

**CHELMSFORD COLLEGE
AUDIT COMMITTEE
13 June 2016**

Minutes of a Meeting of the Committee held at the Moulsham Street Campus, Chelmsford on Monday 13 June 2016 at 5.30 pm.

PRESENT: Jonathan Swan (Chair)
Susan Hughes
Heather Clarke
Doug Zeeman

IN ATTENDANCE: Debs Hurst (Assistant Principal, Finance & Risk)
Andy Sparks (Principal)
Caroline Williams (Deputy Principal)
Mark Emerson (Director of Information Services)
Gary McLeod (KPMG)
Grant Spilsbury (RSM, Internal Audit Service)
Rob Millea (Clerk to the Corporation)
Joanne Harrington (Assistant Clerk)

PRESENTATION

The Committee received a presentation from Debs Hurst on the College's Financial Health and the effects of the application of the new Accounting Standard FRS102, which applies to the College's accounts for the year ended 31 July 2016, with the figures for last year end being restated on this new basis.

The restated figures and the principles behind the restatement have been reviewed by KPMG, external auditors, and, subject to formal year end audit, they are comfortable with the restatement.

The PFGP Committee will receive the same presentation next week and their approval will be sought for inclusion in the accounts.

The key issues which Debs Hurst addressed were as follows:

- Valuation of the College land bank
- Accrual of holiday pay for staff
- The reclassification of Government Grants from reserves to long term liabilities
- LGPS Pension Accounting

The adjustments above are not cash outflows but only are accounting niceties. The effect of the adjustments on the statement of comprehensive income account at 1 August 2015 is to increase the reported loss from £151K to £633K.

The attitude of the bank regarding covenants is that they wish to see £5million net assets in the balance sheet.

The Committee was asked for their views as to whether to adopt the performance method in respect of the accounting for deferred government grants and whether to revalue some of the College assets, e.g. land at Moulsham Street and Princes Road and Beacon House (land & buildings).

Performance method – no : revaluation – yes, in respect to the land at Princes Road and Moulsham Street and the whole asset at Beacon House, on an existing use basis in each case. The College will need to consult a valuer.

Debs Hurst also referred to the revised SFA Financial Health methodology and advised that, under the revised FRS102 treatment, the College's FH would decline to Inadequate on the 2015 restated figures but, assuming the results for the year ended 31 July 2016 are as expected, the College FH ought to recover to Satisfactory.

However, the SFA is not concerned with the effect of FRS102 adjustments on the FH category as at the last balance sheet date.

The Committee thanked Debs for her presentation.

ACTION: DH

506. APOLOGIES FOR ABSENCE

Apologies for absence were received from Ray Joy (co-opted member), Peter Moore (Deputy Director of Finance) and Stephanie Beavis (KPMG, external auditors)

507. 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.

No confidential items were notified.

508. MEETING WITH AUDITORS PRIVATELY

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

509. MINUTES OF THE MEETING HELD ON 7 MARCH 2016

The Minutes of the meeting held on Monday 7 March 2016 were **APPROVED** and **SIGNED** by the Chair of the Meeting.

510. MATTERS ARISING

The Clerk **REPORTED** that the Membership of the Committee will reduce to four in July, when Heather Clarke completes her term as a staff governor. The quorum is three. It is hoped one of the new staff governors will be willing to join the Committee.

The Clerk indicated that at least one Member of the Committee should have relevant financial/audit experience.

Food hygiene audits

Satisfactory audits have taken place and there are no issues arising. There is a five star rating in both refectories and the training kitchen.

Review of Financial Regulations

No adjustments are required pending the winding up of Chelmsford Training Services Limited – a Review will go to the November Meeting of the PFGP Committee.

Audit Assignments over the past five years

An analysis has not been done as the updated Assurance Map gives context as to the extent of assurance being achieved in the College.

Internal Audit Plan

Susan Hughes **CONFIRMED** that she had informed the Chair of the concerns over the finalisation of the IAS plan for 2015-16.

The 2016/17 Plan needs to be approved as soon as possible in 2016/17 and not wait until the next meeting of the Committee in November. It was **AGREED** to deal with it at the Board Meeting on 30 September and that it

needs to be based on the Assurance Map. Members of the Committee were asked what they would like to see in the plan and to let Debs know so it can be factored into the planning process.

The Clerk **CONFIRMED** that he had sent a copy of the unapproved minutes of the last Meeting of the Committee to Ray Joy, at his request. He had no substantive points on those minutes.

511. INTERNAL AUDIT

511.1 Progress Report 2015/16

RSM, Internal Audit Service reported that all planned audits for the 2015/16 have been completed.

The Committee then discussed the areas in respect of which they would wish to engage RSM to provide assurance during the 2016/17 academic year.

The Committee requested that the RSM FE sector Report be circulated to the whole Board.

