

Approved

EXETER COLLEGE FURTHER EDUCATION CORPORATION

AUDIT AND RISK ASSURANCE COMMITTEE

Minutes of the meeting held on Wednesday 20th September 2017 in the Board Room, Hele Road, Exeter College

Present Sarah Brampton Chair
Dave Underwood
David Batho
Jo Matthews

In Attendance

	Steve Champion	VP Finance and Business Operations
<i>To item 8</i>	Heather Ancient	PwC
	Kate Barczok	College Accountant
<i>Item 10.1 only</i>	Richard Brine	Head of Information Learning Services
	Tim Borton	Bishop Fleming
	Nathan Coughlan	Bishop Fleming
	Clive Fitzgerald	Tiaa
	Barbara Sweeney	Clerk to the Corporation

Apologies Mike Blakeley
John Coombs
John Laramy

1. **Welcome and Apologies**

Action

The Chair welcomed colleagues to the first meeting of the new academic year her first as Chair. She particularly welcomed Jo Matthews, who was new to the Committee and Heather Ancient from PricewaterhouseCoopers for whom it was the last meeting at the end of the Internal Audit Service contract. She also welcomed Tim Borton and Nathan Coughlan from Bishop Fleming, the newly appointed Financial Statements Auditors and Clive FitzGerald from Tiaa, the newly appointed Internal Auditors. With the significant change in membership, introductions were made.

Apologies were received.

Dave Batho, IT Manager, declared an interest in item 101, IT Security Update.

2. **Minutes**

Minutes of meeting held on 14th June 2017

[http://portal.exe-coll.ac.uk/sites/leadership/gov/staff/A Meetings 1718/2. Audit and Risk Assurance/2. 22nd November/Approved open Audit 200917 mins for web.doc](http://portal.exe-coll.ac.uk/sites/leadership/gov/staff/A%20Meetings%201718/2.%20Audit%20and%20Risk%20Assurance/2.%2022nd%20November/Approved%20open%20Audit%20200917mins%20for%20web.doc)

Approved

The minutes of the meeting held on 14th June 2017, as circulated, were agreed and signed by the Chair.

3. **Matters arising**

3.1 Board Decisions

The report advising what actions had been taken on recommendations from this Committee presented to the Board was received and noted.

3.2 Governance Self-Assessment

The Clerk updated the Committee on the proposed format for the Governance Self-Assessment Report 2016-17. The Quality and Standards Committee had received an update at its June 2017 meeting on the new format of the College SAR, with evidence provided against impact statements relating to criteria in the Common Inspection Framework. The Governance SAR would be the same format against standards of governance best practice from the Code of Good Governance for English Colleges (March 2015), with cross referencing to the Charity Commission Governance Code. The standards relating to governance would form the SAR, together with feedback from Governors, and areas where the College did not achieve outstanding would be included in the Quality Improvement Plan (QIP).

The Search and Governance Committee was scrutinising the Governance SAR and QIP at its meeting on 2nd October 2017, and which would be recommended to the Quality and Standards Committee at its December meeting for recommendation to the Board as part of the full College SAR in December 2017.

3.2 **Audit and Risk Assurance Committee Terms of Reference**

The approved Terms of Reference for the Committee were received and noted.

There were no other matters which were not covered elsewhere on the agenda.

4. **External Auditors**

4.1 External Audit Plan for year ending 31 July 2017.

The report detailing Bishop Fleming's Audit Plan for the forthcoming audit of the statutory accounts was received. Tim and Nathan from Bishop Fleming highlighted the key issues. The report had been prepared ahead of the June 2017 meeting, and whilst historically the External Audit Plan had been received at the autumn meeting of the Committee, going forward it would be received at the meeting in the summer term so that work could progress over the summer.

BHS

It was the External Auditor's responsibility to form an opinion on whether the Financial Statements gave a fair and true view and that they were completed in accordance with International Standards on Auditing and the

Approved

Post 16 Audit Code of Practice issued by the Education and Skills Funding Agency (ESFA). There was also a responsibility to consider whether any funding received from public bodies had been used appropriately through testing controls around regularity and propriety. The audit would also consider materiality and whether the financial statements were free from material misstatements. Materiality for the College was set at 1-2% of income, lower than the usual 5%.

