

AUDIT COMMITTEE MINUTES
Tuesday 5 March 2024 at 16.30
 Committee Room, Princes' Road Campus, and via MS Teams
 by exception

Members: Jaya Patten (Chair), Jenny Beaumont, Jan Church, Christian Norman , Alan Pitcher,

Attendees: Paul Goddard, Scrutton Bland (Internal Audit Service), Suzanne Goldsmith, Price Bailey (External Audit Service) David Warnes – Principal & CEO, Debs Hurst (Deputy Principal, Finance & Corporate Services), Ra Hamilton-Burns (Director of Governance).

	MATTERS	ACTION
1.	Apologies for Absence There were no apologies.	
2.	Declarations of Interest and to notify any confidential items There were none.	
3.	To approve the minutes of the Meeting held on 21 November 2023 i. To approve the minutes of the Meeting held on 21 November 2023 ii. To note the electronic resolution of 11 December 2023 AGREED: THE AUDIT COMMITTEE AGREED THAT THE MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2023 WERE A TRUE AND ACCURATE RECORD. The electronic resolution made on 11 December 2023 was noted.	
4.	Matters Arising 1. Confidential meeting with Auditors and Committee members only <ul style="list-style-type: none"> • College to ensure that Price Bailey is available to present the annual statements to the Board on 15 December 2023. <i>This was completed, whilst the annual statements were not presented, Price Bailey did attend.</i> • A broader discussion on the reasons behind the delays and issues that led to the delay on production of the accounts should take place. – <i>This was covered in Item 6 on these papers.</i> 6. Risk Management <ul style="list-style-type: none"> • Dates for the risk register need to be reviewed and, where appropriate, updated. <i>This was completed</i> 7. Fraud report <ul style="list-style-type: none"> • DH to make a request for a mandatory two week break for 	

	<p>finance staff once a year to Essex Shared Services. Most of the key players have a two-week break and as the finance team will report to DH after 1 August 2024 and it will be mandatory.</p> <p>16. Business resilience policy (disaster recovery)</p> <ul style="list-style-type: none"> The appendix should be added to the index and page numbering throughout should be completed. This has been completed and uploaded to the portal. <p>17. Annual data protection report 2022/23</p> <ul style="list-style-type: none"> ME to offer an update on the pros and cons on making these changes outlined on page 9 of the annual data protection report 2022/23 to workflow to the March meeting. Mark Emerson is not attending due to Ofsted inspection on site. <p>ACTION: DH will share Mark Emerson’s update advice on making changes to workflow of the annual data protection report 2022/3 by email.</p>	
TO DISCUSS AND APPROVE		
5.	<p>Draft Annual Report and Accounts</p> <p>i. Chelmsford College - Pending external auditors’ reports</p> <p>Debs Hurst offered an update on the Group annual report and accounts. The production of these is nearly finalised, a review by Price Bailey is taking place today. There will be a changing of wording on the going concern statement:</p> <p><i>As the corporation cannot be certain on the refinancing of the loan with Barclays Bank or the resolution of the breach of the bank covenants and the College does not currently have sufficient cash reserves to repay both facilities on demand these conditions indicate that a material uncertainty exists that may cast significant doubt on the corporations ability to continue as a going concern. These financial statements have been prepared on a going concern basis as the Corporation believe that these uncertainties will be managed effectively by being able to negotiate the bank covenants or obtain funds from the ESFA to ensure that the College will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements.</i></p> <p>Governors discussed the changing to the wording. The breach to the bank covenant was not made by 31 July 2023 but the cashflow at 31 July 2024 will result in a breach. Debs Hurst offered assurance that this position will be manageable. The Committee recognised that the College is not alone in the sector in this position. Suzanne Goldsmith confirmed that this is a live matter with a number of FE institutions, as the changes as a result of the reclassification of colleges comes into effect. The completed annual report and accounts will be presented to the March 22 2024 meeting of the Board. Suzanne Goldsmith confirmed that it was feasible that Price Bailey will provide the draft to go to the Board by the end of this week. She spoke with Mazars</p>	

yesterday about the delay in the funding audit and they are going to email the ESFA to ask if they are able to release their draft report, subject to completing the ILR audit which is delaying the process.

