



BLACKBURN COLLEGE

**Annual Internal Audit Report and Opinion - Year
ended 31 July 2018**

Presented at Audit Committee meeting of:

27 September 2018

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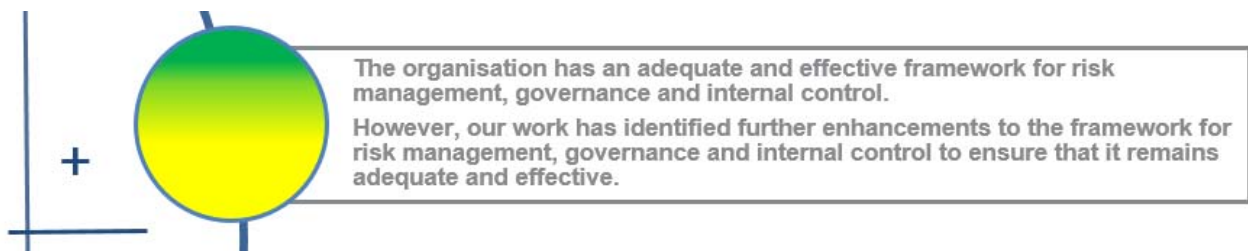
1 THE ANNUAL INTERNAL AUDIT OPINION

This report provides an annual internal audit opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion should contribute to the organisation's annual governance reporting.

1.1 The opinion

For the 12 months ended 31 July 2018, the head of internal audit opinion for Blackburn College is as follows:

Head of internal audit opinion 2017/18



Please see appendix A for the full range of annual opinions available to us in preparing this report and opinion.

1.2 Scope and limitations of our work

The formation of our opinion is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, our opinion is subject to inherent limitations, as detailed below:

- the opinion does not imply that internal audit has reviewed all risks and assurances relating to the organisation;
- the opinion is substantially derived from the conduct of risk-based plans generated from a robust and organisation-led assurance framework. As such, the assurance framework is one component that the Corporation takes into account in completing its annual governance reporting;
- the opinion is based on the findings and conclusions from the work undertaken, the scope of which has been agreed with management;
- the opinion is based on the testing we have undertaken, which was limited to the area being audited, as detailed in the agreed audit scope and report;
- where strong levels of control have been identified, there are still instances where these may not always be effective. This may be due to human error, incorrect management judgement, management override, controls being by-passed or a reduction in compliance;

- due to the limited scope of our audits, there may be weaknesses in the control system which we are not aware of, or which were not brought to our attention; and
- it remains management's responsibility to develop and maintain a sound system of risk management, internal control and governance, and for the prevention and detection of material errors, loss or fraud. The work of internal audit should not be seen as a substitute for management responsibility around the design and effective operation of these systems.

1.3 Factors and findings which have informed our opinion

Governance

To inform our governance opinion for 2017/18, we have taken into consideration the governance related elements of each of the assignment reviews undertaken as part of the 2017/18 internal audit plan. For example, our Health and Safety – Framework Compliance review considered the reporting arrangements in place at the College in relation to health and safety matters; the College has a framework in place in relation to these and this was confirmed by reference to the minutes and papers of the Health and Safety Committee, as well as reports to the Committee by the Governor Health and Safety Champion.

In addition, our governance opinion is also informed by our attendance at meetings of the Audit Committee throughout the year. This also builds upon our cumulative knowledge of the College's governance processes through coverage in previous years.

Risk Management

Our opinion on risk management is informed by the assessment of the risk mitigation procedures undertaken in the areas covered by the risk-based reviews completed as part of the 2017/18 internal audit plan. For example, our Framework Review – Budgets, Financial Forecasting, Cashflow and Stress Testing was included within the plan to ensure that consideration was given to the risk of funding cuts within the sector and changes made to funding methodologies. This review resulted in a substantial assurance opinion.

In addition, our risk management opinion is also informed by our attendance at meetings of the Audit Committee throughout the year.

