

**PROSPECTS COLLEGE OF ADVANCED TECHNOLOGY**

**AUDIT & RISK COMMITTEE**

**22 MARCH 2018**

**Present:** Theo Steel (Chair)  
Peter McKee  
Rachel Richards

**In Attendance:** Judith Abbott Chief Executive  
Robin Jones Clerk to the Corporation

**1 APOLOGIES FOR ABSENCE**

The Committee noted that all current Members were present or participating – see item 2 below.

**2 PARTICIPATION IN THE MEETING VIA TELEPHONE**

The Committee noted that, due to business commitments, Rachel Richards was not able to attend but would participate in the meeting via telephone.

**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 MEMBERSHIP OF THE AUDIT & RISK COMMITTEE – EXTERNAL CO-OPTED MEMBER**

The Committee noted that Angela Clarke had resigned from membership of the Audit & Risk Committee due to taking up a post with another employer.

The Committee agreed:

- 1 to place on record the appreciation of the Committee for the contribution made by Angela Clarke and to wish her well in her new post
- 2 not to seek another external co-opted Member, at least for the time being, given the merger discussions which would commence shortly via the FE Commissioner led Structure & Prospects Appraisal (SPA) process.

**5 MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE HELD ON 30 NOVEMBER 2017**

The minutes of the meeting of the Committee held on 30 November 2017 were agreed to be a correct record and signed by the Chair.

**6 MATTERS ARISING FROM THE MINUTES OF THE MEETING OF THE AUDIT & RISK COMMITTEE HELD ON 30 NOVEMBER 2017**

The Committee agreed that there one issue arising from the minutes of the meeting held on 30 November 2017 which was not covered by the published agenda.

The Committee had previously discussed the possible establishment of a Finance Committee or a Task & Finish Group so as to provide Board Member oversight and contributions to the review of the monthly Management Accounts. After discussion it had been agreed that such an approach would have merits and, therefore, this issue would be referred to the Board. It was recognised that the recent introduction of monthly Board meetings removed the need to have a separate Finance Committee or Group at least for the time being.

## **7 RISK REGISTER**

The Committee received and discussed at length the proposed updated version of the Risk Register.

The Chief Executive provided an overview of the approach to preparing the latest version of the Risk Register including:

- a new risk had been added to reflect the College's current situation and the intent to seek a merger partner
- several risks had increased in severity since the version presented to the Committee in November 2017
- overall the level of risks and significance had increased over the last four months
- the risks associated with the Institutes of Technology initiative had increased as the College was no longer leading but was in two separate partnerships with other colleges
- the Notice to Improve, which would be in the public domain shortly, brought with it the risk of adverse publicity even though the College performance in quality terms was improving
- the College would not achieve the Adult Education allocation directly although a sub-contract arrangement would protect the position for the future even though this would require expenditure which was not planned when the current budget was prepared -

Members took the opportunity to question the Chief Executive and to challenge some of the statements so that the updated version of the Risk Register was as accurate as possible.

It was thought that it was possible to acknowledge in a number of places in the updated Risk Register the progress being made in bringing about improvements in College systems even if the impact was limited at present – see 2.6 of the current document. The example cited was the approach to allocating budgets to specific managers which had increased awareness and the commitment to achieve savings and best value.

The Committee agreed following discussion:

- 1 to welcome the continued approach on the part of the Executive to having a robust and honest Risk Register
- 2 to advise the Board of the basis of the discussion and that the Chief Executive would be making some amendments to the Risk Register to reflect the views of Members
- 3 to look forward to receiving at the June 2018 meeting of the Committee the next update to the Risk Register by which time there were bound to be some further changes in the light of developments including the progress towards identifying a merger partner

## **8 FINANCIAL STATEMENTS – 2016/17**

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

- The report of the Chief Executive providing an overview of the present position relating to the Financial Statements for 2016/17 and related matters
- The updated draft Financial Statements for the year ended 31 July 2017
- The Self-Assessment of Compliance with Regularity and Propriety Requirements

The most significant development since the original review and discussion by the Committee on 30 November 2017 was recognised to be the receipt by the College of the Financial Notice to Improve from the ESFA and the visit by representatives of the FE Commissioner on 5 and 6 March 2018. It had now been suggested that the College sign the Financial Statements for last year on the basis that it was no longer a going concern as it was now expected that the College

would have merged within twelve months of the date of approval and signature. Instead it was possible to include an Emphasis of Matter note in the Financial Statements to explain the position.

Since the report of the Chief Executive had been prepared and circulated with the Agenda for this meeting of the Committee the College had received confirmation from the Auditors, MHA MacIntyre Hudson, that the approach of including an Emphasis of Matter was acceptable to enable the Financial Statements to be signed and published.

The Chief Executive went on to explain that the advice of the ESFA was to defer signing the Financial Statements a little longer so that the contents of the FE Commissioner's report could be reflected, and the wording of the Emphasis of Matter tied to the facts where necessary. The draft report was expected within the next 24 hours for fact checking.

