

Audit & Risk Committee

Approved Minutes

Minutes of the Meeting of the Committee held at the Southend Campus on Thursday 11 June 2015 at 8.35 am.

Present:	Mr R Patterson (Chairman)	
	Mr B Morris	
	Mr Paramjit Singh Narang	
	Ms L Rieffel	
	Mr P Little	co-opted member
In Attendance:	Mr A McGarel (Deputy Principal & Chief Executive)	
	Ms D Hurst (Director of Finance)	
	Mr P Goddard (Scrutton Bland, Internal Audit Service)	
		(to Item 9(b))
	Mr B Lumsden (KPMG, External Auditors)	
	Ms S Beavis (KPMG, External Auditors)	
	Mr R I Millea FCA (Clerk to the Corporation)	

1. Apologies for Absence

Apologies for absence were received from Tom Thompson.

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.

3. Urgent Business

There were no items of Urgent Business.

4. Minutes of the Meeting held on Thursday 5 March 2015

The Minutes of the Meeting held on Thursday 5 March 2015 were **APPROVED** and **SIGNED** by the Chairman.

5. Matters Arising

The Clerk reported that the Board, at its Meeting on 16 March 2015, approved the appointment of KPMG as external auditors of the College for the year ended 31 July 2015. They will also act as external auditors of Essex Shared Services Limited, Nova Skills and Education Limited and South Essex Commercial Services Limited.

The appointment was made together with Chelmsford College and KPMG will also act as external auditors for them.

6. Internal Audit (Paper AU.15.03)

- a. The Committee **RECEIVED** a Report from Scrutton Bland on progress to date against the agreed Internal Audit Plan for 2014/15.
- b. The Committee **RECEIVED** Final Internal Audit Reports on NOVA-Life Skills Solutions (Funding compliance) Audit and on Financial Shared Services operated by Essex Shared Services Limited, on behalf of the College and Chelmsford College, from Scrutton Bland.

In respect of the **Life Skills Solutions Limited** audit, Scrutton Bland concluded that, in their opinion, the Skills Funding Agency may deem that there is an appropriate framework in place at LifeSkills to ensure that it complies with the requirements of the funding bodies, which constituted the objective of the audit. The assurance given was **significant (2 of 5)**.

They concluded that the documentation quality continues to be robust and represents best practice. One low risk recommendation was raised and one previous recommendation reinstated to improve the performance of the internal controls.

Based on their sampling of learner records, Internal Audit did not find any instances where funding had been incorrectly claimed.

The Report was **ACCEPTED** and the Rating **AGREED**.

The objective of the audit of **Financial Shared Services** was to provide independent assurance to the Committee regarding the shared services operation handled by Essex Shared Services Limited, a Company jointly owned by the College and Chelmsford College to ensure

- That a transparent and accountable framework has been implemented through which the Financial Shared Services are to be delivered
- That robust controls have been established and that these are being adhered to in practice

In this context, the audit assessed how a variety of relevant risks are being mitigated:

- Loss of control due to the shared services operation
- The shared services operation does not meet the standards expected by both Colleges
- Expected benefits not being achieved
- Poor performance of the function and it is not rectified
- The service is not integrated within the Colleges
- Data security and confidentiality
- Disputes between the two Colleges
- Lack of risk ownership and uncertainty as to how monitoring is exercised

The Report details the scope of the audit in more detail and the Committee was satisfied the scope addressed the above mentioned risks.

The assurance level was **reasonable (3 of 5)** with the Report stating that there are some areas requiring significant improvement. It was also noted that some areas of the system are still being installed and implemented and these therefore could not yet be tested.

Four medium risk recommendations and five low risk recommendations were raised, to which the management of Essex Shared Services Limited has responded.

These recommendations related to:

Medium

Installation of integrated Fixed Asset module on the finance system (the legacy system of both Colleges is a spread sheet system but this was not of a high standard)

Ensuring Purchase Orders are raised for all purchases (except those made by card)

Procedure for chasing outstanding debts

Production of a Risk Register for ESS Limited

Low

Disabling of user accounts for staff who have left

Development of a Data Security Policy

Review of invoice authorisation limits

Procedure for handling high value urgent purchases (using Government Procurement Cards)

Completion of key control reconciliations and authorisation thereof by senior managers

The Committee **NOTED** that, at the time of the audit – March 2015, the Unit4 finance system, which is being used by ESS, is still being delivered and implemented. This meant that the auditors could not undertake detailed testing against the ways in which the performance of the shared service is monitored and followed up as a Service Level Agreement has not yet been produced and Meetings of the Directors of ESS have not commenced. (Note: The first Directors' Meeting is scheduled for 29 June – the Committee also noted that the Clerk is the Company Secretary).

