

Colchester Institute Corporation

*Minutes of a Meeting of the Audit and Compliance Committee  
held on 14<sup>th</sup> June 2016  
at the Sheepen Road Site*

**Present**

Lisa Clampin, in the Chair  
Peter Hempstead

Kevin Prince

**In Attendance**

Alison Andreas	Principal and Chief Executive
Gary Horne	Vice Principal: Finance and Operations
Tim O'Connor	Scrutton Bland, Financial Statements Auditor
Hazel Paton	Clerk to the Governors
Grant Spilsbury	Internal Audit Manager, RSM

Apologies for absence were received from Pamela Donnelly.

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

None.

**2. Minutes**

The Minutes of the meeting held on 7<sup>th</sup> April 2016 (CIC/AC/16/2/1) were received and confirmed. The Chair signed the minute book.

**3. Matters Arising from the Minutes**

**3.1. Report on application numbers and conversation data**

It was reported that by May applications were still almost 30% up on the previous year. The College has been working much more closely with schools this year to get applications in early and it is possible that there will be fewer late applications over the summer than in previous years. The changes to A Levels, which are being introduced in some subject areas from September 2016, may also be a factor although the College would not expect to see a huge increase in applications from students who might otherwise apply to a sixth form this year. Those A Level subjects moving to the new system from September will be assessed by examination at the end of the second year. There will no longer be an opportunity to take an AS Level at the end of the first year and then drop the subject, and students will not be able to redo AS level work in order to improve their grade.

Based on the data for conversion rates in previous years the College will probably enrol about 4200 students in September 2016. Because of the way applications have previously been coded it is difficult to give a conversion rate for a particular course. Applicants are offered a place on a course in a subject area, such as Health and Social Care, but the level is dependent on the final examination results. Many students make a joint application for a full time programme and an apprenticeship so if apprenticeship numbers are good full time numbers may be down.

Retention data for the last two years shows that student numbers at the end of the enrolment period is the final funded figure and that for every student who enrolls late an equivalent number will leave before they are funded.

A written report will be brought to the next meeting of this Committee.

### 3.2. Metrics for measuring the Internal Audit Service

It was confirmed that there were no performance measures in the contract for the Internal Audit Service but there are performance metrics in the annual report. The College is about to retender for the Internal Audit Service, providing an opportunity to prescribe metrics.

## 4. Audit Planning Letter for the year ended 31 July 2016

CIC/AC/16/2/2, Audit Plan for the Audit of the Financial Statements and Assurance Report on Regularity for the year ended 31 July 2016, was received and presented by the Financial Statements Auditor. A number of audit issues were highlighted.

The forecast year end position has worsened since the initial planning meeting. The current operating forecast deficit does not include the write off of STEM project costs at The College at Braintree which the College considers to be 'exceptional' in nature. It is currently unclear as to how the SFA will deal with exceptional costs under FRS102 and the new financial health calculations. The Vice Principal: Finance and Operations will report at the forthcoming Corporation meeting.

Attention was drawn to particular variances on individual budget lines. The most significant shortfall was in HE income due to under recruitment in 2015-16. This will have an impact on income for the next two years and HE income in 2016-17 is likely to be near £1m lower than in 2015-16. Rebranding of the HE Centre as the University Centre Colchester was considered to be a key part of making a positive impact on recruitment going forward. The shortfall in Work Based Learning subcontract income has been partially offset by expenditure savings.

The College continues to pursue its claim in respect of the Lennartz VAT arrangement which if successful may lead to a repayment of payments previously made. The Vice Principal: Finance and Operations reported that he had met with the Consultant advising the College earlier that day and updated Members on the current status of the claim. The hearing in the First Tier Tribunal is likely to be in September/October 2016. Since the last meeting with the Consultant there have been three further judgements in the EU Courts which further support the College's case.

The College agreed a short term overdraft facility with Barclays Bank in early 2016 which was subject to a condition that the College undertakes a valuation of the mortgaged Sheepen Road site. This gives rise to a potential opportunity to revalue land at all sites to increase balance sheet asset value. In response to a question the Financial Statements Auditor said that the revaluation would be based on existing use value rather than market value. The revaluation will have an impact on the balance sheet but will not impact on financial health. Under FRS102 transitional rules the revaluation can be frozen. The Vice Principal: Finance and Operations reported that he had explored the option of revaluing the buildings but this would result in a depreciation charge and is not something that the College would want to pursue at this time. There is no depreciation charge with land.

The main changes to the accounts, which will be prepared in line with the new Further and Higher Education SORP, were noted. The Vice Principal: Finance and Operations reported that he had had several meetings with Barclays Bank regarding the bank loan covenants and he has

been asked to map the forecast position against the new layout so the Bank can analyse the outturn under FRS102 conditions and propose new bank loan covenants for this year end and going forward. The Bank has given assurances that they want to be fair and equitable and ensure that the proposals are in line with the current covenants.

