

**CHELMSFORD COLLEGE
AUDIT COMMITTEE
14 November 2016**

Minutes of a Meeting of the Committee held at the Moulsham Street Campus, Chelmsford on Monday 14 November 2016 at 5.30 pm.

PRESENT: Jonathan Swan (Chair)
Susan Hughes
Stuart Hodges

IN ATTENDANCE: Debs Hurst (Assistant Principal, Finance & Risk)
Andy Sparks (Principal)
Caroline Williams (Deputy Principal)
Stephanie Beavis (KPMG, external auditors)
Dan Harris (RSM, Internal Audit Service)
Rob Millea (Clerk to the Corporation)

517. APOLOGIES FOR ABSENCE

Apologies for absence were received from Doug Zeeman, Bob Edes (co-opted Member) and Peter Moore (Deputy Director of Finance).

518. DECLARATIONS OF INTERESTS AND CONFIDENTIAL ITEMS

The Clerk declared his interest as Clerk of South Essex College and Company Secretary of Essex Shared Services Limited. The Assistant Principal, Finance & Risk also declared her interest as Director of Finance of South Essex College and as General Manager of Essex Shared Services Limited.

Both sets of auditors declared their interests as auditors of South Essex College and Essex Shared Services Limited.

No confidential items were notified.

519. MEETING WITH AUDITORS PRIVATELY

It was not considered necessary to meet with the auditors privately without management being present.

520. MINUTES OF THE MEETING HELD ON 13 JUNE 2016

The Minutes of the meeting held on Monday 13 June 2016 were **APPROVED** and **SIGNED** by the Chair of the Meeting.

521. MATTERS ARISING

The Clerk **PRESENTED** a schedule detailing Matters Arising from the previous Meeting, which was **NOTED**.

The Clerk **REPORTED** that Bob Edes has agreed to join the Committee as a co-opted Member and this was agreed by the Board at its July Meeting. He was unable to attend tonight due to illness.

Review of Financial Regulations - as noted at the previous Meeting, a Review will go to the 22 November Meeting of the PFGP Committee.

In response to a question from a governor, a Workforce Strategy in the form of an overarching document encompassing various policy documents which already exist will be put in place. The PFGP Committee will consider this as soon as time permits.

Governors noted that the Risk Management Policy needs to be updated and will be done once Area Reviews completed.

A governor asked whether the Principal and Deputy Principal believed that ownership of risks is now fully embraced by senior management. They confirmed this and also indicated that the Assurance Mapping document will be improved in consultation with RSM. Furthermore, staff now fully understand the importance of risk in the whole organisation and in their own areas.

522. RISK MANAGEMENT REPORT

This Report was **PRESENTED** by the Assistant Principal, Audit & Risk.

It now highlights a quadrant for Leadership & Management as recommended by SFA.

The College Risk Register was considered by the Committee. There are currently 21 key risks made up of 5 RED risks, 12 AMBER and 4 GREEN.

There are two new risks since the last iteration of the Register.

The **first** (RED Risk) is the financial impact of under recruiting 16-18 EFA funded students this year on the financial allocation for next year, under the lagged funding model. The Personnel, Finance & General Purposes

Committee will assess the potential financial impact for next year at their Meeting on 22 November and the Board will be informed on 9 December.

The **second** (AMBER Risk) is the investment in refurbishing Princes Road Campus, which needs to be funded when monies are available. Funding needs to consider the possibility of third party investment to allow for growth in capacity.

The **other key risks** (rated **RED** on the **Risk Register** and the **Dartboard**) are:

- Ofsted inspection grade (and progression to Good) – improvement in results and upward trajectory
- Improvement in English and Maths to National Rates – apparently not now a limiting grade as far as Ofsted are concerned but it permeates all of the grade criteria
- Rapid improvement in all curriculum areas
- Outcomes for learners (especially Level 2)
- Impact of the outcome of Essex Area Review

The Register shows three risks reduced from **AMBER** to **GREEN**:

- Overall staff turnover
- New staff retention
- Work Experience delivery as part of the Study Programme

The Assistant Principal, Finance & Risk commented that Risk 10 re Student Under enrolment in 2016/17 has consequent effects on the College's likely 2017/18 allocation under the lagged funding model.

The worst case scenario is a £1million loss of income next year but £0.7m is more likely in management's view. The College is modelling reduced costs and possible sources of additional income.

It was noted that Beacon House running costs are circa £0.3m and the reduction to two campuses as soon as possible is required to reduce back office costs.

There is a need to look at the complete curriculum offer to ensure we are not delivering uneconomic courses.

The Committee was concerned about the need to cut costs to this level as the College has done a lot already. Management said there is no choice given the projections for next year and curriculum provision areas may need to be terminated and we need to embrace the opportunity through the Apprenticeship Levy to increase our work with employers.

The Principal referred to our space utilisation, staff efficiency, cost of space and our pay bill being in line with expectations. All of this needs examining critically as we must cut costs further.

The Committee wished to know when we can sell Beacon House to enable cost savings to be made and some debt paid off. We are still waiting permission from SFA as to whether we can sell it. It depends whether they want it for something else within the Area Review consideration.

