



## **AUDIT COMMITTEE: ANNUAL REPORT TO CORPORATION**

### **AUDIT COMMITTEE**

The Audit Committees membership and terms of reference fully comply with the requirements of the ESFA's Audit Code of Practice (2016). Throughout the year the Committee was chaired by a qualified accountant. Collectively the Committee has recent and relevant experience in finance, risk management, audit and assurance; and two of the governor members have long experience of the College's business and control arrangements.

The main responsibility of the Committee is to oversee and assess the adequacy, effectiveness and efficiency of

- ~ the College's internal control framework;
- ~ its external audits; and
- ~ its other independent assurance and validation arrangements;

and to advise the Corporation accordingly.

In particular the Committee is required under the Audit Code of Practice to provide the Corporation with an annual report on

- ~ its activities and effectiveness relating to the financial year under review and up to the date of the preparation of the report, including any significant issues arising from audits, and
- ~ its opinion on the adequacy and effectiveness of the Colleges audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness.

### **Audit Committee's Activities and Effectiveness**

The Committee met twice during the year, and held two further joint meetings with the Finance and General Purposes Committee to consider the draft Corporation Annual Report and Accounts and to review the College's Finance regulations.

At each of its own two meetings the Committee reviewed the progress in implementing the agreed recommendations flowing from completed audit and assurance work, and considered the forward programme of work. In several cases the assurance work is

commissioned, and implementation of recommendations is overseen, by other governor committees with the relevant specialist expertise. External assurance work during the year included

- ~ an audit of the Teachers Pension Scheme (TPS) liability conducted by East Sussex County Council (ESCC);
- ~ an independent review of the farm's efficiency and systems;
- ~ an independent assessment and consultancy on the dairy enterprise;
- ~ Audit assurance review by the ESFA;
- ~ Landex peer review of curriculum and academic quality.

The College retained ESCC Internal Audit Service during the year to provide internal audits on a call-off basis, but during 2016/17 the focus was on assurance in specialist areas, and their engagement was limited to the TPS Audit.

The audits of the 2015/16 and 2016/17 Financial Statements were conducted by Mazars LLP, who were first appointed as external auditors in 2014. The Committee discussed with Mazars their audits and management letters, including their audit of the College's response to the Regularity Questionnaire. There were no significant issues arising from the audits.

The Committee reviewed Mazars' performance against specific performance indicators, and was satisfied with their performance..

The Committee is satisfied that it has discharged its terms of reference effectively during the year. Looking forward, the winding-up of the Academic Committee and the Finance and General Purposes Committee will have implications for the Audit Committee's work and terms of reference. It is suggested that the Committee should

- ~ have oversight of the financial and accounting policy aspects, as well as the financial control aspects, of the College's financial regulations
- ~ take the lead on overseeing non-financial assurance work, co-opting on an ad hoc basis other governors with the relevant specialist expertise.

### Internal Control Framework

The principal internal control systems operating at the College relate to:

- ~ Business planning and risk management;
- ~ Quality of academic provision;
- ~ Financial Control.

The College's system of internal control is based on a framework of regular management information, administrative procedures including segregation of duties, and a system of delegation and accountability.. In particular it includes:

- ~ comprehensive budgeting systems with an annual budget and operating plan which is reviewed and agreed by the governing body;

~ regular review by the governing body of financial and operating reports which show projected performance against budget/plan;

~ setting strategic targets in the form of key financial ratios;

~ clearly defined capital investment control guidelines, including formal project management disciplines where appropriate.

These systems have been in place for the year ended 31<sup>st</sup> July 2016 and up to the date of approval of the annual report and accounts. They are closely monitored by governors, with particularly close governor oversight and involvement during 2016/17 in the monitoring of academic performance.

The Committee believes the control framework in the business planning and finance areas is also fundamentally strong and effective.. However they note that there has been significant changes in the management structures of the College over the last two years, and many new appointments at departmental level and above, including during 2017 a new Finance Director and MIS Manager.

There have also been significant changes in the Government policy and funding, and in the market-place in which the College operates. The College's long-term business strategy and targets are still evolving to meet this. In the finance area, work is continuing on the task of updating and consolidating the college's financial regulations and procedures into a single Finance Manual.

As an integral part of reviewing and rolling forward the College's strategic and operational plans, the Corporation regularly reviews the business and financial risks to which the College is exposed. The risks are registered and ranked, and the scope for mitigating them is identified. In 2016 the strategic and operational risks registers were consolidated into one. Responsibility for managing individual risks lies with the relevant line manager, and is overseen by the relevant governor committee using a traffic light system: there is no separate Risk Committee. Alongside this management are charged with maintaining and annually reviewing procedures for managing risks to business continuity, the safeguarding of the College's physical assets, and the protection of health and safety and the environment.

In addition to the risk register the Governors receive a Board Assurance Framework which maps the sources of assurance against the key risks identified. This provides a starting point for the Audit Committee's forward audit and assurance programme.

The overall effectiveness of the College's risk management systems are reviewed annually by the Audit Committee. In addition the Committee annually reviews the College's contingent liabilities, and also its contingent assets. The Committee's view is that the system of risk management in place at the College from July 2016, taken as a whole, is robust and effective.

There were no instances of fraud at the College in the year to 31 July 2017 or in the period up to the approval of this report.