

**PROSPECTS COLLEGE OF ADVANCED TECHNOLOGY**

**AUDIT & RISK COMMITTEE**

**19 JUNE 2017**

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

**In Attendance:** Innes Campbell Interim Director of Finance  
Helen Degrove Financial Controller  
Robin Jones Clerk to the Corporation  
Paul Goddard Scrutton Bland  
Rakesh Shaunak MHA MacIntyre Hudson

**1 APOLOGIES FOR ABSENCE**

The Committee noted that all Members were present.

**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 MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE HELD ON 3 MAY 2017**

The minutes of the meeting of the Committee held on 3 May 2017 were agreed to be a correct record and signed by the Chair.

**4 MATTERS ARISING FROM THE MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE HELD ON 3 MAY 2017**

The Committee agreed to note the up to date position with regard to the following items:

- 1 Post 16 Audit Code of Practice – as requested by the Committee on 3 May 2017 a summary of the PROCAT position on the nine issues highlighted on page 27 of the Post 16 Audit Code of Practice had been drafted in outline by the Clerk and this was now being reviewed by the Executive so that this may be shared with Members
- 2 Financial Statements – Looking to the future – the Board to be invited to consider on 20 July 2017 the merits of a Finance Committee or, at least, a Task and Finish Group so as to provide Member oversight and contributions to the review of the monthly Management Accounts
- 3 Technical and Further Education Act 2017 – the introduction of the insolvency arrangements for colleges – detailed overview presented to the Board on 9 June 2017 although the associated regulations were awaited from the Government – further briefing to be provided for Members as soon as practicable in expectation that the implementation would be at some point in 2018 – possibly April 2018
- 4 Risk – Business Plans – to be provided to Members as requested on 3 May 2017

## 5 FINANCIAL STATEMENTS AUDIT STRATEGY 2016/17

The Committee received a presentation by the Audit Partner representing MHA MacIntyre Hudson with regard to the Financial Statements Audit Strategy for 2016/17.

The Auditors acknowledged that this has been a challenging year for the College with a number of exceptional costs being incurred (eg the Tunnelling Academy), lower than anticipated apprenticeship activity and issues associated with Creative Sport & Leisure Ltd. As a result, the Group would report a deficit at 31 July 2017.

The presentation highlighted the approach of focussing on the College business and strategy when carrying out the audit in accordance with the regulatory framework.

The audit approach on the part of MHA MacIntyre Hudson had a number of key elements and these would be reviewed during the programme to determine the extent that reliance may be given to the existence of (1) strong budgetary control, (2) high quality financial and management information and (3) good levels of financial awareness amongst staff. These in turn inform the risk assessment at three levels – significant, high and low. There will also be liaison with Scrutton Bland and the Funding Auditors given the audit work carried out during the year which would normally be an integral part of an Internal Audit Service.

The position with regard to fraud would have a greater focus than in previous years and this would include a review of the systems in place in College to avoid such occurrences.

A planning session had been arranged by the Auditors with the College (Interim Finance Director and Financial Controller) leading to detailed planning and field work so that the Audit Management Letter may be presented to the Audit & Risk Committee on 30 November 2017 together with the draft Financial Statements prior to submission to the Board.

One issue which would require particular attention at the planning stage concerned the treatment in the Financial Statements of the anticipated sale of CSL Ltd as a going concern.

The Members took the opportunity to question the Audit Partner and to seek clarification of issues arising from the presentation with a particular focus on the College Subsidiary Company given the experience in 2015/16 – see also item 6 below.

The Committee agreed, following discussion:

- 1 to note the presentation provided by the Audit Partner with regard to the Financial Statements Audit Strategy for 2016/17 including those aspects specifically highlighted on the approach to be followed
- 2 to note that the audit treatment of CSL Ltd would be addressed at the forthcoming planning session in the context of the anticipated sale of the College Subsidiary Company and Members asked that an update be presented to the Board on 20 July 2017 so that Members had an understanding of the proposed approach
- 3 to note the timetable of events leading to the presentation of the Audit Management Letter and draft Financial Statements to the Committee on 30 November 2017
- 4 to note that the Regularity Audit would take place alongside the review of the end of year position to inform the preparation of the Financial Statements for 2016/17
- 5 to look forward to receiving the Auditor's Management Letter following the completion of the fieldwork although it was a given that if anything of materiality or concern emerged during the audit this would be made known to the Committee Members with due urgency.

## **6 FINANCIAL MEMORANDUM – TECHNICAL NON-COMPLIANCE IN 2015/16**

The Committee noted at the meeting on 3 May 2017 that there had been a technical non-compliance with the provisions of the Financial Memorandum in that the Financial Statements for the Subsidiary Company for 2015/16 and not been reviewed and signed off at the same time as the Financial Statements for the College (ie in December 2016).

The opportunity had been taken of the attendance of the Audit Partner to discuss the background to this technical non-compliance and the importance of full compliance in the future.

The Committee, whilst noting that all of the audited Financial Statements for the College Subsidiary had now been submitted for 2015/16 – admittedly later than provided in the national timetable of events – agreed to reiterate the earlier view that there must be full compliance with such regulatory requirements in the future.

## **7 ASSURANCE ON SUB-CONTRACTING CONTROLS**

The Committee received and noted the Assurance Report on Sub-Contracting Controls prepared by MHA MacIntyre Hudson.

