Association of Colleges
West Midlands
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Strengthening Board Assurance in the light of area review and the introduction of an insolvency regime: Final Project Report

June 2017

Content

Background and purpose

In recent years there have been a number of high profile failures at charitable organisations and in parts of the public sector where inadequacies in corporate governance have been significant contributory factors. Whilst instances of similar failure in the further education sector are rare, the government has been concerned to ensure that colleges are taking early and effective action to secure their long-term financial sustainability and the continued delivery of high quality education and training to the communities they serve. The programme of area-based reviews had the specifically stated intention of ensuring that:

> *we have the right capacity to meet the needs of students and employers in each area, provided by institutions which are financially stable and able to deliver high quality provision.*[1]

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[1] HM Government (2015). Reviewing post-16 education and training institutions

Through provisions in the Technical and Further Education Act 2017 there is now a possibility, albeit remote, that a college could in the event of financial failure be declared insolvent. Accountability and oversight of the effective management of corporate risks, therefore, has even greater significance for college boards, not only to ensure that the college provides high quality education and training for its community – its core purpose – but also to ensure that the college does not slip into a cycle of failure that could ultimately see it closed.

The mandatory requirement on colleges to conduct an independent internal audit was removed following the enactment of the Education Act 2011 although it remains a mandatory requirement and condition of funding for colleges to have an audit committee with responsibility to:

> *assess and provide the corporation with an opinion on the adequacy and effectiveness of the corporation's assurance arrangements, framework of governance, risk management, and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets.*[2]

Colleges are required to give a formal opinion to that effect in their Statement of Corporate Governance and Internal Control in the annual accounts. Consequent on this flexibility the role of internal audit has changed alongside the introduction of alternative models of assurance.

Beginning in the health sector in the early 2000s, board assurance frameworks have been developed to provide corporate boards with structured and systematic models for the provision of assurance over the management of organisational risk and the operation of internal controls. Since the relaxation on the requirements for internal audit, colleges are increasingly adopting similarly structured approaches to assurance to complement established internal audit provisions.

With support from the Education and Training Foundation (ETF), AoC West Midlands set out to assess the extent to which a sample of colleges were implementing more robust processes for management of key risks and the provision of assurance to the board. The principal intended outcomes from the project were to:

- increase governors' understanding of the need to strengthen assurance arrangements in the light of sector developments

- assess the effectiveness of current assurance and risk management processes at a small number of colleges in the light of current recommendations and the lessons learned from governance failure in other sectors

- promote the introduction of more robust assurance and risk management procedures and processes which will help mitigate college failure.

In this report we set out the findings from a series of interviews with key individuals at five colleges and the outputs from a workshop hosted by RSM UK, and suggest areas for

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[2] Skills Funding Agency (2017). Post-16 Audit Code of Practice 2016 to 2017

future development to identify and embed good practice. The report begins with an outline of the key components of a board assurance framework and its applicability to further education colleges.

Board assurance frameworks

Work on the development of assurance frameworks as complements to risk management processes in the public sector can be found in guidance issued by the Department of Health to NHS trusts in the early 2000s. This guidance defines the assurance framework as:

> *a structure within which boards identify the principal risks to the organisation meeting its principal objectives and map out both the key controls in place to manage them and also how they have gained sufficient assurance about their effectiveness.*[3]

The approach is now widely used across the public sector, a development which was given further impetus by the publication in 2012 by HM Treasury of a guide to the adoption of assurance frameworks in government[4]. The guide drew extensively on a guidance note of the (US) Institute of Internal Auditors (IIA) and defined assurance as:

> *An objective examination of evidence for the purpose of providing an independent assessment on governance, risk management, and control processes for the organisation.*[5]

The IIA guidance note sets out the importance of adopting an holistic, organisation-wide approach to risk management that brings together the range of activity often undertaken by disparate groups of people in organisations so that work is not duplicated and perhaps more importantly key risks are not misjudged nor mismanaged. Central to this more structured and coordinated approach is a systematic mapping of assurance to the key risks in the organisation:

> *This process allows an organization to identify and address any gaps in the risk management process and gives stakeholders comfort that risks are being managed and reported on, and that regulatory and legal obligations are being met.*[6]

To support effective mapping of assurance to risk, the Treasury guide sets out what is now an established model of three levels of defence. These levels reflect the degree of risk, the organisational level of responsibility for managing the risk, and the degree of independence in the assurance given.

