

Meeting of the Audit & Risk Committee
Wednesday 25th November 2015 at 4.00 pm
Conference Room 1
MINUTES

Present: Ian Clark (Co-opted), Zaeed Mohammed, John Tiscornia, Gordon Watson (Chair)

In attendance: Carole Drury (Clerk), Craig Owen, Louise Shrapnel, Graham Wilkinson, Mark Ashton-Blanksby (ICCA), Dale Thorpe (RSM) to item 520

512 **Apologies for Absence**

Ian Clinton, Carl Mantell

513 **Declaration of Interests**

There were no declarations of interest.

514 **Minutes of last Meeting held on 12th May 2015**

The minutes of the last meeting were approved by the Committee and signed by the Chair as an accurate record.

515 **Matters Arising and Rolling Action Plan**

The action plan was noted.

516 **Internal Audit Reports**

Mark Ashton-Blanksby of the Internal Audit Team, ICCA, presented the findings of two recent internal audits, both of which provided the committee with a substantial assurance opinion.

01.15/16 Corporate Governance: Board Effectiveness Assessment

The objective and scope of the audit was explained with an overview of findings which included key external influences and expectations and how the College Board has responded. A number of areas of possible improvement had been identified with regard to the structure and operation of the board, all of which were accepted and included in the audit action plan.

The audit had been conducted around the increased scrutiny requirements placed on governors and reflected the expectations expressed by the FE Commissioner. The audit findings suggested that governance in the College was good with governors well equipped to deal with sector challenges and having the right skills to challenge senior managers. There was good evidence that governors were receiving the right information to enable them to carry out the required scrutiny. The audit recommendations had already been reviewed by the Search & Governance Committee in particular in respect of those members who are now in their fifth term of office. John Tiscornia, as Chair of Search & Governance, stated that the Board was very comfortable with the current membership but emphasised that the skills audit was used to identify new membership requirements. Developing a succession plan to ensure that the skills of members who will complete terms of office over the next few years are not lost will be a priority for that Committee. Management accounts are now a fixed agenda item for each Board meeting. (Action: Clerk)

02.15/16 Workplace Learning & Apprenticeships

This audit had focussed on the arrangements in place to manage and monitor the level of compliance with SFA funding rules and the college's internal procedures. A total sample of 50 student records had been considered giving a total "funds at risk" rate of 5.17%. A recommendation was given that care needed to be taken during 2015/16 to ensure the accuracy of the individual learner record submission (ILR) and the risk to funding. All recommendations were accepted and were now included in the 2015/16 action plan.

The audit had mirrored a Skills Funding Agency audit, with sampling matching SFA selection processes. It was reported that the size of the sample could skew the error rates and the reported error rate was not a concern. However, the Committee Chair questioned the importance of reducing the errors because of the impact on funding. It was explained that in a full SFA audit, extrapolation of the sample would not take place until further evidence had been requested and tested. Craig Owen explained changes that had now taken place following the audit including the use of Smart Assessor technology to record apprenticeship reviews.

The Committee resolved to:

- Accept the Internal Audit report on Corporate Governance
- Accept the Internal Audit report on Workplace Learning & Apprenticeships

517

Internal Audit End of Year Summary Outstanding Actions Reports

Mark Ashton-Blanksby presented the Annual Internal Audit report for the year ended 31st July 2015 which listed audits completed during the year and a summary of recommendations. The report stated that:

- the internal audit work had been carried out in accordance with the internal audit plan approved by the Committee on 8th July 2014
- the findings indicate that the College's risk management processes were adequate and effective
- as a result of the audits, no high priority recommendations had been raised and that there was a substantial level of control designed and operated across the internal control framework
- the college had adequate and effective governance arrangements in place

The report also gave a summary of the overall assurance opinion of each audit and the recommendations. The internal audit assurance statement gave a judgement of reasonable assurance. It was explained that this was the highest level that could be awarded. There was a "clean opinion", meaning there were no issues to report and no high level recommendations which was both highly unusual and very positive.

The internal audit progress report and sector update provided an overview of progress against the 2015/16 audit plan to date as well as providing a list of dates for the remaining planned audits for the year. A useful sector update was provided showing emerging risks for the sector and the College.

Two internal audit action plans were reviewed to show progress against each of the recommendations.

The Committee resolved to:

- Accept the Internal Audit End of Year Summary noting the positive outcome of the Internal Audit Assurance statement

518 **Internal Audit Planning**

A summary document of agreed audits for 2015/16 was presented, showing the auditor and College lead.

519 **Financial Statements, Regulatory Audit & Audit Findings Report**

The audited accounts and financial statements were presented by Dale Thorpe of RSM.

Subject to acceptance, the accounts would be signed by the Chair of the Corporation and Chief Accounting Officer and sent to the SFA by the end of December. Changes to wording for clarification and typing errors were agreed and would be submitted for the finalised report.

