

**CHELMSFORD COLLEGE
AUDIT COMMITTEE
20 November 2018**

Minutes of a Meeting of the Committee held at the Princes Road Campus, Chelmsford on Tuesday 20 November 2018 at 4.30 pm.

PRESENT: Susan Hughes (Chair)
Jenny Beaumont
Stuart Hodges
Amanda Montague
Doug Zeeman

IN ATTENDANCE: Debs Hurst (Vice Principal, Finance & Corporate Services)
Mark Emerson (Director of Information Services)
Paul Goddard (Scrutton Bland, IAS)
Stephanie Beavis (KPMG, external auditor)
Nathan Ackroyd (KPMG, external auditor)
Rob Millea (Clerk to the Corporation)

588. APOLOGIES FOR ABSENCE

Apologies for absence were received from Steve Houghton, Andy Sparks (Principal), Caroline Williams (Deputy Principal) and Sharon Gravener (Scrutton Bland).

589. 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.

KPMG declared their interest as external auditors of South Essex College and Essex Shared Services Limited.

Scrutton Bland declared their interest as Internal Auditors of South Essex College and Essex Shared Services Limited with effect from 1 August 2018.

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

The Committee noted that the Principal and the Chair of the Corporation are both directors of Essex Shared Services Limited.

Jenny Beaumont disclosed an interest as she is a governor of Great Baddow High School.

Debs Hurst declared her interest as a Members' Representative on the Essex LGPS Pension Advisory Board.

No confidential items were notified.

590. MEETING WITH AUDITORS PRIVATELY

It was not considered necessary to meet with the auditors privately without management being present but it is planned for the June 2019 Meeting of this Committee.

591. MINUTES OF THE MEETING HELD ON 11 SEPTEMBER 2018

The Minutes of the meeting held on Tuesday 11 September 2018 were **APPROVED** and **SIGNED** by the Chair of the Meeting.

592. MATTERS ARISING

The Clerk **PRESENTED** a Paper outlining Matters Arising from the previous Meeting of the Committee on 11 September 2018, noting the Actions taken as a result.

The Committee **NOTED** that the Board, at its meeting on 6 July 2018, approved the College Budget for 2018/19, planning for a surplus of £200K. The VP, Finance & Corporate Services informed the Committee that the budget is being revisited as at the end of October and an indicative reforecast will be presented to the Board at its Meeting on 7 December 2018.

Debs Hurst **REPORTED** that she is undertaking one to one meetings with budget holders now to assess how realistic achievement of a surplus of £200K might be. The indications at present are that a break even result for the year ended 31 July 2019 is likely to be the best outcome.

Debs Hurst **REPORTED** that Scrutton Bland had carried out an independent 'health check' review of the benefits and advantages to the College of ESS Limited providing services to the College to satisfy the Value for Money test and this is covered in minute **594.1**.

Scrutton Bland had also carried out an advisory review of Assurance Mapping and Costing Model (see minute **594.1**).

The Committee **NOTED** that the full Board, at its Meeting on 28 September 2018, had approved the Internal Audit Plan 2018/19, revised

Financial Regulations including completed Appendices, the Committee Terms of Reference and the College Governance protocols on the recommendation of this Committee.

Debs Hurst advised that it was hoped to finalise the incomplete Appendices by Christmas, including updating Appendix B in light of approved Governance protocols.

The signed ACOP Regularity Self-Assessment document had been passed to KPMG, the regularity auditors.

Mark Emerson **REPORTED** that the College has tested the Management Information disaster aspects of the College Continuity Plan. The testing of the disaster aspects went well and met objectives. Further testing on other aspects will take place during the rest of this academic year.

Mark Emerson commented on Cyber security and said that a new written password policy will go live shortly for staff with instructions as to the content and its use. It also affects governor passwords through the governor portal where there will be a generator installed thereon in two weeks or so in early December.

It was also noted that the other aspects of the testing will need students present to make the test effective. Also, liaison with South Essex College will take place on mutually beneficial areas such as health & safety, where services are partly shared.

All other Matters Arising are dealt with elsewhere within this Agenda.

593. RISK MANAGEMENT REPORT

This Report was **PRESENTED** by the Vice Principal, Finance & Corporate Services, comprising Risk Dartboard, and up to date Risk Register.

593.1 Risk Register and Dartboard

The College Risk Register, recently updated, was considered by the Committee. There are currently 38 key risks made up of 3 RED risks (English & Maths Attendance, Construction and Engineering Student Experience, Adult Recruitment), 17 AMBER and 18 GREEN.

