

**HARROW COLLEGE FURTHER EDUCATION CORPORATION  
MINUTES OF THE MEETING OF THE  
AUDIT COMMITTEE  
TUESDAY 13 NOVEMBER 2007**

**1 MEETINGS & MINUTES**

**1.1 Private Meeting with the Principal**

Members were advised that:

1.1.1 The external audit had gone very well; and that

- Any issues that had required attention in the past had now been successfully resolved.
- The only matter that now required attention concerned childcare vouchers.

The Principal paid tribute to the Director of Finance and her team for all their efforts to ensure that the audit proceeded so smoothly.

1.1.2 The LSC had written to colleges regarding procurement in education.

The Principal reported that the College had a duty to obtain best value in its business transactions and that no action from the Corporation was required in response to the letter as it was a responsibility of management to ensure that this duty was fulfilled.

It was noted that procurement in the College was centralised, that the College had worked hard to ensure that best value was achieved and that it had already been the subject of a satisfactory audit.

Members were advised that the matter could be reviewed in the Spring, when a report could come before the Committee for discussion and any outcome be fed into the 2008/09 Audit Plan.

The Principal left the meeting at this point.

**1.2 Private Meeting with the Auditors**

The Internal Audit Service (IAS) confirmed that:

- 1.2.1 The College's systems of control were generally very strong and that there was no material issues to report.
- 1.2.2 The key issue of note, looking ahead, particularly in the light of the forthcoming retirement of the Principal and the Director of Finance, was ensuring that the College was adequately prepared for the more non-standard matters that would require attention like the Harrow One Project.

It was reported that the IAS was also currently in discussions with the Director of Finance regarding extra work to assist looking at how the College could generate more funding value per student, which was an issue that was more relevant than it had been in the past.

The Chair summarised the outcome of the private meeting with the Principal and conveyed the Committee's appreciation for the achievement of a satisfactory, well run audit.

### 1.3 Attendance, Apologies For Absence & Agenda Order

<b>Membership:</b>	Philip Harding	(Chair)	
	Marie Harrison		
	Therese Lorphevre		
<b>In Attendance:</b>	Jayne Chaplin	(Clerk)	
	Barbara Field		(item 1.1only)
	Rena Prindiville		
	Matthew Westmore		
	Adrian Rutter	(Tenon)	
	Andrew Mead	(KPMG)	(items 3,4 & 5)
	Kelly Dunn	(KPMG)	
<b>Apologies:</b>	John Cowan		

In the absence of the external auditors it was **RESOLVED** to take items 2, 4 and 5 as the first items of business.

### 1.4 Declarations of Interest

There were no declarations of interest declared.

### 1.5 Timing of the Agenda & Items of Other Business

There were no issues raised regarding the timing of the agenda and no items of other business were raised.

### 1.6 Minutes of Previous Meeting

The Minutes of the Meeting held on 4 July 2007 were confirmed as a correct record, and were signed by the Chair.

It was noted that the minutes of the meeting of 8 May had not been available at the time of the meeting but that they had already received the approval at the July meeting of the Corporation.

### 1.7 Matters Arising

There were no matters arising.

## 2 INTERNAL AUDIT

### 2.1 Annual Internal Audit Report 2006/07

The Annual Internal Audit Report 2006/07 for 2006/07 was received.

The Internal Audit Service, Tenon, advised that the report covered the internal audit work for the period from 1 August 2006 to 31 July 2007.

It was reported that the:

- 2.1.1 Audit work was carried out in accordance with the internal audit plan approved by the Board of Governors and that it had been constructed in such a way as to allow a statement to be made of the adequacy and effectiveness of the College's risk management, control and governance processes.

- 2.1.2 The annual report would assist the College when preparing the Statement of Internal Control it was required to make within its annual financial statements. The College and its Governing Body
- 2.1.3 The report was issued in accordance with the Audit Code of Practice of the Learning and Skills Council (LSC).

Members were advised that:

- 2.1.4 The Corporation had agreed to an input of 40 days of internal audit coverage in the year.
- 2.1.5 In forming its opinion the IAS had taken into account:
- All audits undertaken during 2006/07.
  - Any follow-up action taken in respect of audits from previous periods.
  - Any significant recommendations not accepted by management and the consequent risks.
  - The effects of any significant changes in the College's objectives or systems.
  - Matters arising from previous reports to the Board of Governors.
  - Any limitations that may have been placed on the scope of internal audit.
  - The extent to which resource constraints may impinge on the head of internal audit's ability to meet the full audit needs of the College.
  - The proportion of the College's audit need that had been covered to date.
  - The outcomes of the IAS's quality assurance processes.
- 2.1.6 The IAS was satisfied that sufficient internal audit work has been undertaken to allow a reasonable conclusion as to the adequacy and effectiveness of the College's risk management, control and governance processes.
- 2.1.7 It was the opinion of the IAS that the College had adequate and effective risk management, control and governance processes to manage its achievement of the College's objectives.