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[3] Department of Health (2003). Building the Assurance Framework: A Practical Guide for NHS Boards
[4] HM Treasury (2012). Assurance Frameworks
[5] The Institute of Internal Auditors (2009). Practice Advisory 2050-2: Assurance Maps
[6] ibid

First line defence

- Responsibility sits with those responsible for the delivery and achievement of specific operational objectives. It can draw on various operational data and evidence including departmental risk registers, action plans, monitoring statistics, and key performance indicators. Whilst this line might lack objectivity it reflects the day-to-day operational of managers within the organisation.

Second line defence

- This is assurance at a strategic level over the key business critical risks and operations of the organisation derived from processes of strategic planning, project management and investment appraisal. Evidence could draw on management reports to the corporate board and its committees, self-assessments, audits and formal organisational reviews. This line of assurance can give greater objectivity over operational and some strategic risks and controls but lacks externality.

Third line defence

- This level of assurance is provided by internal audit and gives a fully independent and objective view on the effectiveness of controls over the principal corporate risks. It draws on evidence from the first two assurance lines but focuses on areas of highest risk or where there are limitations in other assurance arrangements. This line also draws on evidence from other external reviews or the reports of independent regulators.

In guidance published in September 2012[7], the Education Funding Agency and Sixth Form Colleges Forum jointly recommended that sixth form colleges should develop board assurance frameworks which would support the audit committee in advising the board that systems of risk management and internal control are in place and operating effectively.

The guidance uses a similar three lines of defence model and gives a useful interpretation of its applicability in a college setting:

> *First line defence is at departmental level with frontline staff understanding roles and responsibilities enabling them to be carried out properly and safely with controls designed into systems and processes. Compliance with policies and procedures, both in terms of service delivery and decision making processes, are routinely verified from within the department and key risks and control measures identified.*

> *Second line of defence is a corporate governance framework, incorporating compliance and risk management functions, which reviews the operation of the internal control framework. The committee structure of the SFC enables compliance with policies, working practices and operational arrangements*

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[7] Education Funding Agency / Sixth Form Colleges Forum (2012). Guidance on the Implications Following Rationalisation of Audit Arrangements for Sixth Form Colleges

to be monitored, thereby overseeing the outcomes from the first line of defence.

Third line of defence is independent review, which monitors overall compliance and risk management. This is a key role for Internal Audit but is not limited to that function as other sources can also be used. Review findings are considered by the appropriate committee (not limited to the Audit Committee) who can ensure that Management are addressing any identified weaknesses.[8]

Drawing on its extensive audit experience across the public sector, audit firm RSM UK published in 2016 a guide to the adoption of a board assurance framework in the further education sector. The board assurance toolkit[9] uses the established elements of the framework – defining levels of assurance, mapping assurance to risk, rating the effectiveness of controls – in order to support college manage risk and assurance, and to enable boards to fulfil their statutory obligation to provide an opinion on internal control in the annual accounts.

The toolkit reinforces the point that whilst colleges may have established process for identifying and managing risk, evidence to support assurance that controls are operating effectively can be missing. The board assurance framework enables colleges to understand the level of assurance required over the key risks and subsequently where that assurance is drawn from – whether this is from internal audit, other sources or a combination. Implemented effectively the framework not only gives confidence to the board over its key risks but also can help identify gaps or duplication in assurance activity, provide more proportionate assurance over the range of corporate risks, identify areas where controls are inadequate, provide an evidence base backed by a range of management information, and as importantly enable colleges to adopt a managed approach to the risks associated with new developments, initiatives and innovation.