511.2 Completed Assurance Reports

The Committee **RECEIVED** three completed Reports from RSM on Examination Costs, Essex Shared Services Limited – Assets and Debtors Management and Assurance Mapping.

On **Examination Costs**, the purpose of the Report was to establish the effectiveness of the processes and controls in place over the management of examination costs incurred by the College, with specific focus on the mechanisms in place for the forecasting, recording and monitoring of the annual spend in this area.

The Report gave **reasonable assurance** that the controls in this area were suitably designed and consistently applied.

Three low level recommendations were raised and agreed by Management. These related to instituting formal guidance documentation, reporting of additional examination costs separately and establishing guidance to outline when checks between enrolment information and registration data should occur.

It was stressed that none of these recommendations were of a critical nature and the position is very positive.

On **Essex Shared Services (Assets and Debtors Management)**, the purpose of the Report was to provide assurance on the design and application of controls surrounding assets and debtors management, which fall within the functions of the Company's joint venture company.

In both areas, the Report gave **reasonable assurance** that the controls in place are suitably designed and consistently applied.

Three medium level recommendations were raised and agreed by Management. These related to undertaking an annual asset verification exercise, keeping better records of debt recovery activity and some inconsistency with the Financial Regulations in the raising of invoices and credit notes.

One Member asked about the correctness of invoices being issued and was assured that processes have been tightened to make sure this does not happen and invoices are only raised when it is certain that the College is owed a debt for fees or services provided.

Members were informed that debts outstanding and the age analysis overall is being reported to the PFGP Committee as part of the regular Finance Report. Staff have been told that each debt recovery activity must be recorded on the finance system and not done on an ad hoc/personal style basis.

There would be a challenge as to debt invoicing when the new Apprenticeship Levy is introduced. It is hoped to utilise the student recording system as is currently the case.

Two low level recommendations were raised and agreed by Management regarding the Financial Procedures not fully reflecting current practice and monthly accounts not including an aged debtor analysis.

The Committee requested that they be informed at the next Meeting as to implementation of the recommendations raised.

ACTION: DH

On **Assurance Mapping**, the purpose of the Report was to consider and scrutinise the design and content of the College Assurance Map, including whether it is up to date and effectively recording all relevant assurances, from which the Committee and the Board can gain comfort, irrespective of whether such assurances are external or internal.

The Committee recognised that, whilst externally derived assurance is inherently more reliable than internally generated assurance, it is justifiable to place some reliance on internal sources of assurance where they offer independent scrutiny or control over operational areas of the College.

The Report gave **partial assurance** that the controls upon which the College relies to manage its assurance tasks are suitably designed and consistently applied.

Six medium level recommendations were raised and agreed by Management and, in addition, **seven low level** recommendations were raised and agreed.

The medium level recommendations were:

- Allocation of responsibilities for assurance areas to management
- Improving the detail of the assurances in place on the map
- Approve and update the IT strategy
- Document recruitment and retention mechanisms for students
- Reviewing the accuracy of the RAG ratings used for each area
- Implementing a formal assurance mapping policy

In addition, the Report concluded that there are adequate assurances in place regarding Information Management and Security, Health and Safety, Admission and Enrolment and Safeguarding.

They concluded that the Risk Management Policy requires updating and that there should be a Workforce Strategy in place.

The Committee agreed and appreciated the difference between risk register rating and assurance rating. Risk in an area might be amber but the assurances available are green. The aim of the Assurance Map must be to have all areas achieving 'green' assurance, i.e. all reasonable steps are being taken to satisfy the Board as to each area of College activity.

That area could still be RED rated as to risk.

In the light of the findings of the IAS, the Assistant Principal, Finance & Risk led a discussion to consider the question of whether they have sufficient assurance in order to give the Board in their Annual Report in the autumn an opinion as to the adequacy and effectiveness of the College's audit arrangements, its framework of governance, risk management and control and its processes for securing economy, efficiency and effectiveness as required by Paragraph 33 of the Joint Audit Code of Practice.

The Committee considered the Assurance Map was still a work in progress and it would be good to be able to reduce the over 60 items currently on the Map over time. Debs Hurst agreed. It was also felt that the Committee would like to see more of amber or red highlighted as there is a need for concern in these areas.

The Map is a new process and is reliant on Senior Managers taking ownership of their areas and keeping progress updated. There appeared to be a slight conflict between Assurance and Risk, e.g. Safeguarding. Furthermore, there were some areas where a little more detail would add to the assurance governors felt they were receiving.

If not, the Committee recognised that they may have to commission additional external or internal assurance in order to give the opinion required.

The Clerk reminded the Committee of the assurances gained from the IAS in both 2014/15 and 2015/16 in respect of specific Reports issued.