The audit timetable, audit team and audit fees were noted and accepted. The fees have not increased since 2012 but there will be an additional one off fee this year in respect of the audit of the additional disclosures required as a result of the transition to the new Further and Higher Education SORP.

## 5. **Internal Audit Tracker**

CIC/AC/16/2/3, Internal Audit Recommendation Tracker, was received and considered.

### (i) **Health and Safety (4.14/15)**

Members noted that one recommendation was still in progress but it was not clear from the latest management update how close the College was to fully implementing it. It was reported that standardising the risk assessments in place across the College was a huge task, involving a lot of work liaising with staff in individual faculty areas across the curriculum. The Health and Safety Officer has been trying to complete this task over a short period of time. RSM recently carried out a follow up audit in this area which will be reported at the next meeting. The Manager will also be asked to provide a percentage complete figure for the next update.

### (ii) **Subcontracting (7.14/15)**

Members noted that one recommendation had been identified as superseded and asked the Internal Auditor if the new process was a suitable substitute for the original recommendation. It was confirmed that this would be covered by the external assurance on subcontracting controls carried out by Scrutton Bland.

The Committee accepted that all recommendations in this report had now been completed.

## 6. **New Internal Audit Report**

### 6.1. **Marketing**

It had been anticipated that the Marketing Internal Audit Report (CIC/AC/16/2/4) would have been finalised in time for this meeting but the Internal Auditors were waiting for management responses following final revisions. The report will be received at the next meeting.

### 6.2. **Payroll**

CIC/AC/16/2/5, Payroll Internal Audit Report, was received and considered. It was a positive report with only one medium recommendation relating to clearing outstanding reconciliations and making sure that they are subject to independent review and sign off.

### 6.3. **Appraisals**

CIC/AC/16/2/6, Appraisals Internal Audit Report, was received and considered. There were two recommendations relating to the completion rate for appraisals and the

reporting of completion rates. The Director of Human Resources used to provide reports to the College Executive but this had stopped due to workload issues. This will be addressed when the newly appointed HR Manager takes up their post in September.

#### **6.4. Learner Number Systems**

CIC/AC/16/2/7, Learner Number Systems Internal Audit Report, was received and considered. The review had concentrated on EFA (Education Funding Agency) funding (16-18 year olds) and involved substantive testing of 80 learners using the EFA funding methodology. The main finding was in relation to documenting work experience for funding purposes. If the College is not able to demonstrate that it has planned work experience for students on Study Programmes the students could drop funding bands. Of the students sampled, twenty could potentially slip funding bands based on the current evidence on the system. A system has been put in place on Pro Monitor to capture work experience and the College has until the end of this academic year to get the evidence in place. The information is probably readily available in the faculties and could be provided in the event of a funding audit. There is currently no requirement to use Pro Monitor to record this information centrally. Members were concerned that a system had been put in place to capture this information but was not being used in a disciplined way, and asked if the findings of the audit (25% failure rate) could be extrapolated across the organisation to identify the potential loss of funding. It was reported that it would not be appropriate to extrapolate the findings because a lot of other evidence could be produced in the event of an EFA audit. For example the EFA accept that work experience may fall through or was not successful. The findings also need to be considered in the context of the timing of the audit, which was carried out during the busy examination period for lecturers.

**RECOMMENDATION TO BOARD:** that the recording of all work experience on a college approved system is made mandatory for all staff.

Other recommendations relating to the accuracy of timetables, use of generic start dates for English and maths qualifications, and evidence of prior achievement for English and maths to support exemption from studying these qualifications, and potential impact on funding, were noted and discussed. It was noted that students who have a learning needs assessment and categorised as having a severe learning disability are not exempt from studying English and maths if they have previously studied and achieved a qualification in these subjects, even if they will not be able to progress. Members asked how the College responds to this requirement and were advised that if the College is to continue to take on learners as a last chance opportunity it has to accept that the support costs are high. If the College does not try to progress these students in English and maths they will not meet the condition of funding and will be removed from the lagged learner number. The EFA is inflexible in this rule.

Given the complexity of the funding rules and the breadth of delivery, the report outcomes recognised the good work that has been put in place.

### **7. Internal Audit Progress Report**

CIC/AC/16/2/8, Internal Audit Progress Report, was received and presented by the Internal Audit Manager.

#### **7.1. Update on 2015-16 Plan**

It was noted that the review of sickness and absence management had been deferred due to workload issues in the HR Department and would be carried out in 2016-17 when

the new HR Manager is in post. The estates: responsive repairs audit has been deferred due to the current campus works. An additional audit of Higher Education was proposed by the Vice Principal: Finance and Operations. This was previously in the plan and had been deferred. It would be opportune to carry out this audit now as it has been three years since the last QAA (Quality Assurance Association) quality inspection of the College's HE provision. This was approved by the Committee.