Project methodology

From an initial desk review of current practice in further education and in other sectors it was clear that RSM's toolkit provided an established model for assurance with specific currency and applicability to the English further education sector. Building on wider developments in assurance the toolkit sets out a comprehensive and structured approach to assurance and, importantly for the purposes of the project, includes a self-assessment questionnaire which could, with some minimal adaptation, be used as the basis for a series of interviews with key individuals responsible for risk management and assurance at the participating colleges. Following discussion with key individuals at RSM UK and at The Education and Training Foundation, we decided to use the RSM BAF toolkit as the operational model for the project. RSM UK kindly agreed to fully support the project through the provision of advice, interview facilitation and workshop hosting.

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[8] Ibid
[9] RSM UK (2016). Board Assurance: A toolkit for further education

Through our established contacts with governance professionals in the region we invited colleges to join the project. Clerks, finance directors and in some cases audit committee chairs from five colleges volunteered to participate in a structured interview based on the BAF self-assessment questionnaire. Total income in 2015/16 at four colleges ranged from £15 million to £39 million. The fifth was a specialist college with a mix of further education and higher education provision and a total income in 2015/16 of £5.3 million approximately 50% of which was income from student fees.

The interviews were completed face to face on college premises and carried out by an interviewer with extensive experience of internal audit in the further education sector. Details of the interviews and the interview questions are in appendices 1 and 2.

On completion of the interviews we ran a joint workshop with RSM to review the interview findings, to establish common themes and approaches to risk management and assurance, and to begin to identify how the toolkit could be used in live situations at other the participating colleges and elsewhere in the sector. On our behalf, RSM produced a summary report of the interview findings and a set of slides which were used at the workshop. The interview findings are available as appendices to this report (see pages 10-21), and the slides and RSM framework are available.

Participants at the workshop were keen to undertake further work using the toolkit and we included a short session to identify some key themes which further workshop activity could support. This could include testing out the end-to-end risk management and assurance process using a current example of major corporate risk – apprenticeships was suggested given its significance for many colleges.

Managing risk and assurance at the five colleges

Risk management

The colleges surveyed all had a well-established process for managing strategic risks. In most case **finance directors acted as risk champions** coordinating the management of risk across the college on behalf of the senior management team. However, colleges varied in the degree to which risk management was embedded within lower tiers of management and operation. **Generally risks and their associated controls are not confined to finance but cover other critical areas** including reputation, estates, curriculum quality and student achievement, funding, and the policy environment locally and nationally in which colleges operate. **Risks are clearly and explicitly linked to the achievement of the college's strategic plan** and ultimately its success in delivering its core purpose and its financial solvency.

Risk management systems are based on recognised principles where each risk is assessed and scored for its impact and probability (or likelihood) and scored and rated as red-amber-green. Mitigating actions and controls are identified and implemented, and residual scores assessed.

Colleges are not using dedicated risk management software but are using Excel spreadsheets as the platform for their risk registers. These are **regularly reviewed and**

updated and used as a dynamic management tool. Generally between 10 and 20 principal strategic risks are monitored by the audit committee and reported to college boards.   Risk registers varied in their degree of detail with some showing progress in the implementation of internal controls and mitigation actions, and linked to an action plan.

Audit committees provide effective challenge to management teams to ensure that the key strategic risks are identified and effective controls are in place. All colleges noted the critical significance of risk management and assurance and that **board members and the members of audit committee receive adequate training** to ensure that they are able to carry out their role effectively. All colleges noted that recruiting governors with the right skills was a challenge but that **the greater range of skills available to the board significantly improved their abilities to scrutinise, challenge and manage risk**.

Assurance

All colleges recognised the importance of assurance as a component of a comprehensive risk management system. Colleges reported that time spent on risk management and mitigation is absorbing more management time so that **activity needs to be properly focussed and prioritised**. **Time spent should be seen as adding value to the overall strategic management and governance of the college** where risk and assurance operate as embedded and dynamic processes. **Achieving value for money from assurance is a major consideration**.

