

Colchester Institute Corporation

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

**Present**

Lisa Clampin, in the Chair  
Pamela Donnelly

David Gronland  
Kevin Prince

**In Attendance**

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

Apologies for absence were received from Peter Hempstead.

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

None.

**2. Minutes**

The Minutes of the meeting held on 14<sup>th</sup> June 2016 (CIC/AC/16/3/1) were received and confirmed. The Chair signed the minute book.

**3. Matters Arising from the Minutes**

**3.1. Metrics for Internal Audit Services**

It was confirmed that KPIs were included in the contract for the internal audit service and will be reported on.

**3.2. Report on application numbers and conversion data**

CIC/AC/16/3/2, Applications and Enrolments (full time study programmes only) for 2016/17 Academic Year, was received and presented by the Principal. It was reported that the College is developing its reports to get better conversion data. The College enrolled 4234 students this year; funded numbers will be slightly lower because of withdrawals. Not all students will remain on programme for 42 days (the criteria for funding). There was a significant increase in year 12 (school leaver) enrolments. This may be to do with the positive changes to the admissions process which were introduced last year and much better liaison with year 11 leaders in schools. The Good Ofsted outcome may also be a factor, although most of the additional applicants were seen early in the year before the Inspection took place. The College worked hard through the open events to encourage students to apply early and was pleased with the increase.

Governors asked if the College had statistics on the number of Year 11 students and whether the increase was because there were more Year 11 students. Data on longer term Year 11 numbers will be brought to the next meeting. It was suggested a more appropriate measure would be percentage of Year 11 students enrolled, rather than the actual number.

Governors asked about the impact of the Schools Transition Officer role within the Admissions team. It was reported that this post provides a key link between the College and it is a reflection of that role that the quality of the information received about a student has improved.

### **3.3. Recording of Work Experience**

It was reported that the College has a new system for the recording of work experience hours. The College always recorded qualitative comments on ProMonitor on the individual learning plan for students but was not necessarily including all the information. The Funding and Information Team is working with the Vice Principal: Curriculum to development the system by linking it with the CRM System with employer details. This has been delayed by the absence of the database administrator. All the hours are being collected and collated within the three faculties.

### **3.4. Internal Audit Service**

The Board agreed (26.07.16) to award the contract to RSM for three years with effect from 31 October 2016, with the option to extend for two further years subject to satisfactory performance.

## **4. Report and Financial Statements 31 July 2016**

### **4.1. Report and Financial Statement 31 July 2016**

CIC/AC/16/3/3, Report and Financial Statements 31 July 2016, was received and presented by the Financial Statements Auditor. These were the first set of accounts prepared under the new FRS102 and the Auditor outlined the presentational changes.

It was noted that both the opinion on the financial statements and the Reporting Accountant's opinion on regularity were unqualified and unmodified.

The consolidated statement of comprehensive income replaces the income and expenditure account. Previously, there was a separate statement of total recognised gains and losses; this is now within one statement. It was noted that total income reduced from £42m in the previous year to £39m this year. Expenditure also reduced, but not as much as income, resulting in a deficit before other gains and losses of £2.5m compared to £1m the previous year (after FRS102 pension charges). There was a further increase (£6m) in the liability on the pension scheme as a result of the actuarial assumptions.

The balance sheet was considered. It was reported that under previous accounting treatment, deferred capital grants formed part of balance sheet reserves. Under the new FRS102 they have to be held within current and long term liabilities resulting in further pressure on net assets position. This could potentially get worse if the discount rates used to value the pension scheme continue to fall, and is a point of concern.

The pension liability was discussed. The Executive Vice Principal: Finance and Corporate Development reported that the College had just received the triennial valuation of the Local Government Pension Scheme (LGPS) and the liability was now lower than the FRS102 calculation of £28m. The Financial Statements Auditor responded that there are fundamental differences and the FRS102 valuation does not necessary correlate with the triennial valuation, which is based on a bond rate at a point in time. It was reported that given the perceived risk around FE currently with the introduction of insolvency procedures the pension fund has adopted different approaches to their members. The College recently received a communication from the Essex Pension Fund asking for security against the liabilities on the LGPS. This has been discussed at the Resources Committee, and taken into account in discussion with the Bank in relation to their request for more security. The Finance Directors across Essex have joined together and taken advice from KPMG. As a result the Principal, as Chair of FEDEC (Federation of Essex Colleges) has written to the Pension Fund appealing

the notion that colleges should provide security against the LGPS deficit on the basis that, with Area Review underway and the potential for mergers and other technical reasons, the timing is not right and the request for security should be withdrawn at this time. Very few other pension funds are adopting this approach currently, and this also features within the letter of appeal.

The going concern statement, as agreed by the Resources Committee was considered. The Financial Statements Auditor confirmed that they were comfortable with this statement. The forecasts and projections flag up a cash flow shortfall at the start of the year but the College is in discussions with bankers to arrange a short term facility if required. With regard the bank's response to the covenant breach, any interest rate increase will not come into effect until August 2017.

