

**CHELMSFORD COLLEGE
AUDIT COMMITTEE
21 November 2017**

Minutes

Minutes of a Meeting of the Committee held at the Princes Road Campus, Chelmsford on Tuesday 21 November 2017 at 5.30 pm.

PRESENT: Susan Hughes (Chair)
Stuart Hodges
Amanda Montague
Doug Zeeman (from 5.45 pm)

IN ATTENDANCE: Elaine Oddie (Chair of the Corporation)
Michael Lager (Vice Chair, Corporation)
Debs Hurst (Assistant Principal, Finance & Risk)
Andy Sparks (Principal)
Caroline Williams (Deputy Principal)
Mike Tadman (Assistant Principal, People & Services)
Mark Emerson (Director of Information Services)
Anna O’Keeffe (RSM, Internal Audit Service)
Stephanie Beavis (KPMG, external auditors)
Rob Millea (Clerk to the Corporation)

Elaine Oddie and Michael Lager, the Board’s designated Finance Governors, attended the Meeting as Observers.

553. APOLOGIES FOR ABSENCE

Apologies for absence were received from Steve Houghton and Dan Harris (RSM, Internal Audit Service).

554. 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.

The Clerk declared that his wife's cousin is the Clerk to Writtle University College.

No confidential items were notified.

555. MEETING WITH AUDITORS PRIVATELY

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

556. MINUTES OF THE MEETING HELD ON 19 SEPTEMBER 2017

The Minutes of the Meeting held on Tuesday 19 September 2017 were **APPROVED** and **SIGNED** by the Chair of the Meeting.

557. MATTERS ARISING

Workforce strategy

The Committee was given a verbal update as to progress in developing this Policy by Mike Tadman, which is designed to bring together all the existing policies on human resources and to identify any areas for future development.

Further development of the strategy will be informed to some extent by the outcome of the upcoming Ofsted inspection and the finalisation of the Strategic Plan.

The Strategic Plan incorporating the workforce strategy will be discussed and approved at the Governors' Development Day on 2 February 2018.

Internal Audit Plan 2017/18

Approved by the Board on 29 September 2017.

JACOP Questionnaire

This was signed by the Chair and the Principal and passed to KPMG as part of the regulatory audit evidence for 2016/17

Funding 2017/18

The AP, Finance & Risk reminded the Committee that the College Budget is to breakeven for the year. The ILR is being completed for RO4 and it

will be clear from that if the Budget is achievable. If not, further savings will have to be made. It was noted that Apprenticeship income is behind target but there is a likelihood of the College receiving in-year 16-18 learner funding which will assist in meeting the Budget.

Risk Appetite

It was agreed that a review of the College's Risk Assurance and Risk Appetite will be carried out with Governors at the Governors' Development Day on 2 February 2018.

Transitional Funding £50,000

A governor asked about use of the Transitional Funding of £50,000 granted after the Area Review process. Work to examine possible forms of collaboration with Writtle University College has been started by Andrew Thomson of ACER. The money needs to be spent by 31 March 2018. Andrew is due to report on progress to the Board on 7 December 2017 through a short presentation.

558. RISK MANAGEMENT REPORT

This Report was **PRESENTED** by the Assistant Principal, Finance & Risk, comprising Risk Dartboard and up to date Risk Register for detailed review by Committee Members.

558.1 Risk Register

The College Risk Register was considered by the Committee. There are currently 29 key risks made up of 2 RED risks, 7 AMBER and 20 GREEN.

It was reiterated that GREEN items are still risks but the risk is well managed, mitigations are in place and it is therefore considered less likely to occur.

The Register shows the risk movement since the last iteration in September with little change, save that 6 risks can now be removed from the register as they are fully mitigated or are no longer a relevant risk.