Based on knowledge of the College and known sector issues, significant risks which the audit would test included management override of controls, revenue recognition (given the complexity of revenue streams), accounting for capital projects, (including testing whether grants were allocated to the correct year), and key estimates and assumptions including pension assumptions. These risks were seen to have the greatest impact on accounts. There was also triangulation with the Risk Register and Internal Audit Service.

The audit would consider the internal audit service review on apprenticeship systems, so building on the foundation of the control environment.

Ethical standards required that there was a declaration of independence by the auditors as to their objectivity and independence in carrying out the audit, with safeguards to minimise such threats together with reasons as to why they were sufficient.

The Committee noted that the capital projects should be less complex than originally anticipated since there had been a number of delays to projects which might have straddled two financial years, and that both now fell into the current academic year.

Fieldwork for the external audit would commence on Monday 2nd October 2017. The Committee would receive the report at its next meeting on 22nd November 2017 for Board approval on 8th December 2017.

The Committee confirmed that it was content with the scope of the audit, and agreed to:

Recommend the External Audit Plan to the Board on the 6th October 2017.

BHS

Vote: Unanimous

5. **Internal Audit Service**

5.1 Project reports:

- Core Financial Controls (Fixed Assets and Treasury Management)
- The report, giving low overall risk, was received and considered. Heather confirmed that this was the first time the fixed asset, property maintenance and treasury management processes had been reviewed.

Approved

There was one medium priority finding, three low, and two advisory.

Overall, the College's controls were well-designed. Areas of best practice included a clearly documented Property Strategy, linked to the College's strategic objectives, a clearly defined and accessible Treasury Management Policy, with clear delegation of authority and flexibility to enable the College to maximise the return on surplus funds.

The medium risk finding was that the existence and condition of assets was not periodically verified to ensure the accuracy of the College's fixed asset register. The College's insurers, Zurich performed a periodic inspection of high value or high risk assets. However, there was an increased risk that theft, damage or loss of assets might go unnoticed and an increased risk of inappropriate decisions due to the purchase or sales of assets. The action plan was for the fixed asset register to be documented with a clear record of reconciling items and how they were investigated and cleared, with evidence of who had completed the reconciliation and who had reviewed it.

The three low risk findings included an increased risk that misappropriation of attractive assets went undetected. The Finance Team maintained a central list which included all portable/desirable assets with values between £250 and £1,000 and Heads of Departments were required to maintain a list and confirm changes on a termly basis. This value was considered to be low. Based on testing, in practice this happened annually. For a sample of three departments tested one department did not respond with their confirmation, one department had sent changes but these had not been reflected in the central listing and one department identified a missing iPhone 6S but this had not been updated on the central listing and there was no evidence of investigation as to why or how this had been lost.

The Financial Regulations and Procedures would be updated to require that this confirmation was performed annually, with Heads of Department responsible for the recording and tracking of desirable assets. There would be random spot checks termly. Heads of Department and Faculty operated as small businesses, some with significant budgets, and there was enhanced training to devolve responsibility.

The second low risk finding related to an increased risk of fraud and error if reconciling differences were not investigated and cleared. The fixed asset register was reconciled monthly to the general ledger by the assistant management accountant and this reconciliation reviewed by the management accountant. There was no evidence of when the reconciliation was performed, by whom or who performed the review and no confirmation that the reconciliation was performed on a timely basis with appropriate segregation of duties and supervision in the process. Going forward, the fixed asset register would be documented with a clear record of reconciling items and how they were investigated and cleared,

Approved

with a record of who had completed the reconciliation and who had reviewed it.

The final low risk finding related to the review of banking institutions. The College's approved list of banking institutions in which to invest surplus funds was in line with the treasury management policy approved by the Board. However, there was no process for periodically reviewing the credit ratings and where a bank's credit rating deteriorated College might be unintentionally investing in riskier institutions, resulting in the loss of College funds. Such a situation had arisen with one of the banks and the balance held would be transferred and the account closed. Going forward, the credit rating of all banks on the College's approved list would be reviewed at least annually or where there were indications in the external market that the credit worthiness may have deteriorated.

The advisory recommendations related to the lack of historical recording of the decision by the Board to appoint the insurers, and detailed variance analysis by the Senior Resources Group of forecast against actual cashflows. The tender for insurers was due this academic year, and there would be a record of Board ratification.

The Committee noted the report.

The agenda was taken out of order with the Follow Up Review considered after the Core Financial Controls review.