The GREEN risks are shown on the register but not on the dartboard. Nine GREEN risks will be removed at the next iteration.

In due course, the collaboration with Writtle University College will have its own risk register and this will be produced as discussions develop.

Meanwhile, the Committee **NOTED** that the collaboration has been added to the main Risk Register as an AMBER risk (no.36).

As regards, **English and maths attendance**, this area continues to be challenging, as it is in most FE Colleges in the country. Attendance is still in need of improvement. As regards achievement, 2017-18 pass rates for the new GCSEs in English and maths are positive. English has increased by 12 pp although maths has declined by 6 pp, but both are above National Rates. Functional Skills results are better than last year in both subjects, however English FS level 2 remains a concern for 2018/19.

Debs Hurst explained that an English & maths internal audit is planned for later in the year addressing attendance. In response to a governor question, management observed that some parents are not fully engaged with the importance of English & maths in the future prospects of their children and their progression. College initiatives are varied to combat the risk and these are having some impact on students involved because parents are now better engaged.

The Report also highlighted the inclusion of four new risks

- Adult Recruitment (RED)
- Collaboration with Writtle (AMBER)
- Possible increases in Teachers' Pensions Contributions (AMBER)
- Employee Grievances (AMBER)

Achievement of Adult Funding allocation for 2018/19 is dependent on sufficiency of **Adult Recruitment**.

In response to a question from a governor, Mark Emerson said that Adult recruitment is slightly worse compared to the same position last year. He believed it was about £75K behind. A newly established Curriculum Group is considering means to deliver new provision during the rest of this year to help achieve the recruitment target and achieve the ESFA allocation. There has been a reasonable intake of low wage employees.

The **Collaboration with Writtle** is mentioned above. The Committee were informed that considerable time has already been invested by the Senior Management Team in developing contact with Writtle so far and this is likely to increase and widen as discussions gather pace. The Committee were concerned that the College needs to take care that the Writtle discussions do not distract the SMT from the day job of running the College.

There is a possible increase of up to 7% in the contribution rates payable by the College for teaching staff who are members of the **Teachers'**

Pension Scheme with potentially short term mitigation funding. Debs Hurst said this is a significant financial burden for the College to face as the increase is from 16.4% to 23.4% of salary. The Government has indicated that there might be some short term funding to mitigate the added costs but it is not likely to be funded long term. The situation is still developing and remains uncertain at this stage.

The College is dealing with three formal **employee grievances** at the present time. One has been resolved but the other two are ongoing. In response to a question from the Chair, Debs Hurst did not feel that it is appropriate for this item to be a RED risk at this time.

Management explained to the Committee, in response to questions, that it continues to be difficult to find electrical teaching staff and we are reliant on agency staff. Furthermore, the College continues to work on curriculum delivery remotely through blended learning and other technology, where it is not necessary to have practical sessions.

Debs Hurst felt that, at the next iteration, new risks will need to be added for achievement of a break even budget and the ESS post-implementation review.

In response to a governor question, Debs Hurst reported that the College had received two definite offers for Beacon House. One offer was dependent on achievement of planning permission for the site and the other was without conditions but the second unconditional offer was £325K lower at £2.9 million.

Given that the lower offer was more certain despite being lower, this is being pursued as prompt completion, which might be achieved by signing a contract by Christmas, would result in cash proceeds being received much more quickly. This could be by the end of February when completion would be planned. It was noted that there are some VAT issues to be resolved relating to a deal but that should not be a blockage.

As GDPR governor, Doug Zeeman reported that there is risks regarding protective markings for documents and governor compliance needs some adjustment (Risk 27).

The Committee **NOTED** the points made on these risks in the Report and the verbal comments made by Management.

The Committee were reminded that review of the Risk Register is a standard agenda item at regular SMT Meetings and is therefore scrutinised on a continual basis.

The Committee **RECEIVED** the Report.

593.2 Assurance Mapping

This issue has been reviewed by Scrutton Bland and they have produced a Report on the information and the format as it has become somewhat unwieldy to maintain and update (see minute **594.1** below).

ACTION: DH

594. INTERNAL AUDIT

594.1 Internal Audit Completed Reports 2018/19

Two audit advisory reviews have been completed this year – Essex Shared Services: Value for Money and Assurance Mapping. The Committee **RECEIVED** and **DISCUSSED** these Advisory Reports. In both cases, the internal auditors do not provide an assurance opinion but merely advisory findings.