Complementing their internal controls, the five colleges were all **continuing to use independent internal audit** as part of their assurance frameworks. Generally the colleges are commissioning between 20 and 40 audit days per year on a three year rolling audit programme. Consistent with achieving better value for money, colleges are separating work on compliance controls from other more specialist work. **Better mapping of assurance to risk offers the opportunity to differentiate assurance opinion more effectively achieving better value for money**. Specialist advisers are being used to assess functions such as HR, IT and estates management, and other external opinion from the Educations and Skills Funding Agency, Ofsted and external audit are used to give comprehensive coverage.

What is less clear is the degree to which colleges have adopted the systematic mapping processes which are an integral part of the board assurance framework. **A variety of evidence including action plans, management reports, strategy documents, key performance indicators and other management data help provide a framework to explain assurance needs and responsibilities**, but only one college is currently using a structured and mapped board assurance plan to understand how risk and assurance are managed across the organisation.

Conclusion and next steps

As a management tool, the board assurance framework provides colleges with a structured approach to the management of risk which can ensure that internal

controls and mitigating actions are in place and operating effectively. Systematic mapping of assurance evidence to risk gives colleges opportunities to differentiate assurance activity effectively. Consequently this ensures that there are neither gaps nor duplication in assurance and that the resource used to manage risk and assurance add value to the college and give value for money spent.

Experience of assurance mapping in colleges is growing and our desk research shows that there is a range of guidance available to support colleges develop effective assurance frameworks. Thorough and systematic mapping of assurance to risks and controls at each of the three lines of defence with regular review and updating by the audit committee is the backbone to an effective assurance framework.

All colleges have extensive and effective risk management systems in place which are based on well-tested principles. There is a range of assurance activity taking place but it is less clear how effectively this is mapped to risk and at what level so that there are probably missed opportunities to achieve better value for money from the time and resource spent. As colleges increasingly devolve risk identification and management greater clarity over the level of assurance required at each of the three lines of defence would be a significant benefit and enable better targeting of resource.

Each of the five colleges who participated in this project have developed assurance frameworks to provide confidence to the board that internal controls are in place and operating effectively to manage the college's key strategic risks. In all cases colleges have retained an internal audit service as the third line of assurance. However, whilst rolling three year audit programmes are useful, on their own they do not necessarily provide a comprehensive framework to satisfy assurance needs.

Working with RSM UK has added considerable value to the outcomes from the project – not just by using the board assurance toolkit as the basis for the fieldwork but also through the expert contribution key staff in the company have provided. Feedback from the interviews has given us an initial insight into what an effective assurance framework should look like and how to go about developing a systematic approach. We have begun to identify good practice in both the management of risk and the operation of assurance. From our initial workshop there is clearly appetite to run a further development session on assurance mapping using an area of critical risk as an example. Such a workshop would give valuable practical support but could also be used to process benchmark risk and assurance arrangements.

At a time when the consequences of financial, reputational or performance failure for college management teams and boards is so significant, assurance over the effective management of corporate risk is one of the most important, if not the most important, responsibilities of the board and its audit committee. Whilst the number of boards recognising the need to strengthen their assurance arrangements is increasing, there is a need to further improve the skills of board members in this area.

Ultimately the purpose of risk management and assurance is to enable the college to give firm opinion that it has fulfilled its statutory responsibility for 'the effective and efficient use of resources, the solvency of the institution and the body, and the

safeguarding of their assets'. In a new world where colleges risk insolvency the rigour of this process is ever more important.

References

Department of Health (2003). Building the Assurance Framework: A Practical Guide for NHS Boards (http://bit.ly/2rtx31R - accessed 18 June 2017)

Education Funding Agency and Sixth Form Colleges Forum (2012). Guidance on the Implications Following Rationalisation of Audit Arrangements for Sixth Form Colleges (http://bit.ly/2spQDxl - accessed 18 June 2017)

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Appendix 1 – Board Assurance Framework Interview Outline

1. Introduction and thanks for taking part
2. Explain purpose of the project:

   - to assess current arrangements for board assurance over the college's principal strategic risks

   - to identify the extent to which these need to be strengthened in the light of current developments in the sector following area-based review.

