Internal Audit Annual Report

For the year ended 31 July 2015

Presented to Audit Committee meeting of: 19 October 2015

Contents

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Status of our reports

The responsibility for maintaining internal control rests with management, with internal audit providing a service to management to enable them to achieve this objective. Specifically, we assess the adequacy of the internal control arrangements implemented by management and perform testing on those controls to ensure that they are operating for the period under review. We plan our work in order to ensure that we have a reasonable expectation of detecting significant control weaknesses. However, our procedures alone are not a guarantee that fraud, where existing, will be discovered. This report has been prepared for the sole use of Northbrook College. This report must not be disclosed to any third party other than your external auditors and the Skills Funding Agency or reproduced in whole or in part without the prior written consent of Mazars LLP. To the fullest extent permitted by law, no responsibility or liability is accepted by Mazars LLP to any third party who purports to use or rely, for any reason whatsoever, on this report, its contents or conclusions.   Mazars LLP is the UK firm of Mazars, an international advisory and accountancy group. Mazars LLP is registered by the Institute of Chartered Accountants in England and Wales to carry out company audit work.

01 Introduction

Background

The funding and accountability framework for the Further Education Sector applicable for 2014/15 is set under the Instruments and Articles of Government; specifically the Education Act 2011, Financial Memorandum and the Joint Audit Code of Practice (JACOP) effective 1 August 2013.

The JACOP removed the mandatory requirement for internal audit as well as areas of prescribed coverage for internal audit. This also placed much more emphasis on the role of the governing body and respective audit committees to determine what their assurance needs are and how best to obtain this assurance such as through the use of an internal audit service.

Northbrook College retained a full scope internal audit service for 2014/15 which enabled us to provide the enclosed Annual Opinion on the College's arrangements for risk management, control and governance.

Scope and purpose of internal audit

The purpose of internal audit is to provide the Corporation, through the Audit Committee, and the Principal (as Accounting Officer) with an independent and objective opinion on risk management, control and governance and their effectiveness in achieving the College's agreed objectives. This opinion forms part of the framework of assurances that the Board receives and should be used to help inform the annual Statement on Corporate Governance and Internal Control. Internal Audit also has an independent and objective consultancy role to help line managers improve risk management, governance and control.

The work of internal audit is just one source of assurance available to the College in providing assurance over the effectiveness of the system of internal control.

The report summarises the internal audit activity and, therefore, does not include all matters which came to our attention during the year. Such matters have been included within our detailed reports to the Audit Committee during the course of the year.

Acknowledgments

We are grateful to the Director of Finance and Corporate Services and other College staff and Governors throughout the College with whom we have had contact for the assistance provided to us during the year.

02 Internal Audit Work undertaken in 2014/15

Our Internal Audit Strategy Update and Operational Plan 2014/15 was considered and approved by the Audit Committee at its meeting on 10 July 2014. The Plan was for a total of 43 days including three days Follow Up and six days Audit Management.

We have completed all planned audits from the Plan during the year with the exception of the review of the new HR/Payroll system (five days). The new system was originally due to be implemented in October 2014, however due to delays in the finance systems implementation, the subsequent implementation date for this moved to July 2015. Resources for this review have now been carried over into the 2015/16 Plan.

The audit findings in respect of each review, together with our recommendations for action and the management response were set out in our detailed reports which have been presented to the Audit Committee during the course of the year. In addition, we have also presented a summary of our reports and progress against the Plan within our Progress Reports to the Committee.

A summary of the reports we have issued is included at *Appendix A1*. The appendix also describes the levels of assurance we have used in assessing the control environment and effectiveness of controls and the classification of our recommendations.

03 Annual Opinion

Scope of the Internal Audit Opinion

In giving our annual audit opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide to Northbrook College is a reasonable assurance that there are no major weaknesses in risk management, governance and control processes.

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

In arriving at our opinion, we have taken the following matters into account:

- The results of all audits undertaken during the year ended 31 July 2015;
- The results of follow up action in respect of previous audits;
- Whether or not any Priority 1 and 2 recommendations have not been accepted by management and the consequent risks;
- The effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee and/or Board;
- Whether or not any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed upon us which may have impinged on our ability to meet the full internal audit needs of the organisation; and
- What proportion of the organisation's internal audit needs have been covered to date.

