

Audit & Risk Committee

Approved Minutes

Minutes of the Meeting of the Committee held at the Southend Campus on Tuesday 27 September 2017 at 8.40 am.

Present: Mr R Patterson (Chairman)
Mr R Hughes
Dr G Ocen
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)
Ms A O'Keeffe (RSM, Internal Audit Service)
Mr R I Millea FCA (Clerk to the Corporation)

1. Apologies for Absence

Apologies for absence were received from Mr A Lyons (co-opted member), Mr D Harris (RSM, internal auditors) and Ms S Beavis and Mr J Laing (KPMG, external auditors).

Mr Paramjit Singh Narang was absent.

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 absent.

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. Election of Chairman 2017/18

The Clerk asked for nominations as Chairman of the Committee for the 2017/18 academic year. The only nomination was Bob Patterson and accordingly he was re-elected as Chairman, nem con.

It was not felt necessary to appointment a Vice Chair of the Committee at the present time.

The Clerk observed that the Committee will require restructuring with effect from 1 January 2018 as Paramjit Singh Narang will retire on 31 December 2017 and Rhys Hughes will complete his term on 4 December 2017.

Staff governor elections will take place shortly and hopefully one of the successful candidates will agree to join this Committee. The Vice Chair of the Corporation (Gwynn Williams) has expressed interest in joining this Committee and leaving the Curriculum & Quality Committee.

4. Urgent Business

There were no items of Urgent Business.

5. Minutes of the Meeting held on Tuesday 23 May 2017

The Minutes of the Meeting held on Tuesday 23 May 2017 were **APPROVED** and **SIGNED** by the Chairman.

6. Matters Arising

The Clerk **REPORTED** that the Anti-Money Laundering, Anti-Bribery and Code of Ethics Policies were approved by the Board at its Meeting on 10 July 2017.

7. Risk Management (Paper AU.17.07)

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.

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.

The RED risks are as follows:

- Financial health (SFA)
- Work Experience
- Apprenticeship levy and reform
- Operating Cash Flow
- Budget surplus (Failure to recruit 16-19 students)
- Maths & English

No new risks have been added.

Maths & English

Success in this area remains a continuing challenge for the College, along with other FE Colleges. Actions remain in place to ensure all learners are engaged and have the best opportunity to succeed. The Principal & Chief Executive said that it is not helped by syllabus changes recently in GCSEs and the evidence which suggest that results from resitting these subjects are often worse than when the student sat the same subject at school.

The link Governor for Maths & English commented that, in conversation with students recently, he was impressed by their commitment to their studies and that they felt the teaching was inspiring and interesting.

Budget surplus

The financial situation remains difficult as illustrated by the RED risks noted above. The budget for 2017/18 plans for a surplus of £315K, but the position is tight and there are risks as to income generation (see Apprenticeships below), which, if they materialise, might well require further cost savings to be made.

The Principal & Chief Executive commented that it will be hard to avoid a pay increase this year which will add further to costs.

Comments on recruitment difficulties in certain areas and progress on recruitment of 16-18 students this year is covered below.

Cash flow

The cash flow projections for 2017/18 indicate a cash flow issue in March 2018. This can be mitigated by applying for ESFA exceptional financial support or short term loan finance via a promissory note (through a company well known in the sector called Sancus) on future higher education fees.

The issue was discussed at length by the Policy & Resources Committee on 25 September 2018 and is documented in the Minutes of that Meeting.

In summary, the discussion at Policy & Resources covered the following points:

- There is no overdraft facility available from the College's bankers
- The clawback arises from under achievement of Apprenticeships funding and the Adult Education Budget during 2016-17 and totals about £2.2 million, although this might slightly reduce
- Arrangements are required to be established so that the Board can assert the validity of the going concern assumption in the 2016-17 statutory accounts
- Possible reputational risk of procuring finance from Sancus
- A facility letter has been obtained from Sancus looking at £2 million for one month (1% interest rate per month)
- Risk of a visit from the FE Commissioner
- Support from ESFA would be by separate loan not by postponing the clawback collection date of January 2018

- The ESFA Intervention Unit appears satisfied with our Recovery Plan
- Confirmation that procuring short term assistance would not affect our Financial Health
- Possibility that proceeds from Nethermayne sale may help the short term issue
- Risk of budgeted income from Apprenticeships not meeting the (conservative) assumptions made
- Cash flow will remain a key risk not just for 2017/18 but the following year also but the forecasted cash flow for 2018/19 is not expected to move into deficit

The Policy & Resources Committee were of the view that the cash flow shortfall could be managed and that a twin track approach be pursued with the ESFA and Sancus in seeking the necessary support for early next year.

The Audit & Risk Committee **NOTED** all of these points and the Clerk **CONFIRMED** that they will be further discussed at the Board Meeting on 16 October 2017, when the draft 2016-17 Accounts will be debated.

Apprenticeship levy & reform

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 based on previous performance. 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 December 2017. In addition, the College has to bid for further allocation as from 1 January 2018 and success is not certain.

