

**HARROW COLLEGE FURTHER EDUCATION CORPORATION
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
WEDNESDAY 4 DECEMBER 2013**

1 MEETINGS & MINUTES

1.1 Private Meeting with the Principal

It was reported that two internal audit reviews had taken place to date in accordance with the 203/13 Audit Plan, Estate Management and Financial Planning. Members were advised of Management's concern about the focus of comments arising from and the recommendations made following the reviews.

The Principal left the meeting at this point.

1.2 Private meeting with the Auditors

It was reported that two internal audit reviews had taken place to date in accordance with the 203/13 Audit Plan, Estate Management and Financial Planning. Members were advised that the findings of the reviews and accompanying conclusions had been regarded as contentious by management and that whilst the Estate Management Report had been finalised and was to be tabled as Agenda Item 3.1, the Financial Planning Report remained the subject of discussion.

The External Audit (Financial Statements) Service reported that the financial statements audit process had been completed and there was nothing to report.

1.3 Attendance, Apologies for Absence, Welcome & Introductions

Membership:	Mark Eastwood	(Chair)
	Talwyn Hayes	
	Ketan Sheth	
In Attendance:	Judith Abbott	(From Item 1.3)
	Jayne Chaplin	(Clerk)
	Paul Barron	(KPMG)
	Ben Stapleton	(KPMG)
	Tony Medhurst	(Principal) (Item 1.1 only)
	Mike Cheetham	(Baker Tilly) (Except Item 2.2)
Apologies:	David Dipple	

1.4 Declarations Of Interest

There were none.

1.5 Minutes of Previous Meeting

The Minutes of the Meeting held on 15 May 2013 were confirmed as a correct record, and were signed by the Chair.

1.6 Timing and Order of the Agenda, confidential Items & Items of Other Business

It was agreed:

- To amend the Agenda order and for business to be conducted in accordance with the order proposed by the Committee Chair.
- That agenda Item 2.3 would be taken as a Confidential Item

1.7 Matters Arising

There were no matters arising.

2 YEAR-END 2013/13

2.1 Internal Audit - Internal Audit Annual Report

The 2012/13 Annual Report of the Internal Audit Service was received.

It was noted that the internal audit work covered the period from 1 August 2012 to 31 July 2013 and was carried out in accordance with the internal audit plan previously approved by the Corporation.

It was reported that green ratings were provided overall for the opinion for governance and risk management and control processes; and that on the basis of the audit work undertaken, it was the opinion of the audit service that the College had adequate and effective management, control and governance processes to manage its achievement of its objectives.

After discussion the Committee **RESOLVED** to:

- 2.1.1 **RECOMMEND** for the Corporation to **APPROVE** the Internal Audit Annual Report 2012/13.

2.2 Financial Statements & Audit Management Letter Year-ended 31 July 2013

The Financial Statements and Audit Management Letter for the year-end 31 July 2013 were received.

It was reported that:

- 2.2.1 The audited financial statements confirmed a cost deficit for the year-end of £610k which, as had been reported at the July 2013 Corporation meeting, was primarily attributed to a £700k increase in agency costs.
- 2.2.2 The audit of the Financial Statements was substantially complete with the issue of an unqualified audit opinion for the year anticipated subject to confirmation of certain matters identified in the Management Letter. Of particular significance, members were advised, was the need for the finalisation of the College's new borrowing facilities with Barclays Bank to fund operating cash needs over the coming 12 month period, noting the necessity for ensuring that the facility was in place by the time the accounts were approved, in order to support the going concern assessment in the Financial Statements.

- 2.2.3 Barclays Bank also had been requested to provide a bank loan to cover College investment in the new building at Harrow on the Hill with the existing bank loan to be re-provided and paid back over a longer period of time, and with the existing bank covenants changing accordingly.

Expressing concern in the delay in the finalisation of the College's new borrowing facilities to support the College's going concern assessment members were advised of delays following a subsequent change in Bank policy. In response to questioning it was reported that:

- 2.2.4 The changed policy had resulted in the Bank revisiting its original advice given when the College was finalising its financial planning for 2013/14.

- 2.2.5 Any new borrowing facility had been declined pending further review by the Bank.

Discussing in detail the potential implications, practicalities and the timescales and deadlines for completion the filing of the Financial Statements, members were advised:

- 2.2.6 That a clean audit opinion was the preferred option to a note in the Financial Statements with the securing of new borrowing facilities essential to be able to do so.

- 2.2.7 That to progress the securing of such borrowing facilities, discussions with the Skills Funding Agency (SFA) had been necessary regarding the feasibility of the re-profiling of the College's future funding payments to mitigate the extent of borrowing.

