

PROSPECTS COLLEGE OF ADVANCED TECHNOLOGY

AUDIT COMMITTEE

21 JUNE 2016

Present: Theo Steel (Chair)
Angela Clarke
Peter McKee
Joanne Miller

In Attendance: Helen Degrove Financial Controller
Mark Eagle MHA MacIntyre Hudson
Paul Goddard Scrutton Bland
Robin Jones Clerk to the Corporation
Neil Warren Chief Operating Officer

1 MEMBERSHIP OF THE AUDIT COMMITTEE

The Chair welcomed Angela Clarke and Joanne Miller to their first meeting of the Committee.

Angela will serve as a Co-opted Member following the resignation of Gerry Levelle for period of up to 4 years' subject to review.

The Board approved the appointment of Joanne to serve on the Committee at the meeting on 4 May 2016.

2 ABSENCE

The Committee noted the absence from the meeting of Rachel Richards.

3 DECLARATIONS OF INTERESTS

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

4 MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 23 NOVEMBER 2015

The minutes of the meeting of the Committee held on 23 November 2015 were agreed to be a correct record and signed by the Chair.

5 MINUTES OF THE INQUORATE MEETING OF THE AUDIT COMMITTEE HELD ON 17 MARCH 2016

The minutes of the inquorate meeting of the Committee held on 17 March 2016 were agreed to be a correct record and signed by the Chair.

6 MATTERS ARISING FROM THE MINUTES OF THE MEETINGS OF THE AUDIT COMMITTEE HELD ON 23 NOVEMBER 2015 AND 17 MARCH 2016

The Committee agreed that there were no issues arising from the minutes of the meetings held on 23 November 2015 and 17 March 2016 which were not covered by the published agenda other than noting that the College had not yet been advised if the SFA would be carrying out an end of year audit review of funding.

7 RISK

The Committee noted that the most up to date version of the Risk Register had been presented to the Board on 4 May 2016 and a further update would be received at the meeting of the Board scheduled to take place on 20 July 2016.

Members took the opportunity to comment on the current Risk Register in the light of known and anticipated factors such as:

- the availability of resources to offer the course programme
- the importance of adapting to technological changes
- the need to continue to address the estates related issues and to use the available space for maximum benefit and to be prepared to dispose of surplus space
- the ambitions to grow the organisation
- the management capacity to respond to the ever growing and changing demands on the College

The Committee agreed to note the present position with regard to risks, including the various mitigations, and to look forward to receiving a further update at the next meeting.

8 RISK AND ASSURANCE REPORT ON KEY FINANCIAL CONTROLS

The Chair welcomed Paul Goddard from Scrutton Bland to the meeting and invited him to introduce the report prepared following the recent review of key financial controls.

The opinions of the Auditors following the completion of the specific reviews were noted to be:

- Payroll – reasonable (3 of 5)
- Ordering, Receipts and payments - reasonable (3 of 5)
- Financial Regulations – significant (2 of 5)

The Committee then reviewed the specific recommendations made by the Auditors and responses by College Management.

By way of background information, it was explained that the approach of Scrutton Bland was to identify the recommendations as being of low, medium or high status depending on the significance of the potential impact.

The three reviews prompted a number of low and medium recommendations (but no high ones) which, in the main, had been accepted by the College and were in process of being addressed.

One of the recommendations ranked as having a medium priority risk concerned the need to ensure that purchase orders were raised at all appropriate times unless the supply or service was covered by one of the exceptions set out in the Financial Regulations.

Members noted and discussed the one point when there was not agreement. This concerned a medium recommendation by the Auditors that a form be introduced with the intention of reducing the possibility of fraud given the number of attempts that are made in the FE and HE sectors and which had been highlighted recently by the Clerk. It was the view of the College that, given extensive training and the spot checks it was not thought to be necessary to introduce such a form.

The representative of Scrutton Bland addressed the vulnerabilities for the College with increased levels of cyber and other crime impacting on organisations and individuals.

The Committee noted during the wide ranging discussion on this aspect of the report the acknowledgement that the SAGE Finance System had limitations including the absence of an audit trail. Whilst there would be benefits from purchasing an integrated information system, account needed to be taken of the costs relative to the other priorities for investment. Furthermore, there were a number of checks in place within the College to seek to avoid any form of fraud.

The recommendations associated with the Financial Regulations were timely as the existing document was scheduled to be reviewed for presentation to the Board on 20 July 2016.

The Committee agreed:

- to receive, with interest, the report prepared by Scutton Bland on the key financial controls and to note the planned actions on the part of College Management to address the recommendations by the Auditors
- to note that an update would be presented to forthcoming meetings to provide the Committee with an assurance that all appropriate actions had been taken in response to the recommendations arising from the review
- to note the view of College Management that the proposed action intended to avoid fraud was not necessary given the controls already in place and the relative small number of suppliers and transactions
- to recognise that the outcomes from the review of key financial controls and the actions taken by the College would inform the Annual Report of the Audit Committee to be presented to the Board in December 2016 at the same time as the Financial Statements for 2015/16 and the associated Audit Management Letter.