The Committee noted the risk of a forced merger on the College, should that be the recommendation from the area Review. The AP, Finance & Risk said a merger is could be costly due to due diligence, bank refinancing and the distraction of management time. The College is going to make it clear in our submission to the Area Review panel between Meetings 2 and 3 that our preferred option is to stand alone, however we do have to be financially viable.

A governor asked about the risk surrounding poor achievement at Level 2. The Deputy Principal agreed that it was a big risk and explained the challenges involved. The curriculum has been remodelled, additional resourcing put in, greater focus on assessment end points focus and intervention. Already, the students have noted the increased focus on assessment.

The Committee **RECEIVED** the Report.

523. INTERNAL AUDIT

523.1 Internal Audit Plan 2016/17

The Committee **RECEIVED** the draft Internal Audit Plan for 2016/17 from RSM, the College's Internal Audit Service. This resulted from discussions between the Principal and the Assistant Principal, Finance & Risk and also included projected work for the succeeding two years.

As last year, the assignments proposed will provide the Committee with assurance on those particular areas but will not provide an overall internal audit opinion on the College's risk management, governance and control systems and this will continue to be the Committee's responsibility through its Annual Report to the Board.

A total of 21 days is proposed to be spent by RSM on the following areas, in line with the tender process:

- Applications Management
- 16-18 Enrolments
- Commercial Income

- Essex Shared Services – Cash and Treasury Controls (joint with South Essex College)

An indicative timetable for the work to be carried out was provided to the Committee and the Reports will flow through to the Committee Meetings in 2017 (March and June).

A long discussion ensued. Members were concerned about cyber security and felt it should be part of the internal audit assurance. They further felt that 5 days on the student journey (16-18 enrolments) should be spread over the next eighteen months as some of the work would be best carried out at the very start of the academic year so that the first six weeks of the student journey is reviewed.

A governor felt that we were comfortable with our controls over student enrolments, attendance, retention, enrolment policies and the like so was 5 days a good use of Internal Audit time. The Committee felt that we need independent assurance even if we think the controls are satisfactory so long as the work is not just a desk top exercise which is only reviewing data.

On balance, the Committee agreed that the five days allocated to this audit work be spread over the next eighteen months and two to three days freed up this year be used to have work carried out on cyber security and risks of hacking.

The IAS will rework the plan on this basis. It was agreed that, where relevant, IAS Reports to this Committee be provided also to the Quality & Learners Committee to keep them in the picture.

The Committee **AGREED** that the Plan be revised as indicated by IAS and the revised version approved at the Board Meeting on 9 December 2016.

523.2 Internal Audit Annual Report 2015/16

Dan Harris **PRESENTED** this Report on agreed Audit Assignments for 2015/16. All of the planned work has been completed.

The completed audits were Examination Costs, Assurance Mapping Essex Shared Services Limited: Asset and Debtors Management and Subcontracting Controls (advisory Report only).

Of the three audits undertaken in 2015/16 with formal opinions, two concluded with positive opinions (reasonable assurance) and one with a negative opinion (partial assurance). The partial assurance related to the review of Assurance Mapping and this gave rise to seven low and six medium priority actions, which management agreed and will implement.

RSM stressed that the Report does not provide a formal annual internal audit opinion that would accord with Public Sector Internal Audit Standards and must not be taken to provide such an opinion.

The Report was **RECEIVED**.

523.3 Internal Audit Progress Report

The Report was **RECEIVED**. The timetable for this year's work was noted but no work has yet been carried out.

524. ANNUAL REPORT AND ACCOUNTS

The Assistant Principal, Finance & Risk **PRESENTED** the following documents for consideration by the Committee:

- Draft Annual Report and Audited Financial Statements of the College Group for the year ended 31 July 2016, including the Regularity Audit Opinion
- Draft Audit Highlights Memorandum from KPMG
- Draft Reports and Financial Statements for the year ended 31 July 2016 of Dovedale Nursery ICC and CTS Limited (College subsidiaries)
- Going Concern Report

The Deficit in the Annual Financial Statements was reconciled to the surplus as per the Management Accounts:

Surplus in management accounts	£130K
Adjustment for LGPS interest and service costs	(370)K
LGPS pension actuarial loss increase	(1,568)K
Deficit per final Accounts	£ (1,809)K

There are no audit adjustments to the Accounts of any of the entities and KPMG indicated that they would be issuing unqualified opinions on the three entities and an unqualified regularity audit opinion.

The Committee noted the financial risks to the College taken into account in the Going Concern Report and, having considered these risks and the accounts and budget and cash flow projections for the twelve months following the date of signing of the Accounts (expected to be 9 December), is satisfied that the College Group is a Going Concern.

The risks considered were as follows:

- Ability to dispose of Beacon House
- Under recruitment of 16-18 students in 2016/17
- LGPS deficits and deficit repair payments arising from actuarial review
- LGPS requirement for security over the College assets

In respect of the LGPS actuarial cash deficit, this is expected to be lower than FRS102 deficit by about £2million.

