

## **Audit and Risk Committee**

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### **Approved Minutes**

Minutes of the Meeting of the Committee held at the Southend Campus on Wednesday 12 November 2014 at 8.40 am.

Present: Mr R Patterson (Chairman)  
Mr Y Goolamali  
Mr B Morris  
Mr B Neagus  
Mr Paramjit Singh Narang  
Mr T Thompson  
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)  
Mr M Eagle (MacIntyre Hudson, External Auditors)  
Mr R I Millea FCA (Clerk to the Corporation)

### **1. Apologies for Absence**

Apologies for absence were received from Mr A Strickland (Scrutton Bland, IAS) and Mr R Shaunak (MacIntyre Hudson).

### **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**

The Clerk reported that Yusuf Goolamali had indicated that he would be retiring from the Board of the College at the end of December 2014 and that, as a consequence, there will be a vacancy on this Committee to be filled. The Search Committee will consider this matter when it next meets on 26 January 2015.

The Chairman paid tribute to his service as a member of the Committee for the past ten years.

### **4. Minutes of the Meeting held on Wednesday 10 September 2014**

The Minutes of the Meeting held on Wednesday 10 September 2014 were **APPROVED** and **SIGNED** by the Chairman.

## 5. Matters Arising

The Clerk reported that the Board had approved on 7 July 2014 the Internal Audit Strategy proposals recommended by this Committee for 2014-15.

The Clerk further reported that the Board had approved the Internal Audit Service's Annual Report for 2013-14 (Paper AU.14.14).

## 6. Internal Audit (Paper AU.14.15)

Paul Goddard from Scrutton Bland (IAS) presented a final internal audit report on Academic Staff Utilisation, the scope of which had been previously agreed with the Committee.

The aim of the audit of **Academic Staff Utilisation** was to provide independent assurance to the Committee regarding the College's approach to mitigating the risk of academic staff utilisation not being consistently monitored, reported and controlled across the College within the objective of payroll expenditure of the College not exceeding the target agreed by the Board of 64% of turnover.

The assurance level was **reasonable (3 of 5)** with the Report stating that the implementation of the staff utilisation computer software has been successful to date and should prove in due course to be a highly effective and sophisticated performance oversight tool. The report notes that the system is not yet fully operational and this was a key reason why the assurance level is only reasonable.

The Report raises two medium risk recommendations and one low risk recommendation in order to improve the performance of the internal controls in this area as it is rolled out.

The Committee were concerned that it may be difficult to relate staff utilisation to financial outturn and felt that the Qlikview system should be implemented fully as soon as possible given it has been in development for two years, without any further fine tuning. Any further enhancements could wait to a Phase 2 stage of the system.

The Committee asked for a review of actual contracted hours being worked by individual lecturers at the next Meeting. Overall, there is 86% average utilisation as against contracted hours.

The Committee **RECEIVED** the Report.

The Committee also considered future internal audit assignments in the HR area and agreed that an HR consultant will be appointed to carry out a review in the New Year of performance management and similar issues and report back to the next Meeting of the Committee on 5 March 2015.

On behalf of the Committee, the Chairman will approve the appointment of the consultant to be used and the scope of the work. The scope of the Report will be informed in part by the Ofsted monitoring visit which is taking place next week. It was noted that 86% of performance management reviews have now been completed but it should be 100%.

The Chairman has suggested a possible consultant who could be used (an ex-colleague of his). The Committee agreed there was no conflict of interest here.

## 7. Financial Statements Audit for the Financial Year 2013/14 (Paper AU.14.16)

The Deputy Principal & Chief Executive, together with the Director of Finance and the external auditors, MacIntyre Hudson, presented the following documents for consideration by the Committee:

- a. Draft Annual Report and Financial Statements of the College for 2013-14, including the Regularity Audit Opinion
- b. Draft Management Letter
- c. Draft Letter of Representation for the College
- d. Draft Financial Statements of South Essex Commercial Services Limited and Nova Skills Education and Careers Limited for 2013-14

The external auditor does not require a letter of comfort from the College in respect of either SECS (subsidiary) or NSEC (joint venture) as they are trading profitably.

It was noted that items a and d above will also be discussed at the meeting of the Policy & Resources Committee scheduled for Monday 17 November 2014.

It was recognised that there are some alterations necessary to the accounts as well as a final audit review.

**The Committee received a presentation from the external auditors** in connection with the conduct of their audit, focusing on their Management Letter (item b above) and the key financial highlights. They were also led through item c above.

The Clerk informed the Committee that, at the request of the Deputy Principal & Chief Executive and the Director of Finance, he had also reviewed the financial statements for the College and the subsidiaries, including the Operating and Financial Review.

The Committee was taken through the draft management letter page by page by the external auditors and there followed discussion regarding the going concern disclosure. The Committee agreed the accounts disclosure on going concern (Note 1) and that the College is a going concern.

It was also noted that the note on post balance sheet events will be completed just before the accounts are approved by the full Board in December, after final review by management and the auditors. The external auditors have a small number of other outstanding items to clear before signing their opinion.

The external auditors confirmed that they intend to issue unqualified opinions on the accounts and in respect of regularity.

The Committee noted some key observations from the external auditors:

The College achieved an operating surplus before exceptional items for the year of £1,145K. There was a total surplus of £643K after including exceptional restructuring costs of £381K and other net exceptional costs of £121K, which are fully itemised in the accounts.

The Auditors informed the Committee that their base materiality for the audit was £1.03 million.

