

Colchester Institute Corporation

*Minutes of a Meeting of the Audit and Compliance Committee
held on 3rd December 2019
at the Sheepen Road Site*

Present

Mark Davies, in the Chair
Lisa Clampin

Pamela Donnelly
David Gronland

In Attendance

Alison Andreas	Principal and Chief Executive
Gary Horne	Executive Vice Principal: Finance and Corporate Development
Daniel Harris	Head of Internal Audit, RSM
Tim O'Connor	Audit Partner, Scrutton Bland, External Auditor
Hazel Paton	Clerk to the Governors

There were no apologies for absence.

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

None.

2. Minutes

The minutes of the meeting held on 19th June 2019 (CIC/AC/19/3/1) were received and confirmed. The Chairman signed the minute book.

3. Matters Arising from the Minutes

3.1. Audit Planning Letter

The Executive Vice Principal: Finance and Corporate Development updated the Committee on funding for the additional costs associated with the Teachers' Pension Scheme. The Department for Education has announced that it will be funding the additional costs until 2021.

4. Report and Financial Statements 31 July 2019

4.1. Report and Financial Statements 31 July 2019

CIC/AC/19/3/2, Report and Financial Statements 31 July 2019, was received and noted. The Report and Financial Statements had been considered in detail by the Resources Committee the previous week. The Resources Committee were recommending the accounts to the Board for approval

4.2. Report to Audit and Compliance Committee

CIC/AC/19/3/3, External Auditor's Report to Audit and Compliance Committee, was received and presented by the External Auditor. The Committee's attention was drawn to the key items in the report.

The review of staff costs as a percentage of income was discussed. The increase in staff costs as a percentage of total income was mainly a result of the decrease in income in the year. The Committee asked how Colchester Institute's staff costs compare to the sector average and were advised that the College is always at the top end of the band. The ratio has been pushed up slightly for all colleges by the increase in Teachers' Pension Scheme costs. The Finance Dashboard issued by the ESFA (Education and Skills Funding Agency) records the average in financial plans at 67% for 2019/20; the College is currently at 66%. The projections are not always in line with the actual. The College is not necessarily an outlier, and there could be a change locally as a result of demographic factors, and the difficulties in recruiting and the need to retain valued staff.

The Balance sheet was considered. The consolidated net assets of Colchester Institute in 2019 were £130k. Net assets excluding pension liability were up on the prior year.

Fixed assets have increased. The College has a significant amount of assets under construction (c£5m), which have not been depreciated in the year, but will be included in the depreciation figures going forward.

There was a significant increase in the Local Government Pension scheme deficit at the year-end of £9.5m. Despite the comments in the press around the McCloud judgement (how local authorities treated pension schemes) the impact on the defined benefit scheme was reported to be small. The biggest impact was another significant drop in the discount rate. Assumes life expectancy rates have reduced.

The Auditors are in agreement with the going concern assessment made by the Corporation. The factors taken into account by the Auditors as part of their assessment of going concern were noted. The targets on the Work based Learning line are always a stretch and in previous years any underperformance on the income line has been mitigated by savings on expenditure line. The concern would be if those savings could not be achieved in the event of an under performance this year. A significant factor in the cost savings achieved in the past has been the number of unfilled posts. Income from Work-based Learning during the first two months of the year was down £114k compared to the budget, but it is recognised that the phasing of the income is difficult to judge. It was reported that the College recruits throughout the year and that income was in line with the budget at the end of Period 3 (October), although the College still has 200 learners to enrol against the full year number target.

Governors' attention was drawn to a number of uncertainties on budget lines, such as the reduction in ESFA funding for 2019-20, and the assumption that the income from the land sale at the Braintree campus will be received at a certain point in the year. The College continues to meet its bank loan covenants.

The audit and accounting issues were noted. The College has accrued for the final costs associated with the Lennartz scheme on a worst case scenario basis. The outcome of the appeal is awaited, and any sums recovered as a result of the appeal will be positive for the College.

