

## **Audit & Risk Committee**

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### **Approved Minutes**

Minutes of the Meeting of the Committee held at the Southend Campus on Tuesday 13 September 2016 at 8.40 am.

Present: Mr R Patterson (Chairman)  
Dr G Ocen  
Mr Paramjit Singh Narang  
Mr T Thompson  
Mr A Lyons (co-opted member)

In Attendance: Mr A McGarel (Deputy Principal & Chief Executive)  
Ms A O'Donoghue (Principal & Chief Executive)  
Ms D Hurst (Director of Finance)  
Ms A O'Keeffe (RSM, Internal Audit Service)  
Mr D Harris (RSM, Internal Audit Service)  
Mr G McLeod (KPMG, external auditor)  
Mr R I Millea FCA (Clerk to the Corporation)

The Clerk took the Chair for the first three items on the Agenda.

### **1. Apologies for Absence and Welcome to New Member**

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

The Chair welcomed Adam Lyons to the Committee as a new co-opted member serving a four year term and Anna O'Keeffe as the new Internal Audit Manager from RSM.

### **2. Standing Orders and Declarations of Interests**

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.

Both sets of auditors declared their interests as they occupy the same positions at Chelmsford College.

### **3. Election of Chairman 2016/17**

Bob Patterson was the only nomination received for the position of Chairman of the Committee for the academic year 2016/17 and was duly elected nem con.

The Chairman resumed the Chair.

#### 4. Urgent Business

There were no items of Urgent Business.

#### 5. Minutes of the Meeting held on Wednesday 11 May 2016

The Minutes of the Meeting held on Wednesday 11 May 2016 were **APPROVED** and **SIGNED** by the Chairman.

#### 6. Matters Arising

The Committee **RECEIVED** an update from the Principal & Chief Executive on actions requested to be taken arising from the Report on Work Placements and Employability, which the Committee had considered at its last Meeting.

She explained that Departmental Audits will take place next month and address the issue of a lack of recording of Placements. Progress Tutors will be responsible for take up of Placements, together with the students themselves.

The Committee requested that a follow up audit take place in 2016/17 Q4 by RSM.

**ACTION: RSM**

#### 7. Risk Management (Paper AU.16.05)

##### 7.1 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. The risks are regularly reviewed by the Senior Leadership Team.

She reported that two additional risks on the College Risk Register had been added since the last report and four risks had deteriorated from Amber to Red.

##### New risks

Budget surplus: the achievement of a surplus in 2016/17 depends upon savings of £1.7 million being achieved as notified to the Board at the July Meeting. Current projections for 2016/17 indicate the College will make a deficit of £0.5m on top of the projections given at the July Board meeting. . This will impact on cash flow during 2016/17 and an overdraft will be required to be in place for December/January.

The Committee noted that the College had lost the claim against them regarding Crown House, Thurrock and is liable for £0.5m in rent, interest and costs. There is no opportunity to appeal as the decision is final. The Board has been notified by email. The impact of this event could deteriorate the College financial health from satisfactory to inadequate. The College will try to argue that this is a one-off event. If the College's financial health was deemed Inadequate, the College would receive a financial notice to improve and be required to issue a detailed financial recovery plan to the SFA.

##### Deteriorated risks

Maths & English: there has been improved attendance of students in taking Maths & English (85%) but insufficient improvement in outcomes.

HE offer: two out of four areas reviewed by QAA need improvement and College has twelve months to meet expectations. An action plan has been implemented and progress will be monitored in early 2017. A Dean of HE is in the process of being recruited to drive improvement.

Area Reviews: the College's worsening financial health (possibility of College becoming Inadequate under the new FE financial methodology) may affect the desired outcome from the area review. The Committee noted that the Area Review Steering Group is now established and has met once (see Confidential Item attached to these minutes).

Payroll costs: staff costs must be reduced given reduced funding and targets have been set for each department. The projected budget is showing 64.7% of income and needs to be reduced to 62.5% (the College's target) in order to make the savings required by the budget. Meetings set up with each department to review progress against savings targets.

To meet this target, the College is decreasing use of agency staff, which are expensive, and recruiting such people as College staff on an hourly paid basis. The Committee noted that the HR Department has the responsibility of recruiting agency staff but only on a clear business need being established. The budget is held by HR.

In addition, the College teaching contract has been changed from 792 contracted hours by lecturers to 864 hours per annum and this should help in lowering dependency on agency staff.

The other three RED risks are lack of funds available for capital investment, reduced future revenue funding (achievement of 16-18 enrolments) given lagged funding model and inability of the College to achieve growth in Apprenticeships once the voucher/levy system is operating.

Two new AMBER risks have been added:

HE partner: the University of Essex has indicated that September 2017 will be the last year for student intake on their validated courses. The College is in discussions to find a new HE partner.

