

Audit & Risk Committee

Approved Minutes

Minutes of the Meeting of the Committee held at the Basildon Campus on Wednesday 11 May 2016 at 9.00 am.

Present: Mr R Patterson (Chairman)
Dr G Ocen
Mr Paramjit Singh Narang
Ms L Rieffel
Mr T Thompson

In Attendance: Mr A McGarel (Deputy Principal & Chief Executive)
Ms D Hurst (Director of Finance)
Mr G Spilsbury (RSM, Internal Audit Service)
Mr D Harris (RSM, Internal Audit Service)
Mr G McLeod (KPMG, external auditor)
Mrs W Barnes (Vice Principal, Student Support) item 7b only
Mr R I Millea FCA (Clerk to the Corporation)

1. Apologies for Absence

Apologies for absence were received from Mr B Morris (co-opted member) and Ms S Beavis (KPMG).

2. Standing Orders

Members confirmed that no declarations of interest arose in connection with the agenda. The internal and external auditors confirmed that they did not require to speak privately to the Committee without management being present and the Committee did not require it either.

The Clerk to the Corporation and the Director of Finance declared their interests in that they occupy the same positions at Chelmsford College.

3. Urgent Business

The Committee noted that Peter Little had not sought a further term as a co-opted member of this Committee.

The Chairman notified the Committee of a possible new co-opted member for the Committee, which will be considered by the Search & Governance Committee next Monday.

4. Minutes of the Meeting held on Wednesday 11 November 2015

The Minutes of the Meeting held on Wednesday 11 November 2015 were **APPROVED** and **SIGNED** by the Chairman.

5. Matters Arising

The Clerk **REPORTED** that the Board had approved the Financial Statements and External Auditors' Management Letter for the year ended 31 July 2015, the Value for Money Policy and the Annual Report of the Audit & Risk Committee for 2014-15 at its Meeting on 7 December 2015, on the recommendations of this Committee.

6. Risk Management (Paper AU.16.01)

6.1 Corporate and Risk Management Monitoring Report

The Committee **RECEIVED** a regular Report from the Director of Finance updating the Committee on the high level strategic risks facing the College and the actions in place to mitigate those risks from occurring.

She reported that no risks on the College Risk Register had been removed since the last report. Three risks had been amended:

Risk 1 – Basildon Campus – improved from RED to AMBER following phase I of the project becoming unconditional on 12 April 2016 (see comment below) with cash being received and the Landowners Agreements being signed. The next critical element is the relocation of the Market in Basildon to allow the construction of the New Campus. Phase 2 is planned to go unconditional in eighteen months time.

Risk 6 – Staff absence – upgraded from GREEN to AMBER – reflects the staff absence days exceeding target and national benchmarks with consequent effect on the level of agency spend, which is still above budget. This area is monitored regularly as a standing agenda item by the Policy & Resources Committee.

Risk 16 – Work Experience – detailed internal audit carried out recently by RSM – see agenda item 7b ii below – there is an issue regarding the recording and evidencing of relevant and appropriate work experience which could have an impact on funding – upgraded from GREEN to AMBER.

Risk 3 - Shortage of funds for capital investment – tight cash flow and reduced operating surplus means College constrained in its ability to make capital investment to the existing estate.

Risk 26 - Revenue funding next year – reduced EFA allocation for 2016/17 on the lagged funding model means savings of c£2million will be necessary – being considered by Policy & Resources Committee.

Risk 27 - Apprenticeship Voucher system begins April 2017 – employers have control of the vouchers which they can use in Colleges and therefore the funding no longer comes direct to Colleges so there is a significant challenge in maximising the number of employers who will seek to use their Apprenticeship funding in the College.

Subcontracting arrangements – this will be added as a risk to ensure it is authorised by the Board at the right time and variations are approved when they occur throughout the year by Policy & Resources Committee.

Other observations by the Committee

The Committee noted that the outcomes of the Comprehensive Spending Review last November were not as severe in respect of Adult Funding as had been expected and the allocation for 2016-17 is broadly unchanged from this year.