The procedural recommendations were noted. One recommendation was carried forward from last year, and six new recommendations were identified, accepted and are being actioned.

4.3. Letter of Representation

CIC/AC/19/3/3, Letter of Representation, was received and noted. The letter is largely standard. The clauses specific to Colchester Institute were considered and accepted. The appended schedule of adjusted and unadjusted errors was noted.

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

The Committee met in private with the Internal and External Auditors.

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

It was agreed to recommend the Report and Financial Statements and Letter of representation to the Board for approval.

5. **Annual Internal Audit Report – Year ended 31 July 2019**

CIC/AC/19/3/4, Annual Internal Audit Report - Year ended 31 July, was received and presented by the Internal Auditor. The positive audit opinion on risk management, governance and control was noted. The Internal Auditor drew attention to the reference in the report that Management may want to consider the issues raised in the Health and Safety Report when preparing their Statement of Corporate Governance and Internal Control and any improvements to the control framework that have been made since the conclusion of this work.

The Committee asked if all the planned reviews in the Internal Audit plan had been completed. It was reported that the plan had been delivered in full subject to one change. The review of staff retention and succession planning had been turned into an advisory piece of work.

The Committee noted that the College had made reasonable progress in implementing the agreed actions to address internal audit findings but some were still outstanding, and asked how this compared to previous years. It was reported that the College had received a reasonable progress opinion in the two previous years. The overall opinion level remains the same but two partial assurance opinions in 2016/17 had resulted in a lot more actions to be followed up, so the direction of travel is positive. It was noted that there were no high priority actions arising from the 2018-19 Internal Audit Plan and that one review, Curriculum Planning, had no actions.

6. **Audit and Compliance Committee Annual Report to the Board and Chief Executive 2018-19**

CIC/AC/19/3/6, Audit and Compliance Committee Annual Report to the Board and Chief Executive 2018-19, was received, considered and APPROVED, subject to minor amendment to paragraphs 8.3, Internal Audit Plan 2019/20, and paragraph 11.4 Health and Safety. The report will be uploaded to the Funding Body at the end of the year with the Finance Record.

The Committee Chair reported that he had discussed with members of the Remuneration and Search Committee whether Audit and Compliance is the right title for this Committee, given the very clear elements on the agenda in respect of internal audit and assurance, and the other risk areas. The Clerk has been asked to look at the Committee terms of reference, and practice in the sector, and bring forward proposals in due course to establish an Audit and Risk Committee. The Board should consider the top five risks facing the corporation at each meeting, and determine what assurances it is looking for in terms of actions from the College Executive. The Board should also have its own risk register that feeds into the Corporate Risk Register.

7. **Regularity Audit Self-Assessment Questionnaire 2018-19**

CIC/AC/19/3/7, Regularity self-assessment questionnaire (2018 to 2019), was received, considered and approved. The questionnaire informs the assurance opinion in the Report and Financial Statements, and is looked at in detail during the external audit process. The External Auditor is proposing a clean assurance opinion. The Committee Chair asked how this questionnaire would help the College move from good to excellent, and was advised that the questionnaire is prescribed by the Funding Body, and is very much focussed on compliance.

8. **Risk and Assurance Report on Subcontracting ESFA External Controls Assurance**

CIC/AC/19/3/8, Risk and Assurance Report on Subcontracting ESFA External Controls Assurance, was received and noted. The College received a Significant assurance opinion:

- Governance, risk management and control arrangement provide significant assurance that the material risks reviewed are managed effectively.
- There are some areas where the adequacy or operation of controls in practice should be improved further.

