

Audit & Risk Committee

Approved Minutes

Minutes of the Meeting of the Committee held at the Basildon Campus on Tuesday 23 May 2017 at 9.00 am.

Present: Mr R Patterson (Chairman)
Mr R Hughes
Dr G Ocen
Mr Paramjit Singh Narang (from 9.30 am)
Mr T Thompson (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)
Mr P Moore (Deputy Director of Finance)
Mr D Harris (RSM, Internal Audit Service)
Ms A O'Keeffe (RSM, Internal Audit Service)
Mr R I Millea FCA (Clerk to the Corporation)

1. Apologies for Absence

Due to a change in this meeting date apologies for absence were received from Mr A Lyons (co-opted member) and Ms S Beavis and Mr J Laing (KPMG, external auditors).

The Committee **NOTED** that Tom Thompson had resigned from the Board of the College but had been co-opted onto this Committee, previously having been a full member of this Committee. The Committee further **NOTED** that, following the departure of Lisa Rieffel from the College, Rhys Hughes had been appointed temporary staff governor in her place and has taken her place on this Committee.

2. Standing Orders and Declarations of Interests

Members confirmed that no declarations of interest arose in connection with the agenda. The internal 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 external auditors were unable to attend.

The Clerk to the Corporation and the Director of Finance declared their interests in that they occupy the same positions at Chelmsford College. The Clerk also declared that his wife's cousin is the Clerk at Writtle University College.

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

3. Urgent Business

The Principal & Chief Executive reported on the Ofsted inspection two weeks ago. The College received a Grade 2 overall and a Grade 2 in every area inspected except Adult Learning which was a Grade 3. The draft Report is expected later this week but until then the outcomes remain confidential. The Committee asked that the Principal & Chief Executive pass on the congratulations of the Committee to staff.

There were no other items of Urgent Business.

4. Minutes of the Meeting held on Wednesday 9 November 2016

The Minutes of the Meeting held on Wednesday 9 November 2016 were **APPROVED** and **SIGNED** by the Chairman.

5. Matters Arising

The Clerk **REPORTED** that the following documents had been approved by the Board at its Meeting on 5 December 2016:

- Financial Statements and External Auditors' Management Letter for the year ended 31 July 2016
- Annual Report of the Audit & Risk Committee 2015-16
- College compliance document for 2015/16 relating to the Code of Good Governance

The Clerk advised that the update of the College Financial Regulations was completed by 31 December 2016 and that a Report on the LGPS pension position was presented to the Board at its Special Meeting on 30 January 2017. A copy of the LGPS Report was provided to Members for information.

The Committee were informed further discussions with Essex LGPS will continue through FEDEC. Meanwhile, the College will seek an outside review of the pension liability assumptions and the contributions levels to inform our contribution to discussions with FEDEC and to assist us in the review of accounts disclosures for this year end.

The Committee asked that further updates on this issue continue to be given at future Meetings of the Committee.

ACTION: AMcG

6. Risk Management (Paper AU.17.01)

6.1 Corporate and Risk Management Monitoring Report

The Committee **RECEIVED** a regular Report from the Deputy Principal & Chief Executive 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.

The Committee **CONSIDERED** the updated detailed risk register, assurance map and outstanding audit actions.

There are currently 25 risks on the Register requiring scrutiny by the Committee – 6 RED and 19 AMBER.

All of the RED risks relate to the financial recovery plan, namely:

- Financial health (SFA)
- Capital investment
- Payroll expenditure
- Budget surplus
- Apprenticeship levy
- Operating Cash Flow

He reported two changes to the risks on the College Risk Register since the last report. The HE Offer Risk has improved from RED to AMBER as the Action Plan is on track and expected to be completed to QAA satisfaction. The Area Review risk remains on the dashboard as an AMBER risk but, as the process is complete, this risk will be removed from future Reports.

The DPCE informed the Committee that in future HE risks will be itemised separately for the Committee and the main Board to consider. These risks will be operational to some extent but it is a key area of risk to the College for the future because of the change in HE partner and the associated validation process with them. Also, there is the need to meet QAA requirements through the ongoing action plan.

No new risks have been added.

Maths & English remains a RED risk.

The financial situation remains difficult as illustrated by the RED risks noted above. Targets for income and expenditure this year are not being met and, in particular, expected payroll savings are not being achieved to a sufficient extent. Further reductions will be required.