The Committee were informed that Apprenticeship Reform has been subdivided into three risks

- Levy income is significantly behind the YTD budget and predictive information is not showing a short term improvement because employers either do not understand how the levy works or are unwilling to sign up to an 'onerous' contract with the College

- Non-levy income derived from SMEs below the levy payment threshold are unwilling to commit the 10% contribution required and the 20% off the job training to which they are required to commit further impacting the College budget
- Non-completion of all apprenticeship standards and agreement of Essex end point assessments

The AP, Finance & Risk stated that the College needs to sell more Apprenticeship contracts to levy paying employers and needs to close deals with employers. This is much more of a skill and, although there is a team working on sales, they are currently engaged in recruiting 16-18 learners to maximise in-year funding.

As regards non-levy paying employers, they are proving unwilling to commit to Apprenticeships and therefore it is difficult to sign them up. There is a good deal of competition emerging from other providers especially new providers in this field. Employers see the scheme as a problem in the light of the 20% off the job training requirements.

Members noted that this is a national issue with it being reported that there is a 60% reduction in starts for Apprenticeships this year.

A governor asked if there are any cost reductions arising from the reduced Apprenticeships and the AP, Finance & Risk stated that there is some reduction in assessor costs because if there are less Apprenticeships then less assessors are required.

The overall position regarding Apprenticeships and the expectations for the year will be covered in the budget reforecast in January 2018.

A governor asked whether the contractual arrangements are hampering signing up Apprenticeships with employers. The Director of information Services said that the College is generally following the AoC recommended contract but it often is be tailored according to the client's needs. The contract is not mandatory and levy paying employers often want amendments advised by their own lawyers. Accordingly, the College has to be flexible in approach.

The Principal reported that the College's business case has been accepted as regards reductions this year in the lagged funding model and, once the RO4 census point has been reached and the numbers finalised, the College may be able to receive some in year funding from ESFA. This might be £150K to 200K. This possible additional revenue is not in the 2017/18 Budget and will help alleviate the potential income shortfall in Apprenticeships.

At this stage, the College is still confident of achieving a break even position for the year.

The AP, Finance & Risk, in response to a question from a governor, said that deficit repair payments in respect of the Essex LGPS are expected to reduce but the cost of pension contributions for staff have increased by 0.5pp to 18.3%, so the net effect may well be neutral.

In response to a governor question, the AP, People & Services reported that it remains very difficult to recruit staff in some areas, notably Construction and Engineering.

The AP, Finance & Risk reported that Lloyds Bank have agreed in writing to extend the College's Revolving Credit Facility till June 2019. The legal formalities need to be completed but this is good news as it gives the College certainty in its borrowing and funding arrangements. It means that the College can proceed with the relocation of Hair & Beauty from Beacon House to Princes Road.

In responses to a request from the Committee, the AP, Finance & Risk agreed to update the Annual Report in respect of the possible sale of Beacon House and the relocation of Hair & Beauty and to comment on difficult recruitment issues in certain areas. This has further been considered by the AP, Finance & Risk as commercially sensitive and will not be included in the Annual Report & Accounts for 2016/17.

The Committee noted that Attendance at English & Maths has increased from a GREEN risk to an AMBER risk for this year. Accordingly, Departments are using a variety of strategies to improve attendance.

The Report also included an analysis of the costs to the College of Essex Shared Services Limited for the year ended 31 July 2017, noting that whilst generally costs are apportioned 33% to the College and the balance to South Essex College, the General Manager's Salary, Clerking Services and Debt Collection Services are on a different basis. The charge to CC for 2016/17 was £333K.

A governor sought assurance through evidence that ESS is the best value for money for this work.

After some discussion, the AP, Finance & Risk agreed to carry out some research as to the likely costs of the services provided by Essex Shared Services Limited if they were provided by an outside contractor, e.g. Capita. There is no benchmark in the sector for a company like ESS as it is unique. Andrew Thomson will be asked if he can assist.

The AP, Finance & Risk made the point that ESS as a joint venture is a VAT efficient Group for the two Colleges and an outside contractor would charge VAT on services provided by ESS. The Committee noted that, whilst Chelmsford College is a client of ESS, it is also part owner and therefore is involved in the governance of the Company.

A governor asked if other services can be provided by ESS. The Chair of the Corporation said that the ESS Board, of which she and the Principal are Members, is seeking to expand its activities. Two payrolls are processed for other organisations and the Essex Colleges, through FEDEC, have agreed that ESS administer the Essex end point assessments for Apprenticeships. Also, ESS may be able to be involved as the College explores relationships with Writtle, some of which may be shared services of some type.