9. **New Internal Audit Reports**
CIC/AC/19/3/9, Staff Retention and Succession Planning – good practice report, was received and noted. The report set out examples of good practice and areas where the Internal Auditors have found weaknesses in similar audits with their other clients. The Internal Auditor suggested that it would be good practice for the College to measure its framework against the examples in the report. The Principal agreed to ask the Director of Human Resources to undertake this work and report to the June meeting of the Resources Committee on progress.
10. **Internal Audit Tracker**
CIC/AC/19/3/10, Internal Audit Tracker, was received and discussed. Governors were concerned that no response had been received from the action owners in respect of three Internal Audit Reports, and that the implementation dates for some actions are being consistently pushed back. The College Executive was asked to ensure that actions are being addressed in a timely manner. The Committee asked to receive a summary report of progress in future, rather than the details. Any action owners who fail to meet the required standard for implementing actions is to be invited to attend a meeting of the College Executive in the first instance, and subsequently invited to attend a meeting of this Committee if there is no improvement.
11. **Internal Audit: Progress Report**
CIC/AC/19/3/11, Internal Audit Progress Report, was received and presented by the Internal Auditor. There are scheduled start dates for all reviews in the plan, and all the work will be completed by June 2020. Two reports are scheduled to be received at the March meeting of this Committee, and four at the June meeting.
12. **Value for Money Paper 2018-19**
CIC/AC/19/3/12, Value for Money Paper 2018-19, was received and noted. The report gave an overview of the various areas where the College achieved value for money, from capital projects to general activities. This year the report included data on course costings which showed that the College made significant improvements in the year in increasing class sizes and reducing the number of areas that are under the target threshold of 35% contribution.
13. **Financial Regulations and Associated Procedures 2019-20**
CIC/AC/19/3/13, Financial Regulations and Associated Procedures 2019-20, was received and noted.
14. **Risk Management**
 - 14.1. **Notes from Risk Management Committee Meeting**
CIC/AC/19/3/14, notes of the Risk Management Committee meeting held on 12 November 2019, was received and noted.
 - 14.2. **Corporate Risk Register**
CIC/AC/19/3/15, Corporate Risk Register as at 27 November 2019, was received and noted.
15. **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.
16. **Health and Safety Committee**
 - 16.1. CIC/AC/19/3/17, Minutes of the Health and Safety Committee meeting held on 8th November 2019, was received and noted. In response to one of the actions arising from the recent Internal Audit the style of minutes had been developed to provide more detail.
 - 16.2. CIC/AC/19/3/18, Health and Safety Committee Annual Report 2018-19, was received and noted.

17. **Data Protection/Freedom of Information Dashboard**
CIC/AC/19/3/19, Data Protection/Freedom of Information dashboard, was received and noted. The Committee asked about information security and assurances that the College has processes in place to keep firewalls up to date and is able to resist cyber and phishing attacks. It was reported that within the last 12 months the College had achieved Cyber Essentials and Cyber Essentials Plus. The Committee asked for an additional section to be added to this dashboard report, setting out whether the College has been subjected to a cyber-attack, and how many have been resisted in a month.
18. **Investigation Report Bournville College – July 2019**
CIC/AC/19/2/20, Investigation Report Bournville College – July 2019, was received and considered. The Committee welcomed the table setting out the College’s position in respect of the recommendations in the report, and that agreed that the paper should be included on the agenda for the next Board meeting.
19. **Date of next meeting**
Wednesday, 11th March 2020 at 4.00pm.
20. **Any other Urgent Business**
David Gronland was thanked for his contribution to the work of the Committee.

The Internal and External Auditors left the meeting

21. **Internal Audit Approach 2020-21**
It was reported that the current contract with RSM for the provision of the internal audit service expires in October 2020. The College is no longer required to continue with an internal audit service, but the Board needs to satisfy itself that it meets the criteria laid down in the Funding Agreement in respect of data, compliance, and risk management. It was noted that since the rules were relaxed, only a small number of colleges have dispensed with an internal audit service. The College’s internal audit programme has been reduced over recent years to bring it in line with the benchmark of around 40 internal audit days per annum.

The Committee discussed whether to continue with an internal audit service or find assurance through other means, and agreed that an internal audit service was the most cost effective way to give this Committee the assurances that it needs. A member asked if there was an opportunity to consider a shared service, which might provide better value for money. Colchester Borough Council is due to go out for tender next year, and is geographically well placed for a shared service. The Committee was keen to explore this opportunity. The contract with RSM would need to be extended for one year if this option is pursued.