Internal Control

The results of the following internal audit assignment reviews have been taken into consideration in determining our internal control opinion for 2017/18:

- Health and Safety – Framework and Compliance (2.17/18);
- Student Records: Post 1 May Apprenticeships Framework Review (3.17/18);
- Student Target Setting and Tracking (ProMonitor) (4.17/18);
- Framework Review – Budgets, Financial Forecasting, Cashflow and Stress Testing (5.17/18); and
- Key Financial Controls – General Ledger (6.17/18).

All of the above audits resulted in either 'substantial' or 'reasonable' assurance opinions being given, apart from our Student Target Setting and Tracking (ProMonitor) review. This assignment resulted in a 'partial' assurance opinion, with one 'high' and three 'medium' priority management actions being raised. The 'high' priority management action related to reviewing the information included in the student progress tracker snapshot report to ensure that information is reported accurately on an ongoing basis. As reported to the June 2018 Audit Committee, three of the four agreed management actions have been completed including the 'high' priority action.

In addition, our Student Records: Post 1 May Apprenticeships Framework Review included one 'high' priority management action. This related to areas of non-compliance with ESFA funding rules that were noted as a result of testing undertaken as part of our audit. As reported to the June 2018 Audit Committee, the two actions agreed as part of this work, including the 'high' priority action have been completed.

We also performed an "agreed upon procedures" review of General Data Protection Regulation (GDPR) – Governance which resulted in ten uncategorised management actions.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

1.4 Topics judged relevant for consideration as part of your annual governance reporting

Colleges are required to include a Statement of Corporate Governance and Internal Control within their financial statements. As your internal audit provider, the assignment opinions and advisory reviews that we undertake and report on during the year are part of the framework of assurances that assist the Board (through the Audit Committee) prepare an informed statement and provide the opinions required.

Our overall opinion may be used by the Board in the preparation of the 2017/18 Statement.

We believe the accountable officer should consider including the following in the Statement of Corporate Governance for 2017/18:

- Student Target Setting and Tracking (ProMonitor) was requested by management following the Ofsted inspection and subsequent follow up visits resulted in a 'partial' assurance opinion, however as reported to the June 2018 Audit Committee the College's operations in this area have been reviewed and three of the four agreed actions completed with the final action due for implementation in September 2018.

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. This report is prepared solely for the use of the Governing Body and senior management of Blackburn College.

2 THE BASIS OF OUR INTERNAL AUDIT OPINION

As well as those headlines discussed at paragraph 1.3, the following areas have helped to inform our opinion. A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

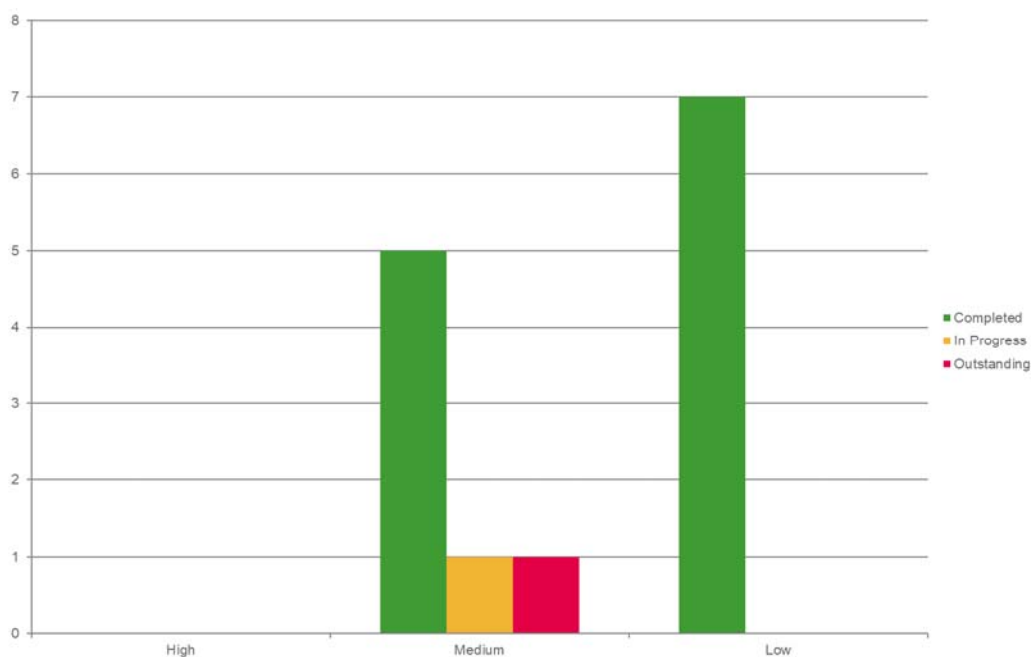
2.1 Acceptance of internal audit management actions