Annual Opinion

On the basis of our audit work, we consider that Northbrook College's governance, risk management and internal control arrangements are generally adequate and effective to manage its achievement of the College's objectives. Certain weaknesses and exceptions were highlighted by our audit work, but none were considered fundamental. This and all other matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

In reaching this opinion the following factors were taken into particular consideration:

Corporate Governance and Risk Management

As part of the Internal Audit Plan for 2014/15, we reviewed the College's arrangements for corporate governance and risk management, including a review of the College's Assurance Framework and Map, which we assisted the College in developing as part of our work in 2013/14.

We provided a 'Substantial' assurance level for Corporate Governance and made two 'priority 3' recommendations, and provided an 'Adequate' assurance level for Risk Management and made two 'priority 2' and seven 'priority 3' recommendations during this review. The two 'priority 2' recommendations related to the role and operation of the Risk Management Group and the identification and escalating of new/emerging risks within the College.

In addition, we considered corporate governance and risk management implications as part of each individual assignment.

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Internal Control

Of the six other audits undertaken in the year where we provide a formal assurance level, two were given an 'Adequate' level of assurance (Data Protection & FOI; Staff Utilisation) and the other four a 'Substantial' level of assurance.

We have undertaken follow up work during the year through a specific Follow Up review as well as in our reviews of Learner Numbers and Partnerships.

Our specific Follow Up review, considered the status of 34 recommendations made during 2013/14. Testing confirmed that 21 had been implemented and two superseded. Eight recommendations were considered to be 'in progress' and two were considered 'not implemented'; all of which were categorised as 'Priority 3'.

In respect of recommendations arising from Learner Numbers and Partnerships: for learner numbers we confirmed that two had been implemented and that one was considered to be 'in progress' of being implemented. This recommendation was categorised as 'Priority 2'. This related to the recording of work experience activity within e-tracker. All recommendations made in respect of Partnerships in 2013/14 were considered as implemented.

We have made a total of 43 new recommendations during the year, none of these were categorised as 'Priority 1' and eleven were categorised as 'Priority 2'. The remaining 32 recommendations were categorised as 'Priority 3'. A summary of the 'Priority 2' recommendation has been included as *Appendix A2* to this report.

All recommendations made during the year were accepted by Management.

Value for Money

As part of each assignment report during the year we have incorporated a section regarding value for money which can be used to support the Audit Committee in its own Annual Report. Particular matters highlighted to the College through our work in the year include:

- In our Core Financial Systems - Purchasing and Procurement audit we noted that there is currently no specific value for money review/analysis of supplier spending, which could lead to improved value for money through dealing with a reduced number of suppliers. We also noted that the College is a member

of the SISSC group, which may allow future opportunities to collectively identify procurement efficiencies and bring about savings.

- The Corporate Governance and Risk Management audit noted the College's decision to adopt the Carver model which can be considered a way of better utilising governor time in order to provide value for money. This, in addition to the recent governance reviews carried out by Fahm & Co. and FE Associates, also suggest that the College is seeking to ensure that there are suitable governance arrangements in place at the College.

  In addition, based on our experience many colleges are working towards "e-governance" to make better use of technology. Northbrook can demonstrate that they are making effective use of modern technology to reduce administrate burden through its use of the Blackboard, VLE.

