

Colchester Institute Corporation

*Minutes of a Meeting of the Audit and Compliance Committee
held on 22 November 2011
at the Sheepen Road Site*

Present

Kevin Prince, in the Chair
John Baugh

Christopher Bridge
Richard Wainwright

In Attendance

Danny Clough	Principal and Chief Executive
Gary Horne	Director of Finance and Operations
Sharon Gravener	Scrutton Bland, Financial Statements Auditors
Tim O'Connor	Scrutton Bland, Financial Statements Auditors
Hazel Paton	Clerk to the Governors
Myroulla West	Internal Auditor

Apologies for absence were received from Ron McKay

1. Declaration of any conflicts of interest regarding any items on the agenda

None.

2. Accounts 2010-11

The Committee received and considered:

- CIC/AC/11/3/1, Report and Financial Statements 31 July 2011, and
- CIC/AC/11/3/2, Financial Statements Auditors' Management Letter - Audit of the Financial Statements and Regularity Audit for the year ended 31 July 2011.

The Financial Statements Auditor reported on the main sections of the accounts.

(i) Income and Expenditure account

It was noted that the accounts for 2011 reflects a full year of activity for the College at Braintree, but the accounts for 2010 only included seven months activity at Braintree, from 1 January 2010, making it difficult to compare performance year on year. The Financial Statements Auditor reported the income and expenditure at Braintree College for the five months to 31 December 2009. Comparing full year results income would have been down by about £2.2m and expenditure down by about £3.3m compared to 2010, although the College had no control over the performance of Braintree College during the five months to 31 December 2010.

It was noted that one year after the merger the deficit is reducing and staff costs have been contained with plans in place to further reduce staff costs during this year.

At the request of the Finance and General Purposes Committee, an additional disclosure box has been included identifying the surplus for the year before FRS 17 adjustments.

It was noted that the performance of the College at Braintree has had a neutral effect on the accounts; as last year, the Merger Support Fund has been released in line with the deficit at the Braintree campus.

It was confirmed that as part of the audit the Auditors had reviewed the bank covenants to ensure these were being complied with.

(ii) Statement of Total Recognised Gains and Losses

Items include reversal of the impairment of A Block which is being brought back into use as an HE Centre and an actuarial loss on the pension scheme.

(iii) Balance Sheet

It was noted that fixed assets were largely the same as the previous year. The fall in cash at bank and in hand is due to funds being placed on deposit (shown as investments), the repayment of the bank loan, and the release of the Merger Support Fund against expenditure at Braintree. In response to a question it was reported that cash levels will drop to around £2m in March 2012 but cash reserves will always be sufficient for one month's worth of salaries.

Although the College has moved from a position of having net current assets to having net current liabilities, the Financial Statements Auditors do not consider the level to be a cause for concern.

The Financial Statements Auditor presented the Management Letter.

(iv) Going Concern

Members were advised that because of concerns in the sector about financial health the Accounts Direction handbook requires both Boards and Auditors to satisfy themselves that the institution can continue in operation for twelve months, and requires colleges to state more specifically the basis on which it has made this assessment. The Financial Statements Auditors reported that they had looked at the budget for this year, the financial plan to 2014, and the cash flow balances, and on this basis are happy that the College is a going concern.

Members discussed the pressures from repaying the short term loan and the vulnerability to changes in learner funding. They were advised that the College is planning to maximise student numbers to bring in an additional £1.5m. The College over performed last year and is looking to negotiate 16-18 learner numbers back to last year's level of 5000 which should release additional income of £1m. The College has been offered over £1m in new apprenticeship funding over the next two years. It should also be noted that funding risk is spread across diverse income streams: HE, FE, full cost and apprenticeship funding.

(v) Recommendations arising from the Audit Process

The procedural recommendations arising from the audit process were discussed. Arising from the discussion it became apparent that the recommendation relating to the calculation for the Lennartz VAT liability was particularly onerous, requiring three different reports to be run and then manual calculations. The Financial Statements Auditor agreed to revise the recommendation to make it more proportionate.

(vi) **Letter of Recommendation**

The Letter of Recommendation was considered and schedule of unadjusted errors accepted.

The Principal and Director of Finance and Operations left the meeting.

The Committee met in private with the Financial Statements Auditor and Internal Auditor.

The Principal and Director of Finance and Operations rejoined the meeting.

The Committee accepted the Financial Statements Auditors Report and AGREED to recommend the Financial Statements and the Letter of Representation to the Board.

The Committee thanked Sharon Gravener for her work over the past seven years.

Sharon Gravener and Tim O'Connor left the meeting.

3. **Minutes**

The Minutes of the meeting held on 7 June 2011 (CIC/AC/11/3/3) were received and confirmed. The Chairman signed the minute book.

4. **Action Sheet and Matters Arising**

None, other than on the agenda.

5. **Follow up on Internal Audit Reports**

CIC/11/3/4, Internal Audit Follow Up Report, was received and presented by the Internal Auditor. The report gave the results of the Internal Auditor's follow up of outstanding recommendations for eight reports.

The Committee, satisfied that all outstanding recommendations have been implemented, signed off two reports: Health and Safety; and Cash Income and Banking.

Members discussed the HE Funding report, which had two outstanding recommendations which were in abeyance due to changes in the funding regime. The Principal reported that the Management Board had met earlier that afternoon, and it would not be in the College's interests to press the University at this point. Members were advised that Government policy is to move away from franchised and indirect funding arrangements, and under the new HE funding arrangements for core and margin student numbers the College will move over time to a position where it will be a directly funded HE organisation. The College's relationship with the University will then become one of validation arrangements rather than funding. A member asked about UCAS applications for next year and was advised that whilst the number of applications is down compared to applications for this year, they are above the applications for 2010-11 which is a better benchmark. Applications spiked in 2011-12 as students tried to avoid higher tuition fees which come into effect for new applicants in 2012-13.