On **ESS: Value for Money**, the substance of the review was to assess the level to which financial efficiencies have been achieved for Chelmsford College through the work of Essex Shared Services Limited. Scrutton Bland obtained assurance that demonstrates that the original objectives proposed have been achieved along with continued reporting and monitoring of performance of ESS.

Two **low risk** recommendations arose:

- Produce a post-implementation review that assesses the creation, development and performance of ESS to demonstrate the intended benefits and efficiencies have been achieved and lessons learnt
- Ensure appropriate and identifiable KPIs and SLAs are in place for ESS and reported regularly

Points made in discussion

The EPA Hub assessment service is being developed in Essex Shared Services Limited and is close to being finalised. In addition, it is intended that ESS may have a role in the Writtle collaboration. The expansion of the Company is very much the desire of the ESS Board.

It was noted that any KPIs developed from ESS would have to take into account the change in ESS activity from 1 February 2019 when PROCAT and SEC have merged.

Management asked the Committee if they have any suggestions of KPIs for ESS in the future and to let them know.

To further inform the Committee regarding ESS, it was agreed that the Clerk (who is also Company Secretary of ESS) would make available the most recent Directors' Minutes of ESS, dated 12 November 2018, for information, once they have been reviewed by the Board on the understanding that these Minutes are only draft at this stage.

ACTION: CLERK

In answer to a governor question, Debs Hurst said that she is quite satisfied that she is getting the service she requires from ESS and therefore this aspect requires no further investigation from the customer service standpoint. She also stated that the cost of ESS to the College was considerably less than when the services provided by ESS were carried out in Chelmsford College itself, there has been substantial savings since inception circa £80k.

It was noted the ESS General Manager will carry out the post-implementation review of ESS recommended by Scrutton Bland and this would be reported back to this Committee in June 2019, along with any KPIs identified.

On **Assurance Mapping and Costing Model**, the substance of the review was regarding the effectiveness of the new activity based costing model introduced recently and the opportunities available to develop the College's approach to identifying and reporting on assurances in alignment with the College's risk reporting.

Scrutton Bland reported that the cost model was an example of 'best practice' as there are no other colleges in their region currently using this type of approach.

Scrutton Bland agreed that there is a need for the College to revise its approach to identify and report on the assurances which are achieved internally and those received from external sources.

Management have **agreed** to develop an updated Risk Register to incorporate key external and internal assurances within one document to streamline the mapping and assurance process, rather than utilising a separate assurance matrix.

Two **low risk** recommendations arose:

- Continuing development of the costing drivers
- Allocation of income and costs specifically relating to LLDD and Extended Learning specialist provision to be reviewed

Debs Hurst said the cost model highlights risk areas in terms of profit contribution and is therefore a pointer to reviewing the viability of provision the College is running and whether changes should be considered to the Curriculum Plan. Members also noted that for sound commercial reasons, the College may elect to run courses of less profitability than others.

The Committee **ACCEPTED** the outcome of the Advisory Reviews noted above.

595. Outstanding Audit Recommendations

The Committee **RECEIVED** a summary of previous recommendations and actions taken.

Eight recommendations were itemised of which five have been actioned and are complete. These will be removed from the next version of this summary.

Actions are in hand on all the other items noted with due dates noted.

The points raised by the Scrutton Bland advisory reviews will be carried forward as part of this Agenda item in future.

Mark Emerson drew the Committee's attention to anti social behaviour around the College campuses. There was a tazer incident recently and the College is aware of some drug dealing taking place adjacent to the College and sometimes involving College students. The College does not wish to alarm students or staff but they need to be kept aware of the risks and threats that exist. Extra vigilance is being shown by the College in the context of the College's Safeguarding responsibilities and Crisis Management.

The Committee **NOTED** the Report.

596. ANNUAL REPORT AND ACCOUNTS 2017/18

The Vice Principal, Finance & Corporate Resources **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 2018, including the Regularity Audit Opinion
- Draft Audit Highlights Memorandum from KPMG
- Draft Reports and Financial Statements for the year ended 31 July 2018 of Dovedale Nursery CIC (College subsidiary)
- Going Concern Report

The Committee also received a copy of the draft accounts of Essex Shared Services Limited for information. These have been reviewed by the Board of ESS and are subject to final tax adjustments. They will be approved by 3 December 2018.

The Surplus in the Annual Financial Statements for the College Group has been reconciled to the surplus as per the Management Accounts, the movements being primarily in connection with pension fund accounting under FRS102, which turns an operating surplus of £35K into total Comprehensive income of £1,149K.