AGREED: THE COMMITTEE AGREED THE REVISED WORDING AND WILL RECOMMEND IT TO THE BOARD AT ITS MEETING ON 22 MARCH 2023.

ii. **Dovedale Nursesey accounts final version**

Suzanne Goldsmith presented the Dovedale Nursery accounts for approval and signature – the auditors anticipated a clean audit report

Significant matters are the usual post audit events:

- Any board meeting minutes for the approval of the 21/22 accounts
- To confirm no significant events affecting the accounts and provide an update on the latest Ofsted report.
- **Pages 4, 5, 6** outline adjustments made as a result of audit work. Nothing significant since the report to the Board in December 2023.
- Unadjusted areas are quite small
- Adjusted areas are more considerable and are around treatment of holiday club income and overstatement on deposit creditors.

The findings from the audit had been discussed in detail at the December Board 2023 meeting. Debs Hurst explained that the bad debt finding is a training issue which will be addressed when the team is brought back in-house. The Board minutes have been misfiled but will be replaced and sent to Suzanne Griffiths.

Gift aid will be dealt with in-year going forward. The transfer of £209,820 was made this week to meet the 30 April 2024 deadline to ensure no tax implications.

AGREED: THE AUDIT COMMITTEE AGREED TO RECOMMEND THAT THE ACCOUNTS FOR DOVEDALE NURSERY BE AGREED AND SIGNED.

AGREED: THE AUDIT COMMITTEE AGREED TO RECOMMEND THAT THE LETTER OF REPRESENTATION ALSO AGREED AND RECOMMENDED TO BE SIGNED.

Jaya Patten thanked Price Bailey for their work in finalising the accounts during what had been a difficult process over the last few months.

Suzanne Goldsmith highlighted Price Bailey's fees of circa £13k as a result of the additional work required. DH supported the costs and will recommend to the CEO.

Suzanne Goldsmith reported that, regrettably, Price Bailey will not be tendering for the production of the 2023/24 accounts and will disengage at the end of the audit for 2022/3. This had been noted and shared with the Chair. She thanked the finance team, and Debs Hurst in particular, for their work over the past three years. Debs Hurst thanked her and

	<p>reiterated their conversation that it was disappointing that Price Bailey has resigned before the end of their contract.</p> <p>Jaya Patten thanked Price Bailey and thanked her for assurance that they would hand over to the new firm once appointed.</p> <p>Suzanne Goldsmith left the meeting at 16.55.</p>	
6.	<p>Risk Management (strategic risk register and risk assurance reports)</p> <p>Risk Management (strategic risk register and risk assurance reports)</p> <p>i. The paper provides a recap of risk register reporting on Annual Report production as follows:</p> <p><i>The external auditors Price Bailey (PB) were appointed at the Audit Committee to review and approve the Financial Accounts for the year ending 31st July 2023. An interim audit commenced on 19th June where various documents including minutes of meetings, register of interests, basic testing of balances were carried out. Deborah Jones was appointed as the Audit Lead for Chelmsford College</i></p> <p><i>The full audit commenced on 9th October 2023 and PB was on site in Chelmsford for some of this time and information was uploaded as requested to the Inflo system, a Price Bailey portal, by the staff at Essex Shared Services. Due to illness the Audit Manager at Price Bailey changed during November. The External Auditors presented management letters on both the College and Dovedale at the Audit Committee 21st November 2023 which were not complete. A meeting with the Chair of the Audit Committee and Price Bailey was held. The Chair was informed that some balance sheet items required further investigation including bursary reconciliation, debtors accounts and accruals. The Deputy Principal Finance & Corporate Services (DPFCS) took the lead on this with the team at Essex Shared Services.</i></p> <p><i>At the Board meeting on 15th December 2023 the Annual Report and Accounts were not ready for signing by the College and Price Bailey was not able to issue the Auditor Statements for the accounts. We continued to supply the information that PB requested during January 2024 and came to agreements on the approach the certain balances which in the past had been audited and agreed by PB but now changes were required as to how they were shown. In view of this ,some prior year balance changes were required to ensure consistency.</i></p> <p><i>An updated management letter and signing pack for Dovedale Nursery was received on 9th February 2024.</i></p> <p><i>On 12th February 2024 further queries were raised by PB on the treatment of the loan with Lloyds Bank due to the potential failure of not being able to meet the loan covenant cash balance as 31st July 2024.</i></p>	