These are as follows:

2014/15

- Governance
- Finance – shared services
- Risk Management
- Financial Recovery Plan
- Budget Setting
- Payroll

2015/16

- Assurance Mapping
- SFA Funding
- Subcontracting
- Examination costs
- ESS – Assets and Debtors Management

He also outlined the internal and external assurances obtained during 2015/16 in areas where specific Reports have not been commissioned.

These are as follows:

- Matrix accreditation

- Governance protocols revision
- Compliance with AoC Code of Good Governance
- Ofsted inspection 11/15 and Improvement Visits
- Safeguarding
- KPIs
- IT Strategy & Policies
- Information Management & Security
- Admission and Enrolment
- Health & Safety Assurances

Having reviewed and discussed this information, the Committee **AGREED** that they did not need to seek any further assurances in respect of 2015/16 in order to give the opinion outlined above to the Board to inform the Corporate Governance statement for the College.

ACTION: CLERK

512. RISK & ASSURANCE MANAGEMENT UPDATE

The Assistant Principal, Finance & Risk presented the following updated documents for consideration and comment by the Committee:

- Risk Register
- Assurance Dartboard
- Assurance Map

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

- Ofsted inspection grade (and progression to Good)
- Improvement in English and Maths
- Rapid improvement in all curriculum areas
- Tracking of student progress

Two risks have been downgraded from **RED** to **AMBER** since the last Report to the Committee:

- Chelmsford Training Services Limited – as the operations of the company will transfer to the College from 1 July 2016 and the company will then go dormant
- Achievement of a budgeted surplus for the year of £0.2 million – although the latest forecast highlighted that this would not be achieved, a revised surplus of £0.1 million is on target

In answer to a question raised by Susan Hughes it was confirmed that no employee would be at a disadvantage transferring out of CTS and will have the same or in some instances more enhanced terms & conditions of employment.

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

- Funding reduction 2016/17 – this has not materialised
- HE Partner – new arrangements have been made with South Essex College
- Work Experience – Ofsted have acknowledged our success in this area

The adequacy of our Assurance Mapping has been subject to internal audit by RSM and reported in **Minute 511.2** and discussed by the Committee resulting in the view that, for this year, the Committee has acquired sufficient assurance over the College's processes and controls.

The Committee **AGREED** that there is merit in establishing a new and specific risk register for Area Reviews and this will be considered by the Board at their July Meeting.

ACTION: CLERK

It was noted that first aid training is an issue and has been highlighted to ensure sufficient coverage of qualified first aiders – has been affected by the higher than expected staff turnover in the last twelve months.

The Committee **RECEIVED** the Report.

513. AUDIT PLANNING MEMORANDUM

Gary McLeod, on behalf of KPMG, external auditors, presented their Annual Planning Memorandum in respect of the audit and regularity audit of the College and its subsidiaries for the year ended 31 July 2016.

He summarised the key aspects of the audit (materiality level, pension fund accounting, fees, going concern, regularity) and the reporting trail to the Committee and the PFGP Committee, including issue of the Audit Planning Memorandum to the November Meeting of this Committee.

In response to questions from the Committee, he confirmed:

- The wind down of CTS to dormancy at year end will mean a fee reduction in that regard

- The independence of KPMG for audit purposes given that they are also the auditor of South Essex College - he provided assurances in this regard

The Committee agreed the levels of materiality as outlined in the Audit Planning Memorandum.

ACTION: KPMG

514. COMMITTEE MATTERS

The Clerk **PRESENTED** a Report on Committee Matters, which was considered by the Committee Review of the Committee's Terms of Reference, Committee Self-Assessment, Schedule of Business for 2016/17, Schedule of Meeting dates for 2016/17 and Performance Review of the external auditor, KPMG.

1 The Committee **AGREED** the Terms of Reference and **RECOMMENDED** they be approved by the Board at their next Meeting on 8 July 2016.

2 The Committee **AGREED** the Self-Assessment process proposed by the Clerk and the Performance Review format for KPMG and asked that the questionnaires in each case be completed by all Members and returned to the Clerk by the end of June for collation. The results will be reported back to the next Meeting of the Committee by the Clerk.

3 The Committee **NOTED** the Schedule of Business for the Committee and the proposed Meeting dates for 2016/17.

ACTION: CLERK

515. ANY OTHER BUSINESS

The Clerk notified the Committee of two upcoming events which may be of interest to the Committee:

1. RSM Seminar in London on 18 July from 10 am till 1 pm
2. ACER Chairs/Governors Meeting in St Ives on 13 July from 5pm to 7.30 pm

Details of these events have been sent to all Board Members.

The Principal made a presentation to Heather Clarke of flowers to recognise her service to the Board and this Committee over eight years.

516. DATE OF NEXT MEETING

Tuesday 8 November 2016 at 5.30 pm.

There being no further business, the Meeting terminated at 7.45 pm.

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