

PROSPECTS COLLEGE OF ADVANCED TECHNOLOGY

AUDIT & RISK COMMITTEE

30 NOVEMBER 2017

Present: Theo Steel (Chair)
Angela Clarke
Peter McKee

In Attendance: Judith Abbott Chief Executive
Martin Connolly Interim Financial Controller
Rakesh Shaunak MHA MacIntyre Hudson
Robin Jones Clerk to the Corporation

1 APOLOGIES FOR ABSENCE

The Committee noted that Rachel Richards had submitted her apologies for absence earlier in the day due to not feeling well.

2 DECLARATIONS OF INTERESTS

The Members and others present confirmed that there were no declarations of interest relative to the business to be considered.

3 INTERIM FINANCIAL CONTROLLER

Martin Connolly, the Interim Financial Controller, was introduced and welcomed to the meeting of the Committee.

4 MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE HELD ON 19 JUNE 2017

The minutes of the meeting of the Committee held on 19 June 2017 were agreed to be a correct record and signed by the Chair.

5 MATTERS ARISING FROM THE MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE HELD ON 19 JUNE 2017

The Committee agreed that there one issue arising from the minutes of the meeting held on 19 June 2017 which was not covered by the published agenda.

At the last meeting of the Committee the possible establishment of a Finance Committee or a Task & Finish Group had been raised so as to provide Board Member oversight and contributions to the review of the monthly Management Accounts. After discussion it was agreed that such an approach would have merits and, therefore, this issue would be raised at the meeting of the Board on 13 December 2017.

6 LETTER TO CHIEF EXECUTIVES AND PRINCIPALS OF COLLEGES IN THE FURTHER EDUCATION SECTOR FROM THE CHIEF EXECUTIVE & ACCOUNTING OFFICER OF THE ESFA

The Committee received and noted the letter dated 17 November 2017 from the outgoing Chief Executive & Accounting Officer of the ESFA together with a report from the College's own Chief Executive & Accounting Officer which put the issues in the context of PROCAT.

The letter detailed a number of issues associated with standards of governance and accountability in colleges.

The report of the Chief Executive explained that, of the eight specific questions posed in the ESFA letter, five were already covered in the updated Risk Register and the other three could be seen as outcomes from the specified risks. This included the importance of forecasting at a time when it had only recently been recognised and reported to the Board on 27 October 2017 that the Income and Expenditure Budget for 2017/18 was set with regard to optimistic assumptions and, therefore, was in the process of being revised.

The Committee agreed following discussion:

- 1 to receive and note the letter from the ESFA and the associated report of the Chief Executive & Accounting Officer
- 2 that when time permitted it would be helpful if the Board received a report setting out the yield for each course so as to increase understanding of the financial viability of the current provision as well as the extent to which scarce resources such as accommodation were utilised
- 3 to note that it was proposed to include the ESFA letter on the Agenda for the meeting of the board on 13 December 2017

7 RISK POLICY

The Committee received and considered the proposed revised Risk Policy which reflected changes in the FE sector generally and PROCAT specifically.

The most significant proposed change concerned risk appetite on the basis that the version adopted in 2015 was, arguably, too high which given all factors and in particular the financial health to be reported at 31 July 2017 needed to be adjusted.

The Committee agreed following discussion:

- 1 to recommend to the Board on 13 December 2017 the adoption of the revised Risk Policy incorporating a low risk appetite
- 2 to recognise that opportunities which arose from time to time would need to be assessed having regard to all known and relevant factors and it did not follow, therefore, that no risks at all would be taken
- 3 that once approved by the Board the contents of the Risk Policy would need to be reviewed from time to time and possible amendments and additions identified

8 RISK REGISTER

The Committee received the proposed updated Risk Register which had been revised to focus on mitigating the College's weaknesses and threats as identified in the SWOT analysis addressed during the Board's Strategic Planning session on 27 and 28 October 2017.

