

HARLOW COLLEGE FURTHER EDUCATION CORPORATION

JOINT AUDIT & RESOURCES COMMITTEE MEETING

Minutes of the meeting held on Wednesday 3 December 2014

Membership	*P Bartlett (Chair) N Allen J Breen
*denotes present	*M Coleman *E Johnson *D Palmer *M Prodger *B Spencer *K Spencer *P Taylor (by telephone) *P Whitehead
In attendance	H Catchpool, Baker Tilly M Smith, Scrutton Bland M Stokes, Deputy Principal P Marsh, Deputy Principal D Morgan, Director of Financial Planning & Strategy D Sheridan, Clerk to the Corporation R Lucas, Deputy Clerk to the Corporation

1 Chair for the Joint Meeting

P Bartlett was elected as the Chair for the joint meeting.

2 Apologies for Absence

Apologies for absence were received from N Allen and J Breen.

3 Declarations of Interest

There were no declarations of interest.

4 Regularity

The Audit and Resources Committees received the Self-Assessment Report which was completed by the College as part of the Regularity Audit. The Self-Assessment was completed during the summer and governors noted that it is a shortened version in line with new recommendations.

The Self-Assessment has to be signed by the Chair of Governors in addition to the Principal and it is recommended that it is presented to the Audit Committee.

The Audit and Resources Committees noted the completed Self-Assessment which forms part of the Regularity Audit.

5 Financial Statements and Regularity Audit

5.1 To receive, consider and approve the Audit Findings Report 2013/14 for recommendation to the Corporation

The Audit and Resources Committees received and considered the Audit Findings Report 2013/14 for recommendation to the Corporation, presented by H Catchpool from Baker Tilly.

H Catchpool informed the Committees that the Self-Assessment, as detailed in agenda item 4, is used by Baker Tilly as part of their audit planning work.

H Catchpool informed governors that although there are a few outstanding matters, there are no anticipated modifications to the opinions and an unqualified audit opinion has been given.

The Committees noted the key areas of the audit focus and the response of the auditors, presented by H Catchpool, as follows:

1. Management override of controls – one issue with a one-off journal entry was identified. With the exception of this, Baker Tilly concluded their testing satisfactorily.
2. Income recognition – income has been recognised in the right period and agrees with the funding regulations. The College and Baker Tilly are still waiting for the final funding statement. No issues were noted.
3. Pension scheme liabilities – no issues noted. The audit looked at the disclosures in the accounts and the assumptions made by the actuary.
4. Staff costs – no issues noted.
5. Accommodation strategy – no concerns raised. A large amount of work has been undertaken on this, taking into account changes to Building K and proposed future capital projects. There has been an impairment reversal for Building K in the accounts and discussion was held on the valuation. Governors noted this will be considered in more detail by the Banking Working Party.
6. Going Concern – the College is classed as a going concern and no issues were raised. Work has been undertaken on the three year financial forecasts and its key assumptions.
7. New IT system – finance – this is an on-going project and some sections of the system have gone live. This will be considered in more detail in next year's audit, which will involve Baker Tilly's IT specialists.
8. Joint Tenants – there has not been much movement on this since last year's audit, however the work is starting and is on-going. Governors noted that the overall net value to the College is zero.
9. Regularity review – this considers the controls that are in place and the capital use of funds. A couple of observations have been

noted however the auditors came to a satisfactory conclusion on this.

The Committees noted that no audit and accounting issues were identified during the audit.

Governors noted the adjusted journal entries in the Audit Findings Report and that the total of these came to zero. All of the adjusted entries were reclassifications.

Section 5 – potential impropriety issues – is a new section and no issues were identified.

Section 6 – significant deficiencies in internal control. H Catchpool reported that this section contains observations, recommendations and enhancements rather than any significant deficiencies. These are as follows:

1. Catering income – issues around the College currently being an open site and the potential risk that it is the canteen is being used by members of the public. This risk will decrease once the campus becomes a closed campus.
2. Testing of disaster recovery / business continuity plan. Ensure there is a policy and procedure in place for testing the back-ups for disaster recovery and business continuity.
3. Journals – there had been an incorrect posting, therefore the review process should be enhanced.
4. Special payments – recommendations to enhance the documented policy for severance and exit arrangements.
5. Fixed asset disposal – how to deal with the sign-offs and approvals in the Principal's absence. It was agreed that this could be undertaken by a Senior Postholder.

H Catchpool reported that the auditors had experienced no difficulties throughout the course of their work and the audit ran smoothly. She thanked D Morgan and the finance team for their help and support during the audit.

A detailed discussion took place around the UTC and the use of Harlow College land in terms of the accounts and disposals. It was agreed that this needs to be investigated further by the College, in conjunction with the UTC and the bank, for 2015/16.

The Audit and Resources Committee approved the Audit Findings Report for 2013/14 and agreed to recommend it to the Corporation on 11 December 2014.

5.2 To receive and approve the Letters of Representation for recommendation to the Corporation

The Audit and Resources Committees received and considered the draft Letters of Representation for recommendation to the Corporation on 11 December 2014.

Baker Tilly confirmed that they are standard letters with no proposed modifications for both the financial statements and regularity.