The DPCE noted that moving debt to a Revolving Credit Facility will relieve cash flow pressures in the medium term, especially in the early part of 2018, when the payment profile from the Funding Agency is disjointed. However, falling income will mean that gearing will increase as the debt capital is not being paid down under the RCF.

There is a need to pay off debt and/or increase income flows.

The position regarding the apprenticeship reforms remains uncertain. The College has been registered as an approved provider and can therefore access the Apprenticeship Levy of employers.

The College does have a non-levy allocation for May to December pending the Government finalising bids for this work by the end of this year. However, this allocation is lower than previous allocations for this work on a comparable basis and effectively constitutes a cutback in respect of the period from now until July 2017 as against the original budget for this year.

The Principal & Chief Executive informed the Committee that there will be a substantial reduction in sub-contracting for next year given the reduced allocation for Adult Learning and it is intended that as much of the Adult work will be delivered in the College. This is more profitable to the College as using sub-contractors only generates an administration/handling fee for the College of 8-10% of the value of the work passed on to the sub-contractor in question.

The DPCE reported that the College is participating in regular case conferences with the ESFA with Governor attendance also. The ESFA is content with the way the Management Accounts information is provided and their comments have improved the content of the Accounts. However, they continue to make the point that the College is not meeting its budgetary targets at the present time and is expecting to exceed the budgeted deficit for the year ended 31 July 2017 of £500K with a deficit of almost £1million being likely.

Copies of the Minutes of the case conferences for April and May 2017 were provided to the Committee for information. It was **AGREED** that the Committee would continue to receive copies of the Minutes in the future to help in judging the progress of the monitoring process by the ESFA Intervention Unit.

Observations by the Committee

The Chair stated that the dartboard reflects the risk position well and movements are clear.

The Principal & Chief Executive commented that, whilst Apprenticeships are correctly classed as a RED risk, they are a national problem, for a number of reasons, not least of which the confusion and potential difficulties with the new funding system for Apprenticeships.

A governor asked about expanding work with employers through utilising the Levy scheme. The DPCE explained that no amounts for this line of activity is currently included in the College budget and next year's budget would be very circumspect in assuming growth from this source. The Principal & Chief Executive stated that we have begun to sign up companies to deliver Apprenticeships to them and it is clear that existing employers we deal with will produce more apprenticeships in the future.

However, there are considerable concerns about the timing of payment for this apprenticeship work.

The Chair observed that the risk profile of the College has substantively changed from curriculum to finance as illustrated by the RED risks itemised above. He asked whether we have got the capacity to get the finances right in the same way that we have achieved improvement in curriculum delivery over the last few years, demonstrated by the good OFSTED outcome.

The Principal & Chief Executive responded by saying that, having achieved Grade 2 Ofsted, we now are able to concentrate on finance and, in particular, bring finance to the forefront of the curriculum staff and plan to deliver on a more cost effective basis. Where necessary, this may mean deleting courses if the numbers of learners is inadequate. Finance is critical and the number one priority with Ofsted and Area Reviews now out of the way.

The Committee expressed concern that securing the going concern of the College is the key and most important risk to the College.

A governor asked about English & Maths and how it was viewed by Ofsted. The Principal & Chief Executive said that Ofsted were reasonably positive, with their main concern (as it is all other Colleges), regarding attendance and punctuality. In College, attendance for English & Maths lessons averages around 60% whereas attendance at main vocational qualifications is over 80%.

The Committee **NOTED** the Report.

6.2 Audit Recommendations

The Committee **RECEIVED** a paper updating the position in respect of previous Audit Recommendations, noting that they have all been actioned and some are now complete.

6.3 Risk Register and Dartboard

The Committee **RECEIVED** an updated Risk Register 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 Risk Register only includes AMBER or RED risks.

7. Internal Audit (Paper 17.02)

a. Progress Report

Anna O’Keeffe of RSM presented a Progress Report on agreed Audit Assignments for 2016/17 as documented in the approved IAS Audit Plan for the year. Thus far, audits of Subcontracting Controls and Financial Planning & Management Information have been completed and the Reports are considered **under 7b below**.

A draft Report has been completed on ESS: Key Financial Controls: Cash and Treasury and is with Management for final review and response. It will come to the next Meeting of this Committee on 27 September 2017.