In respect of the Audit Findings Report, each section was considered with no issues being identified. The letters of representation and regularity would be as in the document with no amendments required for the College.

It was agreed that the presentation format for the Annual Report and Financial Statements would comply with the requirements of the Code of Good Governance for English Colleges.

However, it was reported that the financial statements could not be signed off at this stage due to areas that still needed to be finalised, the most important being the reporting of the College as a going concern ie that the College is able to meet its liabilities. The current financial position of the College was further discussed in respect of the bid being submitted to Cumbria LEP for capital funding with an expectation that the College would be advised on 15th December and funding distributed in January 2016 for expending by the end of March 2016. (The funding was to cover unforeseen circumstances once demolition had taken place of the Wildman Street buildings which revealed that three adjoining properties had no foundations, resulting in a complete re-design of the ground floor slab and piling solution at an additional cost of £604,000)

As a back-up, alternative funding was being sought to cover the additional costs of the Wildman Street project through Nat West Bank should the LEP bid not be successful so that cash flow overall for the 2015/16 year is protected.

It was proposed that a delay in submitting the financial statements to the SFA be requested to allow for a resolution to the “going concern” question in light of the outcome of the bid to Cumbria LEP for additional capital funding and any subsequent discussion with Nat West Bank regarding cash flow protection for the academic year, using an overdraft facility. An additional Board meeting may need to be called for 20th January 2016 to discuss the situation and agree a forward strategy and sign off the financial statements.

The Chair requested the external auditor to confirm that there were no issues which he needed to bring to the attention of the Committee without management being present and he agreed that there were no such issues, stating that the process had gone exactly as planned with thanks to the College team for their support.

The Committee also reviewed the compliance self-assessment report, an annex of the Joint Audit Code of Practice and approved the responses.

The Committee resolved to:

- Recommend the approval of the financial statements and audit findings report to the Board at the December meeting subject to resolution of the going concern question once further facts and assurances have been concluded.

- Recommend the signing of the compliance self-assessment report by the Corporation Chair and Principal as Chief Accounting Officer

Dale Thorpe left the meeting at this stage

520

Review of policies

Risk Management: the updated policy was presented showing amendments in line with those recommended at the last meeting in respect of impact and likelihood ratings.

Anti-money laundering: the updated policy was presented with no major amendments

Policy Update list

The updated policy list was presented, providing assurance that College policies are being effectively managed and updated in a timely way.

The Committee resolved to:

- Approve the risk management and anti-money laundering policies
- Take assurance that policies were being managed effectively in the College

521

Strategic Risk Register

The register has been updated to reflect changes in the strategic plan and included two new and one re-introduced risk. A new rating procedure has been included to record the impact of the risk and the likelihood, leading to a “severity” rating.

The Committee reviewed the register and approved the new format. Concern had been raised over risk reference 8 - Loss of Key College data and the paucity of measures to reduce the risk. Discussion took place over testing sections of the system as part of business continuity and disaster recovery processes. It was agreed that further work on these two key areas needed to be completed by senior management. (Action: L Shrapnel)

The Committee resolved to:

- Accept the risk register
- Request that business continuity and disaster recovery processes are reviewed in respect of risk ref 8.

522

Review of Covenant Risk Position

The Director of Finance & Resources provided an update on the current covenant position showing that there had been no breach of covenants with borrowings as a percentage of income being at 30.99%.

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College Financial Health

Following submission of the College financial plan to 2017 to the Skills Funding Agency, the grading of “satisfactory” for both the latest outturn forecast year and the current budget year had been accepted. Additional dashboard information on key performance indicators was reviewed.

524

Review of terms of reference and performance and annual report to Board

The Committee reviewed its terms of reference accepting an additional responsibility in respect of an overview of College policies. Performance of the committee against its terms of reference was also reviewed, showing that all listed responsibilities had been met.

The draft annual Audit & Risk Committee Report to the Board was presented for comment and minor amendments agreed.

The Committee resolved to:

- Accept the amended terms of reference
- Accept the Audit & Risk Committee report to the Board subject to agreed amendments and to submit to the Board

525

Any Other Business

- a) The letter of engagement for the External Audit team, noting the transfer from Baker Tilly to RSM was raised by the Director of Finance & Resources. As it was a standard letter and would support matching of the name in the financial statements, it was agreed to recommend for signing by the Chair of the Corporation.
- b) I Clark requested that agenda items be reviewed to ensure a better split between the meetings. It was recognised that the Autumn meeting did have a lot of papers to be considered and suggested that policy updates and internal audit reviews be taken out of this meeting and dealt with at the other two. (Action: Clerk)

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Date of Next Meeting

Tuesday 9th February 2016 at 4.00 pm