Debs Hurst commented that, in her view, the Essex LGPS is becoming more efficient with its investment policy and mechanisms by greater use of advisers and cooperation with other Schemes. This appears to be improving the actuarial position. It is the case that the Scheme is now 93% funded.

Some adjustments to complete the Financial Statements were received from Members and the Clerk and these will be processed before 7 December 2018 plus anything else further which arises from final checks by the College and the external auditor.

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 was one uncorrected error discovered during the audit but it was 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 noted the excellent result for the year in what continues to be an extremely tight financial climate in the sector.

The Committee asked about the College's Financial Health. Based on the ESFA financial methodology, the College's financial health at 31 July 2018 was weak Satisfactory and, based on the College's Financial Plan submitted to the ESFA, it is expected to be 'strong' Satisfactory by 31/07/2019.

The College's intention is that it will rise to Good by 31 July 2020 following the proposed sale of Beacon House and a consequent reduction in debt.

The Committee **RECEIVED** a letter from the ESFA dated 15 October 2018 confirming the College's Financial Health.

Nathan Ackroyd 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)
- 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. A discussion with KPMG suggest a letter may not be required
- Final post balance sheet events review, including going concern review
- Some minor adjustments to the presentation of the accounts

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

KPMG are comfortable that the College is a Going Concern.

KPMG reported a number of minor issues relating to internal controls, all of which had been rectified or were as a result of one off incidents, with two exceptions:

- No formal review for either external or internal indicators of asset impairments
- Credit card expenses not always processed if the person has gone on long term sick

Management agreed these findings and procedures will be adopted to undertake an annual review of asset impairment and the processing of credit card expenses in the circumstances identified. Both of these points were ranked as being of Low Priority.

The Committee **RECOMMENDED** that the Annual Report and Accounts for the College Group and Dovedale Nursery CIC be approved by the Board at its Meeting on 7 December 2018, subject to the outstanding points noted above being satisfactorily completed.

596.1 GOING CONCERN REPORT

The Vice Principal, Finance & Corporate Resources **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 2017/18 accounts (i.e. to December 2019) and to enable it to recommend accordingly to the Board on 7 December 2018.

The risks considered were as follows:

- Ability to dispose of Beacon House – a sale is progressing at above book value
- LGPS deficit repair payments arising from actuarial review have been agreed until the next actuarial review and security over College assets has not been required
- Recruitment of 16-18 year old students is slightly above allocation and income should therefore increase by around £250K or so in 2019/20 under the lagged funding model, however, ability to achieve budgeted Apprenticeship Income for this year is a challenge
- An overdraft is not expected to be required in the foreseeable future although cash will be tight in early 2019 (none was required during 2017/18)
- The RCF will be settled from the sale of Beacon House (£3.8 million) and any remaining debt refinanced, thereby reducing overall debt to £4.6 million by July 2019

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 15 October 2018) at 31 July 2018 was Satisfactory and, based on the submitted financial plan, would be Satisfactory for 2018/19.

Debs Hurst stated that the College Financial Health is 'weak' Satisfactory and ESFA have put us on early warning as a trigger for Financial Intervention. The Sale of Beacon House should resolve this risk because our current ratio would improve, even if we pay back some debt. The key objectives are to carefully manage cash and reduce debt.

Mark Emerson reported that the College is lodging a business case with the ESFA, as last year, for additional in year money due to the number of 16-18 full time students exceeding the College's target allocation for this year. The College is hopeful but not certain of success with this application but it could lead to up to £300K extra income.

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 2018), 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 2018.

597. TEACHERS' PENSION AGENCY RETURN

The certificated return of contributions to the Teachers' Pension Agency for 2017-18, audited by KPMG, external auditors, and certified by the Principal, had been completed.

598. COMMITTEE MATTERS

The Committee **AGREED** to re-appoint KPMG as financial statements and regularity auditors for the year ended 31 July 2019.

The Clerk **PRESENTED** the Annual Report of the Audit Committee 2017/18 for consideration by the Committee and, after discussion, the Committee **RECOMMENDED** it be approved by the Board at their Meeting on 7 December 2018.

The Report informs the disclosures made in the Annual Report of the College regarding Corporate Governance and Internal Control.

The Committee reaffirmed that, in its opinion, the Board can take assurance from the work of this Committee.

599. ANY OTHER BUSINESS

There were no items of AOB.

600. DATE OF NEXT MEETING

Tuesday 25 June 2019 at 4.30 pm.

There being no further business, the Meeting terminated at 6.30 pm.

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