- Finally, our Core Financial Systems - Cash and Banking audit assessed measures to reduce the volume of transactions and amount of cash being processed through the College. These should be encouraged as part of a continuing move towards minimising cash transactions and expanding the use of electronic payments.
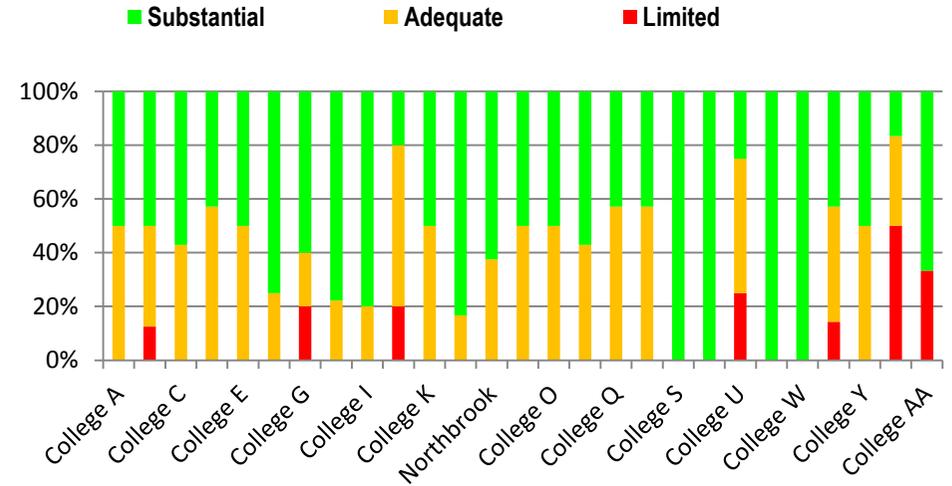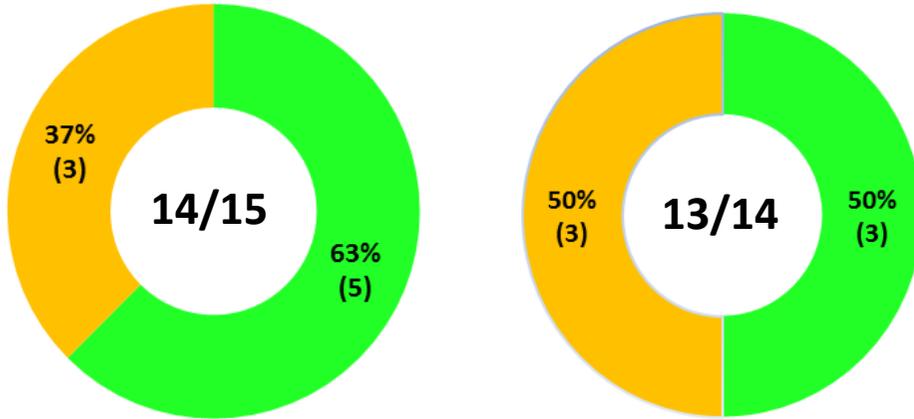
04 Benchmarking

This section compares the Assurance Levels (where given) and categorisation of recommendations made at the College and Mazars FE College Client base. In addition, we have included some data in respect of core audit areas within respective Plans.
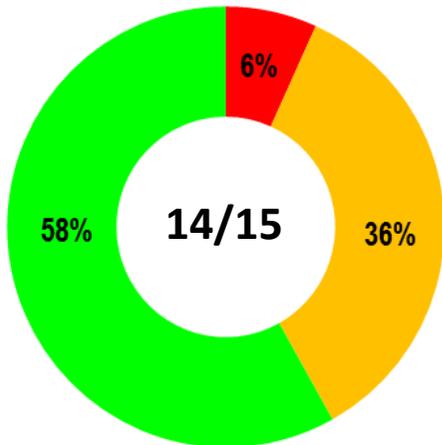
Whilst the benchmarking data provides a high-level comparison of these areas, audit work undertaken at each client will vary and therefore this comparison should not be relied upon as a sole indicator of performance relative to the sector.