Although the DPFCS argued the case that this was future cash flows, the College was advised by PB to make amendments to the accounts to show the debt as due in one year which we did. The DPFCS asked advice from the FE Commissioner team who challenged this approach. A further email dated 14th February with PB resulted in a reversal in their position and they agreed that the loan did not need to be classified in one year. Again, the accounts were amended back.

A further set of the Annual Report and Accounts were sent to Deborah Jones on 19th February, changes were requested to a couple of tables due to misunderstanding of the requirements. However, the College should have been notified before now.

All the changes requested by PB have been made and a FINAL VERSION excluding the Auditors' Report pending the funding audit has been included in the Audit Papers.

At 26th February 2024 we have not received a further extension, but this has been requested as the Audit Report from Mazars has not been received.

Suzanne Goldsmith has contacted Mazars and has been assured that the funding audit had not found any material concerns.

Debs Hurst received an email on 29 February from ESFA confirming an extension for submission of the annual accounts to 31.3.24.

Debs Hurst expressed concern that Price Bailey is saying that they have to undertake more reconciliations so late in the process.

The College has never experienced this delay before as Paul Goddard from Scrutton Bland has done an audit on funding in June which offers the external auditors assurance. The College had been selected as a trial funding audit and feedback from Mazars was very complimentary about the team. Unfortunately, every time Mazars tries to run the cross ILR data through the DSAT software provided by ESFA the process fails. KPMG claim to have identified the error and put a fix in, but the data will still not parse.

Governors thanked the College team for the extra work and time that managing this delay has entailed.

Jaya Patten said that whilst the Board has been kept fully informed throughout, the risk of delay to accounts finalisation did not appear on the risk register. He suggested that for the record and any future review, the Committee and the risk register should record the timeline of events that resulted in the delay to the production of the events.

The Committee asked how long the ESFA will allow this position of delay to continue given that it hasn't been possible resolve the IT issues. Debs Hurst says that Suzanne Goldsmith is trying to reach a conclusion via Mazars. If this is not successful, David Warnes will contact the College's

contact in the PMO to expedite matters. Amanda Montague has also offered to raise this with the ESFA if the delay continues. It had been discussed with Becky Edwards, Deputy FE Commissioner at the January 2024 Project Future meeting so it can be raised again.

Governors complimented the team on the work done to bring this situation to a resolution. They asked if there are any lessons that can be learned for the future and if the resignation of the auditors is a result of this process. Debs Hurst said she believed that the pedantic treatment of the accounts was in preparation for resignation of the account indicating that Price Bailey had planned to withdraw for two or three months. In this audit, the firm had picked up on things they had not noticed in years one or two. Debs Hurst challenged Suzanne Goldsmith and asked if this was the case. Price Bailey will want to handover a clean set of accounts to their successor. The resignation letter indicated that Price Bailey may be withdrawing from the FE sector.

The lessons learned will be that the Deputy Principal will review all materials going to the external auditor. The quality of the team needs to be competent, and the new in-house team will be strengthened. Resumption of the internal audit of the funding in the summer will offer a second line of assurance.

The Committee asked if it is likely that there will be an impact on the College in terms of increased fees as there are less firms tendering for FE sector audit work.