Agreed work still to be carried out as part of the 2016/17 Audit Plan covers

- Student Journey: Six Weeks
- Apprenticeship Levy – Strategy and Business Development
- Follow up on the Student Journey looking at the Student Experience: work Placement and Employability
- Applications Management & Management Information

These assignments are scheduled for June/July and Reports will come to this Committee in September.

The Committee noted that RSM is meeting with Senior Management after this Meeting to discuss 2017/18 Internal Audit Plan and the Plan will come to the September Meeting of this Committee for approval.

ACTION: CLERK

Post Meeting Note: The Chairman has agreed that the planned Audits - Student Journey: Six Weeks and Applications Management and Management Information - be replaced as part of the 2016/17 Plan with a Mock Funding Audit to be carried out in July 2017. The reason for this is that there is a risk that we will have a SFA Funding Audit soon given we have not had such an audit for over five years and, due to our Inadequate Financial Health, the chances of an Audit are heightened. Secondly, there are new Department Heads responsible for Applications and Student Journey, some of which are not yet in post. It would be better to evaluate the 2017/18 process to improve for 2018/19 with the new staff.

b. Final Internal Audit Reports 2016/17

The Committee **RECEIVED** two completed Reports for consideration and review as presented by RSM.

b.i Subcontracting Controls

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

The Report is required by the Skills Funding Agency to consider the risks that subcontracting presents and how they can be mitigated. In particular, there is an annual subcontracting requirement whereby providers who subcontract more than £100,000 of its funded provision for 2016/17 must procure from an external auditor on the arrangements in place to manage and control their subcontractors.

This requirement also applied for 2015/16 and a Report from RSM was tabled and considered at the Audit & Risk Committee Meeting on 11 May 2016.

The detailed scope of the work was shown in Appendix A to the Report and was agreed between RSM and the College. **The Report does not give a formal opinion** on the operation of Subcontracting Controls in the College but documents findings of the testing and review carried out by RSM.

Again, this approach is the same as last year and that which occurs in other Colleges and providers.

The outcome of the work done by RSM is to supply a certificate to the SFA confirming that the provider's arrangements are satisfactory and that any recommendations have been implemented or there is an Action Plan to implement recommendations with completion dates.

The Report identified nine advisory actions (last year – eight), all of which are accepted by College Management and have been or are being implemented.

The Committee expressed some disquiet with the findings, which suggested a lack of control and inadequate monitoring. Senior Management responded that the existence of learners is verified to actual student attendance and that the Head of Sub-contracting and Apprenticeships manages this very closely. Quality Assurance visits to providers are regularly carried out.

It was felt that the tone of the findings in the Report highlighted sometimes that evidence of monitoring could be improved. During the Ofsted visit, the inspector looking at sub-contracting was complimentary of our arrangements although he did not look at detailed documentation.

Given the concerns of governors, governors requested that Management Responses be recorded on the Action Plan within the Report, including input from Lisa MacCormac. The Clerk reminded the Committee that sub-contracting contracts are approved by the Policy & Resources Committee before the beginning of the financial year and any variations or amendments are approved during the year.

ACTION: CLERK

b.ii. Financial Planning & Management Information

The Committee **RECEIVED** a Final Internal Audit Report on Financial Planning and Management Information.

The aim of the audit was to review the effectiveness of the College's financial planning, budget setting, monitoring and forecasting arrangements.

The College was found to be reporting regularly its financial position to both the Policy & Resources Committee and the full Board. RSM noted that the College is experiencing a deteriorating and difficult financial position but a detailed Financial Recovery Plan is in place to address this situation, although RSM noted that further improvements could be made to the Action Plan in place.

The College's Financial Recovery Plan is being monitored by the SFA Financial Intervention Team.

The assurance level was **REASONABLE** in that the controls in place to manage this area are suitably designed and consistently applied.

The Report raised **six** recommendations, **five medium level** and **one low level**. There were no high level recommendations.

The medium level recommendations were:

- No budget handbook in place detailing the College's policy and procedure relating to budget setting
- Some assumptions in cost setting insufficiently robust leading to possible non-achievement of the budget
- Lack of ownership by staff of parts of the College Financial Recovery Plan prejudicing achievement of the aims of the Plan
- Lack of remedial action being noted for some variances in Management Accounts Reports with the risk of variances getting worse
- No evidence retained of the results of on-going informal reviews of loan covenant requirements

The Director of Finance questioned the recommendations pointing out that the Financial Regulations have been updated (see Audit & Risk Minutes) and the loan covenants are reviewed but are going to change when the new loans are in place with Barclays expected to be in June. Quarterly reviews will then take place of the new arrangements.