Management has agreed actions to address all of the findings reported by the internal audit service during 2017/18, with the exception of the 'medium' priority management action incorporated within our Framework Review – Budgets, Financial Forecasting, Cashflow and Stress Testing. This action related to some suggested enhancements that could be made to the College's approach to stress testing and remained in the report for Audit Committee. Management stated at the June 2018 Audit Committee that whilst the management action is relevant, the College has been working through a number of 'live' scenarios during the year and therefore been 'living and breathing' this through the management of the College. Management stated that once the current environment stabilises the management action will be considered.

2.2 Implementation of internal audit management actions

Where actions have been agreed by management, these have been monitored by management through the action tracking process in place. During the year progress has been reported to the Audit Committee, with the validation of the action status confirmed by internal audit as part of our Follow Up review undertaken in May 2018.

Our follow up of the actions agreed to address previous years' internal audit findings shows that the organisation had made good progress in implementing the agreed actions.



Our review considered 14 management actions (seven 'low' and seven 'medium' priority). We confirmed that 12 of these had either been implemented in full or had been superseded. The remaining two were 'medium' priority management actions and related to our Student Journey (including Student Retention), and Governance Annual Calendar of Committee Business and Follow Up reviews. It should be noted that revised implementation dates and actions have been agreed and reported to the June 2018 Audit Committee.

A summary of internal audit work undertaken, and the resulting conclusions, is provided at appendix B.

2.3 Working with other assurance providers

In forming our opinion we have not placed any direct reliance on other assurance providers.

3 OUR PERFORMANCE

3.1 Wider value adding delivery

As part of our client commitment, during 2017/18 we have shared practice across the sector through our audit reports, based on our knowledge and experience in the Further Education (FE) sector to provide areas for consideration. We have also provided benchmarking data where available, in terms of average assurance levels and management actions made at our other clients in the sector.

The table below summarises how we have added value in 2017/18.

Area	How this has added value
Further education seminar	Against a backdrop of unprecedented change for the further education sector, we hosted a seminar in June 2018 to discuss the development of Board Assurance Frameworks for the sector at which representatives of the College attended. In addition, we held an IFRS seminar which the College was invited to.
Internal audit benchmarking report	<p>Our national benchmarking report to collate the outcomes from internal audit assignments undertaken during 2016/17 across all of our further education clients was issued to the college during 2017/18. This information helps Audit Committees answer a common question: “how are we doing compared to other further education colleges”.</p> <p>In addition we provided the College with GDPR benchmarking across our client base to indicate how well GDPR was being implemented.</p>
Sector briefings and emerging issues	<p>We issued our Further Education Risk Management 2018 analysis which assessed the risks facing the sector and drew out key themes for consideration.</p> <p>During the year we have also provided information on those key issues affecting the sector and details of recent developments in this regard that are of interest to the College. This included briefing papers on gender pay gap reporting legislation and subsequent requirements and the apprenticeship levy. It is evident from attendance at Audit Committee that these briefings are used by the College to understand your own position in relation to the key issue, for example, at the June 2018 Audit Committee meeting members were presented with the College’s response to the Icarus Effect / Cybercrime RSM publications.</p>
Guidance and support	We have provided guidance to the Clerk of the Corporation regarding governance matters during the year as part of our value added engagement.

