



**Minutes of the meeting of the Audit Committee
held on Tuesday 25th November 2008**

Membership:

- * Mr David Lavarack
- * Mrs Jo Canessa
- * Dr Anne Grant
- Mr Peter Hickman
- * Mr Robin John
- * Mr Chris Johnson

Also present:

- * Mr Dan Dean – Advising Officer
- * Mr Geoffrey Bowley- Advising Officer
- * Mr Clive Malcolm – Horwath Clark Whitehill (Items 10/11)
- * Mr David Morris – McIntyre Hudson (left after item 9)

In attendance:

- * Mrs Sue Gunter – Clerk to the Corporation

1. REGISTER OF INTERESTS

The Chair asked if anyone present had any interests to declare with regard to the agenda of the meeting. None were declared.

2. APOLOGIES FOR ABSENCE

Peter Hickman.

3. MINUTES OF THE LAST MEETING

The minutes were agreed and signed as a true record.

4. MATTERS ARISING

Item 5 Draft Internal Audit Report – The recommended actions would be dealt with under Item 12. The auditors had advised that 15 days had been spent on the Internal Audit.

Item 7 Risk Management Report - The Clerk advised that training on Risk Management had been included in the Quality Improvement Plan (QUIP) for 2008-09. Dan Dean confirmed that the recommendations made on the format of the report would be incorporated in the next Risk Management Report.

5. ANNUAL CYCLE OF BUSINESS

The Clerk advised that she and Geoff Bowley had drawn up a cycle of business for the forthcoming year for the committee as a matter of good practice. It was based on Table 1 of the Audit Code of Practice, a copy of which had also been circulated to governors. She emphasised that this represented the minimum cycle of business and that other agenda items may be added in during the year. It was agreed that the autumn meeting had a particularly heavy agenda, but this was due to the timing of the various audit reports and LSC deadlines. The committee agreed that this was a useful checklist. Chris Johnson proposed approval of the annual cycle of business. This was seconded by Anne Grant and agreed unanimously by the meeting.

6. **REPORT AND FINANCIAL STATEMENTS FOR THE YEAR ENDED 31.07.08**
7. **FINANCIAL STATEMENTS AUDIT MANAGEMENT LETTER**
8. **FINANCIAL STATEMENTS AUDIT LETTER OF REPRESENTATION**
9. **RE-APPOINTMENT OF FINANCIAL STATEMENTS AND REGULARITY AUDITOR**

David Lavarack suggested taking these four items together. He confirmed that the Finance Committee had approved the Report and Financial Statements. It was the duty of the audit committee to consider the audit reports thereon. Geoff Bowley advised that the Finance Committee had noted some typographical errors in the report, and these would be corrected before the Report was submitted to the Corporation meeting. Additional minor corrections, which arose during this committee's discussion, were noted directly by him for correction.

David Morris led the discussion of the Audit Reports on the Financial Statements. In discussing the audit opinion on page 19, the committee noted that it referred to a surplus when the College had actually sustained a deficit during the year. A revised wording of "the College's income and expenditure" was agreed. David Morris drew the committee's attention to the Regularity audit opinion on page 20 which confirmed that the College funds were being used for their intended purpose.

There was a discussion about the information given concerning the valuation of the pension schemes, but it was agreed that no amendments were necessary.

Robin John asked how the auditors had tested the payroll, which was the largest item of expenditure within the accounts. David Morris advised that this had been done by a mixture of analytical review, looking at exception reports, proof in total tests and small sampling. Geoff Bowley further detailed some of the internal controls applied by the College and confirmed that this was an area on which the internal auditors placed particular emphasis.

Turning to the Management Letter, David Morris confirmed that the item raised in the previous year's audit concerning the provision of payroll reports by Surrey County Council, had now been resolved, and congratulated the College on successfully pursuing this matter.

Two points were raised in the current year. The first was a minor point concerning fixed asset, inventory checks and the recommendation mirrored that made by the internal auditors which the college had agreed to implement. The second concerned the insurance aspect of the employee dispute. The College had been able to claim the costs of the case but not the award itself, which may have been recoverable if the College had notified the Insurance company at the outset of the problem. The College agreed to the recommendation concerning effective communication regarding insurance claims.

There was a discussion on the graphs relating to Key Sector Indicators and performance indicators on pages 12 onwards. It was agreed that these were of limited value and in particular the comparison colleges were those in the S7 consortium which were least similar to Esher College. Robin John felt that better indicators (for example cost per student) could be used if up to date information for them was available. It was agreed that these pages would be removed from the final document.

Chris Johnson proposed approval of the audit reports and management letter, subject to the changes referred to above. This was seconded by Anne Grant and approved unanimously by the meeting.

David Morris introduced the Confirmation of Representations letter, which he advised was in a standard format required by the LSC. The committee felt that “officers or governors” should replace the reference in paragraph 7 to “directors” and that the references to subsidiaries in both paragraphs 7 and 8 should be deleted.

Jo Canessa proposed approval of the Confirmation of Representations letter, subject to these alterations. This was seconded by Robin John and agreed unanimously by the meeting.

Finally David Morris confirmed that McIntyre Hudson would be prepared to continue to act as external auditors for the year 2008-09. Their re-appointment was recommended for approval by the Corporation by Chris Johnson. This was seconded by Jo Canessa and agreed unanimously by the meeting.