However, the Committee noted that the reduction in 16-19 student numbers for the 2016/17 allocation on the lagged funding model means that the College will have to find around £2 million of savings (or additional income) next year.

The Policy & Resources Committee has already been apprised of options being examined by the Senior Leadership Team to meet this shortfall and will be examining an outline Budget for 2016/17 at its next Meeting on 20 June 2016. The full Board is required to approve a Budget for 2016/17 at its Meeting on 11 July 2016.

The Committee noted that the Area Reviews for Essex will begin late in 2016/early 2017 and the Board has been kept up to date as to preliminary progress including collecting necessary data to inform the process and talks with other Essex Colleges. It is intended that an Area Review Working Group will be set up shortly comprising a small number of governors.

The Committee noted that the Basildon project is now proceeding as the application by the Green Action Group to have the judicial review re-opened was rejected by the Court. Phase 1 of the project has now been completed with Redrow and proceeds to that stage paid. This includes the College acquiring some reimbursement (around £1million) against professional fees thus far expended on the project.

6.2 Audit Recommendations

The Committee **RECEIVED** a paper updating the position in respect of previous Audit Recommendations.

6.3 Assurance Mapping and Dartboard

The Committee **RECEIVED** an updated Assurance Map and accompanying Dartboard plotting changes in risks (see above) since the last Meeting. This reflects information from recent audit reports and other available assurance. The Assurance Map only includes AMBER or RED risks.

The Committee was also provided with a one page summary to give an overview of current assurance in place to enable the Committee to see how assurance coverage is being collected in order that the Committee can give an opinion on college internal controls and governance processes for the year to 31 July 2016.

The Committee also **RECEIVED** a copy of the current College Risk Register.

The Committee suggested that the Board should meet annually without staff being present to share experiences and the Clerk advised that this is planned for the Board Development Day on 4 July 2016, with a focus on Governor Links.

The Committee **RECEIVED** a report of the implementation review on the SEND Reform and that there is full compliance by the College. One member asked that it would be helpful in future in there was some elaboration of yes answers.

7. Internal Audit (Paper 16.02)

a. Progress Report

Grant Spilsbury of RSM **PRESENTED** a Report on progress on agreed Audit Assignments for 2015/16. Thus far, audits of ESS: Assets and Debtors Management, Subcontracting and Work Placements and Employability have been completed and Reports are considered under 7b below.

With regard to Curriculum Planning, the field work has been substantially completed and a draft Report will shortly be considered by the Senior Leadership Team for review and comment. Grant will meet with the Vice Principal, Curriculum & Quality later today to close off this Report.

The final Report will come to the full Board in July as there is no Meeting of this Committee until September. It was further agreed that the Members of the Committee would have sight of the final Report before it goes to the Board for any comment.

ACTION:CLERK

b. Final Internal Audit Reports

The Committee **RECEIVED** three completed Reports for consideration and review, as noted in 7a above.

b.i. Essex Shared Services: Debtors and Assets Management

The Committee **RECEIVED** a Final Internal Audit Report on Essex Shared Services Limited – Asset and Debtors Management.

The aim of the audit was to provide assurance on the design and application of controls surrounding asset and debtors management which functions are carried out for the College (and for Chelmsford College) by its joint venture company, Essex Shared Services Limited. This Report will be considered by the Board of Essex Shared Services Limited on 27 June 2016.

The Committee noted that the value of the College's fixed assets at 31 January 2016 was £109.2 million and the College's outstanding debts at 31 March 2016 were £3.8million.

The assurance level was **REASONABLE** in that the controls in place to manage both of these areas are suitable designed and consistently applied (Amber/Green rating).

The Report raised six recommendations, four medium level and two of low level.