Governors asked about the LGPS security requirement over the deficit repair payments and it was explained that, if none is given, then the deficit repayment period will reduce to 10 years instead of the current 24 years, which would considerably increase the cash burden on the College which the College could ill afford.

The College, in conjunction with all FEDEC Colleges, is exploring whether the Essex LGPS is within their rights to seek security in this way. Developments will be reported back to the Board.

The Dovedale Nursery surplus for the year will be gift aided to the College via a cash payment.

The Chair asked about the College's Financial Health. It is currently Satisfactory and, so long as the budgeted surplus for 2016/17 is achieved, it would move to Good. The College is hopeful that the Financial Notice of Concern will be removed in early 2017 when the final accounts for 2015/16 are lodged with the SFA in January 2017.

The Committee then asked about the likelihood of turning a management accounts surplus of £0.2m this year. That is the expectation but will require rigorous cost control and, in particular, avoid as far as possible, the use of agency staff, which are expensive, and not always effective from the curriculum standpoint.

Governors noted that some minor presentational adjustments are required before the Accounts are final. A new section entitled 'Governor performance' needs to be included in the Annual Report – guidance on wording here is being sought.

Governors thought that there was not much comment on Area Reviews but it was explained that the process is only just under way and there is no inkling of a possible outcome for Essex. It was felt it was not helpful to say any more than a factual statement that the process is under way.

Stephanie Beavis of KPMG led the Committee through the detail of the KPMG Audit Highlights Memorandum and made the following points:

The Committee noted the following outstanding points in connection the approval of the accounts:

- Letters of Representation for the Group and each subsidiary
- Letters of Comfort from the College to KPMG in respect of Dovedale (not necessary for CTS as it is now dormant)
- Inclusion of the College's share of the pension deficit of ESS Limited accounts (joint venture company) in the accounts of the Group. (It was noted that the ESS accounts were approved in principle by the ESS Board earlier today).

There are no uncorrected adjustment to the income and expenditure accounts in any of the entities.

She mentioned that the transition to FRS102 required considerable adjustments to the presentation of the accounts including classifications and layouts.

KPMG reported the following issues relating to internal controls:

- Matching of Purchase orders to invoices when payment effected
- Manual journals authorisation

These points were accepted by Management and are being implemented.

All internal control points raised last year have been actioned by Management.

The Committee **NOTED** the Annual Report and Accounts for the College Group and the individual subsidiaries be approved by the Board at its Meeting on 9 December 2016, bearing in mind that there are a number of matters requiring completion. The final accounts will go to the Personnel Finance & General Purposes Committee on 22 November for their review.

The Board will approve the Accounts on 9 December 2016.

525. COMMITTEE MATTERS

The Clerk **PRESENTED** a Report on Committee Matters, which was considered by the Committee and included a Review of the Committee's Terms of Reference, the Committee's own Self-Assessment, Compliance with the Committee's Terms of Reference in 2015/16, a copy of the JACOP Self-Assessment Questionnaire and Performance Review of the external auditor, KPMG.

The Committee noted, with regret, the retirement of Jonathan Swan from the Board of the College on 31 December 2016 and therefore as a Member (and Chair) of this Committee.

After considering the Report, the following actions were taken:

1. The Committee **AGREED** to recommend to the Board that Susan Hughes be appointed Chair of the Audit Committee with effect from 1 January 2017.
2. The Committee **AGREED** its Terms of Reference without amendment and **RECOMMENDED** they be approved by the Board at their next Meeting on 9 December 2016.

The Committee **NOTED** the responses from Members arising from the Committee Self-Assessment and the Clerk was instructed to monitor the points raised during the year. He felt that the Committee was self-critical of its work and had high self-awareness. He advised that the grades awarded were consistent with good governance in the sector.

The Committee **NOTED** the content of the JACOP Self-Assessment Questionnaire and that it had been provided to the external auditors as part of their regularity audit.

The Committee **NOTED** that it been compliant with its own Terms of Reference during 2015/16.

ACTION: CLERK

526. ANNUAL REPORT OF THE AUDIT COMMITTEE 2015/16

The Clerk **PRESENTED** this Report and, after discussion, the Committee **RECOMMENDED** it be approved by the Board at their Meeting on 9 December 2016. The Report informs the disclosures made in the Annual Report regarding Corporate Governance.

The Committee was of the view that the Board can take assurance from the work of this Committee.

The Clerk was asked to add a short statement in section 8 of the Report explaining that the audit of Assurance Mapping was only graded 'partial assurance' and the reason why. He also agreed to correct some minor textual items.

ACTION: CLERK

527. TEACHERS' PENSION AGENCY RETURN

The certificated return of contributions to the Teachers' Pension Agency for 2015-16, audited by KPMG, external auditors, and certified by the Principal, was **APPROVED**.

528. ANY OTHER BUSINESS

There were no items of AOB.

The Chair thanked the Committee for all its support during his period as Chair and said how much he had enjoyed the role. The Committee reciprocated.

529. DATE OF NEXT MEETINGS

Tuesday 7 March 2017 at 5.30 pm.
Tuesday 20 June 2017 at 5.30 pm.

There being no further business, the Meeting terminated at 7.35 pm.

Signed.....Dated.....