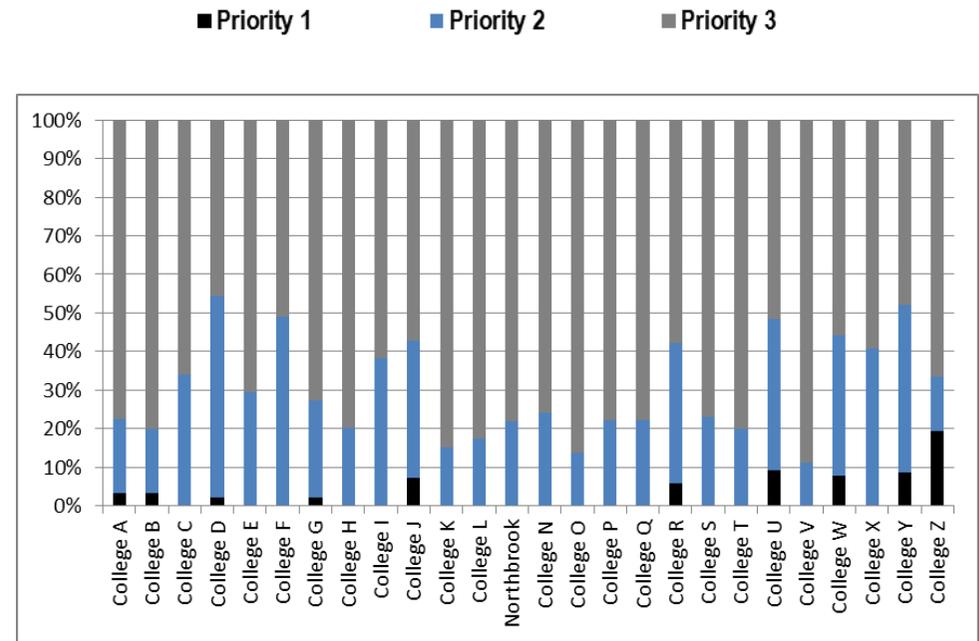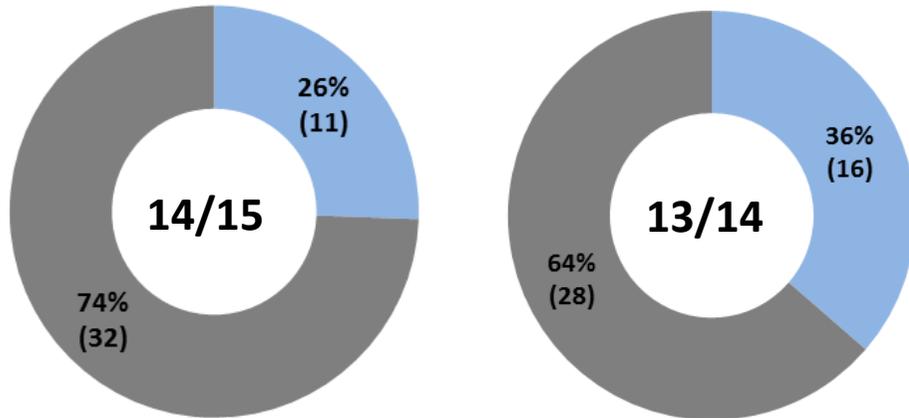## Comparison of Assurance Levels (where given)

Northbrook College

14/15

- 37% (3)
- 63% (5)

13/14

- 50% (3)
- 50% (3)

Mazars FE Client Base 2014/15

14/15

- 6%
- 58%
- 36%
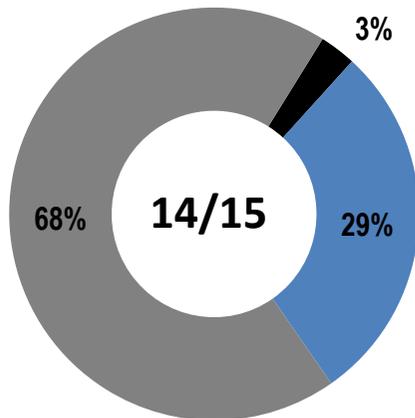

Substantial **Adequate** **Limited**

The above analysis demonstrates that on the basis of assurance levels, the College generally performs above that of other Mazars FE clients.

Comparison of Recommendations by categorisation

Northbrook College

14/15
- 26% (11)
- 74% (32)

13/14
- 36% (16)
- 64% (28)

Mazars FE Client Base 2014/15

14/15
- 3%
- 29%
- 68%

■ Priority 1   ■ Priority 2   ■ Priority 3

■ Priority 1   ■ Priority 2   ■ Priority 3   ■ None

The total number of recommendations made at the College in 2014/15 has remained constant compared to the previous year although there are no 'Priority 1' recommendations and a lower proportion of Priority 2 recommendations. In comparison to the average results for Mazars FE Client Base in 2014/15 the number of Priority 1 and Priority 2 recommendations is comparable with the average.