3. Purpose of the interview – explain format, post interview write up which participants will see prior to sign off, dissemination and workshop
4. Questions / prompts

   Qu. 1a – What are the college's/board's current strategic risks

   Qu. 1b – What are the college's current arrangements for management and control of the key strategic risks?

   Qu. 1c – What are the board's current arrangements for assurance over the key strategic risks? Where does assurance come from?

   Qu. 2a – How have these key risks changed over the last two or three years?

   Qu. 2b – How might these change over the next two to three years?

   Qu. 3a – To what extent does the college / board anticipate the need to strengthen its arrangements for risk management and assurance?

   Qu. 3b – What steps does it anticipate taking to ensure that robust arrangements are in place?

5. Thanks and next steps (as 2 above).

Appendix 2 – Hereford College of Arts

1. What are the college's current arrangements for the identification, management and control of key strategic risks?

   - The finance director has overall responsibility for the risk register and acts as risk champion

   - The risk register is directly linked to the college strategic plan

   - The risk register is considered to be a dynamic document and key management tool, and subject to change and updating as business needs dictate

   - Risk management is centralised because of the size of the college and its flat management structure

   - The headings in the risk register reflect the college's business model and its principal funding streams (50% plus higher education, broadly based 16-18 provision and little adult funding from the Skills Funding Agency)

   - The senior management team (SMT) and the board have jointly developed an in-house risk scoring methodology which is appropriate to the college's business model

   - The college has considered using risk management software but decided that it is inappropriate given the college's size and business model

   - Risks are classified as low, medium, high or very high (alarm)

   - Risk documents are reviewed termly by the SMT and subject to further review when the need arises. The audit committee provides scrutiny and challenge at its termly meetings

2. What are the board's current arrangements for assurance over the key strategic risks and how is this achieved?

   - Consideration of the risk register and other key performance indicators are priority items on audit committee and board meeting agendas

   - Regular discussion with board members helps the college to prioritise its assurance work

   - The board agrees an annual board assurance plan (internal audit programme) with a three year audit cycle

   - The internal audit programme generally comprises 20 days work resulting in five audit reports. Specialist audits on specific areas (eg HR, IT, curriculum) contribute value to the audit programme

3. What are the college's / board's current key strategic risks?

- The college has two principal risks: conversion of student enquiries into acceptances so as to meet student number and income targets; and recognition of higher education institution status

4. Have these key risks changed over the last two or three years together with attitudes towards assurance processes?

- Whilst the key risks have probably not changed significantly, there is a greater level of scrutiny and challenge partly due to the increased level of skills and knowledge of board members

- There is a greater focus on assurance activities which add value and greater integration with the college's strategic planning processes

5. To what extent do the college and/or board anticipate the need to strengthen its arrangements for risk management and assurance?

- There are no immediate plans but a recognition that the environment in which the college operates could necessitate the need for rapid change

- The skills and professional experience of board members are regarded as a key asset in ensuring that risk management and assurance is effective

6. What steps does it anticipate taking to ensure that robust arrangements are in place?

- The college will maintain its focus on risk management and assurance processes, and further develop and utilise the skills of board members

Appendix 3 – Herefordshire and Ludlow College

1. What are the college's current arrangements for the identification, management and control of key strategic risks?

    - There is a centralised process for risk management which is the responsibility of the finance director

    - There is a formal review of the risk register by the college management team (CMT) on a termly basis with the opportunity to review at fortnightly CMT meetings if the need arises

    - The current risk management process uses a red-amber-green (RAG) rating system based on a five by five matrix of likelihood and impact assessment. Risks are linked to the strategic plan

    - There are currently 20 key risks on the register

    - The college produces an annual risk management report which describes the risk control and mitigation processes for the key areas of risk