#### 4.2. **Financial Statements Auditors' Management Letter 2016**

CIC/AC/16/3/4, Report to the Audit and Compliance Committee, was received and presented by the Financial Statements Auditor. Governors' attention was drawn to the financial performance excluding FRS102 adjustments, the factors contributing to the movement between the deficit reported in the July management report and the financial statements, and the impact of the transition to FRS102.

Significant variances in the income and expenditure account were considered. It was noted that funding body income fell by £2.4m on the previous year. HE tuition fees income reduced by £287k and was significantly down on budget. Other tuition fees were also down. Work based income increased, but was below budget. Staff costs increased during the year but significant savings were achieved on other operating expenditure during the year. Staff costs as a percentage of income will be in line with sector norms this year if the budgeted income is achieved.

Governors asked if the College was over-optimistic in setting its budget. The Financial Statements Auditor responded that over the last four to five years the one area that has consistently underperformed is work based learning. It was reported that the College sets internal curriculum plans that are higher than budget. Apprenticeship activity has grown year on year, but not necessary to the extent budgeted. The budget is based on labour market intelligence. The number of subcontractors that the College works with was reduced last year to ensure quality. The College is still working with subcontractors on a wind down contract who have less incentive to hit all targets in year as due to funding reform, they will not require lead contract arrangements. There is also an issue around phasing. Last year the College achieved a higher number of work based learners, but because they were enrolled later in the year they did not achieve the projected funding.

It was noted that the College has budgeted for 910 apprenticeship starts this year compared to 595 starts achieved last year. In 2014-15 the College recruited above budget but because of the phasing was still short on income. It was reported that the target of 910 apprenticeships starts represents a 50% increase on last year, but the monetary target has only been increased by £600k (20% increase in value) mitigating the profiling issues. The College has enrolled 465 apprentices against the 910 target, with another 20-30 in the sign up process, and the pattern of leads developed through CI Business Solutions is around 50 new apprentices a month. A range of initiatives are underway including a promotional campaign and road shows to employers around the apprenticeship levy. The Executive Vice Principal: Finance and Corporate Development is currently visiting two employers each week to talk about pipeline needs and the levy and how the College can help. Governors asked where the balance of the planned apprenticeship starts (500) will come from. It was reported that a number will already be employed and put on a training programme (apprenticeship) funded through the levy without changing their terms and conditions; some will be Colchester Institute employees (the College will need to employ 23 apprentices to use its levy); and some might be current students. There is a long tradition in areas such as Engineering and Construction to transfer students who are doing well on their full time programmes to an apprenticeship.

Pam Donnelly left the meeting

It was noted that the College has received written confirmation from the Bank that they are waiving their rights as a result of the breach of the bank loan covenant but is reserving the right to increase the interest rate by up to 2%. There are no fees attached to the waiver letter and the interest rate increase will not take effect until 2017-18.

The findings as a result of the audit were noted. The College continues to hold a liability on the balance sheet in relation to the Lennartz VAT arrangement, which is being challenged by the College through an external VAT consultant. No payments have been made under the scheme since October 2014. The Consultant is still confident of a positive outcome; if the case is decided against the College some interest would be payable. The case is likely to be heard in March/April 2017.

The procedural recommendations and management responses were noted.

The Letter of Recommendation and summary of adjusted and unadjusted items was considered and accepted.

It was AGREED to recommend the Report and Financial Statements to the Board or approval.

*The Principal and Executive Vice Principal: Finance and Corporate Development left the meeting.*

The Committee met in private with the Auditors.

*The Principal and Executive Vice Principal: Finance and Corporate Development re-joined the meeting.*

## **5. New Internal Audit Report**

### **5.1. Subcontracting**

CIC/AC/16/3/5, Subcontracting Internal Audit Report, was received and considered. The audit had identified some concerns in relation to one particular subcontractor. The Executive Vice Principal: Finance and Corporate Development reported that the College has now fully researched the concerns raised and proved that there was not a second tier subcontracting arrangement but at the time the audit was undertaken it was right to be reported as a possibility. There was no issue that was required to be reported to the Skills Funding Agency.

### **5.2. HE Quality of Provision**

CIC/AC/16/3/6, HE: Quality of Provision Internal Audit Report, was received and considered. There was one medium and three low priority recommendations. The medium priority recommendation was in relation to ensuring peer reviews are carried out in line with the policy and documented consistently.

### **5.3. Marketing**

CIC/AC/16/3/7, Marketing Internal Audit Report, was received and considered. There were five medium and one high priority recommendations, and six advisory best practice points. The high priority recommendation relates to the apprenticeship levy. This will be followed up as part of the Internal Audit Plan 2016-17 which includes an apprenticeship levy audit with a marketing focus. The Principal reported that although there is no overarching strategic document there are plans in place at various levels particularly full cost and apprenticeship activity.