The Members of the Committee took the opportunity to ask questions of the Chief Executive on the approach to preparing the updated Risk Register and in doing so commented on related issues including:

- the recognition that PROCAT was small for a college and its specialist STEM course offer added to the risks
- whilst small and specialist PROCAT had, arguably, the best resources and facilities in the region
- the College had a track record of not recruiting the target number of students and apprentices which had a detrimental financial impact
- Government policy and the number of changes introduced was a major risk for any college

The position with regard to the level of student recruitment was a particular concern for Members. It was recalled at this point that, arising from the recent Strategic Planning session, marketing would be a major theme at the meeting of the Board scheduled for 22 February 2018 when the basis of the planning and recruitment model would be interrogated.

The Committee agreed:

- 1 to welcome the revised Risk Register including the basis of the impact criteria and the probability criteria
- 2 to recognise that the Risk Register had to be seen as a “living document” and would continue to be the subject of ongoing review and updating in the light of experience
- 3 to note that, whilst the SLT collectively own all risks, a lead individual had been assigned for each risk to ensure greater focus on mitigation

9 FINANCIAL STATEMENTS – 2016/17

The Committee received the following documents as the basis of discussion:

- Draft Financial Statements for the year ended 31 July 2017
- Draft Management Report for the year ended 31 July 2017 prepared by the Financial Statements Auditors, MHA MacIntyre Hudson
- Draft Letter of Representation

It was stressed that at the current time the Financial Statements and Management Report were in draft form as there were a range of issues still to be addressed.

In addition the Committee received an overview prepared by the Chief Executive which detailed the level of deficit of £(1,231)k which increased to £(2,591)k when account was taken of the £(1,346)k loss on the sale of CSL towards the end of the year. This needed to be seen in the context of the deficit of £136k at 31 July 2016.

The particular attention of the Committee was also drawn to the year end cash in hand which fell from £2,453k to £629k as at 31 July 2017 .

The Chair invited the Partner of MHA MacIntyre Hudson to introduce the Management Letter prepared following the review of the draft Financial Statements for 2016/17.

The Committee noted the key audit issues and their resolution.

The major issue concerned the Going Concern opinion which had to have regard to the anticipated position for a full 12 months from the time that the Financial Statements were signed. It was known by the Auditors that the Income & Expenditure Budget for 2017/18 was in the process of being revised by the College Executive for Board approval as certain aspects were over optimistic. The Audit Partner expressed the view that, once the Auditors had the opportunity to review the revised Budget for 2017/18 and the associated cashflow to, at least, December 2018, it was anticipated that an overall unqualified audit opinion would be provided. However, this could not be confirmed at this meeting of the Committee.

The Members took the opportunity to ask the Audit Partner and the Chief Executive a number of questions so as to have a complete understanding of the end of year position whilst appreciating that the documents before the Committee were in draft form.

The Committee agreed, following discussion, to advise the Board on 13 December 2017:

- 1 the anticipated outcome of the audit review of the Financial Statements for 2016/17 subject to the review of the revised Income & Expenditure Budget for 2017/18 and the cashflow forecast by the Auditors

- 2 that if an unqualified audit opinion was received by 13 December 2017 the Board would be invited to approve the Financial Statements for signing and publication but if such an opinion was not available by the date of the meeting further consideration would need to be given to the approach in consultation with the Audit Partner
- 3 that the content of the Letter of Representation had been reviewed and this would be presented to the Board on 13 December 2017, or if appropriate a subsequent date, for approval and signature by the Chair of the Board and the Chief Executive
- 4 to note the intention of the College to include in future Management Accounts a section on the debtors position so that Members had an understanding of the position on a monthly basis
- 5 to place on record the appreciation of Members for the efforts of all those involved in the audit and the preparation of the draft Financial Statements - in particular Martin Connolly acting on behalf of the College and Mark Eagle from MHA MacIntyre Hudson.