6. **New Internal Audit Reports**

6.1. **Assets and Stock**

CIC/AC/11/3/5, Asset and Stock Management Audit Report, was received and presented by the Internal Auditor. The audit had looked at whether the College had adequate arrangements for safeguarding its assets and stock. The audit found that FRAP (Financial Regulations and Association Procedures) was not being complied with and the process for asset and stock management was rated as Weak. Action has been agreed to remedy the situation, including revisions to the requirements for stock control which were considered too onerous.

6.2. **Health and Safety at The College at Braintree**

CIC/AC/11/3/6, Health and Safety at The College at Braintree Audit Report, was received and presented by the Internal Auditor. The audit had looked at whether the College was meeting its responsibilities and whether Centres were complying with Codes of Practice. The audit found that whilst there were some issues of non compliance in Centres, which are being addressed, systems overall were Satisfactory. It was noted that considerable improvements have been made in this area since the merger.

6.3. **Budget Setting and Control**

CIC/AC/11/3/7, Budget Setting and Control Audit Report, was received and presented by the Internal Auditor. The audit found the controls to be Good and there were no recommendations. The Committee signed the report off.

6.4. **Compliance with the Provisions of the Bribery Act**

CIC/AC/11/3/8, Compliance with the Provisions of the Bribery Act Audit Report, was received and presented by the Internal Auditor. The audit looked at whether the College has sufficient procedures in place to deal with the implications of the Bribery Act and found that the College's controls were Satisfactory. Some recommendations were made which are being implemented.

6.5. **Additional Learning Support**

CIC/AC/11/3/16, Additional Learning Support Audit Report, was received and presented by the Internal Auditor. The audit had looked at various elements in the process, including budget monitoring and compliance with regulations, and rated the area as Weak due to differences, albeit it minor, between the Midas system used to manage and record Learning Support and the ILR (Individual Learner Record) used to return student data to the funding body. Members were advised that management arrangements have been strengthened in this area and that there has been a considerable improvement since the appointment of a Funding and Information Manager.

7. **Internal Audit Annual Report 2010-11**

CIC/AC/11/3/9, Internal Audit Annual Report Year Ended 31 July 2011, was received, considered and accepted for recommendation to the Board.

There were 244 days of internal audit coverage compared to a plan of 240 days. Based on the internal audit work, and her knowledge of the College, the Internal Auditor has given the College a positive audit opinion.

It was noted that the Internal Audit team continued to keep up to date with developments, received high quality training, and complied with professional standards.

The Internal Audit Performance Indicators were noted. It was noted that the indicators had been in place for a number of years and agreed it was timely to review them for appropriateness. The Internal Auditor agreed to take this forward with the Director of Finance and Operations.

The Committee thanked the Internal Auditor and her team for their hard work on behalf of the College.

8. Audit and Compliance Committee Annual Report to the Board

CIC/AC/11/3/10, draft Audit and Compliance Committee Annual Report to the Board and Chief Executive for the period 1 August 2010 to 31 July 2011, was received, considered and approved for submission to the Board.

9. Regularity Audit Self Assessment Questionnaire 2010-11

CIC/AC/11/3/11, Colchester Institute Regularity Audit Self Assessment Questionnaire 2010-11 was received, considered and APPROVED.

10. Financial Management and Control Evaluation (FMCE)

10.1. FMCE 2009-10

CIC/AC/11/3/12, report on the validation of the College's FMCE Return 2009-10, was received and considered. Members noted the recommendation relating to Board monitoring of the BCT Consortium and discussed the most appropriate mechanism for the Board to undertake this monitoring role. Members were advised that this is now a standing agenda item for the Finance and General Purposes Committee, and significant issues will be flagged up through the minutes. The BCT Consortium produces its own Self Assessment Report, which it was agreed should be reviewed by the Quality and Standards Committee.

10.2. FMCE 2010-11

CIC/AC/11/3/13, FMCE annual return for Further Education Colleges, was received and considered. The Committee agreed the overall self assessed grading of Good and approved the FMCE for submission to the Board.

11. Financial Regulations and Associated Procedures (FRAP) 2010-11

CIC/AC/11/3/14, summary of FRAP updated 2010-11, was received, considered and agreed.

12. Risk Management

CIC/AC/11/3/15, Significant Risks Action Plan – summary of identified risks as at 09 November 2011, was received and considered. Members were reminded that each Centre/Department discusses risks at team meetings and identified risks are considered by the Risk Committee and scored based on probability/likelihood and impact/severity. At the last Risk Committee, two new risks were added, seven had their score reduced and four had their score increased.

Members questioned the scores for a number of risks:

- Loss of IT systems (including Wi-Fi) (increased from 10 to 14) - members were advised this related to the new HE building which is reliant on wireless technology. Also Fibre optic cable runs through A Block and is at risk of damage during the refurbishment project.
- Industrial action (score 8) - it is expected that some classes will not take place as a result of the planned day of action on 30th November.
- Unsuitable accommodation (increased from 6 to 12) - members were advised that this related to the Eastgate Annex, which was originally intended as a temporary building to be used for two years during the new build. The building is of low standard and there are ongoing problems relating to heating and ventilation. Once A Block is brought back into use for HE students from September 2012, teaching can be moved out of the Eastgate Annex into the classroom spaces that are freed up. The building will still be used for the library. The long term plan is to build a new structure for the library.

13. Reports under the College's Fraud Policy

It was noted that there had been no reports of suspected fraudulent or irregular acts under the College's Fraud Policy during 2010-11.

14. Date of Next Meeting

Tuesday, 28 February 2012 at 4.30 pm

15. Any Other Urgent Business

None.