Core Assignment Areas 2014/15

Comparison of Recommendations by Category (where given)

Core Financial Systems
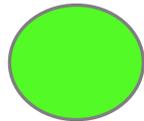
Northbrook College

Mazars FE Client Base 2014/15

The nature of our audit planning means the specific focus of this audit in each client varies each year. In 2014/15 our focus at Northbrook was on Purchasing and Procurement and Cash and banking.
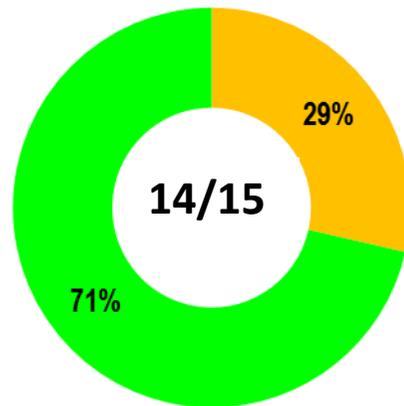
Assurance levels (where given)

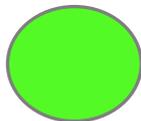Northbrook College

Mazars FE Client Base 2014/15
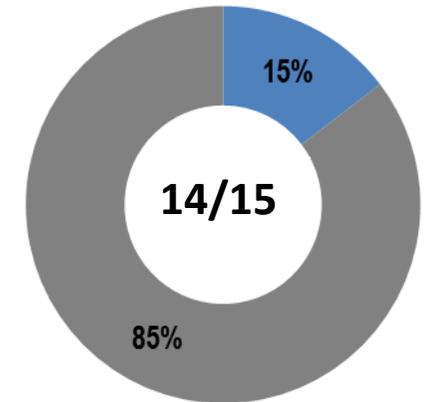
Purchasing and Procurement

Cash and Banking

14/15 — 29% / 71%

14/15 — 20% (2) / 80% (8)

14/15 — 15% / 85%

■ Substantial   ■ Adequate   ■ Limited
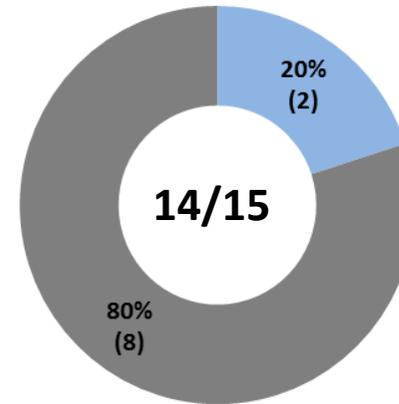
■ Priority 1   ■ Priority 2   ■ Priority 3

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Learner Numbers Systems

Assurance levels (where given)

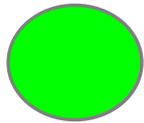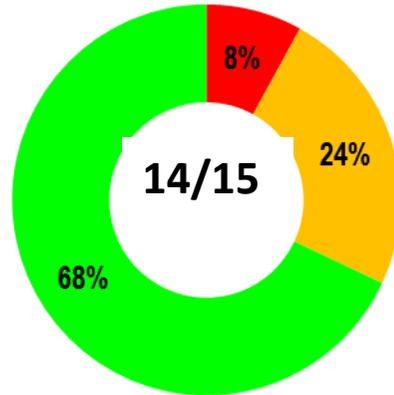**Comparison of Recommendations by Category (where given)**
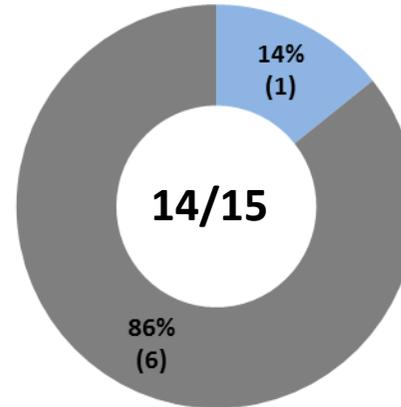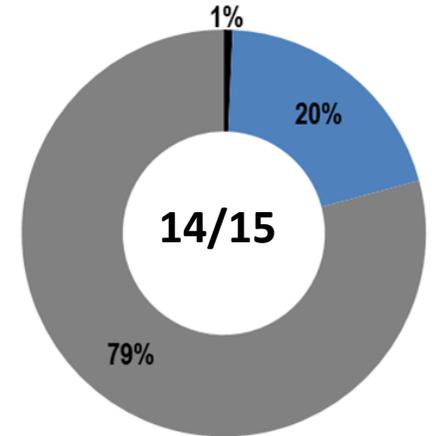
Northbrook College