9 MONITORING SFA AND EFA FUNDED PROVISION

The Committee received and considered the report prepared following the review conducted by SRF Consultancy on SFA and EFA funded provision.

SRF were chosen because of the known expertise in carrying out such reviews.

The Chief Operating Officer explained that, because of the limited SRF availability, there was less lead in preparation time for the College than would be the case when the SFA announce a planned review. It was in this context that the outcomes from the mid-year review needed to be considered.

The Committee noted that to be considered “low risk” the funding rate error would be less than 5% and “high risk” over 5%. The PROCAT outcome was 7% of which 5.7% for Apprenticeships and 9.9% for Traineeships. This prompted a discussion on the actions taken with a particular focus on CSL, the wholly owned subsidiary of the College, which had grown rapidly over the last couple of years.

Given the national role it was acknowledged that CSL needed to have different systems to PROCAT but these needed to be more robust than at present although, on the positive side, it was noted that there was a high level of knowledge in the organisation relating to funding eligibility.

The Committee agreed:

- to note the report on the monitoring of SFA and EFA funded provision including the “high risk” outcome
- to note the actions taken to address and improve the robustness of the systems issues at in particular CSL so that funding eligibility may be demonstrated and the risks removed

- to look forward to receiving an update at future meetings on the actions taken
- to note that the SFA national programme of end of year audits continued and these are usually announced in mid to late July for reviews in September
- to place on record the wish for PROCAT (including any subsidiaries) to be an exemplary organisation and, therefore, the aim must be to aim for a zero error rate as this in turn had a direct link to income generation and reputation.

10 FINANCIAL STATEMENTS AUDIT STRATEGY FOR THE YEAR ENDED 31 JULY 2016

The representative of MHA MacIntyre Hudson presented the proposed audit approach in relation to the review of the College's Financial Statements for the year ending on 31 July 2016.

The scope of the audit including the risks to be addressed were highlighted.

The particular attention of the Committee was drawn to the fact that a planning meeting had already taken place with Neil Warren and Helen Degrove with a view to identifying and specific risks which may impact on the work of MHA MacIntyre Hudson.

To satisfy the national regulatory requirements – the introduction of FRS 102 - one activity for the College was to calculate the accrued holiday pay position.

A number of other factors were explained including the opportunity to revalue the College estate if wished although there was no requirement. This prompted the explanation that the College used the Canvey Island premises currently on the basis of a licence to occupy but it is intended to enter into a 125-year lease with the payment of a peppercorn rent.

The national change in the presentation of financial performance will impact on bank covenants and it was noted that a meeting with representatives of Barclays was scheduled for 27 June

A material consideration was the scope to reduce the current level of borrowing as a result of the receipts from the sale of assets.

A key factor for the College was noted to be the anticipated start of Wave 5 of the Area Review programme in November 2016 and the benefits of having a clear understanding of the financial performance in 2015/16 so as to inform discussions. Whilst the Financial Statements did not need to be signed off and published until 31 December, it was agreed that the programme of activities would be brought forward and, therefore, the Committee agreed to meet on 20 October 2016 to receive and consider the Audit Management Letter including the audit opinion. This in turn would enable the Board to consider the Financial Statements at the meeting scheduled for the following day, 21 October.

The representative of MHA MacIntyre Hudson confirmed that the programme was realistic for the completion of the audit and the production of the Management Letter.

The opportunity was also taken to stress that the expectation of the Committee was that the responsible Partner would be involved and attend the meeting on 20 October as well as the Audit Manager.

The Committee agreed to note the report by MHA MacIntyre Hudson, as well as the associated comments by the College, and to look forward to receiving the report on the outcomes at the meeting now scheduled for 20 October 2016.

11 INTERNAL AUDIT – LOOKING TO THE FUTURE

The Committee noted that a programme of possible reviews would be prepared and presented to the Committee for consideration when an associated factor to be addressed would be the pros and cons of tendering to appoint an Internal Audit Service or continuing the recent approach of appointing firms for a specific and limited purpose.

12 TERMS OF REFERENCE OF THE AUDIT COMMITTEE – REVIEW

The Committee received and considered the proposed updated Terms of Reference which had been prepared by the Clerk having regard to the most recent Joint Audit Code of Practice (JACOP) previously presented to Members as well as experience.

The Committee agreed to recommend to the Board on 20 July 2016 the adoption of the revised Terms of Reference as from 1 August 2016.

13 CALENDAR OF MEETINGS – 2016/17

The Committee agreed the following calendar of meetings for 2016/17:

- 20 October 2016 at 4pm
- 9 November 2016 at 2.30pm (reserve date only to be used only if required)
- 14 March 2017 at 2.30pm
- 19 June 2017 at 2.30pm

It is anticipated that the meetings will take place at the Basildon campus.

Signed: _____ Date: _____