However, the internal auditors confirmed that the KPIs set by the Company are appropriate. It is proposed that the incomplete areas will be revisited later during the year once monitoring has commenced and assurance will then be able to be given.

The Committee noted that a grade of reasonable is a fair result at this relatively early stage of implementation of the new finance system and the audit needed to be done in order to enable an opinion to be given in this financial year.

On fixed assets, the Committee noted that a programme of fixed asset checks (book to physical) needs to be done as part of the year end accounts production and audit and as the spread sheets are loaded up on the Unit4 system, the data is validated and descriptions made clear before that item or group of items are uploaded.

Members enquired about the Purchase Order system and the weaknesses located in testing the system at ESS and received assurance that no purchases have been made without proper authorisation, even if there was no Purchase Order. The point was also made that further clarification needs to be given to what level of purchases require a formal order.

Looking at outstanding debts, a member asked about outstanding debts and were informed that about £1.2 million is currently outstanding, of which £300K is in the hands of debt collectors. At end of the financial year, the figure will have considerably reduced. Management is looking at the future for debt collection, whether to continue outsourcing or employ a specific debt collector.

Members were reassured that progress with the new system has been good and the Chairman requested that the next Meeting of the Committee receive an update Report on implementing of the recommendations in this Report (and testing that) and the ongoing development of the system and ESS Limited generally in running the finance system.

Revised Financial Regulations will be issued early in the 2015/16 year to codify the procedures more fully.

One member asked if ESS Limited is adequately resourced and the Committee was assured on this front by the Director of Finance.

Members were very impressed with the progress made so far as this was a new Company being established and a new system being implemented.

The Committee **AGREED** the ratings given and **RECEIVED** the Report.

c. The Committee **RECEIVED** an IT/ILT Update Report from the DPCE.

The DPCE reported on progress following the Report from the specialist IT consultant . The consultant employed would not give an 'audit opinion' on the work he did. Anthony explained that the consultant's Report is RAG rated and an Action Plan has been prepared in draft form to address the computer failure risk in the Risk Register but it is not yet in a final form for circulation to the Committee.

The Committee discussed how to get assurance from this work to pass on to the full Board as part of the opinion of the Audit & Risk Committee.

The Committee will receive, in this connection, an opinion from management on the work done by the consultant, how the issues raised have been covered in the Action Plan and management's responses. The Committee will then have to judge whether this is sufficient assurance on the IT/ILT system.

ACTION: Anthony McGarel

- d. The Committee **RECEIVED** an update Report on the College's Management Information Systems, following the Report prepared for the last Meeting of the Committee.

This work was done by a management consultant specialising in this area and followed a similar approach as for c above. The Committee considered the MIS Review Action Plan which had been tabled and which included responses from the Head of College Information Services.

The Committee noted that, in connection with learners who are taught by subcontractors or apprenticeships, the validating information is held by the subcontractors or employers and not on the College premises. The College undertakes quality checks to ensure the accuracy of the recording of learners off site by third parties to gain confidence in the information on which funding claims are being made.

It was noted that it is some time since there has been an SFA ILR audit and one should be expected later this year or next year.

Better quality of information will in the long run improve the College's confidence in its data and enable faster and more reliable management decisions and in year student monitoring. It will remove the practice of departments keeping their own data.

The Committee asked that a **further update Report be prepared for the next Meeting**. The importance of this area in managing learner engagement cannot be overestimated and is vital for Ofsted monitoring purposes. The output of this work will follow the same approach in providing an opinion as mentioned in IT/ILT above.

ACTION: Anthony McGarel

7. Financial Statements Audit (Paper AU.15.04)

The Committee **RECEIVED** and **NOTED** the Audit Planning Memorandum (APM) for the 2015 financial statements and regularity audit provided by KPMG, the College's external auditor, who have recently been appointed to that position.