SFA/EFA relationships: There is a new relationship management team in place (London based) and the first meeting with that team is listed for 21 September 2016 and there will be discussion about the College Financial Health (see above). If they deemed it Inadequate, this may affect Area Review outcomes and, as stated, will require a Financial Recovery Plan to be put in place with the SFA.

The Director of Finance advised that a further RED RISK has arisen recently. The College's bankers have suggested a renegotiation of the College's loan arrangements in particular its £20 million loan. The margin has doubled from 1.65 to 3.30% - an increase on interest payments of £0.25m.

The bank has offered other scenarios which would be fully explored with the Bank and brought to the Board as the decision will need to be made quickly. It was noted that the Area Reviews and any reconfiguration of the College as a result of that might also impact borrowing arrangements.

In addition, the Essex LGPS has indicated that they wish to explore taking security over College assets to protect the existing actuarial deficit at an amount of about 70% of this deficit – this would amount to around £5 million. The College will resist this proposal and discussions will continue.

## *Observations by the Committee*

The Committee asked about financial information which goes to the Area Reviews and this was explained by the DPCE. They further expressed concern about the time (management and governor input) needed to deal with Area Reviews.

The Committee noted with disappointment the deterioration of the College risk profile since the last meeting and the risk as to whether the required savings can be made – it was noted that the Policy & Resources Committee will keep issues under close review and that the current results will be presented to the next Board meeting..

The Principal & Chief Executive indicated that significant improvement in learning outcomes occurred during 2015/16, subject to final validation.

The Board and the Committee will be informed of financial challenges to keep them in the picture.

It was noted that the sale of Basildon, although on a phased basis, will help College's cash position and there is the possibility of selling the Aveley land.

The Committee enquired as to the position re the College's current bank covenants. It has been confirmed by the bank that they have agreed to use methodology under old UK GAAP for one more year.

The update on the Basildon project is fairly positive at present.

### **7.2 Audit Recommendations**

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

### **7.3 Assurance Mapping and Dartboard**

The Committee **RECEIVED** the Risk Register and accompanying Dartboard plotting changes in risks (see above) since the last Meeting.

The Committee was also provided with a summary of Assurance to give an overview of current assurance in place to help inform the Annual Report of this Committee, which will come to the next Meeting for consideration and approval. This will be updated once Area Reviews are completed due to competing priorities.

## **8. Internal Audit (Paper 16.02)**

### **a. Progress Report**

Daniel Harris of RSM gave a verbal Report on agreed Audit Assignments for 2015/16. All of the planned work has been completed.

The completed audits were of ESS: Assets and Debtors Management (reasonable assurance), Subcontracting (advisory only), Curriculum Planning (reasonable assurance) and Work Placements and Employability (partial assurance).

With regard to each area examined, RSM's work did identify areas where elements of the control frameworks required further enhancement and actions have been agreed with management in this regard.

RSM stressed that the Report does not provide a formal annual internal audit opinion that would accord with Public Sector Internal Audit Standards and must not be taken to provide such an opinion.

The Clerk reminded the Committee that it is up to the Committee to provide an opinion on internal controls and governance processes to the Board and the work done by the Internal Audit Service will form part of the assurance available to enable the Committee to provide their opinion.

The Clerk further stated that the Committee's Annual Report to the Board will give the Committee's assurance opinion to the Board and he will draft this for consideration and approval at the next Meeting of the Committee in November 2016.

#### **ACTION: CLERK**

#### **Final Internal Audit Reports**

The Committee **RECEIVED** a Final Internal Audit Report on IT Circle Report – Implementation of Findings. This review was not designed to produce a formal opinion.

The scope of the work was agreed with the College and was to follow up the progress made to implement previously agreed management actions in response to a Report by an independent consultant, IT Circle, thereby contributing to assurance as to how the College's strategic aims are supported and delivered through the use of IT and ILT.

Accordingly, a formal Internal Audit assurance rating is not given. The Report did identify 68 advisory actions, noting that 30% have been implemented and 50% are in progress. RSM were of the view that the College has made reasonable progress in implementing the agreed actions. The College was not intending to implement a recommendation that there be an ILT Board established.

They noted that the establishment of the Blended Learning Group is a reasonable contingency measure and it seems to be having useful impact.

RSM recommended that responsible owners of the actions and target dates should be identified and also expressed concern that, without this, it was difficult for progress to be adequately and effectively tracked.

The Committee noted that there is a long time frame in respect of items noted in the Report, so it is hard to judge the likely outcome and benefits. It was agreed to follow up progress in a year's time so that key issues can be monitored.

The Principal and Chief executive noted that there were funding constraints on IT development and it may therefore be necessary to scale back what we can do realistically within funds available.

The Committee asked that the Action Plan be redrafted on a risk based basis with funding implications and time frame by the time of the next Meeting together with alternative approaches e.g outsourcing.

#### **ACTION: DPCE**

The Committee **RECEIVED** a Final Internal Audit Report on Curriculum Planning.

The aim of the audit was to provide assurance on the controls and mitigations to ensure that the curriculum offered is viable and based on meeting customer needs.