Item 6 – there are five risks that have a residual red:

- Pay budget – exceeds 65% set by FEC. Debs Hurst has no expectation that this will be met due to market conditions, agency costs and recruitment issues. This is likely to remain a risk despite all efforts to keep costs under control.
- Energy costs are lower than last year but are higher than budget.
- Learner attendance – is discussed at Quality and Learners' and is not where it should be
- Staff recruitment – particularly to key roles for instance head of engineering, is problematic. There may need to be different remuneration for different faculties. There is a new head of English and Maths, but the post holder will not join until May.
- Delay to the signing of the accounts and resulting reputational damage. Has been discussed under Item 5.

Paul Goddard cautioned that there is a new financial handbook due to be published and, although it is not known what this contains, this might be kept on the risk register. The impact may be to capacity of staff as they put in place any measures to meet regularity requirements.

Paul Goddard then asked if there was anything in the risk register on the increased demand for delivery of Maths and English.

ACTION: DH to check that the recent increase for Maths and English delivery is included on the risk register.

Debs Hurst alerted the Committee to an additional risk around the insourcing of the finance team. The going concern position of Essex Shared Service is now altered and there will be a post-balance sheet note in the annual report follows:

On the 25 January 2024 the ESS Board was formally notified by the Chelmsford Board of their intention to withdraw from the joint venture with South Essex College Group. The ESS Board agreed to negotiate dissolution of the joint venture agreement and also that there were no other realistic partners to continue the operation of the shared services provision, as a result the Board has started a consultation with staff regarding the in-sourcing of the function provided by ESS back into the respective colleges and plan for this to be realised on the 31 July 2024. The staff will TUPE in on 1 August 2024, at that point ESS will cease trading with all remaining assets transferring to South Essex College or Chelmsford College Group in line with the JV agreement. The Board does not anticipate any redundancy costs and considers that the carry in value of the balances represent fair value reflecting that the services will be transferred as a continued operation. In particular the Board expects the pension assets and value to transfer to the colleges without crystallisation.

Debs Hurst said she has confirmed this position with the local LGPS provider.

Action: the dissolution of ESS will be added to the risk register

Governors asked when the costs for this will hit the College's balance sheet and when this will be. The pensions are the biggest cost. There will be increased costs, not yet identified, as a result of bringing the finance team in-house but it is essential for the quality of provision and assurance. The procurement team will be asked to work hard to save any funds.

The Committee asked if it is the responsibility of ESS to deliver the dissolution work or will it impact on the College Team. DH said that since the TUPE notification was issued in early March, she has met with every member of the team that are earmarked to TUPE across. There has been one resignation, and it would not be surprising if there was more attrition. South Essex's HR head have taken the lead for ESS, Debs Hurst has been working on the consultation for Chelmsford College. Legal advice was taken and there have been no surprises to date. Debs Hurst will continue to manage: meetings, looking at contracts for finance and payroll systems, going out to tender for external auditors.

Paul Goddard suggested that there are external firms that conduct tenders for audit services on behalf of colleges.

