

Annex A to YPLA 17/2010

Date 28 July 2010
Subject Audit and Risk Management Committee
Location YPLA North West Regional Office - Manchester
Time 13:00
Publication intent NOT PROTECTIVELY MARKED

Present Mark Sanders (Chair)
Ian Ferguson
Michele Sutton

Angela Hands (NAO)
Beverley Scanlan (DfE)

Phil Eames (Head of Assurance and External Audit)
Carol Hartley Burdett (Head of Internal Audit)
Peter Newson (Director of Finance)
Sue Randall (Clerk)
David Russell (Director of Finance, Funding and Corporate Services)
Bob Walding (Director of Business Performance and Communications)

Apologies Apologies have been received from:
Dexter Hutt
David Igoe

Item 1. Welcome and introductions

1.1 The Chair welcomed everyone to the first meeting of the Committee. It was noted that the usual observer from the NAO would be Sid Siddhu. Angela Hands was welcomed to this meeting in his place. Also, the usual DfE observers would be Jo Thomas and Tareque Hossain. Beverley Scanlan was welcomed to this meeting in their place.

Item 2. Terms of Reference (Paper ARM 01/2010)

2.1 The Chair of the Committee had suggested some changes to the Terms of Reference. The amendments had been incorporated and the Committee was asked to consider the revised version. Comments were as follows:

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- Some of the wording seemed to diminish the Committee's internal scrutiny role
- The balance between the Committee's role around risks in general and finance risks needed to be clearer
- The specific role in relation to the Statement of Internal Control needed mention
- It would be useful to include a paragraph on the Committee's role in ensuring that management responses to audit recommendations were implemented.

2.2 The executive agreed to address these areas.

2.3 On the understanding that the above areas were addressed, the Committee agreed the Terms of Reference for approval by the Board.

Item 3. External Assurance

Future Assurance over Providers funded by the YPLA (Paper ARM 02/2010)

- 3.1 The paper considered the financial risks to the YPLA of learning providers' use of the funds they are paid, and the YPLA response to the risks with the available resources.
- 3.2 The Committee noted that work was underway to quantify the amount of resource required to deal with an increased number of academies. The consequences of any potential shift in resource were not well defined. The Committee agreed to draw this management issue to the Board's attention.
- 3.3 The complex pattern of assurance described in the paper led some members to seek comfort that there was robust assurance. Some assurance work was carried out by the Skills Funding Agency which heightened the "arms length" feel. While the executive agreed to continue to monitor the situation, it was explained that the Skills Funding Agency operated from the same set of standards and principles, including compliance with the Audit Code of Practice. There was close liaison between YPLA and Agency colleagues, which helped to ensure robust assurance. The executive agreed to continue to monitor the situation.
- 3.4 In terms of colleges, the assurance was derived from the work of colleges' own auditors. For private and charitable providers, no such assumptions were made, and these were subject to direct checks on the basis of a risk assessment.
- 3.5 Members were content with the explanations, but asked that presentation of the annual assurance statement be carefully considered to demonstrate YPLA's responsibility over all its funding.
- 3.6 The Committee noted the relevant issues in the paper. In commenting on the resourcing issue, the Committee supported the bid for resources given its responsibility to ensure adequate assurance.

YPLA External Assurance Needs Assessment and Plan 2010-11 (Paper ARM 03/2010)

- 3.7 The paper informed the Committee of the external assurance arrangements in place for the YPLA and presented the YPLA high level external assurance plan for 2010-11.
- 3.8 The paper had been compiled prior to the direct funding announcement, so the contingencies contained in the paper would be realised.
- 3.9 Key areas to note were:
- Sixth form college resource allocations to be reconsidered as a matter of urgency following the 16-19 change due to the college three year forecast submission deadline of 31 July
 - The number of academies coming on stream was as yet unknown, so it was difficult to give the exact level of resource required at present
 - Academies had traditionally been high risk as they were formed from failing schools. There was an unknown level of support required by converter academies. Converter academies did not have an established relationship with a sponsor, which was a traditional source of financial expertise.
- 3.10 The Committee was concerned about the high level of risk around gaining assurance for academies, and converter academies in particular. The lack of information from converters to provide assurance represented a potential risk to the reputation of the YPLA. The Committee agreed to escalate this issue to the Board.
- 3.11 The paper asked the Committee to approve the provisional YPLA external assurance plan, but given the realised contingencies and the number of variables, this was not now possible. The Committee endorsed the basis of preparation of the plan and the assurance approaches therein. It was agreed that a revised plan would be brought back to the Committee at its next meeting.