Follow up on previous recommendations

The report was received and considered. Heather confirmed that four of the five recommendations raised in the previous report on Business Continuity had been fully implemented and were operating effectively. Progress had been made towards implementing the last recommendation on planned exercises and so it had been marked as partially implemented to reflect the progress made to date.

The incident response exercise was planned but had not yet been completed due to difficulties in arranging a date for all agencies to be involved. It was now scheduled for the spring and would include all Vice Principals so that there was experience in the event that other senior managers were not on site during a real incident. The College had dealt with minor incidents during the year and so this had provided the opportunity to review the College's response. A post incident review has been completed by the Group to identify any improvements to be made.

The Committee noted the report.

- Apprenticeships – Student Records

The report, giving low overall risk, was received and considered. The

Approved

review was undertaken in line with the internal audit plan. Key controls were well designed and operating in practice. There was one low risk finding relating to the eligibility requirements pertaining to the learner's age, which determined the level of funding. There was an increased risk that the College might be unable to evidence the checks performed when challenged, resulting in the loss of funding.

To address this the enrolment form would be updated to meet the requirements of the new Apprenticeship Levy, with the section for recording the learner's date of birth amended and completed for all learners by the admissions team.

Areas of good practice included a strong working knowledge of the funding regimes and eligibility requirements; thorough and well maintained enrolment records and apprenticeship evidence packs and ILR submissions completed and validated within the appropriate timescales.

The Committee noted the report.

5.2 Monitoring Table

The item was covered during item 6.

6. **Internal Audit Service Annual Report for 2016/17**

The report was received and Heather confirmed that the report provided a summary of all review undertaken during the year. The reports had been received by the Committee and therefore there were no surprises.

The Committee considered the direction of travel and questioned its value, given that it did not compare like with like, and reviews were directed where there were areas of concern. More meaningful was how well recommendations were implemented.

Given this was the end of the contract for PwC as Internal Auditors the Chair, on behalf of the College, thanked Heather and PwC for their work over the eleven years that that they had supported the College.

The Committee agreed to

Recommend the Internal Audit Service Annual Report for 2016/2017 to the Board for approval at its meeting on the 6th October 2017.

BHS

Vote: Unanimous

The agenda was taken out of order, with item 8 taken before item 7.

Approved

8. **Internal Audit Risk Assessment and Plan 2017/18**

The report was received. The new Internal Auditors, Tiaa, had met with management and agreed a programme of testing. Clive highlighted the key proposals.

Given that Capital Project Management was to be reviewed as part of the External Audit, the days allocated to this would be reassigned as contingency days in case of any emerging issues, and the review deferred to 2018-2019 when the scheduled projects were complete and the masterplan more established. This would add greater value. If contingency days were not needed, then a review of marketing would be undertaken.

The risks associated with the EU General Data Protection Regulations (GDPR) were significant and, for a college this size, represented considerable work to achieve compliance by the deadline of 25 May 2018. Even after Brexit, there would be an equivalent legal framework. Work was underway, led by the Head of Information Learning Services. The timing of the review was to be decided, in order to achieve best value for money, but the College was satisfied with the number of days allocated for this review.

Risk Management/Board assurance would be reviewed to assess whether key risks were aligned to the Strategic Plan and controls effective. Best practice from the health sector would be used as a benchmark.

The departmental review would be Maths and Science, identified because there had been a significant number of changes, including the move to a new location, a new Head of Faculty and a new administrator. The timing of the review allowed systems and processes to have bedded in, and the review would be valuable to test compliance to controls of a faculty in a satellite location.

An Anti-Fraud review would be scheduled, given the dynamic and changing nature of the risk. Tiaa, with its large anti-fraud team, supported clients with updates on new methods of fraud. Training was available, and would be considered, notwithstanding the Finance Team and Audit Committee had received training from PwC in 2016-17.

Four days were allocated for an ICT review and the Committee questioned whether this was sufficient. The tool used was the CES framework and the review was to walk through the processes and test adequacy of governance frameworks, policies and back up processes.

There would be the annual testing of key financial controls and learner numbers, testing compliance with the rules of different funding streams. Every year the ESFA undertook an audit of randomly selected colleges and compliance testing was a good discipline. Whilst there was high confidence, the external audit included a heavy workload at a key time in

Approved

the College calendar.

Curriculum planning was included in the plan. The Committee questioned how testing was undertaken, and the audit included interviews with stakeholders and a desk top review. Governors questioned whether this was a priority, since other metrics provided assurance. It was agreed that this be deferred to 2018-19, with scoping undertaken in 2017-18 to ensure that the review added value. The allocated days might be better used to provide assurance on the Apprenticeship Levy.