7.	Fraud report Debs Hurst was pleased to report that there have been no reports of Fraud.	
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8.	<p>Going Concern report</p> <p>AGREED: THE AUDIT COMMITTEE AGREED TO RECOMMEND TO THE BOARD THAT THE COLLEGE IS A GOING CONCERN AT ITS MEETING ON 22 MARCH 2024.</p>	
OPERATIONAL AUDIT ITEMS		
9.	<p>Schedule of outstanding internal and external audit items An updated table was presented and questions invited.</p> <ul style="list-style-type: none"> • The legionella in the sports hall has been resolved. • The control of asbestos regulations is complete and there will be no need for an annual external inspection if a suitably qualified internal member of staff can conduct it. <p>Paul Goddard said that apprenticeships at the College audit haves gone well. The many components involved are complex, the bringing of apprenticeships into departments and the revisiting of the CRM system and a new strategy and new sign-up system and restructure of development team and assessors are all potentially positive changes. The College is ahead of budget on apprenticeship numbers. The audit gave a Green – interim significant assurance.</p> <p>Three low risk recs:</p> <ul style="list-style-type: none"> • Marketing to work closely with apprenticeship teams • Internal communications are critical to keep teams updated • Keeping ear to ground to get feedback from employers for instance the surveys <p>Paul Goddard has been scanning the sector to see which other colleges are using GroFar and they will be putting colleagues in touch when appropriate.</p> <p>Progress report – there has only been one audit and one has been delayed to this week and now has been further delayed due to Ofsted. Paul Goddard suggested that finalised reports might be shared with governors as they are published going forward.</p> <p>ACTION: DH will be confirming the funding audit for 3-6 funding audit</p>	
10.	<p>Report on prior internal and external audit recommendations including actions The Committee noted these.</p>	
11.	<p>Update on national and statutory audit matters Paul Goddard said that the key audit matters nationally were:</p> <ul style="list-style-type: none"> • Financial handbook • Maths and English 	

	<ul style="list-style-type: none"> • Recruitment challenges – a peak of senior staff changes. • Frauds happening on an internal basis have risen as trust is placed in individuals and processes for segregation need to be robust. <p>ACTION: Fraud will be on the agenda for internal audits in 2024/25</p> <p>Governors asked what the implications of senior colleagues moving on might be in terms of salary inflation. Paul Goddard said that this is difficult to quantify but there has been a risk identified where internal colleagues have been promoted before their time. Christian Norman said that there has been more pay suppression for senior staff as funding has been used for lower paid staff. Debs Hurst said that the managing public money requirement to seek DfE approval has had implications as pay rises over 9% or packages over £150k and some of the bigger colleges are experiencing issues.</p> <p>Paul Goddard left the meeting at 17.45.</p>	
COMMITTEE MATTERS		
12	<p>Review and appointment of auditors</p> <ul style="list-style-type: none"> • Performance Review of Price Bailey 2022/23 and Scrutton Bland 2022/23 • Appointment of external and internal Auditors for 2023/24 <p>Price Bailey had resigned this day, and a tendering exercise will need to take place. Jaya Patten repeated his assertion that the costs of audit are likely to rise given the scarcity of firms willing to bid. It would be possible to see if more synergy between business management and finance might leverage more savings. Debs Hurst said that the innovation to motivate the procurement team to meet targets of savings or sponsorship will support this initiative.</p> <p>Governors commented that whilst change will be painful, it also offers an opportunity to restructure and take new approaches.</p> <p>There is a £1.3m potential increase in funding next year that should be protected to spend on support services and ensure that the College can meet the Project Future targets.</p> <p>Jaya Patten suggested that it would be appropriate that Audit Committee might be redefined as a risk and audit committee. The risks are critical to the Committee to allow it to gain assurance.</p> <p>The delay to the accounts has meant that there is a delay to the finance system rolling over.</p> <p>Scrutton Bland has another year on its contract. Their performance has been exceptional, and Debs Hurst recommended that additional funding</p>	

	<p>to conduct internal audits on materials for courses, the new finance team and the implementation of the new finance handbook be planned for 2024/5.</p> <p>Governors agreed that the partner and the firm are both sound and Paul Goddard operates as a relationship manager and this works very well. Debs Hurst has not done a dartboard for this meeting but the one on which she has worked has been shared as an example of best practice by Scrutton Bland with East Surrey College.</p> <p>AGREED: THE AUDIT COMMITTEE AGREED TO RECOMMEND THAT SCRUTTON BLAND BE APPOINTED AS INTERNAL AUDITORS FOR 2023/4.</p>	
13	<p>Any other business There was none.</p> <p>Jaya Patten thanked Jenny Beaumont for chairing the audit committee for the last couple of years.</p> <p>The meeting ended at 17.55</p>	
14	<p>Date of next meeting The next meeting will be 25 June 2024.</p>	