The assurance level was **REASONABLE** with the Committee able to take assurance that the controls in place to manage this risk are suitably designed and consistently applied.

One medium recommendation was raised and one low recommendation.

The medium recommendation related to the absence of current costings supporting contribution rates for study programmes, thereby potentially affecting the viability of the business case in running certain courses. The low recommendation related to inconsistency between the curriculum plans being used across College departments.

It was **AGREED** that this Report will be copied to the Curriculum & Quality Committee for their information.

### **ACTION: CLERK**

#### **b. Internal Audit Plan 2016/17**

The Committee **RECEIVED** a Draft Internal Audit Plan for 2016/17 from RSM, the College's Internal Audit Service. This resulted from discussions between RSM and the Deputy Principal & Chief Executive and the Director of Finance, with input from the Principal & Chief Executive.

As last year, the assignments proposed will provide the Committee with assurance on those particular areas but will not provide an overall internal audit opinion on the College's risk management, governance and control systems and this will be the responsibility of the Committee through its Annual Report to the Board.

A total of 37 days is proposed to be spent by RSM on the following areas, in line with the tender process:

- Apprenticeships Levy – Strategy and Business Development
- Management Information and Applications Management
- Student Journey – first six weeks
- Financial Planning and Management Information
- Essex Shared Services – Cash and Treasury controls (joint with Chelmsford)

An indicative timetable for the work to be done was provided to the Committee and the reports will flow through to the Committee Meetings in 2017 (February and May).

The Principal & Chief Executive asked RSM about the Student Journey work planned as she was concerned about anecdotal evidence being included in the findings. She said the focus should be on the ILR as there was doubt whether the internal auditors were skilled to examine some aspects of the Student Journey.

RSM assured the Committee that the Plan was an indicative document and the scope of the work on all planned areas will be agreed in detail with management before it commences. RSM indicated that the work on Student Journey might produce some additional funding. The approach will be high level and this maps well against the Risk Register. The Chair considered it important that the RSM work did include elements of outcomes and the students' experience as well as pure financial and data analysis.

The Committee agreed that a follow up report requested on Student Work Placements and Employability should be funded within the overall 37 days indicated above. The Committee discussed the Strategy and **RECOMMENDED** its approval at the Board Meeting on 3 October 2016.

**ACTION: CLERK**

### **c. MIS Consultancy Update**

The Deputy Principal & Chief Executive gave a verbal update on this consultancy work and the issues arising.

The Committee **RECEIVED** a verbal update Report from the Deputy Principal & Chief Executive on this development taking place in the College and the assurance the Committee can gain from the work done and planned to be done.

The DP&CE gave an update Report on the position and will bring a written Report to the next Meeting.

**ACTION: DPCE**

### **9. JACOP – Annex C: Self-Assessment Questionnaire 2015/16 (Paper AU.16.06)**

The Clerk tabled the completed Questionnaire for 2015/16, informing the Committee that it requires approval by the Board, signature by the Principal & Chief Executive (as Principal Accounting Officer) and the Chair of the Corporation, and submission to the external auditors as part of their audit evidence portfolio on governance issues.

The document also supports assurances to be given in the Annual Report of the College regarding regularity, propriety and compliance of its governance and internal controls.

The Committee **REVIEWED** the questionnaire and **RECOMMENDED** it be approved by the Board at its Meeting on 3 October for signature by the Chair of the Corporation and the Principal & Chief Executive.

**ACTION: CLERK**

### **10. Review of Financial Regulations**

The Director of Finance reported that some minor updates are required and some delegations need updating (e.g. caused by the retirement of Wendy Barnes).

It would need to incorporate a review of campus depreciation rates for the College buildings at Thurrock and Southend.

These amendments would be brought to the next Meeting for recommendation to the Board for approval at the Board Meeting in December.

**ACTION: DIRECTOR OF FINANCE**

### **11. Committee Matters (Paper AU.16.04)**

- (a) The Clerk reported on the results of the Committee Self-Assessment for 2015/16. No issues arose for action.

- (b) The Clerk circulated the Committee Terms of Reference for review. No changes are proposed. The reviewed Terms will be presented to the Board on 3 October 2016 for **APPROVAL**.
- (c) The Clerk reported that Members had returned their Reviews of the Financial Statements and Regularity Auditor for the year ended 31 July 2015. No issues arose and Members are content that the auditors continue in office.
- (d) The Clerk distributed Performance Review Forms for the Internal Audit Service for the year just ended and asked for them to be returned completed by 15 October, so that a Report can be presented to the next Meeting on 9 November 2016.
- (e) The first Meeting of the Area Review Steering Group took place on 1 September and the Minutes of that Meeting, together with a verbal Report from an Audit Committee Member who attended, are included in a Confidential Item attached to these minutes.

The Committee **NOTED** the Clerk's Report.

**ACTION: CLERK**

## **12. Future Meeting Dates**

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 10.10 am.

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