The Committee **NOTED** the Risk Register and the comments made.

558.2 Risk Dashboard and Risk Assurance Mapping

The Committee **RECEIVED** the updated Dashboard and were informed that Risk Assurance will be reviewed by the internal auditors later this year to ensure the College is acquiring relevant and appropriate assurances over the College's key risks.

The Committee **AGREED** agreed that this area should be reviewed at the Governors' Development Day on 2 February 2018. It is three years since it was established and needs refreshing, particularly the College Board's Risk Appetite.

At present, the AP, Finance & Risk observed that there are different methods for assurance mapping and RSM will be used to give an overview at the Governors' Development Day on 2 February 2018.

558.4 Internal Audit Matters

The Assistant Principal, Finance & Risk informed the Committee that there are no updates to the outstanding audit recommendations since the last Meeting and the document evidencing this can be found on the Governors' portal.

Anna O'Keefe commented that RSM, internal auditors, have not yet carried out any of the agreed work in the Internal Audit Plan for 2017/18 (approved at the September Board Meeting). The work has been planned for the spring and summer terms 2017/18 and the scope of each audit has been agreed between RSM and Management.

The Committee **RECEIVED** the Report.

559. ANNUAL REPORT & ACCOUNTS 2016/17

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 2017, including the Regularity Audit Opinion
- Draft Audit Highlights Memorandum from KPMG
- Draft Reports and Financial Statements for the year ended 31 July 2017 of Dovedale Nursery CIC (College subsidiary)
- Going Concern Report

The Surplus in the Annual Financial Statements for the College Group has been reconciled to the surplus as per the Management Accounts:

Members will sent this reconciliation by email and it will be included in the Report to the full Board Meeting on 7 December 2017.

Some adjustments to complete the Financial Statements were received from Members and these will be processed before 7 December 2017 plus anything else further which arises from final checks by the College and the external auditor.

A governor noted in the Annual Report that we only pay 46% of invoices due (on average) within 30 days and felt that was not that good. The AP, Finance & Risk observed that terms and conditions are well understood by suppliers and no issues had arisen regarding speed of payments.

There are no audit adjustments to the Accounts of the College or Dovedale Nursery CIC and KPMG indicated that they would be issuing unqualified opinions on the two entities and an unqualified regularity audit opinion. It was noted that there were uncorrected errors discovered during the audit but they were not material enough to warrant adjustment.

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

The Committee asked about the College's Financial Health. Based on the ESFA financial methodology, the College's financial health at 31 July 2017

was Satisfactory and, based on the College's Financial Plan submitted to the ESFA, it is expected to remain as Satisfactory for 2017/18.

The College's intention is that it will rise to Good by 31 July 2019 following the proposed sale of Beacon House and a consequent reduction in debt.

The Committee **RECEIVED** a letter from the ESFA dated 18 October 2017 confirming the College's Financial Health.

James Laing 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 the subsidiary company (Dovedale Nursery CIC) including review by the Chair of the Corporation
- Letter of Comfort from the College to KPMG in respect of Essex Shared Services Limited (joint venture company) noting that South Essex College also provides such a letter for ESS
- Final post balance sheet events review

It was noted that the Board of Essex Shared Services Limited approved the accounts of ESS on 13 November 2017.

No Letter of Comfort is deemed necessary for Dovedale Nursery CIC from the College as Dovedale is a solvent company, with positive net assets and is making trading profits, with which KPMG agreed.

There were no significant findings arising from the areas of significant accounting judgement identified by KPMG during their planning stage

A governor noted that the Memorandum from KPMG needs amending to show a Budget break even position for 2017/18.

KPMG are comfortable that the College is a Going Concern.

A governor commented that the salary costs in Dovedale Nursey seemed quite modest on an average basis. This is due to some volunteering in the Company, some part time staff and that some costs of pay are included in Cost of Sales.