## **6. Follow up on Internal Audit Reports**

### **6.1. Internal Audit Follow Up Report**

CIC/AC/16/3/8, Internal Audit Follow Up Report, was received and considered. The overall opinion of the Auditors was that little progress had been made; this was because one high priority recommendation was still outstanding. The opinion was also impacted by the fact that the Auditors were not able to get a response from one of the lead managers in respect of five actions. The outstanding high priority recommendation relates to the College's risk assessments. It was reported that the Health and Safety Manager is working his way through them but the scale of the task is such that it was never going to be achieved within the timeframe suggested. The Health and Safety Manager is chasing Area Heads to make sure risk assessments are in a consistent format, reviewed and recorded.

With regard the outstanding IT recommendations, these relate to replicating a disaster recovery scenario to see how long it would take to recover the system. The College is looking for a suitable time when there is limited teaching activity taking place to undertake this activity but has been unable to agree a time with curriculum leaders.

Governors discussed the length of time it was taking for a number of recommendations to be completed. It was reported that was probably due to staff under estimating the work involved when the implementation date is agreed.

### **6.2. Internal Audit Tracker**

CIC/AC/16/3/9, Internal Audit recommendation tracker, was received and considered. It was recognised that work was being done but there is a need to look at how to estimate the work to be done when agreeing recommendations.

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

CIC/AC/16/3/10, Internal Audit Progress Report, was received and noted.

## **8. Internal Audit Annual Report – Year ended 31 July 2016**

CIC/AC/16/3/11, Annual Internal Audit Report - year ended 31 July 2016, was received. In common with most organisations the audit opinion was that the College has an adequate and effective framework but the audit work has identified some enhancements that could be made.

## **9. Internal Audit Plan**

CIC/AC/16/3/12, Internal Audit Strategy 2016-17, was received, considered and approved for recommendation to the Board. Since the plan was published the auditors have been asked to put the audit of sickness absence management back to May 2017 so that it can take account of work currently being done in that area. Governors asked if financial planning in terms of budget setting should be included in the plan. It was reported that this was looked at in 2015-16 and will be looked at as part of the review of the learner withdrawal process, and forecasting for withdrawals in year.

## **10. Audit and Compliance Committee Annual Report**

CIC/AC/16/3/13, Audit and Compliance Committee Annual Report to the Board and Principal and Chief Executive 2015-16, was received, considered and accepted for submission to the Board.

**11. Regularity Audit Self-Assessment Questionnaire 2015-16**

CIC/AC/16/3/14, Regularity Audit Self-Assessment Questionnaire 2015-16, was received, considered and approved.

**12. External Assurance on Subcontracting**

CIC/AC/16/3/23, Risk and Assurance Report on Subcontracting - SFA External Controls Assurance, was received and noted. There was one low priority recommendation.

**13. Value for Money Paper 2015-16**

CIC/AC/16/3/15, Value for Money Paper 2015-16, was received and noted.

**14. Financial Regulations and Associated Procedures 2016-17**

CIC/AC/16/3/16, summary of changes to the Financial Regulations and Associated Procedures, was received and noted. The most significant change was a reduction in the rate per mile for mileage claims. This will be reviewed if the pump prices move by 20 pence.

**15. Risk Management**

**15.1. Notes from Risk Committee Meeting**

CIC/AC/16/3/17, notes from the Risk Committee meeting held on 9<sup>th</sup> November 2016, was received and considered.

**15.2. Corporate Risk Register**

CIC/AC/16/3/18, Corporate Risk Register (CRR) (updated 6 December 2016), was received and considered. The CRR had been updated to include task and finish actions to enable management to monitor where the College is in respect of mitigating risk. Given the issues experienced last year the FE and HE income lines have been separated, and the range of controls associated with apprenticeship income, full cost, and FE lines etc have been widened. Further changes will be made to the matrix as a result of an internal audit undertaken the previous week.

English and maths has been added as a new risk with a series of actions.

**15.3. Current Risk Issues**

This item was covered under review of Corporate Risk Register.

**16. 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.

**17. Health and Safety**

**17.1. Minutes of Health and Safety Committee**

CIC/AC/16/3/19, Minutes of the Health and Safety Committee held on 9<sup>th</sup> November 2016, was received and noted.

**17.2. Health and Safety Committee Annual Report 2015-16**

CIC/AC/16/3/20, Health and Safety Committee Annual Report 2015-16, was received and noted.

**18. Policy Review**

The Committee received, considered and approved for recommendation to the Board:

- CIC/AC/16/3/21 – Maternity Leave Policy (updated to include clarity on the handling of Childcare Vouchers and update to statutory payment tables), and
- CIC/AC/16/3/22 – Leave Policies and Procedures (updated wording for Time Off in Lieu).

**19. Date of Next Meeting**

The Clerk was asked to look at alternative dates for the next meeting, currently scheduled for 1<sup>st</sup> Mach 2017.

**20. Any Other Urgent Business**

The Vice Chair thanked Lisa Clampin for her work on behalf of the Committee and the Board and wished her well in the future.