10 REGULARITY SELF-ASSESSMENT

The Committee received and noted the Regularity Self-Assessment prepared by the Chief Executive in consultation with the Clerk for presentation to the Board on 13 December 2017 and forwarding to the ESFA.

11 AUDIT & RISK COMMITTEE ANNUAL REPORT – 2016/17

The Committee appreciated that, until the Financial Statements were completed and the final version of the Auditor's Management Letter was available it was not possible to prepare the Annual Report of the Committee for presentation to the Board.

The Committee agreed with the suggestion of the Clerk that, as soon as the final documents were available, he would circulate a draft Annual Report to Members for comment via email and then forwarding to the Board.

Note: At this point Rakesh Shaunak left the meeting.

12 FUNDING AUDIT

The Committee received an Executive Summary of the outcome of the funding audit review carried out in May 2017 by SRF.

Members noted with some concern that the conclusions by SRF were that for both Apprenticeship Provision and Traineeship Provision the following were unsatisfactory:

- System Design
- System Implementation
- Use of Funds

For 16-19 Study Programmes System Design and Use of Funds were both satisfactory with only System Implementation found to be unsatisfactory at the time of the audit review.

The Chief Executive confirmed that the audit review had been useful in focussing effort on areas of concern for funding. Many but not all of the issues raised related to CSL which, as previously noted, had now been sold to a third party. The issues had been addressed in the final funding claim submission to the ESFA.

In acknowledgement that the College experienced a relatively high turnover of staff development sessions were being provided on Friday afternoons to address such issues as funding. These should improve awareness of the importance of following the funding

requirements to the letter which, in turn, would reduce the error factor found from such funding audit reviews.

The Committee agreed following discussion:

- 1 to note the outcome of the audit review of funding carried out in May 2017 by SRF
- 2 to recommend to the Board on 13 December 2017 that approval be given to engaging SRF to carry out an audit for 2017/18 early in the new year so that the final audit report was available for presentation to the Committee at the meeting scheduled to take place on 27 June 2018.

13 INTERNAL AUDIT – REVIEW OF RECOMMENDATIONS

The Committee received a summary position statement of the issues identified by Scrutton Bland in the reports presented to the Committee on 19 June 2017.

It was appreciated that whilst some ideas had been addressed either completely or at least partially there were others that required attention. These had been allocated to a specific post with a target completion date.

The Committee agreed to note the present position with regard to the Scrutton Bland recommendations and to look forward to receiving an update at the meeting scheduled for 28 March 2018 by which time action should have been taken on all items.

14 INTERNAL AUDIT – LOOKING TO THE FUTURE

The Committee received the report of the Chief Executive with regard to future Internal Audit arrangements which had been prepared in the light of the earlier proposal of the Committee that an Internal Audit Service be appointed.

The Committee agreed, following discussion, to support the view of the Chief Executive that:

- 1 in the short term the College focussed on correcting the known high priority issues associated with funding and cost control with specialist audit follow up support where this was thought to be appropriate
- 2 a tender programme be arranged leading to the appointment of an Internal Audit Service for a three-year period commencing in 2018/19

In reply to a question from a Member it was confirmed that the College was addressing the implications of the GDPR arrangements to be introduced in May 2018.

15 FINANCIAL STATEMENTS AUDITORS – REVIEW

The Committee agreed, following discussion, to invite the Chief Executive to consider the audit arrangements once the final Audit Management was received and the Financial Statements had been signed.

The purpose was to inform a further discussion leading to the presentation of a recommendation by the Committee to the Board in terms of the Financial Statements Auditors for 2017/18 and beyond.

8 CALENDAR OF MEETINGS – 2017/18

The Committee confirmed the following calendar of meetings for 2017/18:

- 28 March 2018 at 1.00pm
- 27 June 2018 at 1.00pm

The meetings will take place at the Basildon campus unless otherwise agreed.

The Committee also recognised that additional meetings may be required including for the purpose of interviewing potential Internal Auditors.

Signed: _____ Date: _____