KPMG reported the following issues relating to internal controls:

- Dual authorisation of payroll payments process
- Paid invoices without a purchase order
- Lack of evidenced authorisation of some manual journals

Management agreed these points and actions to implement the recommendations from KPMG, all of which were rated Medium Priority, is being taken.

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

The Committee **RECOMMENDED** that the Annual Report and Accounts for the College Group and Dovedale Nursery CIC will be approved by the Board at its Meeting on 7 December 2017, subject to the outstanding points noted above being satisfactorily completed.

559.1 GOING CONCERN REPORT

The AP, Finance & Risk **PRESENTED** a Going Concern Report to provide assurance to the Committee that the College is a Going Concern for the period of twelve months after the approval of the 2016/17 accounts (i.e. to December 2018) and to enable it to recommend accordingly to the Board on 7 December 2017.

The risks considered were as follows:

- Ability to dispose of Beacon House at an amount close to the estimated market value
- LGPS deficits and deficit repair payments arising from actuarial review
- Ability to achieve budgeted Apprenticeship Income

The Committee **NOTED** that the College had successfully renewed its Revolving Credit Facility with Lloyds Bank through to 30 June 2019 which gives further assurance over the going concern assertion.

The Committee **NOTED** that the College's Financial Health as advised by the ESFA (letter dated 18 October 2017) at 31 July 2017 was Satisfactory and, based on the submitted financial plan, would be Satisfactory for 2017/18.

The Committee **NOTED** that so far this year the College's results are in line with Budget and, as mentioned above, the College is expecting a letter of comfort from the ESFA that the College will receive in-yea funding for 16-18 recruitment which might generate income of £150-

£300K, not presently included in either the Budget or the cash flow assumptions.

No overdraft is expected to be necessary in the early part of 2018, which is a critical period. None was required during 2016/17.

The Committee noted the financial risks to the College taken into account in this 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 7 December 2017), is satisfied the College Group is a Going Concern.

Therefore, the Committee **RECOMMENDED** to the Board that, in their opinion, the College is a Going Concern for the twelve month period from 7 December 2017.

560. TEACHERS' PENSION AGENCY RETURN

The certificated return of contributions to the Teachers' Pension Agency for 2016-17, audited by KPMG, external auditors, and certified by the Principal, had not been completed, due a delay caused by national amendments being required to the Engagement Letter related to this work.

KPMG advised that the work on contributions has been satisfactorily completed and the Return will be available to the Board on 7 December 2017 for approval.

561. COMMITTEE MATTERS

(The internal and external auditors left the Meeting before consideration of this item).

561.1 Performance Review of Auditors

The Committee considered the performance of the Internal & External Auditors and whether they should be re-appointed in each case for the financial year 2018/19. Both the internal and external auditors were appointed by open tender in Spring 2015 for a three year term, renewable thereafter on an annual basis. Both sets of auditors also serve South Essex College and Essex Shared Services Limited.

The Committee **AGREED** to re-appoint KPMG as financial statements and regularity auditor for 2018/19.

The Committee were not prepared to re-appoint RSM as the Internal Audit Service for 2018/19. The Committee were informed that South Essex College had similar concerns about re-appointing RSM.

It was **AGREED** that, jointly with South Essex College, a procurement exercise for internal auditors be undertaken next Spring and that a Member of this Committee would be involved in the process. The procurement documentation used in 2015 would provide the template for a new procurement exercise.

561.2 Annual Report of the Audit Committee 2016/1

The Clerk **PRESENTED** this Report and, after discussion, the Committee **RECOMMENDED** it be approved by the Board at their Meeting on 7 December 2017, subject to clarifying in the final paragraph that it covers Dovedale Nursery as part of the College Group.

A governor asked for a summary of the oversight exercised by the College over the activities of Dovedale Nursery.

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.

ACTION: CLERK/AP, F&R

562. ANY OTHER BUSINESS

There were no matters of AOB.

The Chair congratulated the AP, Finance & Risk in her new appointment from 1 January 2018 as Vice Principal, Finance & Resources.

563. DATE OF NEXT MEETING

Tuesday 26 June 2018 at 5.30 pm.

There being no further business, the Meeting terminated at 7.20 pm.

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