10. INTERNAL AUDIT SYSTEMS REPORT 2007-08

Clive Malcolm advised that the Internal Systems Report had been seen in draft format at the last meeting and the only amendment was the correction to the response to item D4 as identified then. The final report was proposed for approval by Anne Grant. This was seconded by Jo Canessa and approved unanimously by the meeting.

11. INTERNAL AUDIT ANNUAL REPORT 2007-08

Clive Malcolm advised that this document was in a format required by the LSC. It showed that the audit had taken the scheduled 15 days to complete, but, in fact, the actual hours worked were slightly under this figure. It was agreed that this could be taken into account as a “credit” for next year’s audit. In addition, it was possible that less time would be needed in the firm’s second and subsequent years of audit.

Action: These points to be taken into account when agreeing next year’s internal audit plan.

Otherwise, the “clean” audit report was noted and there were no problems to draw to the attention of the committee. Robin John proposed approval of the Internal Audit Annual report. This was seconded by Anne Grant and agreed unanimously by the meeting.

12. AUDIT COMMITTEE ANNUAL REPORT

Geoff Bowley introduced the Report which was in the same format as the previous year. The committee noted the areas reviewed by the internal auditors in their first year and that they intended to carry out a comprehensive review of Risk Management in 2008/09. Geoff Bowley confirmed that the other items to be examined in detail in the current year would be agreed through the audit needs assessment which would be considered alongside the audit plan in the spring.

The committee reviewed the outcomes of the recommendations from the audit reports. Geoff Bowley advised that the following actions had been taken:-

Key Financial Controls

1. The introduction of a different staffing structure, to include all year finance cover, would address the timely completion of bank reconciliations which had been delayed due to college holiday periods.
2. Unpresented cheques are being written back after six months.
3. Fixed asset inventory checks will be carried out annually once the Register is fully established which should be during the course of the current financial year.
4. The revised staffing structure referred to above will also resolve the issue regarding the reconciliation of the payroll control account.
5. Staff continue to be reminded to use the purchase ordering system.
6. Competitive quotes would be obtained in line with procedures unless there were exceptional emergency reasons for not doing so.

Human Resources

An annual reconciliation will be undertaken in the spring between the human resource information and the payroll system.

Follow up

There are new procedures in place for authorising additional hours/sessional pay.

External Audit

- Fixed assets – the recommendation was accepted and was the same point as 3 above.
- Insurance costs of employment disputes. Chris Johnson asked whether HR procedures had been reviewed as a result of this experience. Dan Dean confirmed that they had and were included in the College SAR. In addition, Keith Blackwell had prepared a report on this which would be put to the Corporation meeting under Part 2 business.

13. REVIEW OF EFFECTIVENESS OF FINANCIAL MANAGEMENT AND GOVERNANCE FRAMEWORKS

The Clerk advised that this was the final letter issued at the end of July in respect of the PFA Inspection which had been carried out alongside the Ofsted inspection in May. The overall result of grade 1 had already been reported to the Corporation and a copy of the report appended to the governors SAR which had been reviewed by the Corporation in September. However, it was appropriate that this committee should review the recommendations, and progress thereon from this report.

There were no weaknesses identified within the report. The following items had been addressed:-

- Wording of approval in one set of Finance minutes – this had been noted by the Clerk who would ensure that the correct wording would be used in future.

- There had been a number of discussions over the years as to the format of information presented to governors and governors had preferred to receive management account information on a cash basis. The cash flow forecast had been amended.
- Challenging financial targets – there was a discussion as to whether this had been fully addressed, and it was agreed that Dan Dean and Geoff Bowley should follow this up.
- Reports on the reasons for student withdrawals would now be made annually with the first one being done this term.
- The College’s tuition fees policy was approved in the summer 2008 and would continue to be approved on an annual basis.
- A mandatory induction session for new governors with the College accountant was now included as part of the induction programme.

Action: Geoff Bowley and Dan Dean to ensure that the point regarding challenging financial targets was addressed

14. FINANCIAL MANAGEMENT AND CONTROL EVALUATION (FMCE)

Dan Dean explained that this was a new document which was required to be submitted to the LSC by 12th December. It had originally been required to be signed off by the Principal and approved by the audit committee prior to that submission. However, the LSC had subsequently recognised the difficulties imposed on colleges by this tight deadline and said that they would accept submissions by 12th December with retrospective audit committee approval. Work on completion of this document was currently ongoing.

Action: College to complete FMCE and submit by 12th December. Document will be shown to Chair of this committee prior to submission and will be examined by the Audit Committee at its next meeting.

15. REVIEW OF TERMS OF REFERENCE

The terms of reference were reviewed as part of the bi-annual review. The following items were suggested as amendments:-

- In paragraph 1, the replacement of the word “criticisms” with “issues”
- A change to the number of committee members from a minimum of four to a total of six to reflect the actual number on the committee and provide for an acceptable quorum of three people.
- The removal of the word “interim” in point 10.
- Small typographical adjustments in point 13.

The revised terms of reference were proposed for approval by Anne Grant. This was seconded by Robin John and agreed unanimously by the meeting.

16. ANY OTHER BUSINESS

None

17. DATE OF NEXT MEETING – *Tuesday 18th March 2009*

Signed.....

Date.....