The Committee agreed to

Recommend the Proposed Programme for 2017/18 to the Board for approval at its meeting on 6th October 2017.

Vote: Unanimous

7. Internal Audit Action Plan

Progress Update

The report was received. There were ten outstanding actions from 2016-17 and one from the previous year relating to Business Continuity and which was covered under item 5.1 Follow Up Review. Kate summarised the progress against the remaining one medium, seven low and two advisory outstanding actions.

The Committee agreed to remove the completed actions from the Internal Audit Action Plan and the Committee agreed to:

a) Note the report.

b) Remove completed actions from future reports

The agenda was reordered to take item 10.2, Information Security, after item 7.

Richard Brine joined the meeting for item 10.1 only

10. Special Items

10.1 IT Security Update

The report was received and taken as read. Richard highlighted the key issues. Information security was a key risk for our age, and the College had been far sighted to undertake the penetration testing review in 2014. As a result, a Systems Development Group had been established which met regularly to facilitate improvement and support good information practice. The success of the outcomes of the group was evidenced by the Achievement of the Cyber Essentials Accreditation, which was leading edge. There was a better understanding that operational effectiveness could coexist with security.

Most breaches were not of a technical nature but through the human effect. This highlighted the importance of organisational systems. Policy frameworks were reflected in codes of conduct. However it was essential that there was cultural change.

Significant changes to the data protection laws through GDPR, discussed under item 8, would enhance the rights of data subjects. Practices adopted by the College to achieve compliance would reduce the potential for reputational damage and work was progressing towards this.

There must not be complacency. Whilst it was possible to guard against known dangers it was vital to be alert to unknown risks. Information Security was a journey without end. An approach to reducing risk and increasing effectiveness was key.

In response to questions from the Committee, Richard confirmed that there was sharing of information with other sectors, such as the public sector. Staff awareness was through the induction process, with IT Security included in all job descriptions and there was a requirement for staff to sign codes of conduct. However, to ensure a cultural shift, an online mandatory training module was being developed which would keep the issue refreshed.

Within the sector and outside, most controls were reactive rather than proactive, but in some sectors there had been testing of systems through internal phishing.

The Committee agreed that the item had promoted useful discussion and agreed to

Note the report.

9. Risk Assurance

9.1 Risk Register (September 2017)

The report was received and considered. Steve confirmed that the Senior Leadership Team (SLT) had reviewed and updated the Risk Register. He highlighted the changes from the previous version.

The Committee agreed to:

Recommend the updated Risk Management to the Board on 6th October 2017

Vote: Unanimous

9.2 Deep Dives

The report was received. One of the recommendations during governors'

Approved

appraisals was that the Committee take a deep dive into issues on the risk register. It was agreed that this would add value, with one deep dive per meeting, in areas not included in the Internal Audit Programme, or where the risk straddled a number of committees. Managers and governors with specific expertise in the subject would be invited to the meeting, with managers presenting, and governors seeking assurance through points of clarification and questioning.

The Committee considered the circulated Risk Register and proposed a number of areas for review. However, it would be appropriate to consult other Committees, and it was agreed that Governors be invited to propose areas for review at the next Board meeting.

The Committee agreed to:

a) Propose that the following risks be recommended to the Board as subjects of a Deep Dive:

- i. Apprenticeship Levy**
- ii. Staff Recruitment**
- iii. Adult Funding**
- iv. Devon County Council high needs funding**

b) Invite discussion at Board on other risks for review

Vote: unanimous

10. Special Items

10.2 Anti-Bribery Policy

The report and updated policy were received and the Committee agreed to

Recommend the updated Anti-Bribery Policy to the Board at its meeting on 6th October 2017.

BHS

Vote: Unanimous

10.5 Items to take to Board

The Committee reviewed the agenda and agreed on the items to be reported to the Board at its next meeting on 6th October 2017.

10.6 Items for next meeting

The Committee reviewed the cycle of business for the September meeting and agreed that no additional items needed to be added to the agenda for the next meeting

Approved

12. **Dates of next meetings**
- | | | |
|-----------|-------------|------|
| Wednesday | 22 November | 2017 |
| Wednesday | 7 March | 2018 |
| Wednesday | 13 June | 2018 |

Chair: