

Colchester Institute Corporation

*Minutes of a Virtual Meeting of the Audit and Risk Committee
held on 2nd December 2020*

Present

Mark Davies, in the Chair
Lisa Clampin
Liz Goodall

Irene Kettle
Terry Smyth

In Attendance

Chris Adams	Director of Information and Learning Technologies
Alison Andreas	Principal and Chief Executive
Gary Horne	Executive Vice Principal: Finance and Corporate Development
Tim O'Connor	Scrutton Bland, External Auditor
Daniel Harris	RSM, Internal Auditor
Hazel Paton	Clerk to the Governors

1. Apologies for absence

There were no apologies for absence.

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

None.

3. Minutes

The minutes of the meeting held on 23rd June 2020 (CIC/AR/20/3/1) were received and confirmed as an accurate record.

4. Matters Arising from the Minutes

None, other than on the agenda.

5. Report and Financial Statements 31 July 2020**5.1. Report and Financial Statements 31 July 2020**

The Committee received and noted CIC/AR/20/3/2, Report and Financial Statements 31 July 2020. The Report and Financial Statements had been considered and accepted for recommendation to the Board by the Finance and Resources Committee at its meeting on 25th November 2020. It was noted that the External Auditors had issued an unqualified audit opinion. The External Auditors had also issued an unqualified opinion in respect of the Office for Students funding and expenditure on access and participation activities. This was an additional requirement this year under the Office for Students Accounts Direction

5.2. Report to the Audit and Risk Committee

CIC/AR/20/3/3, Report to the Audit and Risk Committee, was received and presented by the External Auditor.

- The College's financial performance in 2019-20, after excluding the Local Government Pension Scheme (LGPS) adjustments, shows an operating deficit of £470k compared to a surplus of £305k in the prior year.
- The Auditors drew the committee's attention to the unusually high number of adjustments that had been identified during the audit process. The Auditors noted that they would normally have expected for these matters to have been picked up as part of the prior review of both the balance sheet and the financial statements by the Finance Team and for them to have been resolved before

the audit commenced. The Executive Vice Principal acknowledged that the traditionally high standard of accuracy expected of the Finance function had not been achieved. The number of adjustments were unusual, and it appeared that the auditors found that the balance sheet checks that had been performed had not been conducted to the same standard achieved in previous years. Whilst this might be partially accounted for by the challenges of working remotely over a protracted period, and therefore the need for greater scrutiny on the part of the auditors, it was also a reflection of the fact that the audit profession had raised the threshold for testing samples in all areas. As such the College had been required to provide much more information than in previous years which in turn had identified problems and weaknesses in the internal review process.

- The Auditors drew the Committee's attention to the following income related matters:
 - Recurrent grant income (16-18 funding) and HE tuition fees were down compared to the prior year.
 - Income was improved by the receipt of a TPS (Teachers' Pension Scheme) grant of £720k this year.
 - The College received Government Job Retention Scheme grant income for staff that had been furloughed.
- In respect of the cost and overhead base, the Auditors commented thus:
 - Savings of £1m had been achieved on teaching and non-teaching costs during the period of the campus closure due to the Covid-19 pandemic.
 - Staff costs as a percentage of total income increased compared to the prior year. This was due to the increase in employer contributions to the Teacher Pension Scheme. The gross salaries paid to staff fell during the year.
- Finally, they highlighted for the Committee's attention the following aspects of the make up of the Balance Sheet:
 - Fixed assets have increased with the conclusion of the work at the Braintree campus and commencement of the work on the South Wing extension.
 - Cash at bank has decreased as a result of the planned but considerable expenditure on the capital programme but was in line with forecast.
 - Short term creditors increased because of the receipt of £1.8m advance payment relating to the land sale at the Braintree campus. This was noted that this had unfortunately resulted in the loss of ten financial health points, but no change to financial health grade.

The External Auditors specifically requested to draw the committee's attention to the significant impact that the pension scheme deficit had placed on the Balance Sheet. A detailed discussion took place into the effect of the accounting adjustments necessary and that had resulted in an overall net liability position being created. It was noted and accepted that this was a technical position and was not considered for Bank or other covenant monitoring purposes, or by the funding bodies in respect of their review of the College's financial health. It may however impact on future contribution rates when the next triennial review was undertaken. The increase in the pension scheme deficit arose as a reflection of the reduction in the discount rate used for actuarial valuation purposes and which had fallen from 2.10% to 1.35%. It was accepted and noted that this was a sector wide issue and one which was actively being discussed and debated and remained beyond the influence of the College. In response to a question, the Auditors reported that organisations in the LGPS which had July year ends, those particularly across the FE/HE sector, had been specifically impacted by the change in the assumptions used by the actuaries, those bodies with March year ends had been less impacted. Governors asked if the Essex scheme was particularly bond heavy and were advised that that the asset weighting of the scheme was not out of the ordinary. The requirements in respect of the choice of investments and bonds specifically were set out in the Financial Reporting Standard and it was noted that different local authority schemes all used similar bond rates. It was reported that the Finance and Resources Committee monitored the LGPS on an ongoing basis as part of their remit and the Committee had raised several questions at its meeting in October. These points had subsequently been addressed by the Executive Vice Principal: Finance and Corporate Development, at their November meeting. The issues raised by the Committee included the performance of the Essex fund,

the increase in administration expenses compared to the prior year, whether any alternative defined benefit schemes were available to the College, the requirement to auto-enrol and the obligation of the College to use the LGPS.

As required, the Auditors had reviewed the going concern of the College and it was noted that their assessment was positive. The Auditors noted that, for the benefit of the Committee, certain areas of the College had historically found it difficult to meet income targets set as part of the budgeting process (specifically Apprenticeships and Work Based Learning) and these had been highlighted in the report. However, the Auditors recorded their satisfaction with the approach taken and assumptions used by the College this year, which they considered to be sensible, and that the budgeted income reflected the uncertainty of the ongoing impact of Covid-19 on the Institute.

The Committee's attention was drawn to a procedural recommendation from the previous year in respect of an enhanced pension provision which had been followed up by the College. The Auditors were surprised at the speed at which the TPS had responded to the College's request for confirmation that the pensioners are still alive and made a further recommendation that the College obtains details of the procedures used by the Teachers' Pension Scheme to ascertain the existence of pensions. Five procedural recommendations from the current year were noted by the Committee.

In response to a question raised by a member, in respect of the fixed asset valuation accounting policy followed by the College and its potential impact in terms of the recorded carrying value of non-current assets, it was noted that it was possible for some asset categories to be potentially undervalued because they had been recorded based on historical costs. The auditors noted that the Board could change the policy, which is in line with FRS 102, if it wished, but that the policy, as adopted, was also entirely in line with other colleges in the sector. If a policy of revaluation were to be adopted, it would apply to all assets in the class, potentially incurring annual valuation costs and higher depreciation charges as it would require all sites to be revalued. It was noted for the benefit of members that this had been discussed at the last meeting of the Finance and Resources Committee as well, as part of a wider discussion on the subject.

Finally, the Committee's attention was drawn to the fact that the audit lead partner role would ordinarily rotate at the ten-year point. This is the ninth year that Tim O'Connor has acted as lead partner, and next year will be his final year. Scrutton Bland propose that Luke Morris, who has been the firm's second review partner for Colchester Institute for the last four years, will transition to the role and will become involved from the planning stage next year prior to taking over as lead partner the following year. In a subsequent discussion with Tim O'Connor it was proposed and agreed that in future the external auditors should be invited to attend all meetings of the committee as an observer and to contribute to and support any discussions that might be of relevance or interest to Governors.

5.3. Letter of Representation

The Committee received and accepted CIC/AR/20/3/4, draft Letter of Representation for the year ended 31 July 2020. As part of his summary, the External Auditor drew the Committee's attention to the schedule of unadjusted errors which listed and described the items identified and their value and he cross referenced these to his earlier comments in his verbal report to the committee summarised in item 5.2. The committee noted these for the record.

5.4. Discussion without Officers Present

The External Auditor and Committee had no items which they wished to discuss with each other without officer present. The Chairman noted his intention to meet independently with the Auditor prior to the Board meeting and he thanked Scrutton Bland and the team for the effort and contribution in difficult circumstances and Tim O'Connor for his support and engagement with the College over the time of his tenure.

It is the recommendation of the Committee that the Board approves the Report and Financial Statements 31 July 2020 and Letter of Representation.

6. **Internal Audit – Annual Summary 2019/20**

CIC/AR/20/3/5, Internal Audit – Annual Summary 2019/20, was received and presented by the Internal Auditor. At the request of the College Executive, and agreed by the Committee, the plan of work had been severely curtailed because of the Covid-19 pandemic, with just two reviews completed by RSM in the year. Other forms of assurance evidence were presented to the Committee during the year, and these were detailed within the Annual Report. At a subsequent meeting with the Executive Vice Principal it was suggested that the College Executive should prepare a summary of all subject matters that had been subject to any form of external review and assurance for the benefit of Governors at the next Board Meeting.

7. **Annual Report 2019-20**

The Committee received, considered, and approved CIC/AR/20/3/6, Audit and Risk Committee annual report to the Board and Chief Executive. The Committee also noted that no annual internal audit opinion would be issued by the Internal Auditors this year to the Board, a reflection of the decision to curtail work planned as a response to the need to focus activity across the college to responding to the Covid-19 pandemic and as a cost containment. However, the Committee's attention was drawn to the new section included in the report that summarised the other audit activities and compliance reviews which had taken place during the year and the members welcomed the external assurance that this provided on various aspects of the College's performance and compliance with appropriate procedures, controls, and best practice. It was the committee's view that this additional information should be included and reflected in future reports.

8. **Internal Audit Plan 2020-21**

The Committee received and considered CIC/AR/20/3/7, Internal Audit Strategy 2020 – 2021. Five reviews were proposed; three linked to corporate risk, one linked to key controls and a follow up. Two reviews had been deferred from the agreed 2019-20 audit plan.

Governors noted that Safeguarding Staff and Students was last reviewed by the Internal Auditor in 2016/17 and questioned whether safeguarding should be included in plan this year. It was reported that the Curriculum and Quality Committee had discussed mental health concerns at its meeting earlier that week. Given the context of press reports that parts of North Essex have seen a higher number of suicides than the national average and that a student at the College had taken their own life earlier in the term, Governors partook in an active discussion on the subject and value of including this within the Internal Audit plan. The Executive attendees noted that the College is aware of the importance of the work of the Safeguarding Team and recently undertook a review and made some changes to the staff structure to reflect the challenging and difficult cases that they deal with daily. It was noted that, following the recent suicide of a student, there was a multi-agency child death review which found that the College had done all it could to support the young person. A significant issue for the College is the high number of cases that they are dealing with this term, but which are not necessarily the result of the Covid-19 pandemic. Finally, it was reported that, where the College is unable to deal with a case, it refers the young person to other agencies.

The Committee asked about the audit cycle and the normal/expected timeframe for revisiting an area which had received a partial assurance/little progress opinion. It was reported that these areas are independently reviewed as part of the follow up and management report on progress through the internal audit action tracker. However, Internal Audit is not the only provider of assurance, and these areas may have been reviewed through a separate process.

The inclusion of sickness and absence management in the plan for 2020-21 was discussed. This was one of the reviews carried forward from last year and was included in the 2019-20 plan when the Finance and Resources Committee expressed concern that sickness absence was extremely high and that consequently significant additional agency and part time hourly paid staff costs were being incurred. Since the lockdown in March 2020 the College has seen a big reduction in the level of sickness absence which, with staff continuing to work from home, has continued into this academic year. There

are still some issues in specific areas but, in general, absence rates have dropped considerably. The Period 3 (October 2020) Management Report and Accounts shows that agency costs are under control.

The Committee questioned the need to audit further sickness absence. They noted that following discussion at Board and other committees that the attention given to the matter had resulted in clear and material improvement in sickness absence rates. The Committee therefore felt that sickness and absence management was perhaps a lesser priority for review. It was agreed to replace this with a review of safeguarding, and with a specific focus on the management of mental health across the college – both for staff and students. The Principal reported that the College has signed up to the AoC (Association of Colleges) mental health charter and the Wellbeing Committee was considering a mental health action plan, covering both staff the students. It was agreed that the Internal Audit review should monitor progress against the plan and it was accepted that the College Executive would consider this further.

The Internal Audit Plan included a table which provided an overview of the audit coverage 2016/17-2020/21, together with the assurance opinion issued for each review. In respect of audit areas which had received a partial assurance opinion, the Committee asked if the table could be expanded to include information on the level of progress that had been at the time of the follow up review. The Internal Auditor agreed to reissue the plan with this information.

The Committee challenged the approach to Internal Audit Planning and asked if a value for money approach was taken and whether there was anything else that ought to be brought into the plan that might be of benefit but was not, due to considerations of cost. The College Executive reported that other sources of assurance are planned for 2020/21 in addition to the internal audit reviews identified. The College has already received an interim Ofsted visit which had provided both an update and a positive assurance and is expecting to receive a full Ofsted Inspection within the next 12-18 months. A follow up review of apprenticeship funding has also been requested. It was subsequently suggested to the Executive Vice Principal that perhaps a further planning meeting should be scheduled with the Internal Auditors which the Chairman would be pleased to attend.

The Executive Vice Principal agreed to liaise with the Internal Auditor to update the Internal Audit Plan and to provide it in draft to the Committee Chairman in advance of the next Board meeting. This will include an integrated framework of any additional and planned external assurance from other sources.

9. **Policy Review**

The Committee received, considered, and recommended to the Board:

- Value for Money Policy (CIC/AR/20/3/8)
- Anti-bribery, Gifts and Hospitality Policy (CIC/AR/20/3/9)
- Data Protection Policy (CIC/AR/20/3/10)

The Committee asked if any advisory reviews had been undertaken by the Internal Auditor to look at how well the Value for Money Policy was being implemented in practice in areas such as procurement. The Executive Vice Principal: Finance and Corporate Development produces a value for money paper each year for this Committee. The College was also required to provide evidence of value for money to the ESFA (Education Skills Funding Agency) as part of its financial health intervention, and to the FE Commissioner as part of the diagnostic assessment review. Significant savings have been achieved through the Tenent Procurement Services.