    - The college budgets for 35 days of internal audit

2. What are the board's current arrangements for assurance over the key strategic risks and how is this achieved?

    - The finance director and the college's internal auditors (RSM UK) assess the audit plan for strengths and weaknesses and the extent to which it reflects current strategic issues in the sector. The audit plan is reviewed by the CMT

    - There is a three-year rolling programme of audit which is presented to the July board meeting where it is subject to debate and scrutiny

    - Internal audit reports are subject to detailed review by the board and used to inform the internal audit strategy and plan. Subsequently this identifies the need for further detailed reviews in other areas of business operations

    - The overall approach to risk awareness and management is considered and challenged by the audit committee and the board at termly meetings

    - The increased level of skills and experience of board members results in more effective identification of key business risks and their impact on the achievement of the college's strategic plan

3. What are the college's / board's current key strategic risks?

    - These are predominantly finance and include those associated with the recent acquisition of a new business (County Training), quality and inspection, succession planning, and added value issues for the business as a whole

4. Have these key risks changed over the last two or three years together with attitudes towards assurance processes?

- The nature of the key risks has not materially changed over time. However, the rigour of the approach to risk management and assurance has been subject to more effective scrutiny because of the wider range of skillsets and professional experience of board members

5. To what extent do the college and/or board anticipate the need to strengthen its arrangements for risk management and assurance?

- The college recognises the need to review the risk management process to ensure that it is fit for purpose and adds value to management activity. Responsibility for risk identification and mitigation needs to be devolved to faculty level and this will require training to ensure that managers have a thorough understanding of the range of business risks. There is good practice in some areas of the college on which to draw – for example in IT support

- Continuous challenge and debate around business issues, risks and mitigation is seen as an important objective, as is retaining a healthy mix of commercial and academic skills and experience

- The need to review and overhaul the risk management process has already been noted, and more specifically risk prioritisation could be improved through the introduction of a numerical assessment of risk

6. What steps does it anticipate taking to ensure that robust arrangements are in place?

- Continued skills development programmes for the board

- Staying focused on the importance of risk and assurance mechanisms

- Ensuring effective use of internal audit resources in areas of higher risk on a value for money basis

Appendix 4 – North Warwickshire and South Leicestershire College

1. What are the college's current arrangements for the identification, management and control of key strategic risks?

    - The group finance director has overall responsibility for the risk management process at the college which is based on a published risk management policy approved by the audit committee and board

    - A centrally held and comprehensive register reflects the range of risks across the college's operations including curriculum delivery, business support and governance

    - Risks are categorised according to broad strategic objectives e.g. teaching and learning, funding, estates, HR and finance

    - A four by four matrix of probability and impact is used to score risks and to generate a red-amber-green risk rating

    - There are currently 22 key risks included on the register with the top ten reported to the board

    - The risk assessment process is embedded throughout the college using traditional risk register approach. The college does not use risk management software

    - The group finance director moderates risks assessments and ensures a consistent approach to risk scoring

    - The risk register is reviewed monthly by senior managers and approximately six-weekly by the executive management team (EMT). The audit committee review the register at termly meetings and provide challenge to senior managers on the identification of perceived and actual risks

    - For each risk, the EMT identifies and recommends to the audit committee the position to be reached following the implementation of mitigating actions. This is expressed as a target and the risk register tracks progress towards this target over a specified timescale

2. What are the board's current arrangements for assurance over the key strategic risks and how is this achieved?

    - The college's risk management policy, agreed annually by the audit committee, sets out a clear and structured approach to the management of risk and provision of assurance to the board

    - The audit committee, whose members have a range of relevant skills and professional backgrounds, provides effective oversight and challenge

    - Senior managers from the key business areas of the college present to and discuss with the audit committee the principal risks and mitigation activities in their areas of operation

- A programme of internal audit is used to monitor risk management arrangements over a three year audit cycle which is synchronised with key strategic planning meetings. Outputs from the audit are approved by the audit committee and board

- Internal audit reports and other specialist review reports are used to gauge the level of assurance needed with an increasing emphasis placed on the value adding elements of the process

- The internal audit process is largely compliance based for financial management with additional 'deep-dive' assessments commissioned for non-financial activity