The Principal & Chief Executive explained the complexity of Apprenticeships funding for the future. She also informed the Committee that it is proving difficult to get engagement with employers. They are understandably shopping around and some businesses (particularly the non-levy paying businesses) are not really tuned in to the whole system. It is overly bureaucratic and is likely to slow up the flow of income to the College. A total of £1.6 million levy income is in the budget for 2017/18 and, whilst conservatively assessed, it is still a high risk.

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.

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 and this could impact the future cash flows.

Work Experience

The Committee noted that, although Ofsted judged work experience and work related learning for most learners to be good, opportunities for learners with high needs who are unable to go on placement to be better planned and implemented.

Financial Health

The Director of Finance reported that the College is participating in regular case conferences with the ESFA following the issue of the Notice of Financial Concern last year, 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.

The Financial Health of the College has improved to Satisfactory as at 31 July 2017 from Inadequate at 31 July 2016 and it is anticipated to remain as such for 2017/18. However, as indicated above, there is a risk relating to the predicted cash flow shortfall estimated to arise during March 2018 of around £750K.

A governor asked whether there was a risk of an FE Commissioner visit given the potential cash flow shortfall. Management did not think this was likely as the ESFA can see that our issues are being actively managed and they are scrutinising regularly.

A governor asked when the Notice of Concern could be lifted. The response was that this was unlikely before the end of 2018 but it is expected that the current monthly Case Conferences will only be held bi-monthly starting soon.

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. The September Minutes should be agreed and available for the Board on 16 October 2017.

Further Observations by the Committee

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

The Committee observed that the risk profile of the College is fairly mapped and the mitigations properly assessed and the ratings of the risk is sound in the context of the College. However, the Committee believed it was time for the assurance profile of the College to be re-assessed as this has not been done since the Assurance mapping process was established in early 2014.

The Chair requested that Management prepare for the next Meeting an up to date assessment of the key risks of the College and how the Committee is obtaining assurance against these risks. This will help inform the preparation of the Annual Report of the Audit & Risk Committee wherein the Committee provides to the Board an opinion on the control environment in the College and that the Committee is satisfied it is being properly monitored.

In addition, the Committee suggested that a refreshment of the College Risk Appetite and Assurance Map should take place at the Board Development day next January.

Recruitment of 16-19 students

A governor asked what is the current key priority amongst the RED risks. The Principal & Chief Executive said that recruitment of 16-19 students is the primary focus at present. So far, The College has recruited 5045 16-19 students, plus 250 traineeships and 80 High Needs Learners, giving a current total of 5375 students, which is slightly over the ESFA allocation for this year of 5352 students.

This position, if maintained above the allocation, will secure our funding for next year under the lagged funding model but the intention is to over recruit so that next year's allocation can be boosted. Further income flows are of paramount importance to the College from this stream as, for example, income from Apprenticeships is uncertain in volume and unpredictable as to timing of receipt of cash.

The Committee was informed that recruitment continues and this total might rise. The Committee wished to know the risks that some students will withdraw and in the past students (last year 200) were lost in the first six weeks of the new academic year. Intensive efforts are being employed to minimise any drop out – e.g. 'swap don't drop' initiative. The position will be clear at half term when the ILR is finalised.

Nevertheless, the Principal & Chief Executive voiced cautious optimism as there was a different feel this year to the start of the teaching year and the Good Ofsted result is thought to play a big part in that.

A governor asked whether there are any risks (currently GREEN) that might get worse and the Principal & Chief Executive responded by saying that there is an increasing difficulty in recruiting new staff in particular curriculum areas, e.g. Construction, Engineering, Digital, Maths. Furthermore, the difficulty in recruiting is exacerbated by the fact that, if suitable candidates can be located, the price is high given intense competition in Colleges and schools for such teaching practitioners.

The Committee **NOTED** the Report.

7.2 Outstanding 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.

The Director of Finance went through the detailed actions (13 in all) and noted that four are complete, seven are partially complete and three have not reached their due completion dates.

The Chair requested that future reports focus on medium and high recommendations only. It was confirmed that the Report covers issues arising from both internal and external audit work.

7.3 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. Comments on RED risks are documented in **7.1** above.

7.4 Financial Recovery Plan and ESFA Case Conference Minutes

The Committee **RECEIVED** a copy of the College 2017/18 Financial Recovery Plan, which has been submitted to and discussed with the ESFA Intervention Unit.

This Action Plan will be RAG rated in future.

The Committee also **RECEIVED** copies of the Minutes of the ESFA Case Conferences held on 19 June and 17 August. The Minutes of the 12 September Meeting have been received but are not yet finalised. The Committee will receive a copy at its November Meeting.

The principal issues in the Plan to support the financial recovery relate to maximising recruitment and controlling costs and these risks are recorded in item **7.1** above.

The Committee **NOTED** the Report and the Actions being taken by the College to manage this risk.

8. Internal Audit

a. Annual Report 2016/17

Anna O'Keeffe of RSM presented an updated Report on agreed Audit Assignments for 2016/17 as documented in the approved IAS Audit Plan for the year.

The Agreed work still to be carried out as part of the 2016/17 Audit Plan covers Apprenticeship Levy – Strategy and Business Development. This Report is in draft and will come to the next Meeting of this Committee following a management meeting with RSM next week.