The Committee agreed, following discussion, to advise the Board on 22 March 2018:

- 1 the current position with regard to the Financial Statements for 2016/17 including the proposed inclusion of the Emphasis of Matter rather than the Going Concern statement
- 2 the intention to meet on 27 April 2018 immediately before the next scheduled meeting of the Board so that a recommendation may be agreed and presented to the Board to enable the Financial Statements to be signed and published having regard to the final wording of the FE Commissioner's report
- 3 that, in the absence of any evidence to support the statement, the draft Financial Statements should be amended to remove the suggestion that the College anticipated a significant growth in apprenticeship numbers in 2018/19
- 4 to note that the College had maintained close contact with all interested parties including the ESFA and the Bank on the position
- 5 to note that the PLF Accounts would be considered and signed once the College's Financial Statements were approved

## **9 AUDIT & RISK COMMITTEE ANNUAL REPORT – 2016/17**

The Committee received the draft Annual Report of the Audit & Risk Committee for 2016/17.

It was appreciated that, given the position with regard to the Financial Statements as outlined above, it was not possible to confirm the contents of the Annual Report for presentation to the Board. However, it was agreed that the Annual Report as drafted covered the key issues and was likely to provide the basis for the final version to be agreed on, it was anticipated, 27 April 2018.

## **10 FUNDING AUDIT**

The Committee received the report of the Chief Executive and noted in particular:

- The high likelihood that the College would be subject to an ESFA funding audit in September 2018 with the notification being received in June or July 2018
- The proposed engagement of additional (0.6 FTE) support for the Compliance Officer which had been approved by the SLT for a period of six months to the end of September 2018 with the post being offered internally in the first instance as a development opportunity before external advertisement
- The engagement of SRF Consultancy Ltd to undertake a pre-funding audit in early May with the findings being presented to the Committee on 28 June 2018
- The SRF audit fee of £2,450 plus VAT could be covered within the approved budget for consultancy fees

The engagement of SRF to undertake the funding audit had been approved by the Board on 13 December 2017 on the recommendation of the Committee (item 517).

#### **11 SUB-CONTRACTOR AUDIT**

The Committee agreed to support the view of the Chief Executive that Scrutton Bland be engaged to carry out the annual audit of sub-contractors so as to meet the ESFA requirements.

#### **12 INTERNAL AUDIT – LOOKING TO THE FUTURE**

The Committee received the report of the Chief Executive with regard to future Internal Audit arrangements and agreed, following discussion, to support the view of the Chief Executive that the anticipated three year rolling programme of internal audit reviews had been overtaken by the merger related process.

#### **13 FINANCIAL STATEMENTS AUDITORS – REVIEW**

The Committee received and considered the report of the Chief Executive with regard to the engagement of the Financial Statements Auditors.

It was noted that the current Auditors, MHA MacIntyre Hudson, had been appointed for a period of three years and this ended with the Financial Statements for 2016/17 which it was now anticipated would be approved and published at the meeting of the Board on 27 April 2018. It was appropriate, therefore, to consider the position for 2017/18 and, as appropriate, beyond.

Members acknowledged that there were benefits of changing the Auditors from time to time to provide “fresh eyes” and this had particular merit as the College approached the merger related discussions to identify a new partner to become responsible for PROCAT sometime within the next twelve months.

Whilst a full tender process would normally be appropriate to identify the preferred Auditors, given the merger related workload and the limited period of engagement the Chief Executive proposed that the College appointed RSM UK on the basis that they were listed on the CPC Framework Agreement.

The Chief Executive reported that she had confirmed the interest of RSM UK in undertaking the PROCAT audit work for such a relatively short period – the Financial Statements for the full year 2017/18 and the part year 2018/19 to the date of merger. This did mean that the audit fee for the engagement would appear to be higher than when spread over a full three-year period as the “up front” (getting to know the College organisation) costs would not be distributed over such a long period.

The intention of RSM UK would be to provide the Board and the Executive with some value-added services such as a development session on the responsibilities of Board Members in a merger situation.

The total audit fee for 2017/18 for all aspects of the work to be undertaken was noted to be £38,750 plus VAT. This was approximately £16,500 more than included in the current revenue budget although the Chief Executive had enquired of the ESFA if there were any Transition Grant funds available that might cover (part of) this additional cost. It may be that the amount could be recognised as a merger cost to provide an extra level of due diligence assurance.

The Committee agreed, following discussion, to advise the Board at the meeting later in the day (22 March 2018) of the position with regard to the Financial Statements Auditors and specifically:

- 1 that the appointment of MHA MacIntyre Hudson would end with the completion of the work associated with the Financial Statements for 2016/17
- 2 to recommend that the College seeks to appoint new Auditors for the review of the Financial Statements for 2017/18 and beyond in the knowledge that the merger discussions would be progressed in the coming months
- 3 to recommend the appointment of RSM UK as the Financial Statements Audits for 2017/18 and beyond at a cost of £38,750 plus VAT in the first full year subject to confirmation that the ESFA was in agreement with the approach
- 4 to draw to the attention of the Board that the audit fee was more than included in the Budget for 2017/18 and that this would need to be addressed by the Executive.

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

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

- 27 April 2018 at 10.00pm (an additional meeting primarily to consider the position with regard to the Financial Statements for 2016/17)
- 28 June 2018 at 10.00am (this meeting was scheduled for 27 June but as an additional meeting of the Board had now been arranged to start at 1.30pm it was appropriate for the Committee to meet that morning)

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

The Committee also recognised that additional meetings may be required.

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