- The college recognises that whilst it has a detailed and structured approach to risk management with a policy approved by the audit committee and board, there is a need for further development so that board members fully understand their roles and responsibilities and are able to fully triangulate a range of assurance activity

3. What are the college's / board's current key strategic risks?

- Key risks are viewed as essentially cyclical in nature although risks around funding and financial viability are a continuing concern

- More specifically the college identifies its broad risk areas as those concerning: solvency, based on a medium-term business plan; estates strategy; quality of curriculum delivery and learner achievement

4. Have these key risks changed over the last two or three years together with attitudes

- The recent merger with South Leicester College has increased the need for a careful assessment of risk. The college also runs a multi academy trust which adds a further dimension to risk recognition and management

- The wider skills sets and mix of professional backgrounds of board members has improved the college's approach to risk management and assurance

5. To what extent do the college and/or board anticipate the need to strengthen its arrangements for risk management and assurance?

- Further development of key performance indicators and benchmarks supported by data dashboard will assist with risk appraisal and strengthen assurance. This may well require additional training for governors

- A more formal assurance framework would support the board to more easily understand the overall requirements of the approach to assurance, and how outputs can enable governors to fulfil their responsibilities

6. What steps does it anticipate taking to ensure that robust arrangements are in place?

- Maintaining the skills mix and professional backgrounds of members of the audit committee and board will be an important consideration for succession planning

- Further training and development for the board and across the college will be needed to improve awareness of and skills in risk management

- Fostering an approach which values challenge and debate, and encourages continuous assessment of business issues, risks and risk mitigation

- Deploying independent assurance resources in the most effective way so as to add value

Appendix 5 – Walsall College

1. What are the college's current arrangements for the identification, management and control of key strategic risks?

    -   Risk management is the strategic responsibility of the finance director who acts as risk champion

    -   The risk policy is reviewed annually by the finance director and the senior management team (SMT) and then by the audit committee and board to give an accurate assessment of risk and the degree to which risks are mitigated

    -   The college uses SharePoint to manage its register and to ensure that risks are managed at all levels within the college

    -   Key risks are categorised using broad headings which reflect internal business processes as well as the environment within which the college operates. These headings include finance, quality, reputation, partnerships and political climate

    -   A four by four matrix of impact and likelihood is used to score risks and to generate red-amber-green ratings. Scores of eight and above are included on the main register

    -   There are currently 18 risks on the main register with the top ten risks assessed by the board regularly

    -   The top five or six financial risks are reported on in the college's management accounts and reviewed at every Finance and resources Committee

    -   Risks are reviewed regularly to assess direction of travel, with new risks added and other risks removed when their significance changes or mitigating actions are completed

    -   The SMT reviews the register termly

    -   The finance director reviews risks with risk owners on a more frequent basis and takes action to ensure risk mitigation measures and actions are being taken

2. What are the board's current arrangements for assurance over the key strategic risks and how is this achieved?

    -   The audit committee meets termly and provides effective challenge and debate on assurance processes, including the recognition of new risks and the degradation of previous risks. Prior to audit committee meetings the committee chair meets with the finance director to discuss reports and recommendations and the priorities for consideration by the committee

    -   A board assurance framework is presented annually to the Board following formal review at audit committee and reviewed throughout each term to ensure completeness

- There is an internal audit programme of 40 internal audit days to provide independent assurance over non-funding activity. Funding audits are commissioned and completed separately because of the more specific nature and risks associated with the funding regulations

- The programme of specialist assurance work is agreed by the audit committee following proposal from the SMT and discussions with auditors

- Value for money considerations ensure that the board takes a balanced approach to assurance prioritised against key risks

3. What are the college's / board's current key strategic risks?

   - Major strategic risks have been those arising from the recent area-based review process and those associated with government funding

4. Have these key risks changed over the last two or three years together with attitudes towards assurance processes?

   - Whilst the main risks associated with funding are ever present others reflect the cyclical nature of college activity in the medium term

   - With the increase in the skills mix and professional backgrounds of board and audit committee members there is a greater focus on assurance activities and increased expectations on the college's approach to managing its risks

5. To what extent do the college and/or board anticipate the need to strengthen its arrangements for risk management and assurance?