Mazars FE Client Base 2014/15

Northbrook College

Mazars FE Client Base 2014/15

Substantial

8%

24%

68%

14/15

14%
(1)

86%
(6)

14/15

1%

20%

79%

14/15

- ■ Substantial
- ■ Adequate
- ■ Limited

05 Performance of Internal Audit

Compliance with professional standards

We employed a risk-based approach to determining the audit needs of the College at the start of the year and use a risk-based methodology in planning and conducting our audit assignments. Our work has been performed in accordance with professional internal auditing standards.

Internal Audit Quality Assurance

In order to ensure the quality of the work we perform, we have a programme of quality measures which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- The use of satisfaction surveys for each completed assignment.
- Annual appraisal of audit staff and the development of personal development and training plans;
- Sector specific training for staff involved in the sector;
- Regular meetings of our Sector Strategy Groups, which issues technical guidance to inform staff and provide instruction with regard to technical issues; and
- The maintenance of the firm's Internal Audit Manual.

Conflicts of Interest

There have been no instances during the year which have impacted on our independence and/or lead us to declare any interest.

Performance Measures

We have completed our audit work in accordance with the agreed Plan and each of our final reports has been reported to the Audit Committee. In addition to the College's own assessment of the performance of internal audit, alongside each final audit report we also issue a satisfaction survey.

The surveys asked for an assessment against a series of statements covering Audit Planning, Communication, Quality of the Report and the Audit Team.

Responses are scored as 1 = Disagree completely, 2 = Disagree slightly, 3 = Agree slightly and 4 = Agree completely. There is also the opportunity for comments to inform future audit coverage and risk management. At the end of the survey, an overall conclusion is made. This is assessed as Very Good, Good, Satisfactory, Poor and Very Poor.

Surveys have been returned to us for three audits this year: Corporate Governance and Risk Management, Partnerships, and Staff Utilisation. In all three cases the overall assessment was Good.

The College also completes its own assessment of the performance of internal audit. We would be happy to discuss alternative performance measures with the Committee.

A1 Summary of internal audit work undertaken in 2014/15

The following reviews were undertaken during the 2014/15 audit year:

Ref	Auditable Area	Level of Assurance (If appropriate)	Recommendations				
			Priority 1 (Fundamental)	Priority 2 (Significant)	Priority 3 (Housekeeping)	Total	Total agreed by Management
01.14/15	Core Financial Systems - Purchasing and Procurement	Substantial	-	1	7	8	8
02.14/15	Data Protection and Freedom of Information	Adequate	-	3	6	9	9
03.14/15	Partnerships	Substantial	-	-	2	2	2
04.14/15	Corporate Governance	Substantial	-	-	2	2	2
	Risk Management	Adequate	-	2	7	9	9
05.14/15	Staff Utilisation	Adequate	-	3	1	4	4
06.14/15	Learner Numbers Systems	Substantial	-	2	6	8	8
07.14/15	Core Financial Systems - Cash and Banking	Substantial	-	1	1	2	2
08.14/15	Follow Up	N/A	-	-	11	11	11
		Totals	0	12	43	55	55
		%	0%	22%	78%	100%	100%

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We use the following levels of assurance and recommendation classifications within our audit reports:

Assurance Level	
Substantial Assurance:	Our audit finds no significant weaknesses and we feel that overall risks are being effectively managed. The issues raised tend to be minor issues or areas for improvement within an adequate control framework
Adequate Assurance:	There is generally a sound control framework in place, but there are significant issues of compliance or efficiency or some specific gaps in the control framework which need to be addressed. Adequate assurance indicates that despite this, there is no indication that risks are crystallising at present
Limited Assurance:	Weaknesses in the system and/or application of controls are such that the system objectives are put at risk. Significant improvements are required to the control environment.