In addition, she commented that the remarks about three assumptions in the budget were 'less than robust'. The number of learners budgeted was only 2% from the actual learners funded in year which constitutes a reasonable assumption. The interest rates used in the budget were conservative, being more than the actual weighted rate. Finally, the staff cost assumptions were a reasonable estimate short of specifying definite job losses or other restructuring.

The Committee noted the comments of the Director of Finance.

8. Financial Statements Audit 2016/17 (Paper AU.17.03)

This Agenda Item was deemed to be a Confidential Item under the Instrument & Articles and a separate minute has been prepared, which is attached to these minutes.

9. Updated Joint Audit Code of Practice (Paper AU.17.04)

The Clerk informed the Committee that the Joint Audit Code of Practice issued by the now combined Education & Skills Funding Agency has been revised. The Clerk provided a copy of the Revised Code to the Committee and explained that the changes were minimal.

The Clerk further informed the Committee that the JACOP Self-Assessment Questionnaire has not been updated or reissued as part of the revision process at this stage, but it is expected in due course. For the year ended 31 July 2017, the previous questionnaire (Annex C of the previous Code) will be completed by the Clerk, tabled at the September Meeting of the Committee for scrutiny and passed to the external auditors as part of the evidence base for their regularity audit.

The Committee **NOTED** the Report by the Clerk.

ACTION:CLERK

10. Review of College Policies (Paper AU.17.05)

The Clerk presented a paper to the Committee on proposed revised College Policies (Anti-Money Laundering, Anti-Bribery and Code of Ethics), which are due for review. The Committee was asked to **CONSIDER** and **COMMENT** on these revised Policies.

The Clerk explained that the policies on Anti-Money Laundering and Bribery reflect the current law and practice and have been reviewed by an external expert in these areas. The Ethics Policy (an overarching statement of College ethos) is unchanged from the original Policy adopted some years ago.

All three policies concur with the College's commitment to good governance in publicly funded institutions and are consistent with the Nolan Principles and the FE Code of Good Governance for English Colleges, which the Board adopted in 2015.

Governors asked whether staff were aware of these policies and understood their significance and relevance. Management agreed that some training for higher-level managerial staff was desirable and that those managers be required to cascade knowledge down to their teams. This training will be organised early in the next academic year.

The Chair observed that, in respect of bribery laws, that there is a defence if we can demonstrate that we acted as College reasonably and can defend what we did.

Although not directly related to the policies being reviewed, a governor asked whether our procedures and processes are sufficient to address attempts to hack into or otherwise damage our IT systems and, more generally, the risk of cyber security infringements.

In particular, governors were keenly aware of the recent significant hacking of NHS Trust's computers and systems. It was explained that IT staff undertake higher level IT security training and education acknowledging that the risk is very high at present. It was confirmed that penetration testing takes place and the College is repelling bogus and 'spam type' emails on a regular basis.

The Committee felt that next year's Internal Audit Plan should include an examination of our IT security arrangements including cyber security to give assurance that our protection level is as high as is reasonably possible.

It was noted that it is some years since there was an Internal Audit review in this area.

ACTION:DH/RSM

The Committee **RECOMMENDED** that these three Policies be approved at the Board Meeting on 10 July 2017.

ACTION: CLERK

11. Committee Matters (Paper AU.17.06)

- (a) The Clerk tabled a draft Schedule of Audit & Risk Committee Business for 2017/18 for consideration 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 forms be returned to him so that he can prepare a summary for the next Meeting of the Committee.
- (c) The Clerk reported that Performance Review Forms for the Internal Audit Service for 2015/16 had been returned by Members and one Finance Staff member. No issues arose and Members are content that the auditors continue in office.
- (d) The Clerk reported that Members are returning their Performance Reviews of the Financial Statements and Regularity Auditor for the year ended 31 July 2016. A report on overall performance will go to the next Meeting.

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

ACTION: CLERK

12. Date of Next Meetings

Wednesday 27 September 2017 – Southend Campus – 8.30 am
Wednesday 22 November 2017 – Basildon Campus – 9.00 am
Wednesday 9 May 2018 – Basildon Campus – 9.00 am

There being no further business, the Meeting terminated at 10.30 am.

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