There were no priority recommendations arising from the review although three good practice points had been put forward which, in the view of the Auditors, would improve the control environment. These points were being addressed by the College.

*Note: Rakesh Shaunak left the meeting at this point given other commitments*

## **8 RISK REGISTER**

The Committee received and discussed the Risk Register updated to 12 June 2017.

There was a recognition that experience over the last year warranted some of the existing risks to be unpacked including 1.2 which concerned the impact of cuts in funding on the ability of the College to deliver quality programmes.

Item 2.5 on the current Risk Register concerned unsustainable trading losses and cashflow which needed to be updated to take into account the insolvency arrangements to be introduced in 2018 following the granting of Royal Assent to what was now the Technical and Further Education Act 2017.

The Committee agreed following a wide ranging discussion:

- 1 to note the current Risk Register and to note the approach of the College to regard this as a live document which was used and updated on an ongoing basis
- 2 to commend to the Executive the need to review what was covered by the existing risk 2.7 concerning major incidents in the light of recent experience such as the terrorist incidents and the IT attacks which made computer systems inoperable for several days
- 3 that there would be value in reviewing the risk related documentation presented to the Committee with a view to focussing on far fewer items than at present but in greater detail including the impact of controls and mitigating actions so these had a real impact
- 4 to look forward to receiving the updated Risk Register at the November 2017 meeting supported by the current Risk Policy with an indication from the Executive if any amendments and or additions were suggested so as to inform a discussion on “risk appetite”.

## 9 INTERNAL AUDIT OF THE COLLEGE'S FUNDING CLAIM

The Committee noted that the review of funding had been completed in May 2017 and the report was expected shortly.

The Committee agreed:

- 1 to look forward to receiving the final report at the next meeting but as that was not until November 2017 to request that this be circulated to Members as soon as it was available so as to increase awareness of any particular issues
- 2 to note that it was anticipated that the ESFA would be making known shortly if the College had been selected for an end of year funding audit – this was a national programme and the expectation that all colleges would be reviewed over about a three-year cycle

## 10 INTERNAL AUDIT REVIEW OF FINANCIAL CONTROLS AND OTHER AREAS

The Committee received the following reports following the completion of the reviews undertaken by Scrutton Bland:

- Income and Debtors as well as a follow up on previous occasions
- Data Security and IT Infrastructure

The Income and Debtors/Follow Up report had provided two separate opinions by the Auditors:

- Income and Debtors – Significant Assurance (2 of 5)
- Follow-up of previous recommendations – Reasonable Assurance (3 of 5)

The view of the Auditors was that for Income and Debtors that it was only necessary to raise two low recommendations and the intention of the College was to action in August 2017 at the start of the new year.

The review of the earlier recommendations showed that some progress had been made but it was appropriate to restate a number of issues to be addressed by the College – one was a medium risk and the others were designated as low risk.

The medium risk item concerned raising purchase orders for all purchases and it was explained that the new College system would be operational by 31 July 2017.

Several items would be progressed as a result of the anticipated adoption of revised Financial Regulations which, the Clerk explained, was an Agenda item for the meeting of the Board on 20 July 2017. If approved the new more comprehensive Financial Regulations would come into effect on 1 August 2017.

The review of the College's Data Security and IT Infrastructure had resulted in a reasonable opinion (3 of 5).

As reported to the Committee on 3 May 2017 one high risk issue had been identified. This concerned the College's password control systems and was now being actioned by the IT Manager with an implementation by 30 June 2017.

The review also prompted 3 medium and 3 low risks including items associated with Data Protection and the retention of documents/data. It was appreciated that there would be a high level of attention being given to related matters over the next few months as a result of the anticipated introduction of the European General Data Protection Regulation (GDPR) on 25 May 2018. This was noted to be a significant development on the current arrangements and would need some time and thought so as to cover all aspects.

When looking at the IT Infrastructure the Committee recognised the experience in many organisations over the recent past where IT systems have been attacked and held to ransom.

The Committee agreed following a wide-ranging discussion:

- 1 to receive and note the reports prepared by Scrutton Bland following the recent audit reviews
- 2 to place on record the appreciation of Members for the clarity and usefulness of the reports from Scrutton Bland
- 3 to look forward to receiving confirmation at future meetings that the College had progressed all appropriate issues from the audit reviews
- 4 to request that, in recognition that the Audit & Risk Committee was not scheduled to meet again until 30 November 2017, a brief note be provided by the Clerk in consultation with the Executive by the time of the meeting of the Board on 20 July 2017 so that there was an up to date understanding of progress to date

## **11 INTERNAL AUDIT SERVICE**

The Committee agreed to recommend to the Board on 20 July 2017 that consideration be given to carrying out a tender process with a view to appointing an Internal Audit Service to enable a comprehensive risk based series of reviews to take place.

It was recognised that this would have financial implications which would need to be addressed in the Budget for 2017/18 although professional fees were already being committed as a result of the current ad hoc approach of the College.

Given the value for money reviews which were integral to many audits one would hope that the appointment of an Internal Audit Service would be self-financing although, of course, no guarantee could be given at this stage.

## **12 CALENDAR OF MEETINGS – 2017/18**

The Committee noted the calendar of meetings for 2017/18 previously agreed by Members:

- 30 November 2017
- 28 March 2018
- 27 June 2018

The meetings would take place at the Basildon campus commencing at 1pm unless otherwise agreed.

Signed: \_\_\_\_\_ Date: \_\_\_\_\_