Recommendation Grading	Definition
Priority 1 (Fundamental)	Recommendations represent fundamental control weaknesses, which expose the College to a high degree of unnecessary risk.
Priority 2 (Significant)	Recommendations represent significant control weaknesses which expose the College to a moderate degree of unnecessary risk.
Priority 3 (Housekeeping)	Recommendations show areas where we have highlighted opportunities to implement a good or better practice, to improve efficiency or further reduce exposure to risk.

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A2 Summary of Priority 2 Recommendations

Core Financial Systems - Purchasing and Procurement (01.14/15)

- The College should develop a formal key suppliers listing, which should include preferred suppliers details, dates of contract review and also include logs of informal agreements.

Data Protection and Freedom of Information (02.14/15)

- The Data Subject Access Policy should be revised to include:
    - A clear statement that data should not be shared or transferred to countries outside of the European Economic Area (EEA) unless that country has equivalent levels of protection for personal data;
    - Guidance as to whom data subject access requests should be made; and
    - The timeframe by which such requests are required to be responded by, i.e. within forty calendar days of receipt of the request.
- The College should introduce a process to ensure that training is provided to all staff on their personal and College obligations under Data Protection and FOI legislation. This may be achieved by:
    - A risk based approach by ensuring that those with specific data protection responsibilities and/or significant handling of data receive formal training, whilst other staff in the College receive training electronically, such as through briefings of the key requirements of the act, or as part of e-learning or other tools; and
    - the use of information screens/pop-ups when logging into the College network as well as hard copy posters/leaflets.
- The College should maintain a formal log for FOI requests. This could be via a spreadsheet and be used to record individual requests received and key milestones including when the College received the request, release approval, when it was responded to, and the reason, if declined.

Risk Management (04.14/15)

- The College should review the approach and purpose of the RMG. Should the College decide to dissolve the RMG, at least one hour of SLT Strategy meetings should be used for risk management considerations quarterly, as an alternative measure. This should also be reflected in the Risk Management Policy.
- Risk Management meetings should be held periodically with all risk managers which highlight the need to consider newly arisen risks.

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Staff Utilisation (05.14/15)

- An over-arching procedure documenting the process for recording, analysing and reporting upon staff utilisation should be developed and communicated to key staff involved in the process. Suggested contents of the procedure include :
    - Roles and responsibilities;
    - Staff hours approval;
    - Assumptions used in calculating staff utilisation statistics;
    - Analysis of timetabling and staffing requirements;
    - Targets for staff utilisation;
    - Key milestones outlining the timetable by which steps should be taken; and
    - Remedial action to be taken if targets not met.
- Key matters and actions arising from meetings between the Director of Finance and Corporate Services and HODs concerning staff utilisation should be documented.
- As planned, the College should develop a Key Performance Indicator around a target utilisation percentage.
  Performance against the utilisation target should be reported throughout the year to SMT and the Corporation.

Learner Numbers Systems (06.14/15)

- Start and end dates on the ILR and enrolment forms should match. The College should ensure that the start and end dates recorded inaccurately are amended on the ILR. These have been communicated separately to management.
- The College should clearly record and document work experience activity within each learner's action plan within e-Tracker. (*Follow Up*)

Core Financial Systems - Cash and Banking (07.14/15)

- User access codes to tills should be changed on at least a termly basis.

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A3   Audit Committee Annual Report Good Practice (Extract Mazars FE Update 2014)

Good Practice

As Internal Auditors we are often asked for our views on good practice for Audit Committees including the content of Annual Reports, not only in Further Education but also our wider client base. Whilst regulatory requirements drive some of the content of such reports there are several areas arising from our experience that should be considered when drafting the Annual Report as outlined below.

