

**HARROW COLLEGE FURTHER EDUCATION CORPORATION
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
WEDNESDAY 15 MAY 2013**

1 PRIVATE MEETINGS

1.1 Private Meeting with the Principal

It was reported that there were no issues to raise regarding the reviews had taken place in accordance with the audit plan.

The proposed discussion planned regarding audit services in the context of the Joint Audit Code of Practice was endorsed.

The Principal left the meeting at this point.

1.2 Private meeting with the Auditors

It was confirmed by the Internal Audit Service that reviews had taken place in accordance with the Audit Plan, the reports for which were to be presented during the meeting.

The External Audit (Financial Statements) Service reported that the proposed timetable for the financial statements audit process was to be presented.

2 PRELIMINARY PROCEDURAL MATTERS

2.1 Attendance, Apologies for Absence, Welcome & Introductions

Membership:	David Dipple		(From item 3.1.2)
	Mark Eastwood	(Chair)	
	Gill O'Brien		
	Ketan Sheth		(Until item 6)
 In Attendance:	Judith Abbott		(From Item 1.3)
	Jayne Chaplin	(Clerk)	
	Paul Barron	(KPMG)	(Except Item 5.1 & 3.2)
	Ben Stapleton	(KPMG)	(Except Item 5.1 & 3.2)
	Tony Medhurst	(Principal)	(Item 1.1 only)
	Lorna Raynes	(RSM Tenon)	(Except Item 5.1 and 3.2)

2.2 Declarations Of Interest

There were none.

2.3 Minutes of Previous Meeting

The Minutes of the Meeting held on 28 November 2012 were confirmed as a correct record, and were signed by the Chair.

2.4 Timing of the Agenda, Agenda Order & Items of Other Business

It was **RESOLVED** for Items 3.2 and 5.1 to be taken together and as the final item of business.

2.5 Matters Arising

There were no matters arising.

3 INTERNAL AUDIT

3.1 Internal Audit – Assignment Reports 2012/13

Members were updated on progress with the reviews agreed for the 2012/13 Audit Plan.

3.1.1 Quality & Learner Numbers & Financial Records Review (03.12/13)

The Internal Audit Report was presented covering:

- Quality Assurance
- International Income
- HE Student Records
- Learner Number Systems
- Key Financial Controls; and
- Review of Financial Regulations.

It was reported that the purpose of each review was to give independent assurance to management and the Audit Committee on whether the risk management and internal control arrangements in place to help the achievement of the systems' objectives were effectively and efficiently designed and operated.

Members were advised that:

- A substantial assurance and a green rating had been applied in all cases, with the exception of HE Student Records and Learner Numbers, where amber ratings had been assigned' and
- The review of Financial Regulations had been purely advisory in nature, providing assurance of a reasonable framework for the College's financial management.

Discussing in particular the reviews assigned the amber rating:

- A recommendation concerning HE Student Records was noted to be the subject of dispute with management, considered a harsh assessment of the College's existing procedures and the need for additional processes considered excessive. Discussing the ways in which the overall objective could be fulfilled without the imposition of additional administrative process, it was suggested for any further specific issues to be treated as an addendum rather than an entirely new procedure.
- It was reported that the rating for Learner Number Systems could be attributed to the timing of the audit and the cumulative effect of the number of low rated

recommendations, which were in the process of being addressed at the time of the audit

After consideration, it was **RESOLVED** to **NOTE** the report.

David Dipple joined the meeting at this point

3.1.2 Risk Maturity & Mitigation

A report was presented outlining the findings of the Risk Maturity review.

Reporting that the review was advisory in nature only it was confirmed that:

- Those currently involved with risk management at the College had a good understanding of the risk environment, the processes used to manage those risks, and future actions planned.
- The risk register and risk strategy did not fully detail all the information held by key personnel in relation to risk; and that whilst acknowledged that it currently presented no problem, in the event of changes in such personnel management, such understanding might be lost unless more clearly documented.

