL REPORT 2010/11

10. The 'Internal Audit Annual Report 2010/11' was received (copy attached to the signed minutes). During 2010/11, the following areas were reviewed:

IAS Plan Area	No of plan hours	Type of Review	No of recommendations
Corporate Governance	10	Compliance	0
Risk Management	10	Compliance	0
Key Financial Controls	65	Systems	2
Viability of Educational Programmes	25	Compliance	0
Higher Education Contracts	30	Systems	0
Human Resources	20	Systems	0
Exam fees	20	VFM	2
Fee income	25	Systems	
Fishery & Hatchery	25	VFM/Best practice	1
Follow Ups	37		2 outstanding
TOTALS	262 hours		6

11. The Internal Audit Service confirmed that management have taken or have planned appropriate and timely action to implement recommendations.

12. 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.

13. 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.

14. 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 15 December 2011.

INTERNAL AUDIT STRATEGY & AUDIT PLAN 2011/12

15. The Committee received the proposed '*Internal Audit Strategy & Audit Plan for 2011/12* (copy attached to the signed minutes). The following areas will be subject to audit review during 2011/12:

- Corporate governance
- Risk management
- Key Financial Controls
- Marketing
- Student Enrolment
- Work Based Learning
- Catering
- Departmental review - Schools
- Follow-up

16. A total of 262 hours were confirmed at a cost of £23,000, no increase from the 2010/11 fee.

17. It was **RESOLVED** to approve the Internal Audit Plan 2011/12.

FINANCIAL STATEMENT AND AUDIT FINDINGS REPORT

18. The Committee received a copy of the '*Financial Statement and Annual Report 2010/11* (copy attached to the signed minutes). The Financial Statement Auditor (FSA) confirmed to the Committee that the '*Financial Statement and Annual Report 2010/11* records the continuing strong financial performance of the College.

19. It was confirmed that the draft accounts were subject to review from the Finance, Commercial & Resources Committee on 18th November 2011 and that the Committee resolved for the Corporation to approve the accounts at the Board meeting scheduled for 15th December 2011. The College achieved an operational surplus for 2010/11, the 9th year of a consecutive operating surplus.

20. 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

21. The financial statements opinion is addressed to the College. The regularity opinion is addressed to the College and the Skills Funding Agency (SFA).

22. The Audit Findings Report raised one internal control issue relating to record keeping of expenditure around Discretionary Support Funds. Management accepted the recommendation and this will be brought forward into the roll-forward audit action plan for on-going monitoring by

the Audit Committee. The financial statement auditor has issued an unqualified report (satisfactory) on the 2010/11 accounts.

23. The Audit Findings Report raised no internal control issue relating to regularity audit. An unqualified regularity audit opinion was confirmed for 2010/11.

24. Both audit opinions are confirmed in the Financial Statements and Annual report for the year-ended 31 July 2011.

25. 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 15 December 2011;
- (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.

FINANCIAL MANAGEMENT & CONTROL EVALUATION (FMCE)

26. The College report '*Financial Management & Control Evaluation*' was received (copy attached to the signed minutes). Guidance has been published for the completion of the Financial Management Control & Evaluation (FMCE) that is part of the Framework for Excellence (FfE).

27. All providers are now required to conduct an annual self-assessment of their financial management and control arrangements. Financial Management & Control is one of three key performance areas that make up the Finance Dimension in Framework for Excellence.

28. According to the guidance issued, the FMCE and self-assessment grades should be approved by the Audit Committee and then signed by the Principal before submission to the SFA.

29. Providers can either submit a full FMCE or a short FMCE. The short option is only available to further education colleges who do not wish to change last year's overall self-assessed grade and have not undergone any significant changes since last year. It was confirmed that the College will be submitting a short FMCE.

30. The short FMCE will consist of Part 1 and Part 2 of the FMCE form, that is, the Summary of Grades and a revised and updated Improvement Plan which should demonstrate where improvements have been made since last year.

31. After a thorough review of the completed Short FMCE, it was **RESOLVED** to approve the Short FMCE and to authorise the Principal to sign the document. It was further **RESOLVED** to support the self-assessment grade profiles for each area of the FMCE listed in the table below.

Area	Section	Grade	Grade
1. Accountability	1.1 Strategic Oversight	Outstanding	Outstanding
	1.2 Operational Oversight	Outstanding	
	1.3 Sub-contracting Arrangements	N/A	
2. Financial Planning	2.1 Long-term Financial Planning	Outstanding	Outstanding

	2.2 Short-term Financial Planning	Outstanding	
3. Internal Control	3.1 Risk Management	Outstanding	Outstanding
	3.2 Internal Control System	Outstanding	
4. Financial Monitoring	4.1 Financial Monitoring	Outstanding	

FINANCE DIRECTORATE INTERNAL CONTROL SYSTEMS FRAMEWORK

32. 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.

33. 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.

TERMLY REPORT ON RISK MANAGEMENT

34. 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).

35. The Headline Summary of Key Risks confirmed the following high risks:

- Inadequate management of H&S (To re-word this to read 'Management of H&S')
- Retention & Achievement
- Strategic Relationship with the University of Greenwich
- Inadequate Management Information (To re-word this to read 'Enhancement of the control and use of Management Information')
- Changes in funding
- Profitability and loss of other sources of income
- Inclusion and management of outcentres

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 2010/11 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 which has been used for the Annual Report 2010/11. 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 2010/11

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. Baker Tilly specifically noted the strength of the finance team, in particular Gurpreet Sehmi, in working with them on the Financial Statements and Year End accounts

44. 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.

45. It was **RESOLVED** to recommend to the Board at its meeting on 15 December 2011 the approval of the 'Annual Report from the Audit Committee 2010/11.

MONITORING OF COLLEGE PERFORMANCE & ASSESSMENT OF RISK

46. 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.

47. The Committee noted and welcomed the assessment of 'no concern/no risk' made against each of the 9 audit performance indicators.

48. It was **RESOLVED** to inform the Board of the following overall assessments:

Audit	No Risk/No Concerns
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BRIBERY ACT 2010

49. The report from the Clerk ‘*Bribery Act 2010*’ was received (copy attached to the signed minutes). The report outlined the implications arising from the Bribery Act and it was agreed for the College to update the College’s Financial Regulations and Fraud Policy to include reference to the Bribery Act 2010. It was also agreed to seek legal advice from the College’s lawyers on how best to ensure that external parties who contract with or act on behalf the College can be covered under the scope of the Act.

(The auditors left the meeting at this point)

ANNUAL REAPPOINTMENT OF THE FINANCIAL STATEMENT AUDITOR

50. 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 2010/11:

Satisfaction Rating
High Low

		High	Low
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	X	

	time?		
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	

DATE OF NEXT MEETING

51. Thursday 22nd March 2012 @ 09.30

The meeting closed at 11.20.

Signed: _____ Date: _____

CURRENT AUDIT COMMITTEE SUMMARY ACTION LIST

MIN REF	DETAILS OF RESOLUTION/ACTION POINT	Who
35	Changes to the Risk Register: <ul style="list-style-type: none"> • Inadequate management of H&S (To re-word this to read 'Management of H&S') • Inadequate Management Information (To re-word this to read 'Enhancement of the control and use of management information) 	DoF

48	The College to update the College's Financial Regulations and Fraud Policy to include reference to the Bribery Act 2010. It was also agreed to seek legal advice from the College's lawyers on how best to ensure that external parties who contract with or act on behalf the College can be covered under the scope of the Act.	DofF
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