The medium level recommendations were:

1. No asset verification process has been undertaken in the current or the previous financial year. This Committee had been made aware of this in previous meetings.
2. Fixed asset reconciliations have not been completed on a monthly basis, although a reconciliation was carried out at December 2015, but issues arising therefrom have not been cleared
3. Instances were identified where reminder and final demand letters had not been issued to slow paying debtors in line with financial procedures
4. The monthly Management Accounts presented to the Policy & Resources Committee and the Board do not include an aged debtor analysis

The Committee was assured that

1. Asset verifications will be done at 31 July 2016 for annual accounts purposes
2. Reconciliations have been instituted
3. This is now in place
4. The Policy & Resources Committee received an aged debtor analysis and report at its recent Meeting on 25 April 2016 (extracts of the agenda paper and the analysis of debtors was provided to the Committee)

The Director of Finance reported that a new post of Head of Accounting had been appointed, starting in July 2016, who will take considerable responsibility for the production of the year end accounts and the whole management and financial accounting processes.

b.ii. Subcontracting

The Committee **RECEIVED** a Final Internal Audit Report on Subcontracting Controls.

The scope of the work was agreed with the College by engagement letter and involved testing of the controls the College has in place for subcontracting in line with the guidance (External Assurance on Subcontracting Controls) issued by the Skills Funding Agency in September 2015. The scope did not include subcontracting provision with providers in connection with EFA funded provision.

In addition, the SFA funding agreements for 2015/16 contained a new clause regarding an annual subcontracting assurance requirement. This requires lead providers who contract more than £100,000 of their funded provision in 2015/16 to obtain a Report from an external auditor in respect of the arrangements in place to manage and control their subcontractors.

Furthermore, the lead provider must supply the SFA with a certificate confirming that the provider's arrangements are satisfactory.

Accordingly, a formal Internal Audit assurance rating is not given. The Report did identify eight advisory actions. All of these actions have been accepted as valid by management and have been or are being implemented.

It was noted by the Committee that the contracts awarded for 2015/16 were approved by the Senior Leadership Team before commencement of those contracts on 1 August 2015. The Policy & Resources Committee ratified them at its Meeting on 1 February 2016 (copy of agenda item and the P&R minute provided to the Committee).

For 2016/17, it is intended that the full Board will give approval to provisional contract amounts at the July Board Meeting 2016 and any variations to those approvals will be reported to the Policy & Resources Committee during the year. This approval will include both SFA subcontractor funding and EFA subcontractor funding.

ACTION: CLERK

b.iii. Work Placements and Employability

The Committee **RECEIVED** a Final Internal Audit Report on Student Work Placements and Employability. Wendy Barnes attended for consideration of this Report.

The aim of the Audit was to review the processes in place for the planning and delivery of Employability, Enrichment and Pastoral (EEP) hours which includes the identification of relevant work placements for students.

The assurance level was **PARTIAL** in that the College can take only partial assurance that the controls to manage this area are suitably designed and consistently applied. Action is needed to strengthen the control framework to manage the identified area (Amber/Red rating).

The Report raised nine recommendations – one high, four medium and four low.

The High recommendation arose from sample testing of seventeen students where planning or delivery of the full EEP hours could not be evidenced for 15 of the 17 selected for testing. Management have undertaken to carry out Departmental Audits by the end of May 2016 to ensure sufficient and appropriate evidence is available to support the planning and delivery of the full planned EEP time for 2015/16.

As a consequence of the results of the limited testing carried out by the internal auditors, there is a risk that, in the event of an EFA review, the lack of evidence if replicated more widely could result in a material amount of funding being withdrawn thus adversely impacting on future years.

It was acknowledged that there may be (and probably are) alternative and additional evidences available which would be relevant to reducing the 'extrapolated' effect of the error rate discovered in the small sample selected and examined. However, RSM, with their experience of carrying out Funding Audits for the SFA/EFA, do consider there is a funding risk and it could run into two or three hundred thousand pounds, on the lagged funding model.

Management responded that a range of departmental audits will be undertaken to ensure that sufficient and appropriate evidence is available to support the planning and delivery of the full planned EEP time for 2015/16. This should minimise the exposure to financial clawback arising from any poorly recorded work experience or inadequate type of work experience.

The Committee wishes to ensure that there is no potentially significant financial risk in the 2016 accounts due to inadequate recording of Work Placements/Experience and therefore inability to justify funding claims in this regard.