Action: Phil Eames

Item 4. National Audit Office

Presentation: Academies Value for Money study

- 4.1 NAO observer, Angela Hands, presented the forthcoming report of the study to the Committee, and picked out relevant highlights. The report was due to be published in September.
- 4.2 The report looked at 64 academies, together with a set of comparator schools (5 per academy).
- 4.3 Key findings were:
- Attainment graphs showed steady improvements
 - Later academies were managing particularly well with narrowing the attainment gap of those taking free school meals and with special educational needs
 - There was very little evidence that academies were attracting the most capable students away from schools
 - Academy students generally travelled less far to attend

- While exclusion levels were higher in academies, the small amount of available data meant that this could not yet be viewed as a trend
 - The number of academies offering 14-19 diplomas was lower than expected
 - There was a correlation between the success of an academy and the length of time between submitting an expression of interest and signing a funding agreement
 - Financial management within academies was a high level risk. A significant number had opened without a senior management team in place.
- 4.4 The Committee thanked Angela for the presentation. During discussion, the Committee noted that there was a lack of clear definition around the YPLA's role in relation to converter academies. It was suggested that this could be picked up in the remit letter. The Committee agreed and advised it would alert the Board.
- 4.5 A joint response was required to the study from the Department and the YPLA. There were many issues arising from the speed at which the academies policy was being implemented. It was important for the Department to acknowledge the challenges that this presented, and to agree to implement mitigating actions.

Item 5. Performance and Risk

- 5.1 The item was presented via three reports: Quarterly Performance Report (Paper ARM 04/2010), Delivery and Risk Report (Paper ARM 05/2010), YPLA Scorecard (Paper ARM 06/2010).
- 5.2 The Committee appreciated the detail presented to them in the three reports. There was work to be done to establish what was to be presented to the full Board in future, and what to the Audit Committee.
- 5.3 The Committee also asked that consideration be given to quantifying the likelihood of risks occurring. Definitions were in place, but it was agreed that a percentage assessment was helpful and this would be added to augment the definition.
- Action: Bob Walding**
- 5.4 The next meeting was to include a short explanatory slot to aid understanding of the system.
- 5.5 It was important that risk evaluation and reporting was robust enough to ensure that the Board was alerted at an early stage to any potential financial failures.
- 5.6 The YPLA's new 16-19 functions with simplified funding relating to lagged allocations, together with the removal of the planning function, meant that the executive was confident the new direct funding system was manageable within existing resources.
- 5.7 The reports highlighted a number of issues which the executive advised it was keen to monitor, such as the lower than planned apprenticeship numbers.

Item 6. Internal Audit

Internal Audit Charter (Paper ARM 07/2010)

- 6.1 The Committee considered the Charter, which was based on Treasury guidance and best practice.
- 6.2 The Committee recommended the Charter for Board approval.

Internal Audit Key Performance Indicators (Paper ARM 08/2010)

- 6.3 The ten measures for Internal Audit team performance were based on Treasury standards. Performance measured against the indicators would be fed back into the internal audit quarterly and annual reports.
- 6.4 The executive felt the indicators were set at the correct level. Benchmarks were as robust as possible.
- 6.5 It was important to continue to monitor indicator number 6 (quality of service and productivity) which sought to ensure that all high risk areas across the YPLA were covered annually and were aligned to the plan. It was difficult to measure accurately this year due to the high level of change that had taken place within the organisation.

Internal Audit Strategy and Plan (Paper ARM 09/2010)

- 6.6 The strategy and plan were indicative due to the current level of change within the organisation.
- 6.7 In the first year, it was intended to take a flexible approach focussing on high risk areas. Some individual audits would have to be re-scoped.
- 6.8 The plan had been shared with the senior management team. There was an approximate 10% shortfall in resource requirements, but the plan was not going to be significantly changed as a result of this. It was expected that the majority of the plan could be delivered by using a flexible approach.
- 6.9 The key financial risks had been reviewed, particularly demand led budgets. The executive was confident that the core controls were in place.
- 6.10 The Committee felt that it would be helpful for the plan to include an indication of which were key risk areas, and which were core assurance areas.
- 6.11 The Committee approved the strategy and plan.

Internal Audit Quarterly Report (Paper ARM 10/2010)

- 6.12 The Committee noted this report.

Item 7. Any Other Business

- 7.1 There was none.

Item 8. Date of next meeting

- 8.1 This was planned for 9 November 2010.

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