We have also provided advice and support on GDPR related matters during the year.

3.2 Conflicts of interest

RSM has not undertaken any work or activity during 2017/18 that would lead us to declare any conflict of interests.

3.3 Conformance with internal auditing standards

RSM affirms that our internal audit services are designed to conform to the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) as published by the Global Institute of Internal Auditors (IIA).

Under the standards, internal audit services are required to have an external quality assessment every five years. Our Risk Assurance service line commissioned an external independent review of our internal audit services in 2016 to provide assurance whether our approach meets the requirements of the IPPF.

The external review concluded that “there is a robust approach to the annual and assignment planning processes and the documentation reviewed was thorough in both terms of reports provided to Audit Committee and the supporting working papers.” RSM was found to have an excellent level of conformance with the IIA’s professional standards.

3.4 Quality assurance and continual improvement

To ensure that RSM remains compliant with the International Standards for the Professional Practice of Internal Auditing and the International Professional Practices Framework (IPPF) we have a dedicated internal Quality Assurance Team who undertake a programme of reviews to ensure the quality of our audit assignments. This is applicable to all Heads of Internal Audit, where a sample of their clients will be reviewed. Any findings from these reviews are used to inform the training needs of our audit teams.

This is in addition to any feedback we receive from our post assignment surveys, client feedback, appraisal processes and training needs assessments.

3.4 Feedback

Each year the College reviews the performance of RSM as internal auditors against a set of predetermined questions. As presented to the Audit Committee in June 2018, we received a score ‘very good’ for 22 out of 25 questions and a score of ‘good’ for the remaining 3. Lisa Randall, held a call with the Vice Principal – Finance and Corporate Services to appraise this feedback to move forward into 2018/19. .

3.5 Performance indicators

A number of performance indicators were agreed with the Audit Committee. Our performance against those indicators is as follows:

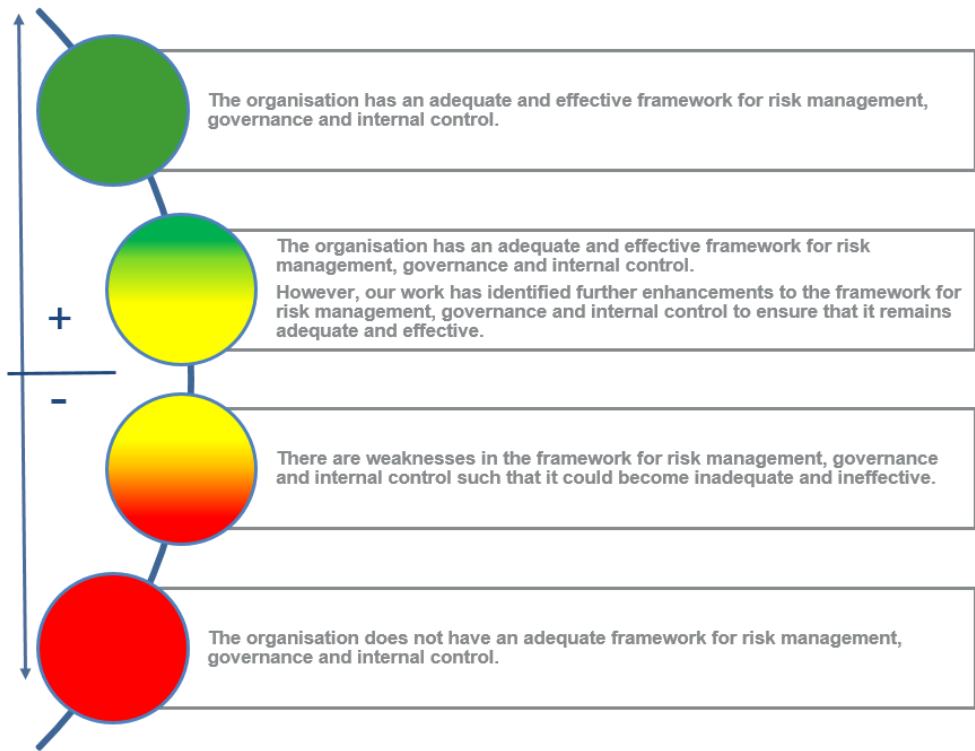
- all of our work was planned to meet Audit Committee meetings to provide a consistent flow of assurance over the course of the year;
- all of our assignments were appropriately scoped in advance of the audit start date;
- in all instances we agreed an Assignment Planning Sheet with management setting out the areas for consideration;
- all of our work was debriefed with management and we clearly explained our findings whilst on site;