It was noted that there was an increase in the actuarial deficit on the pension scheme under FRS17 accounting standard amounting to £2,778K for the year. The costs charged to the income & expenditure account for the year amounted to £1,441K for staff costs and FRS17 adjustment and £356K for interest. The LGPS was subject to a full actuarial valuation as at 31 March 2014 but the outcome is not yet known.

The external auditors made reference to a number of internal control issues over debt collection, educational trips and visits (control accounts generally) and the work based learning creditor.

The external auditor reported on unadjusted errors and confirmed that they were within their materiality tolerance.

Having considered the reports of the Internal Audit Service throughout the year and the findings of the external auditors expressed through their Management Letter, and the evidence of the financial statements themselves with the attached unqualified audit opinion and the unqualified regularity audit opinion, the Committee **AGREED** that the Annual Report and Financial Statements for 2013-14 for the College, South Essex Commercial Services Limited and Nova Skills Education and Careers Limited **BE RECOMMENDED** to the Policy and Resources Committee for consideration for final approval by the Corporation at their meeting on 8 December 2014.

It was noted that the surplus achieved by South Essex Commercial Services Limited for the year ended 31 July 2014 of £122,191 (2013: £122,824) has been gift aided to the College in full.

The Committee were assured that monies gift aided to the College by SECS Limited did not contravene the requirements of the Companies Act in connection with sufficient distributable reserves being available at the time of the gift aid transaction. The Clerk informed the Committee that it was not wholly clear whether the distribution rules in the Act applied to a Gift Aid distribution, since a Gift Aid distribution is not a dividend on shares, which is the key issue regarding sufficiency of distributable reserves.

The Committee noted that, from 1 August 2014, NSEC Limited is now a wholly owned subsidiary of the College – there was no consideration paid in acquiring the 50% of the Company which the College did not previously own. The Committee also noted that Essex Shared Services Limited commenced to trade from 1 August 2014.

Both of these items will be disclosed as post balance sheet events.

The Committee had a thorough discussion regarding the disclosure of exceptional items and the correctness of the classification being made in Note 11 of the accounts, seeking the view of the external auditor. Two of the items are arguably prior year adjustments. On balance, the Committee decided that they were content with the disclosures being made as to transparency and completeness, particularly with regard to the fraud.

The Committee further **AGREED** that the Management Letter from the external auditors, the draft letter of representation in respect of the College for the year ended 31 July 2014 to be sent to the external auditors, all be recommended for approval at the Corporation Meeting on 8 December 2014.

## 8. Teachers' Pension Agency Return (Paper AU.14.17)

The certificated return of contributions to the Teachers' Pension Agency for 2013-14, audited by MacIntyre Hudson, external auditors and certified by the Deputy Principal & Chief Executive was **APPROVED**.

## 9. Risk Management (Paper AU.14.18)

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

The Committee noted that three new risks have been added – failure to resolve contractual issues with Skanska at Thurrock New Campus, failure to address IT server issues and failure to secure additional capital funding to increase motor vehicle & construction facilities in Southend and relocate music provision.

There have been significant IT server downtime recently caused by alleged attempted hacking by some students and a breakdown of the main server occurring whilst trying to install a backup server.

The Committee agreed to commission an external review of IT server issues and other internet disruptions by the 5 March 2015 Meeting and this review will be approved as to timing, manpower and scope by the Chairman before it commences.

The Report provided further focus to the Committee on the existing significant Ofsted monitoring risks relating to importance of Maths & English, support and tracking of students, work experience provision and increasing the proportion of good and better lessons.

This will be further informed by the Ofsted monitoring visit next week. The Curriculum & Quality Committee meets on 1 December 2014 and will consider commissioning of external assurance for curriculum & academic matters, which will be informed by the Ofsted monitoring visit next week.

No previous risks on the register have been amended.

**9.2** The Committee noted that there were no updates to the Audit Recommendations Report as to actions taken since the last meeting.

**9.3** The Committee **RECEIVED** an updated version of the Assurance Map for the College, noting that it is not yet quite complete. It was supported by the College DartBoard outlining the key risks, the areas in question and the significance of these risks. The IT issues recently means the DartBoard needs updating (as well as the other new risks) and it was agreed that the DartBoard, duly updated, should be presented to the Board at their Meeting on 8 December 2014.

The intention is that this Map will be completed for the next meeting of this Committee on 5 March 2015.

The Committee expressed its thanks to the Director of Finance for the progress of the Assurance Mapping exercise, which already is proving critical to the Committee's work and the College generally.

Scrutton Bland will be asked to follow up with management previous recommendations they have made.

## **10. Committee Matters (Paper AU.14.19)**

After discussion, the Committee **RECOMMENDED** that the Annual Report of the Audit & Risk Committee to the Corporation and Principal & Chief Executive for **APPROVAL** by the Board on 8 December 2014.

## **11. Any Other Business**

It is intended that the College tenders for the external audit function (together with Chelmsford College) and the Chairman will serve on a joint panel with Chelmsford College for this process. It will cover appointing a firm to audit each College and also Essex Shared Services Limited. Tender documents will go out within the next few weeks.

It is intended to bring a recommendation of the new provider to the next Meeting of this Committee in March 2015.

## **12. Date of Next Meetings**

Thursday 5 March 2015 at 9.00 am - Basildon Campus

Tuesday 5 May 2015 at 8.30 am - Southend Campus

There being no further business, the meeting terminated at 10.40 am.

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