   - To date internal audit reports have provided the requisite level of assurance that the key risk areas of the business are being carefully monitored

   - Provision of assurance from independent specialists would be reviewed should it be perceived to be providing poor results or limited value for money

   - Encouraging continuous challenge and debate is an important objective so that business issues, risk and risk mitigation are constantly reviewed and reappraised

6. What steps does it anticipate taking to ensure that robust arrangements are in place?

   - The mix of commercial and academic backgrounds of audit committee and board members is viewed as a strength which needs to be maintained

   - Deploying independent assurance resources in the most effective manner

Appendix 6 – City of Wolverhampton College

1. What are the college's current arrangements for the identification, management and control of key strategic risks?

   - The risks register is 'owned' by the executive management team (EMT) with the Vice Principal - Finance assuming overall management responsibility

   - Risks are identified and assessed by the EMT using a scoring system to achieve a consistent and collective view

   - In addition to the inherent risks for the college , the EMT also identifies those risks associated with missed opportunities

   - The number of risks on the register is limited to around 30 to ensure manageability

   - Each risk is cross-referenced to objectives in the strategic plan

   - Risks are scored separately for likelihood and impact using a 1-15 scale with scores summed to provide an overall risk rating

   - Scores are subsequently plotted on a red-amber-green heat map which gives a visual summary of the colleges risk exposure

   - The risk register is held on an Excel spreadsheet; risk management software had been considered but felt to be inappropriate for the specific needs of the college and further education more generally

   - Responsibility for management of each specific risk is delegated to a named member of the EMT

   - Risks are reviewed termly by the EMT and the audit committee, and trends in severity recorded on the risk register

2. What are the board's current arrangements for assurance over the key strategic risks and how is this achieved?

   - The college has a comprehensive approach to assurance drawing on information from a range of internal and external sources and using both qualitative and quantitative information

   - Risk management is a standing item at each audit committee meeting with the minutes of the meeting reported through to the board.

   - The audit committee reviews risks and mitigating actions at termly meetings and provides feedback and challenge to the EMT

   - The college commissions an internal audit of around 33 days which are used flexibly and aligned with business need

   - The college uses specialist audit where needed – recently, for example, on a fraud review

- Given the college's recent history, additional assurance results from the processes associated with a Transaction Unit application and related due diligence, and the involvement of the FE Commissioner

- Reports against the college's key performance indicators provide an additional source of assurance, and the format of the reports and the data used enables further detailed analysis at other levels of management and operation

- Internal audit reports are considered to be thorough and have highlighted only a very few fundamental issues in the college's approach to risk

3. What are the college's / board's current key strategic risks?

- The significant strategic risks reflect the college's recent history with an emphasis on those risks which impact the college's financial position – for example it's cost base, cash capitalisation, income streams and capital expenditure. Any risk with financial impact greater than £50,000 is viewed as significant

- Other principal risks are associated with the college's reputation, curriculum quality, property and estates strategy

4. Have these key risks changed over the last two or three years together with attitudes towards assurance processes?

- The college's strategic focus in recent years has been driven by the need to rapidly improve both quality and financial sustainability. Consequently this has required a cautious approach to the management of well-established risks in key areas of the business and which are unlikely to change in the short-term

5. To what extent do the college and/or board anticipate the need to strengthen its arrangements for risk management and assurance?

- Whilst existing arrangements are considered mature the college is vigilant to changing circumstances and the impact that this might have on assurance processes

6. What steps does it anticipate taking to ensure that robust arrangements are in place?

- Staying focused on the importance of risk and assurance mechanisms

- The college anticipates a continued reliance on specialists to cover key assurance matters on a value for money basis

- Continued skills development programmes for the board

- Open to benchmarking to assess status of assurance processes

- Risk register to be driven down to more junior management

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