- all of our work in the year resulted in written reports which were clear, concise and delivered on time;
- we responded in a timely manner to all management responses and finalised all reports in time to meet Audit Committee deadlines;
- we were responsive to management requests in terms of telephone and e-mail communications; and
- we have provided information on sector matters to management and the Audit Committee as appropriate during the year.

APPENDIX A: ANNUAL OPINIONS

The following shows the full range of opinions available to us within our internal audit methodology to provide you with context regarding your annual internal audit opinion.

Annual opinions	Factors influencing our opinion
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The factors which are considered when influencing our opinion include:

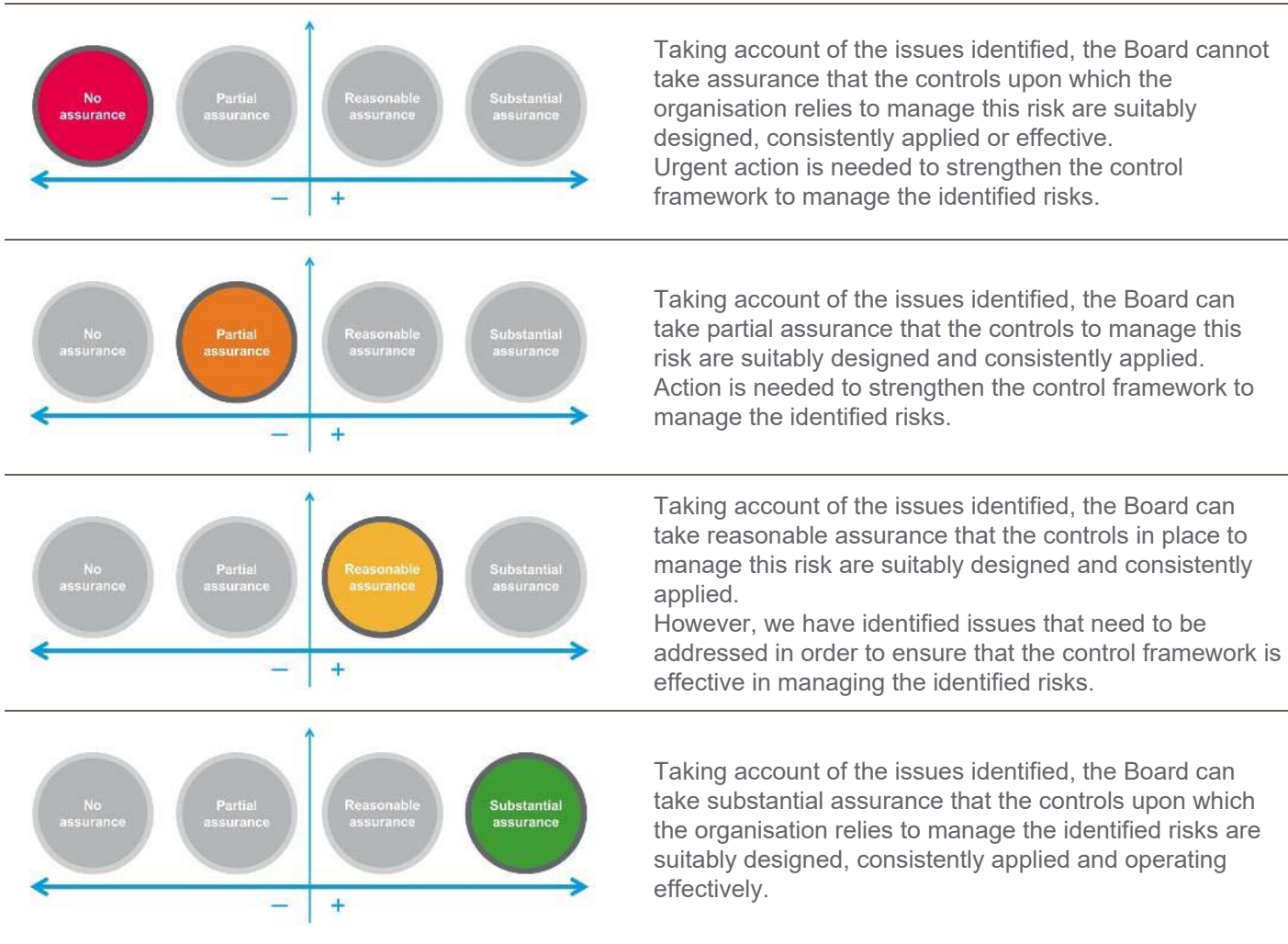
- inherent risk in the area being audited;
- limitations in the individual audit assignment reports;
- the adequacy and effectiveness of the risk management, governance and/or control framework;
- the findings from any advisory work undertaken;
- the impact of weakness identified;
- the level of risk exposure; and
- the response to management actions raised and timeliness of actions taken.