The completed audits for the year thus far were

- Financial Planning and Management Information (reasonable assurance)
- Essex Shared Services Limited – Cash and Treasury (partial assurance)
- Subcontracting Controls (advisory Report only)
- Follow up on the Student Journey looking at the Student Experience: work Placement and Employability (reasonable progress being made)

The Report was **NOTED**.

b. Final Internal Audit Reports 2016/17

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

b.i ESS – Key Financial Controls: Cash and Treasury

The Committee **RECEIVED** a final Internal Audit Report on Cash and Treasury functions at Essex Shared Services.

The aim of the audit was to evaluate the adequacy of risk management and control within the system and the extent to which controls have been applied and are operating as intended for Cash and Treasury, which is part of the activity of Essex Shared Services Limited on behalf of the two Colleges.

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 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 (see comment elsewhere in these Minutes).

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

The Report raised **seven** recommendations, **three medium level, three low level** and **one high level**.

The **high level recommendation** related to improving record keeping in situations where cash has not been transferred to the bank but instead used within the College, e.g. topping up petty cash floats. Management stated that this will include recording the cash in the cash collection book in addition to the existing documentation.

b.ii. Student Work Placements and Employability (follow up)

RSM concluded that Reasonable Progress was being made against the recommendations previously made.

The Principal & Chief Executive drew the Committee's attention to the fact that, at the recent inspection, Ofsted were very complementary on our provision in this area but noted that some improvements were necessary in respect of placements for those students with higher needs. This latter point probably detracted from gaining a Grade 1 in that area.

The Committee sought assurance as to how this area for improvement is being addressed and the Vice Principal, Curriculum & Quality is directing our activity this year to ensure that the best work placement for these students can be procured and assessed for value.

The Committee **NOTED** the comments of the Internal Auditors in these Reports.

c. Annual Internal Audit Plan 2017/18

This was introduced by Anna O'Keeffe of RSM and commented on by the Director of Finance. The Committee discussed the Plan and made suggestions as to the content.

As drafted, the Plan contains 26 days of work. The Committee felt that the IT Audit – Cyber Essentials was important given the risks in this area, which are well known, however, on the advice of Management, the Committee accepted that the assurance might be sought from other sources.

Collaborative work is going on with other FEDEC Colleges in this area and it might be that assurance work could be commissioned from advisers specifically working on that project. The Committee will revisit this at the next Meeting.

So far as the proposed audit on Governance and Risk Management is concerned, the Committee requested that this review (designed to cover how assurance is obtained and reported and rated) be carried out before Christmas 2017 so that the findings could be used as part of the Assurance Mapping and Risk Appetite review proposed for the Board Development Day in January 2018.

The Committee did not believe an audit of Health & Safety was an effective use of resources as assurances are obtained from a number of other sources. They asked that Management and RSM consider replacing the five days allocated to this area to another risk.

The Committee noted that two audits are planned for Essex Shared Services in 2017/18 – Procurement and Budget Setting and Control – totalling 11 days, which will be shared between the College and Chelmsford College. This forms part of the programme since ESS was established in 2014 to cover all major transaction streams.

A final Internal Audit Plan for 2017/18 will be brought to the next Meeting of the Committee on 20 November 2017.

ACTION: AMcG/DH

9. Joint Audit Code of Practice: Annex C Self-Assessment Questionnaire 2016/17 (Paper AU.17.08)

The Clerk **TABLED** the above document for review by the Committee.

The Committee **RECOMMENDED** that the Questionnaire be approved by the Board at their Meeting on 16 October 2017, then signed by the Principal and Chief Executive and Chair of the Corporation and be submitted to the regularity auditor (KPMG) as soon as possible.

ACTION:CLERK

10. Review of College Financial Regulations (Paper AU.17.09)

The Director of Finance **PRESENTED** updated Financial Regulations to the Committee for review and comment. The Committee **NOTED** that they have already been reviewed and recommended to the Board by the Policy & Resources Committee.

The Committee **RECOMMENDED** to the Board that these updated Regulations be approved at the Board Meeting on 16 October 2017.

Once approved, staff will be sent a copy and will have to certify that they have received and read the Regulations.

ACTION:CLERK

11. Committee Matters

- (a) The Clerk reported that not all Members' Self-Assessment Questionnaires have been returned for 2016/17 nor have the questionnaires – performance review of external auditors for 2015/16. The Clerk **ASKED** that these forms be returned to him as soon as possible so that he can prepare a summary for the Board Meeting on 16 October 2017.
- (b) The Clerk **TABLED** the current Terms of Reference of the Committee and a document evidencing compliance against these terms for 2016/17. The Committee did not believe any changes were necessary to the Terms of Reference and **RECOMMENDED** that they be approved by the Board at its 16 October 2017 Meeting. The Committee **NOTED** the compliance.

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

ACTION: CLERK

12. Date of Next Meetings

Wednesday 22 November 2017 – Basildon Campus – 9.00 am

Wednesday 9 May 2018 – Thurrock Campus – 9.00 am

There being no further business, the Meeting terminated at 10.00 am.

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