- It goes without saying that the report needs to be **open and honest** in presenting the committee's views if it is to be of real benefit to the Corporation and Accounting Officer.

- The **introduction of JACOP** will have led to a number of practical changes to the governance around the Committee in the period which should be considered in the report. For example, review and updating of the Terms of Reference to ensure coverage of the minimum requirements for Audit Committees within JACOP as well as perhaps the work programme of the Committee itself to ensure it is able to fulfil its remit. In our experience, often whilst the existence of Terms of Reference are referred to, the Terms themselves are not explicitly stated and/or included as a supporting Annex to the Report. We have also found that most Committees have established work plans for the year; however very few Annual Reports make any reference to their existence or use in the year.

(***Note a new JACOP is effective from the 1 August 2015; the main change being in respect of Regularity Audit requirements***).

- Membership and meeting dates are in the main detailed. However clerking arrangements, as well as others in attendance at such meetings, are often missed from Annual Reports. In addition, we find that few organisations will set out the attendance of members of the Committee as well as the overall Committee within such reports although this can be one of the measures used when considering the effectiveness of the Committee.

- Another key implication of the new JACOP will be the extent to which the organisation has considered and developed a more formalised Assurance Framework and Map in the year (along with consideration of the need for internal audit, etc.). Support in this area such as training from the likes of Internal Audit and others should be considered within the Report.

- Reference to Internal Audit and External Audit are significant features of Annual Reports across many organisations we work with: the main focus being on overall opinions at the end of year. These reports could be improved through reference to the respective Auditors' plans presented to Committee in the year and particular features of these such as being aligned to the risks of the organisation.

- Assessing the quality of Auditors has been a longstanding feature in the Sector and Annual Reports but a number of reports we see do not explicitly report on this area. Questions should also be asked; such as how useful and meaningful the performance indicators used are relative to the College's needs and is this something to be reviewed for the following year.

- The monitoring of audit recommendations is a key role of Committees. Good practice is for organisations to maintain their own mechanism to monitor

progress alongside follow up work by auditors. Whilst we see such tools in place, very few are explicitly referred to in Annual Reports.

- Often the extent to which the Audit Committee assesses and reports on its own performance can be a challenge, particularly at a time when large agendas and end of year reporting/agendas can detract from what should be an important exercise for any Committee. We often find that Annual Reports make no reference to the effectiveness and performance of the Committee itself. These assessments are often performed in practice at a quieter time and omitted from such reports. Reference within the Annual Report is a key requirement within JACOP.

- JACOP requires the Audit Committee to advise the Corporation "on processes for the effective and efficient use of resources". Based on our work across the sector very few Colleges have developed a formal approach to Value for Money and as such Audit Committees receive little assurance on this area to enable them to fulfil this role. Our review of Annual Reports over the past 12 months has highlighted very little references to this area to date and as such this will be an area of development across the Sector. In the interim, possible sources of assurance for 2013/14 may include commentary within internal audit reports as well as the Committee's role in consideration of Financial Regulations/ Procurement related policies and procedures.

- The Audit Committee's role in respect of fraud, irregularity and whistleblowing was re-iterated within JACOP. In our experience, very few Annual Reports explicitly report on this area and there is a need to ensure sufficient coverage in work programmes to enable Committees to fulfil their responsibilities and provide the necessary assurances within the Annual Report each year.

- Through our engagement with Audit Committees we often find the Committee receives additional assurances over areas not necessarily featured in such reports. A common area reported is the results of any Funding Agency audits in the period. Less common areas that we have seen reported to Committees include Health and Safety, consideration of College policies and procedures for review, reports around financial health etc. All of these may form part of the Audit Committee's work programme in the period and in the context of the wider assurance framework would be worth mentioning.

- Finally, one area of good practice often neglected is actions and priorities for the forthcoming year. Inclusion of this can be useful particularly to ensure any significant matters receive due attention in the future and as part of the ongoing performance and evaluation of the Committee.