Bill Lumsden and Stephanie Beavis, on behalf of KPMG, explained the plan to the Committee by working through the contents with particular emphasis on the overall timetable and related deadlines, with a view to providing their draft report and management letter to the Audit & Risk Committee Meeting on 12 November 2015.

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 £15,000. The audit is risk based and, where relevant and appropriate, reliance will be placed on the work of the Internal Audit Service.

The external auditors explained in detail how they carry out their assessment of going concern as part of arriving at their opinion on the financial statements. No issues are expected in this regard.

The external auditor will be visiting ESS Limited and the College in the week commencing 29 June. The Clerk asked if this preliminary audit resulted in any changes to the APM, particularly on the risk assessment, to notify him so that the full Board can be notified at its Meeting on 6 July 2015.

KPMG was asked about their risk assessment for the College specifically since the APM was largely generic.

The Committee **NOTED** the Report.

8. Risk Management (Paper AU 15.05)

Monitoring Report

The Committee **RECEIVED** a Report updating the Committee on the strategic risks facing the College and the actions in place to mitigate those risks from occurring.

The Committee noted that one risk has been added, relating to the Collection of Student Progression Data. The Committee **agreed** this addition and noted the potential effect on funding of inaccurate or false student progression data and inability to provide Ofsted with accurate information on performance.

The Committee was briefed on the Debt Management renegotiation which the Policy & Resources Committee considered and approved on Monday 8 June 2015. Details are in the minutes of that Committee and in the papers which supported that Meeting's agenda.

The East Street claim was noted on the Risk Register and that no liability is expected to result as there was no diminution in value to the landlord of the site, given it is now to be used as a school by the local authority.

The Committee reaffirmed the focus of the Committee must be strategic and concentrate on high level risks, which will include seeking assurance from a variety of sources to see how the risks are being managed and mitigated. The Assurance Mapping project will assist in this endeavour.

The Committee asked that the Register be fully owned further down the management chain now that the overall strategic approach has been agreed.

Management were congratulated on the Risk Register, its quality and its 'live' nature.

ACTION: Debs Hurst

Audit Recommendations

The Committee **NOTED** that there were no actions taken since the last meeting regarding implementation of previous audit recommendations.

Assurance Mapping

The Committee **RECEIVED** an update from the Director of Finance on further progress in establishing the Assurance Mapping for the College, as part of overall Risk Management.

The Committee noted that further work needs to be done in connection with mapping assurance from academic areas.

The Chairman affirmed that there will be circumstances where the Committee will seek and gain assurance from internal sources. In these instances, the Committee will seek an opinion from Management in connection with that event, which it will use in preparing its Annual Report and in reaching its Annual Audit Opinion. The Committee were conscious of the importance of independence where assurance is being sought internally.

ACTION: Debs Hurst

9. Committee Matters (Paper AU.15.06)

- (a) The Clerk tabled a draft Schedule of Audit & Risk Committee Business for 2015-16, which 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 Chairman reported that interviews for Internal Auditor of the College were conducted yesterday with Chelmsford College representatives as this is a Joint procurement with them and includes also the internal audit of Essex Shared Services Limited.

It was the recommendation of the interview panel that Baker Tilly be appointed internal auditors to the two Colleges and ESS Limited. This was **ENDORSED** by the Committee and a resolution for approval by the Board will go to the 6 July Board Meeting.

The Committee **NOTED** that Baker Tilly will not be prepared to give an overall Audit Opinion on controls, risk management and governance given that their remit will be on a limited number of areas as agreed by the Committee. The Committee will be seeking assurance from other assurance providers and internally on other areas of College provision and activity in order for the Committee to provide an overall Assurance Opinion to the Board as part of the approval process for the Annual Corporate Governance Statement.

ACTION: Clerk

10. Proposed Meeting Dates and Locations for 2015-16

These dates are provisional and subject to approval by the full Board.

Wednesday 9 September 2015 – Basildon Campus – 9.00 am
Thursday 12 November 2015 - Southend Campus – 8.30 am
Thursday 3 March 2016 – Basildon Campus – 9.00 am
Tuesday 12 May 2016 – Southend Campus – 8.30 am

Ms Rieffel gave apologies in advance for the September Meeting, due to work commitments.

There being no further business, the Meeting terminated at 10.10 am.

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