There was a discussion of the progress of the outstanding recommendations from previous audits and it was agreed that it would be helpful to include further details in a footnote in the final report.

After consideration it was **RESOLVED** to:

- 2.1.8 **RECOMMEND** that the Corporation **APPROVE** the Annual Internal Audit Report 2006/07.

## **2.2 Internal Audit Strategic Plan for 2007/08**

A report was received outlining the proposed internal audit plan for 2007/08 and inviting the Committee's comments on the selection of areas for added value reviews.

It was noted that the Audit Committee had considered and approved an audit strategy and annual plan for internal audit activity in 2007/08 at its meeting in May 2007 and that the annual plan comprised:

- 2.2.1 Time for the review of core systems at the College.
- 2.2.2 Provision for operational audits and other reviews where the internal audit service and College management believed that these would add value and/or provide additional assurance.

Members were advised that the Internal Audit Service had discussed potential areas with the Principal and Director of Finance and identified the following areas for review:

- 2.2.3 Follow up of the actions for Additional Learner Support records in 2007/08, following the review of that area last year; and

2.2.4 Two out of three of the following added value reviews that could be accommodated within the internal audit budget:

- A Review of controls over Protocol National contract – to help ensure Protocol National staff are recruited only when existing staff are fully utilised; hours charged match hours worked; any discrepancies are followed up promptly; and all invoices are approved.
- A Review of financial viability of the Harrow Skills Centre - to review the activity of the Harrow Skills Centre, providing a costed summary of the activity undertaken and the net impact on the overall College accounts.
- A Review of the cost effectiveness of the College 4 Business Unit – to review budgeting and the targets set for the College 4 Business, budgetary control and other in year monitoring with corrective action being taken as necessary.

It was reported that College Management was discussing the funding rate per student with the IAS funding advisory team.

There was a discussion of the proposed internal audit plan for 2007/08 and the areas that it was considered would benefit most from added value reviews.

After further consideration with the IAS regarding it was **RESOLVED**:

2.2.5 To **RECOMMEND** that the Corporation **APPROVE** the Internal Audit Plan for 2007/08.

2.2.6 That it was the Committee's opinion that the value added reviews should focus upon:

- A Review of controls over Protocol National contract.
- A Review of the cost effectiveness of the College 4 Business Unit

### **3 FINANCIAL STATEMENTS & AUDIT MANAGEMENT LETTER 2006/07**

The Draft Financial Statements & Audit Management Letter for 2006/07 was received.

With regard to the Financial Statements it was reported that for 2006-2007 the Corporation had approved a budget that showed an operating surplus of £50k, excluding the impact of FRS17.

Members were advised that:

- 3.1.1 The College had, financially, had a very successful year as the original budgeted surplus of £50k had been significantly exceeded and, with the impact of FRS17 adjustments, amounts to £346k.
- 3.1.2 The College had actually generated an operating surplus of £292k, excluding the impact of FRS17. It was noted that the impact of FRS17 had increased staff pension costs by £66k and increased investment income by £120k and that the net effect of the adjustments amounted to a positive adjustment of £54k, resulting in an operating surplus of £346k for the year ended 31 July 2007. It was agreed that this was a very positive surplus after absorbing restructuring costs of £84k.
- 3.1.3 The strategy to maximise income by matching new income to existing costs to achieve maximum savings had proved successful. It was noted that the organisational review carried out in the summer of 2006 had enabled the College to not only achieve in-year staff savings of £60k, but also a year on year reduction of over £100k in staff costs. It was reported that this was after the absorption of a pay award of 2.5%, redundancy costs of £84k, increased employer contributions for the Local Government Pension Scheme and staff annual increments where applicable.
- 3.1.4 Alongside this, the very successful implementation of the Collegiate project in 2006-2007 whilst leading to a decrease of approximately 150 learners for the College in 2007-2008 had, nevertheless created significant benefits and advantages for working in such a partnership. It was noted that the College recognised this and has worked proactively to improve and further develop the

services that it offers to its partners in the Collegiate and intends to maintain and develop this partnership for the future.

- 3.1.5 Further measures also in place throughout the year had ensured non-pay costs were not exceeded resulting, not only in savings of £100k on non-pay expenditure for specific items during the year, but also a year on year decrease on specific non-pay expenditure of £60k.
- 3.1.6 Notwithstanding the significant requirement for capital expenditure, the College managed to maintain a consistently strong cash flow throughout the year, ending the financial period with a cash balance of £2.246m (including endowments of £4k).