The Audit and Resources Committee approved the draft Letters of Representation and recommended them to the Corporation for approval and signature at the meeting on 11 December 2014.

6 Operating and Financial Review 2013/14

The Audit and Resources Committees received and considered the report of M Stokes on the Operating and Financial Review for 2013/2014.

Governors noted that the Operating and Financial Review follows a standard model, which was explained by D Sheridan, Clerk to the Corporation.

A general discussion was held around the Operating and Financial Review and the following points were noted:

- Page 7 – reference is made to the College's Ofsted report which was published in January 2011. Although four years' old, this is the College's most recent Ofsted report.
- Page 9 – the risks listed refer to risks in 2013/14 and P Marsh, Deputy Principal confirmed he was satisfied with the risks listed.
- Page 13 – the College has specialist HR legal advisors based in Edinburgh who were selected through a retainer process.
- Page 15 – M Prodger is Chair of the Search and Governance Committee and not the Audit Committee. This will be amended.

The Audit and Resources Committees noted the Operating and Financial Review for 2013/14 and agreed to recommend it to the Corporation meeting on 11 December 2014.

7 Annual Report of the Audit Committee 2013/14

The Audit and Resources Committees received and considered the Annual Report of the Audit Committee 2013/14.

The Clerk reminded the Committee that the Annual Report, which is written every year, has increased in significance and is now submitted as part of the annual accounts to the funding body. The Audit Committee needs to produce an opinion on:

- Its own effectiveness;

- How it has fulfilled its terms of reference;
- The adequacy and effectiveness of the College's audit arrangements, its framework of governance, risk management and control, and its process for securing economy, efficiency and effectiveness.

D Sheridan highlighted the issues with the same company providing both internal and external audit services to the College which prevented several internal audit opinions from being given.

The annual report contained the following sections: membership of the Committee; meetings in the period and attendance; terms of reference of the committee; the internal audit service; review of reports of the internal audit service; review of external audit; reports from the Skills Funding Agency; actions in response to key recommendations arising from audit; other independent assurance; proposed audit committee opinion and appointment of auditors.

These sections were discussed and governors noted the following:

- The terms of reference comply with the Joint Audit Code of Practice;
- The role of the Audit Committee has been expanded;
- Changes have been made to the internal audit service;
- The review of audit reports and the audit outcomes;
- The governance audit was undertaken as an advisory audit.
- The key financial controls work was undertaken as part of the regularity audit undertaken the external auditors;
- Baker Tilly are still the College's external auditors;
- The College's financial health was rated good by the Skills Funding Agency;
- No high recommendations were made;
- Other sources of independent assurance which the Audit Committee can draw on;

The Committee requested the following amendments to the report:

- Section 10e – “further education inspectors” to be replaced with “trained inspectors”;
- A more positive statement on internal control;
- Section 7 – “UK LLP” to be added into Baker Tilly's name;
- Section 7 – that an unqualified opinion has been given on both the financial statements and regularity;
- Section 11.2 – add in that Scrutton Bland have already been appointed for 2014/15.

The Committee agreed the following opinion of the Audit Committee:

“It is the opinion of the Audit Committee, based on the reports it has received and considered, and drawing upon the knowledge and expertise of its members and its audit services, supported by the work and views of College

management, that during 2013-14 Harlow College:

- *had adequate and effective systems of governance;*
- *had adequate and effective risk management systems;*
- *had adequate arrangements for securing economy, efficiency and effectiveness;*
- *had, overall, systems and controls that are adequate and effective for carrying forward the objectives of the college. Actions put in place to address weaknesses in monitoring the loan covenants continue to be implemented and are sufficiently detailed to enable the Resources Committee and Corporation Governors to monitor compliance.*

The Audit Committee considers that it operated effectively in 2013-2014 and that it met its terms of reference.”

The Committee also agreed to recommend the appointment of Baker Tilly as external auditors for 2014/15 and Scrutton Bland as internal auditors for 2015/16.

The Audit and Resources Committees approved the report, subject to the amendments above, and agreed to recommend it to the Corporation on 11 December 2014.

8 Draft Financial Statements 2013/14

The Audit and Resources Committees received and considered the draft financial statements for 2013/14, presented by M Stokes, Deputy Principal.

Governors noted that the provisional outturn results were considered by the Corporation at its meeting on 22 October 2014. The comparison of the provisional results and the current draft financial statements were highlighted by M Stokes. Governors also noted that an additional non-consolidated 0.2% pay award has been paid and that the banking covenants were met as predicted.

The surplus currently stands at £275k however this could be higher once the final reconciliation has been reconfirmed.

A general discussion was held around the financial statements and the following changes were requested by governors:

- Some typographical corrections.
- Page 53 – the section titled “transactions involving governors” to be renamed “governors’ declarations of interests”.
- Page 53 - Marie Jackson needs to be removed from this section.
- Page 53 – greater clarity on the UTC wording is needed.

The Audit and Resources Committees approved the Financial Statements for 2013/14, subject to the amendments listed above, and agreed to recommend them to the Corporation on 11 December 2014.

Following on from this joint meeting the Audit Committee met privately with Baker Tilly, external auditors, and Scrutton Bland, internal auditors. No staff were present at this meeting and the staff governor did not attend this meeting.