Members were advised that it was the conclusion of the auditors that it was satisfied that the risk management framework, in respect of the areas included with the scope of the work, had maintained a position of '*Risk Defined*' for 2012/13 and that this would continue to support the annual opinion provided by the Head of Internal Audit for the College.

Giving consideration to the conclusions presented it was confirmed that the one low rated recommendation made had been accepted by Management.

The report was noted.

3.1.3 Follow-Up Report

The report was presented outlining the findings of the a review to follow up progress made by the College in implementing previous internal audit recommendations for Health and Safety, Staff Utilisation, Learner Numbers Systems (Employer Responsive), Follow-Up, Risk Maturity and Significant Partnerships Review.

Members were advised that twenty-six recommendations had been considered in the review, comprising three 'high', twelve 'medium' and eleven 'low' rated recommendations, and that Tenon was satisfied that in respect of progress:

- The College had demonstrated adequate progress in implementing actions agreed to address internal audit recommendations.
- There were no high or medium recommendations that were considered to be receiving inadequate management attention.

- Where not yet implemented, recommendations had been re-iterated and detailed in the action plan.

After discussion the report was noted.

3.2 Internal Audit – 2013/14 Strategic Plan

The Internal Audit Strategy and Plan for 2013/14 was presented.

Summarising the Plan for the year, planned to take account of the current key College and sector risks, there was discussion of:

- 3.2.1 The areas prioritised for review and the planned allocation of activity for the year in particular, following the early departure of the Head of MIS and whilst the precise timing remained the subject of consideration, plans to include an advisory review of the MIS department to help inform consideration of the structure of the MIS function in order to optimise the service provided.
- 3.2.2 Proposals for uplift in fees of 2.5% from the 2012/13 day rate, requesting for management to discuss this with the Audit Partner, suggesting for the 2012/13 rate to be retained.

After discussion it was **RESOLVED** to **RECOMMEND** for the Corporation to:

- 3.2.3 **APPROVE** the Internal Audit Strategy and Plan for 2013/14, subject to any comments made in item 5.1

3.3 Audit Service Performance Indicators - Update

A report was presented regarding the internal audit service performance indicators

Members were advised that:

- 3.3.1 The performance of Internal Audit services provided by RSM Tenon during 2011-12 had been monitored and assessed by College Management with reporting delayed pending completion of the Significant Partnerships Audit undertaken as part of the 2011/12 audit plan.
- 3.3.2 It was proposed for the assessment for 2012-13 to be completed using the same indicators, when final reports had been published for all internal audits conducted during the year, and reported at the November 2013 Audit Committee.
- 3.3.3 For future years, as the indicators and targets had remained unchanged for some time now, and it was proposed that they should be reviewed and updated as necessary to ensure they remained fit for purpose.

Plans to review and update the indicators and targets template were discussed, welcoming confirmation from KPMG that it would be able to provide examples for consideration as part of the review.

After reviewing the report, it was **RESOLVED** to:

3.3.4 **NOTE** the performance indicators presented

3.3.5 **APPROVE** proposals for updated performance indicators for 2013/14

4 EXTERNAL AUDIT – FINANCIAL STATEMENTS

4.1 Audit Strategy & Planning Memorandum Year-ending 31 July 2013

The KPMG Audit Strategy and Planning Memorandum for the year-ending 31 July 2013 were received.

Members were advised of the proposed approach to and timetable for the audit for the year ended 31 July 2013. There was consideration of the timetable to ensure submission of College audited financial statements for the year-end 31 July 2013 by the 31 December 2013 deadline; and the summary of the recent sector-wide policy, regulatory and accounting developments was noted. Reflecting on proposed uplift in fees in-line with RPI, an uplift in-line with CPI was observed to be more the more accurate measure, requesting for management to raise this with the audit partner.

The report was noted.

4.2 Letter of Engagement

The Letter of Engagement for the External (Financial Statements) Auditors was presented.