The Committee asked for a follow up audit to be undertaken at a time to be determined that would adequately test that the issues raised had been fully addressed and sustained.

There will be final report on this issue at the Board Meeting in July which will incorporate the results of the internal departmental audits to examine evidence.

The four medium level recommendations were:

1. Work experience not undertaken in a consistent and appropriate manner to maximise the number of students placed
2. Roles and responsibilities of staff not clearly defined and communicated
3. Insufficient knowledge and expertise within the College to be able to embed the MWS system
4. No standardised and robust process for evidencing the planning of EEP hours

The College agreed these recommendations and implementation is planned over the next few months.

c. IT/ILT Consultancy Update and MIS Consultancy Update

The Committee **RECEIVED** verbal update Reports from the Deputy Principal & Chief Executive on these two pieces of development taking place in the College and the assurance it can gain from the work done and planned to be done.

The Committee will receive a Report on the **MIS** consultancy at the next Meeting.

The DP&CE gave an update Report on the **IT/ILT** position:

- Tenders for the new operating system were sought
- Contract awarded to Capital systems for Unit which covers student recording
- College has new interim Head of Information Services and she has experience of installing new recording systems and getting them operational
- It was a joint tender with Chelmsford College
- 90 days of time from Capita as part of implementation
- System will go live in the summer for admissions/enrolments and timetables/registers
- Needs to be operational at start of new academic year
- Report will come to the next Meeting as to progress

Assurance needs in this area to be considered as part of 2016/17 programme of work of the Committee

ACTION: DP&CE

8. Financial Statements Audit 2015/16 (Paper AU.16.03)

The Committee **RECEIVED** the Audit Planning Memorandum (APM) for the 2016 financial statements and regularity audit provided by KPMG, the College's external auditor, noting it was their second year in post.

Gary McLeod, on behalf of KPMG, explained the plan to the Committee by working through the contents with emphasis on the overall timetable and related deadlines, with a view to providing their draft Report and Audit Management Letter to the Meeting of this Committee on 9 November 2016.

Particular reference was made to the external auditors' planned level of materiality of £500,000 with performance materiality of £375,000. An individual difference would be reported to the committee if in excess of £25,000.

The audit is risk based and, if relevant, reliance will be placed on the work of RSM as Internal Auditors. The external auditors will carry out a detailed assessment of going concern as part of their task of arriving at an opinion on the financial statements but no issues are expected in this regard.

However, the possible influence over the going concern judgement of the Area Review process in Essex was noted and, depending on developments at the date of sign off of the accounts, will be reflected in accounts disclosures. At this stage, it is not expected to be material. The bank have confirmed that FRS102 changes will not prejudice the covenants.

KPMG is reviewing the College's accounts at the end of this month to implement necessary changes required through the implementation of FRS102 – likely to be holiday pay, grants (capital and revenue) and pensions. There is expected to be a negative impact on the College balance sheet.

In response to a question from a Member, the significance of the pensions issue was explained given that KPMG have rated this risk as relatively low. This is because that the action to mitigate the pension deficit is agreed with the trustees and actuary and put into place by the College and also that the liability is long term.

The Committee **NOTED** the Report.

9. Committee Matters (Paper AU.16.04)

- (a) The Clerk tabled a draft Schedule of Committee Business for 2016/17 and this was **AGREED**.
- (b) The Clerk circulated forms for Members to undertake self-assessment of the Committee for the current year and **ASKED** that these be returned to him so that he can prepare a summary for the next Meeting of the Committee.
- (c) The Clerk circulated forms for Members to undertake a review of the performance of the external auditors in respect of 2014/15 in accordance with usual College practice and **ASKED** that these also be returned to him in time for the next Meeting.

ACTION: CLERK

10. Future Meeting Dates

These dates are subject to Board approval:

Wednesday 13 September 2016 – Southend Campus – 8.30 am

Wednesday 9 November 2016 – Basildon Campus – 9.00 am

Wednesday 10 May 2017 – Basildon Campus – 9.00 am

There being no further business, the Meeting terminated at 10.50 am.

Signed.....Dated.....