The External Auditors presented their Management Report and members were advised that there were two matters of note:

- 3.1.7 The costs of the potential campus redevelopment and the current guidance as to when they can be held on the Balance Sheet as Assets in the Course of Construction and when they need to be expensed.
- 3.1.8 The issue of childcare vouchers that were incorrectly provided to College staff through the Learner Support Fund mechanism. It was reported that the staff were not studying at the College and were therefore ineligible to receive the benefit of subsidised childcare and that Management had acknowledged the issue and would seek revisions to the current control procedures.

There was a discussion of the Performance Indicators and in particular the significant changes in its organisational infrastructure to improve efficiency, in particular in the way that lecturing and support staff are utilised, and it was agreed that this could be the subject of further reporting in future to provide greater detail in the context of the sector nationally.

After discussion it was **RESOLVED** to:

- 3.1.9 **RECOMMEND** that the Corporation **APPROVE** the Management Letter for 2006/07.

## **4 RISK MANAGEMENT**

### **4.1 Risk Management Update Report**

The Risk Management Update report was received.

It was reported that the main issues of note were that:

- 4.1.1 The Risk register had been reviewed in June 2007 and that the next review of was due at the end of November 2007.
- 4.1.2 The review of controls had showed good management of risk.
- 4.1.3 The focus since June 2007 had been on the One Harrow project.
- 4.1.4 Controls had identified that recruitment was below target at the start of term and action was being taken to reduce the impact in the form of:
- New additional courses.
  - The preparation of a Recovery plan.
  - The impact of under recruitment had been assessed and a cost saving plan developed and spending reviewed.
  - Work was ongoing to identify reasons for under recruitment to allow additional actions to be taken to recover situation.

After discussion it was **RESOLVED** to:

- 4.1.5 **NOTE** the report.

## **5 COMMITTEE BUSINESS**

### **5.1 Committee Annual Report 2006/07**

The annual report from the Audit Committee to the Governing Body for the period 1 August 2006 to 31 July 2007 was received.

Members were advised that the Learning and Skills Council required College Audit Committees to produce an Annual Report to the Corporation Board. It was noted that such a report must be submitted to the Board prior to the signing of the corporate governance statements and reports on the financial statements and internal controls and before the annual financial statements are signed.

It was noted that the purpose of the Committee's annual report was to give its opinion to the Corporation on the extent to which it may rely on the College's internal control system and that during the year.

Members were reminded that the Committee had considered a number of issues concerned with:

- 5.1.1 The college's internal systems of control
- 5.1.2 Risk management
- 5.1.3 Control and governance processes; and
- 5.1.4 Ensuring that appropriate and adequate arrangements existed without relying on the Internal Audit Service.

The Committee was advised that based on the review of the work conducted during the year, there was evidence to support the conclusion that:

- 5.1.5 The College's risk management, internal control and governance processes remained adequate and effective and could be relied upon by the Governors.
- 5.1.6 The Committee was not aware of any developments since the end of the period covered by the report that would incline the Committee to change its opinion.
- 5.1.7 It had substantially fulfilled its role as set out in the Committee's Terms of Reference.
- 5.1.8 It had made an effective contribution to the work of the Corporation in particular through recommendations made with regard to the degree of reliance that could be placed on the college's internal control systems during the year.

After discussion, the Committee **RESOLVED** to:

5.1.9 **RECOMMEND** to the Corporation the **APPROVAL** of the Committee Annual Report 2006/07, subject to the amendment of the report to:

- The amendment of some minor typographical errors.

### **5.2 Report on the proposed amendments to the Committee's Terms of Reference**

A report was received from the Clerk on proposed amendments to the Committee's Terms of Reference.

Members were advised that:

- 5.2.1 It was considered good practice for corporations to have committee terms of reference that set out the parameters within which they may conduct business.
- 5.2.2 Following the appointment of the new clerkship service a Governance Review had been undertaken that looked at the College's governance frameworks to confirm that the basics of governance and clerkship were in place and were in accordance with best practice, including the committees' Terms of Reference.

The amendments proposed were considered and after discussion, the Committee  
**RESOLVED:**

5.2.3 To **RECOMMEND** to the Corporation the **APPROVAL** of the Committee's Terms of Reference, subject to:

- The correction of some general minor typographical errors.

**6 ANY OTHER BUSINESS & MEETING EVALUATION**

**6.1 Any other business**


No other business was raised.

**6.2 Date of Next Meeting**

**Tuesday 22 January 2008.**

**6.3 Meeting Evaluation**

Members completed the meeting evaluation forms and the meeting closed.

  
22/1/08.