After advising members that a new Letter of Engagement had been issued following the expiry of the previous letter it was confirmed, in response to questioning, that the terms remained substantially the same.

The report was noted.

Tenon and KPMG left the meeting at this point.

5 OTHER AUDIT MATTERS

5.1 Joint Audit Code of Practice

A report was presented updating members on the Joint Audit Code of Practice (JACOP) and on the 'Audit and Accountability Annex' (The Annex) to the Foundation Code of Governance (The Code).

Members were advised:

5.1.1 Of the main changes arising from the JACOP, noting in particular the removal of the mandatory requirement for an internal audit service.

5.1.2 Of the provisions within the Annex now available for adoption setting out good practice covering issues such as business and financial reporting, risk management and internal control, the requirement for and role of the audit committee and auditors. It was noted that compliance was required with the

Financial Reporting Council's UK Corporate Governance Code, in so far as that code applied to the College sector, but that for those colleges formally adopting the Foundation Code of Governance, adoption of the Annex represented an alternative.

In the context of the Corporation's accountabilities and responsibilities, there was consideration of:

- 5.1.3 The flexibilities presented by the JACOP, particularly in respect of the removal of the mandatory requirement for an internal audit service. Whilst acknowledging that an internal audit service remained good practice, serving as valuable source of advice, guidance and assurance, the extent to which the current arrangements delivered a demonstrable impact to the overall business were reviewed. Observing the longevity of the arrangement with the current service provider and the value in reviewing arrangements to maximise the business benefits to the College, the options available were explored. Concluding that it would timely for a review to be undertaken during the next academic year, members were advised of the College's plans for work with Tenet on procurement services, noting the range of savings typically obtained under such an arrangement over the life of the contract. After agreeing for a review of the internal audit to be prioritised, the arrangements with the external audit service were discussed. Members were advised that following the recent assignment of a new audit manager, it was felt that there a review at this time would not bring any further benefit.
- 5.1.4 The Annex noting that any College's practices inconsistent with any particular provision, were to be the subject of explanation in its Statement of Corporate Governance and Internal Control contained in its Annual Report and audited Financial Statements, it was suggested that as current practice was predominantly reflective of the provisions of the Code, its adoption was not considered unduly onerous.

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

- 5.1.5 **APPROVE** the retention of the current arrangements for an internal audit service for 2013/14 but with greater focus on reviews to maximise the business benefit for the College; and for the College to undertake a tender exercise in respect of this service during 2013/14.
- 5.1.6 **ADOPT** the Annex to the Code.

5.2 Letter from the Skills Funding Agency

A report was received advising members of the Skills Funding Agency's re-assessment of the College's financial health following a review of its financial plan 2011/12 to 2014/15.

Confirmation was welcomed of the SFA's conclusion, based on the outturn forecast that the College's financial health grade for 2011/12, had now been revised from Satisfactory to Good

The report was noted.

6 RISK MANAGEMENT

6.1 Risk Management Update

The risk management update was received.

Reporting that the Strategic Leadership Team and the College Management Team had undertaken a thorough review of the Risk Register, which had been updated to reflect mid-year status and known changes as at March 2013, it was noted that:

6.1.1 Whilst most risks remained stable in terms of potential severity, risks 9.4, Failure to achieve an operating surplus, and 9.10, Failure to maintain estate, had been identified as increasing. Members were advised that risk 9.1 Adverse impact of changing planning & funding arrangements was set to increase next year.

6.1.2 The Register had now been revised to link risks to strategic objectives, as recommended by Internal Audit.

6.1.3 The risk status had been communicated to a wider CMT group including junior managers, with key risks brought to the attention of all staff at the Principal's Staff Meetings.

The report was noted.

7 OTHER BUSINESS & MEETING EVALUATION

7.1 Any other Business

There was no other business

7.2 Date of next meeting

Wednesday 27 November 2013

7.3 Meeting Evaluation

Members completed the meeting evaluation forms and the meeting closed.