#### **7.2. Update on Field Work in Progress**

Fieldwork had started on the Subcontracting audit. The Internal Audit Manager updated Members on the current findings. The review has looked at three subcontractors and concerns have been identified with one of them, requiring the audit team to look at a wider sample to make sure there are no inherent problems. The audit has confirmed that the subcontractor misrepresented itself in its tender document to the College in that the company that originally tendered is dormant and no longer trading. This issue had been identified by the College during the year and followed up as part of the audit. RSM have looked into the company and it appears that they could potentially be acting as a second level subcontractor which is not permitted by the SFA. There are also concerns around some of the paperwork which is being looked at with the College. Arising from the discussion it was reported that the subcontractor had retendered to work with the College from 1 August 2016. Their tender score was worse than previously, based on performance this year, and the intention was to offer another contract at a higher levy because of the risk. The directors of the organisation have been asked to clarify the position. Depending on the outcome of this audit, the offer of a contract for 2016-17 may be retracted. The issue of the second level contracting can be resolved if the SFA agree to it. The Committee asked how this had originally been identified and were advised that a member of staff had noticed different company names during a quality visit. The College responded by getting the subcontractor to change the name on the contract because the company was dormant. The directors have consistently maintained that they are just trading names when in fact they are separate legal entities.

#### **7.3. FE Seminars**

It was reported that RMS were running some further education seminars in June/July. The seminars, which are free of charge, are aimed at governors, senior managers, and clerks. The Clerk agreed to forward details to Committee members.

#### **7.4. Current Issues for the sector**

Committee members welcomed the briefing on current issues for the sector included in the progress report and agreed to circulate this to the Board and include on the agenda for the July Board meeting.

*The Internal Audit Manager and Financial Statements Auditor left the meeting.*

### **8. Internal Audit Provision Invitation to Tender**

CIC/AC/16/2/9, draft internal audit provision for Colchester Institute invitation to tender, was received and discussed. It was reported that the tender was a standard document from the CPC (Crescent Purchasing Consortium) framework. The key difference is that the current internal audit contract is for a fixed term of three year. It is proposed that the new contract will be for an initial period of three years with the option to extend the contract for a further period of one year and final period of 1 year subject to satisfactory performance.

After a wide ranging discussion various amendments were agreed to Appendix 1, ITT Vendor questionnaire, and Appendix 7, evaluation criteria. Subject to these changes, the invitation to tender was approved for issue via the CPC audit service framework.

It was agreed that Kevin Prince would be part of the evaluation panel.

*The Internal Audit Manager and Financial Statements Auditor re-joined the meeting*

## 9. Assurance Mapping

The Committee was reminded that one of the recommendations arising from the risk audit in 2014 was that the College should undertake an assurance mapping exercise. The Committee had discussed this at its meeting in July 2015 and had agreed to defer a formal mapping exercise until the end of 2015-16, the third year of the new internal audit contract. The Vice Principal: Finance and Operations proposed carrying out an assurance mapping session early in the new academic year with the newly appointed internal auditors to help inform the three year internal audit plan. The Committee questioned what benefits an assurance mapping exercise would provide over and above the information they already receive. The Internal Audit Manager responded that the internal audit service only provides assurances in specific areas and suggested one option would be to incorporate this into the risk register by expanding the assurance column to indicate whether it is a positive or negative assurance, possibly using a colour code. The advantages of using the risk register is that it looks at strategic risks and objectives and Governors will only have to look at one document. After a wide ranging discussion it was agreed as a first step to colour code to the assurance column in the risk register.

## 10. Risk Management

### 10.1. Notes from Risk Committee Meeting

CIC/AC/16/2/10, notes from the Risk Committee meeting held on 23 May 2016, was received and considered. The Committee had reviewed departmental risk registers (86% of registers were received) which informed the update of the Corporate Risk Register.

### 10.2. Risk Management Policy

CIC/AC/16/2/11, Risk Management Policy and Procedure, was received, considered and approved for recommendation to the Board.

### 10.3. Corporate Risk Register

CIC/AC/16/2/12, Corporate Risk Register (CRR) (updated 28 May 2016), was received and considered. It was noted that the format of the CRR had been updated to include task and finish actions as agreed at the last meeting of the Audit and Compliance Committee. The Committee discussed how the presentation of the CRR could be amended to enable Governors to identify if an action was having the desired outcome, for example by including a RAG rating, and whether the target risk ratings were still right and reflected the Board's risk appetite. This will require Board input.

RECOMMENDATION TO BOARD: that the next Board planning meeting includes a session to review the Corporate Risk Register.

#### **10.4. Current Risk Issues**

This item was covered under review of Corporate Risk Register.

#### **11. 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 since the last meeting of the Audit and Compliance Committee.

#### **12. Health and Safety**

##### **12.1. Minutes of Health and Safety Committee**

CIC/AC/16/2/13, minutes of the Health and Safety Committee held on 25 May 2016, was received and considered. It was noted that the accident statistics had reduced on previous years and staff were being more proactive about reporting near misses.

##### **12.2. Health and Safety Policy**

CIC/AC/16/2/14, Health and Safety Policy, was received, considered and approved for recommendation to the Board.

#### **13. Date of Next Meeting**

To be advised.

#### **14. Any Other Urgent Business**

There were no items.