- 2.2.8 Of the other action being taken to mitigate the position, including the submission to the SFA of a bid for growth funding, the outcome of which was to be known by 19 December 2013; along with the further options under consideration for further income generation and efficiency savings.

- 2.2.9 That with a meeting involving all parties had been scheduled for 19 December 2013 in order to resolve the Bank's concerns and conclude matters satisfactorily, at which time the outcome of the growth funding bid was expected to be known.

- 2.2.10 Of the likelihood of not making a submission by the required deadline was noted, reporting that discussions were to take place with the SFA regarding an extension.

After consideration, it was **RESOLVED** to **RECOMMEND** for the Corporation to:

- 2.2.11 **NOTE** the confirmation of the audited year-end position in the Draft Financial Statements and Management Letter for the year-end 31 July 2013; and both the position regarding the conclusion of all matters concerning the year-end and the securing of new borrowing facilities; and

- 2.2.12 **AGREE** any arrangements that may be necessary for the formal approval, signature and submission of the Financial Statements.

2.3 CONFIDENTIAL MINUTE

2.4 Annual Report of the Audit Committee 2011/12-13

The Audit committee Annual Audit Report 2012/13 was presented summarising the activity of the Committee during the year and advising the Board on the adequacy of the operation of the internal control systems in the College.

Reviewing the report there was consideration of those items presented at the meeting relating to the 2012/13 year-end, endorsing the view that they represented a fair assessment of the state of the College's financial and internal control systems and the extent to which they could be relied upon at the time of audit but suggesting the inclusions of the opinion of the Financial Statements Auditors once its year-end opinion had been finalised.

After consideration, and subject to the amendments proposed, it was **RESOLVED** to **RECOMMEND** for the Corporation to:

2.4.1 **APPROVE** the Audit committee Annual Audit Report 2012/13.

3 ACADEMIC YEAR 2013/14

3.1 Review of Recent Internal Audits

After advising members that two reviews had been undertaken to date in accordance with the 2012/13 Audit Plan, the Assignment Report following the review of Estates Management was tabled.

3.1.1 Internal Audit Assignment Report – Estates Management

The first of the Internal Audit Reports for 2013/14 was presented covering the review of estate management

It was reported that the purpose of the review was to give independent assurance on whether the risk management and internal control arrangements in place were effectively and efficiently designed and operated to help the achievement of the systems objectives for ensuring that the College's land and buildings were managed, serviced and maintained economically, effectively and efficiently.

Members were advised that reasonable assurance could be taken that controls were consistently applied and effective; and that an amber/green rating had been applied with one medium and one low priority recommendation made accordingly.

Reviewing the report there was discussion by the Committee of the recommendations regarding the application of and compliance with the control framework. Focussing in particular on the recommendation regarding signed contracts for all service providers in the context of:

- The sampling process of the contracts reviewed, the Committee observed the absence of any correlation between the financial value of and risk associated with individual contracts forming the subject of the sample.
- The extent to which the recommendation added any real value to the process and control framework observing that it had not really taken into account that,

acknowledging the need to strengthen control weaknesses in this area, the College was already taking action with the engagement of Tennet to manage the procurement process.

The report was noted

3.2 Risk Management Update

The risk management update was received.

Following routine review by the Strategic Leadership Team, the Risk Register and comparison of the changes in risk profile between 2012 and 2013 were presented.

The key changes were summarised with members discussing the changes, in particular the ranking of Risk 5, failure to manage property capital building projects. Advising members of the rationale for its rating in the context of the overall environment within which the College was operating, now considered to have become much riskier than that reported in the previous year. In response to questioning, it was confirmed that the appropriate controls and monitoring had been put in place and the situation remained the subject of on-going review by management.

After consideration it was **RESOLVED** to:

3.2.1 **APPROVE** the updated risk register as presented.

3.3 Audit Service Tender Arrangements

A report was presented updating members on the arrangements for the planned tender for the College's internal audit function.

Reminding members of the decision to undertake market testing via re-tendering in order to remain assured of receipt of a good value and effective service, the proposed arrangements, tender documentation were summarised. Inviting input from those members of the Committee wishing to be involved in the decision-making process, the timescales for the commencement and conclusion of the process were outlined advising of the intention for a new contract to be in place from 1 August 2014.

The report was noted.

4 ITEMS FOR INFORMATION

4.1 Financial Memorandum

Advising members that the Item had appeared erroneously, it was withdrawn.

5 OTHER BUSINESS & MEETING EVALUATION

5.1 Any other Business

There was no other business

5.2 Date of next meeting

Wednesday 14 May 2013

5.3 Meeting Evaluation

Members completed the meeting evaluation forms and the meeting closed.