APPENDIX B: SUMMARY OF INTERNAL AUDIT WORK COMPLETED 2017/18

Assignment	Executive lead	Assurance level	Actions agreed		
			H	M	L
General Data Protection Regulation (GDPR) Governance	Vice Principal – Finance and Corporate Services	Agreed upon procedures	10 uncategorised actions		
Health and Safety – Framework and Compliance	Vice Principal – Finance and Corporate Services		0	0	0
Student Records: Post 1 May Apprenticeships Framework Review	Vice Principal – Finance and Corporate Services		1	1	0
Student Target Setting and Tracking (ProMonitor)	Vice Principal – Finance and Corporate Services		1	3	0
Framework Review – Budgets, Financial Forecasting, Cashflow and Stress Testing	Vice Principal – Finance and Corporate Services		0	1	0
Key Financial Controls – General Ledger	Vice Principal – Finance and Corporate Services		0	0	2
Follow Up	Vice Principal – Finance and Corporate Services	Good progress made	0	2	0

All of the assurance levels and outcomes provided above should be considered in the context of the scope, and the limitation of scope, set out in the individual Assignment Report.

We use the following levels of opinion classification within our internal audit reports. Reflecting the level of assurance the Board can take:



FOR FURTHER INFORMATION CONTACT

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As a practising member firm of the Institute of Chartered Accountants in England and Wales (ICAEW), we are subject to its ethical and other professional requirements which are detailed at <http://www.icaew.com/en/members/regulations-standards-and-guidance>.

The matters raised in this report are only those which came to our attention during the course of our review and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Actions for improvements should be assessed by you for their full impact. This report, or our work, should not be taken as a substitute for management's responsibilities for the application of sound commercial practices. We emphasise that the responsibility for a sound system of internal controls rests with management and our work should not be relied upon to identify all strengths and weaknesses that may exist. Neither should our work be relied upon to identify all circumstances of fraud and irregularity should there be any.

Our report is prepared solely for the confidential use of Blackburn College, and solely for the purposes set out herein. This report should not therefore be regarded as suitable to be used or relied on by any other party wishing to acquire any rights from RSM Risk Assurance Services LLP for any purpose or in any context. Any third party which obtains access to this report or a copy and chooses to rely on it (or any part of it) will do so at its own risk. To the fullest extent permitted by law, RSM Risk Assurance Services LLP will accept no responsibility or liability in respect of this report to any other party and shall not be liable for any loss, damage or expense of whatsoever nature which is caused by any person's reliance on representations in this report.

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We have no responsibility to update this report for events and circumstances occurring after the date of this report.

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