Irene Kettle left the meeting

10. **Regularity Audit Self-Assessment Questionnaire 2019-20**

The Committee received, considered, and approved CIC/AR/20/3/11, Regularity Audit Self-Assessment Questionnaire 2019-20.

11. Update on College Cyber Security Controls

The Director of Information and Learning Technologies gave an oral update on the College's cyber and network security. The detailed discussion is recorded as a separate, confidential minute.

The Director of Information and Learning Technologies left the meeting.

12. Risk and Assurance Report on Subcontracting

The Committee received CIC/AR/20/3/12, Colchester Institute Risk and Assurance Report on Subcontracting 2019/20, and noted the significant assurance opinion.

13. Internal Audit Follow Up

13.1. Internal Audit Follow Up Report

CIC/AR/20/3/13, Internal Audit Report: 2.19/20 – Follow Up, was received and presented by the Internal Auditor. The follow up had looked at 11 actions across four different reviews:

Quality of Teaching and Lesson Observations (1.18/19)

Health and Safety (2.18/19)

Utilisation of Classrooms (4.19/19)

Follow up (6.18/19)

Of the four Health and Safety actions that were followed up, one had been fully implemented and three were ongoing. The Committee asked to what extent this reflected the current Covid-19 pandemic. Covid-19 had been specifically referred to as a contributing factor for two of the actions not being fully implemented. The Executive Vice Principal reported that good progress had been made during this term. Part B forms were now up to date. There was a delay in terms of moving information online. A PowerPoint training package is being prepared so that training can be undertaken at home rather than bringing people on site.

13.2. Internal Audit Tracker

The Committee received and noted CIC/AR/20/3/14, Internal Audit Tracker.

14. Value for Money Paper 2019-20

CIC/AR/20/3/15, Value for Money Paper 2019-20, was received and presented by the Executive Vice Principal: Finance and Corporate Development. It was noted that estate rationalisation had achieved savings of £300k over the last year.

The Committee asked if the efficiency savings achieved through the estate rationalisation had had a negative impact on quality. The College Executive take account of both quality and financial considerations when taking decisions associated with a particular campus or site of operation. Although a nice site to have, the Minorities was not adding to the student experience. Students who would have been studying in Clacton this year are benefiting from the improved facilities and student experience at the Colchester campus. The Braintree campus masterplan replaced old, 1960s style buildings with new, modern facilities.

15. Financial Regulations and Associated Procedures 2020-21

The Committee received and noted CIC/AR/20/3/16, updates to the Financial Regulations for 2020-21.

16. Risk Management

16.1. Notes from Risk Management Committee

CIC/AR/20/3/17, notes of the Risk Management Committee meeting held on 4th November 2020, was received and noted. The chairman apologised for his absence at this meeting but thanked the Executive for their focus and attention to managing the College's risk agenda.

16.2. Corporate Risk Register

The Committee received and noted CIC/AR/20/3/18, Corporate Risk Register, last updated 24th November 2020. It was noted that the residual risk scores had been reduced in several areas. Although one of the top three risks, the College was ahead of the year-to-date profile target for apprenticeship starts as at period 3 (October 2020). Apprenticeship income was £99k behind the year-to-date monetary target but it was expected that this would be recovered as new starts are added. The College received a positive assurance following an interim Ofsted visit. The College has achieved its HE number recruitment target.

16.3. Annual Assurance report on effectiveness of risk framework

The Committee received and noted CIC/AR/20/3/9, Annual assurance report on the effectiveness of the risk framework. This was a new report which had been requested by the Committee and members welcomed it as a good and concise report.

17. 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 Risk Committee.

18. Health and Safety Committee

The Committee received and noted:

- CIC/AR/20/3/20, Minutes of the Health and Safety Committee meeting held on 6th November 2020,
- CIC/AR/20/3/21, Health and Safety Committee Annual Report 2019-20

The meeting of the Health and Safety Committee had focused on the annual report and the College's response to the Covid-19 pandemic. The Health and Safety Committee was satisfied that Colchester Institute had done everything expected of it and the transmission rate of Covid-19 within the College was low. The College has adequate processes in place in the event of positive cases being reported, which were being managed by the Vice Principal: Student Services.

19. Data Protection/Freedom of Information Dashboard

CIC/AR/20/3/22, Data Protection/Freedom of Information dashboard, was received and noted.

20. Date of next meeting

Wednesday, 10th March 2021 at 4.30pm

21. Any other Urgent Business

There were no items.