

COLCHESTER INSTITUTE CORPORATION

***Minutes of a joint special meeting of the
AUDIT AND RISK COMMITTEE and
FINANCE AND RESOURCES COMMITTEE
held on Friday, 10 December 2021
via Zoom***

Present

Audit and Risk Committee

Mark Davies, in the Chair
Lisa Blake

Liz Goodall
Irene Kettle

Finance and Resources Committee

Alison Andreas
Steve Blake
Kevin Prince
Richard Wainwright

In attendance:

| | |
|-------------|---|
| Gary Horne | Executive Vice Principal: Finance and Corporate Development |
| Hazel Paton | Clerk to the Governors |
| Adam Smith | Scrutton Bland, External Auditor |
| Mark Smith | Scrutton Bland, External Auditor |

1. Apologies for Absence

Apologies for absence were received from Jasmin Patel and Terry Smyth.

2. Declaration of any conflicts of interest

None

3. Report and Financial Statements 31 July 2021

The attendees were offered a brief introduction to the purpose and context to the meeting and noted that this was a one-off matter and in order to be in a position to recommend the report and financial statements to the timetabled board meeting it has been agreed to hold a joint meeting of both committees.

The Committee had received and therefore was to consider the following key documents and associated matters:

- CIC/ARFR/21/1 - Report and Financial Statements 2021
- CIC/ARFR/21/2 - External Auditor's Management Letter 2021
- CIC/ARFR/21/3 - Letter of Representation
- CIC/ARFR/21/4 - Report on Going Concern

The Chair of the Finance and Resources committee handed over matters to the Chair of the Audit and Risk Committee who had been closely involved in the matters that required discussion. He then briefly summarised for the meeting the key areas that were to be addressed in terms of the presentation of the Financial Statements; key accounting treatments explanation and context; concepts and implications of Going Concern statement; formal documents and reports to the Board.

It was reported that the very positive performance for the year had resulted in the achievement of a Good grade for Financial Health, a key measure an indicator used to assess the College.

The following key matters had been considered in preparing the accounts and some key accounting treatments were summarised for the benefit of the Committee, as follows:

i. Restricted Cash

The definition of 'cash and cash equivalents' was explained and the implications of the cash deposit held by Barclays Bank on behalf of the College. Based on the terms it was noted that this amount had not been included in the cash flow statement and was reflected and described as 'restricted cash' on the face of the balance sheet.

Governors Were informed that the amount held was returnable at the end of February 2022.).

ii. Adult Learner/Apprentice Clawback

Following a technical change to EFSA guidance this year the Auditors were unable to rely on ESFA certificates to confirm funding income, notably in respect of that arising from apprenticeships. During the year the College had commissioned SRF Consultancy to review apprenticeship funding. The External Auditors had looked at the report from SRF, which had identified risks in respect of apprenticeship funding and, as a result, had conducted independent testing. As a result of that exercise, in their opinion a potential funding clawback of £128k might be due and therefore due provision was required in the accounts. After due discussion the College Executive had made a provision of £123k.

The Chair of the Finance and Resources Committee reported that this had been discussed at a meeting of the Committee earlier that week. The issues relate to documentation, primarily evidencing of off the job training. The Executive Vice Principal: Curriculum, Planning and Quality had reported that the College was of the view that it had documentation that would negate some of this clawback. Governors asked when or if the provision could be reversed. It was noted that the issue and risk related to the findings of any potential ESFA funding audit. The provision would typically remain until the College was satisfied it would not be audited for the period in question. The provision related only to the year under review. For apprentices still on programme, the College had another year to have appropriate documentation in place.

A member questioned whether it was ethical to keep funding which, if challenged, the College could not evidence it had earned. The Executive noted that the College had now recovered additional supporting evidence should the College be audited in the New Year. It was commented that some one third of the make up of the provision related to firefighters undertaking apprenticeship training.

Arising from the discussion it was reported that SRF had not been forthcoming in allowing the External Auditor to review their working papers. Their view being that this was a consultancy assignment and not an internal audit. As a result, the extra checks had to be carried out. The Executive Vice Principal suggested that in future such additional work be conducted earlier in the year to give more time to find additional evidence if required. Whilst the external auditors could accommodate this they noted that there would always be follow up work. However, it was the strong view of the Committee that the output of *any* work commissioned by the College is the property of the College and the Executive Vice Principal was specifically asked to follow this matter up with all specialists who were engaged to undertake Internal Audit work and to ensure that this requirement was agreed in writing as part of the terms of reference/contract.

The report on Going Concern was considered. The External Auditor reported that financial statements are prepared on the basis that the College can not only meet its liabilities as they fall due but continues to operate for the foreseeable future (defined as at least 12 months). The revised International Reporting Standards (effective from December 2020 year ends) is more explicit that it is the responsibility of Management to make the assessment of Going Concern, which should be formally documented. It is for the Auditors to determine whether they agree or disagree with the assessment. The paper presented by the Executive Vice Principal: Finance and Corporate Development included a statement on Going Concern, the reasons Management consider the College to be a Going Concern, and past and future performance under a range of scenarios. The analysis and assessment undertaken included the financial modelling of a number of 'stressed operating/financial scenarios' and that had been suggested following discussions with the Chair of the Audit and Risk Committee and External Auditor. The joint committee noted the report and the additional analysis and accepted and agreed that the assessment was appropriate.

The Letter of Representation was considered. Noting that the Board was being asked to affirm that there were no material unadjusted errors, a Member asked how materiality is benchmarked. The Executive Vice Principal reported that in his view, he would ordinarily consider anything above £100k would normally be adjusted and that some of the unadjusted errors were matters of timing rather than fundamental accounting errors. The External Auditor noted that they worked to a higher threshold for the purposes of audit materiality. After discussion it was agreed to remove the sentence "It is our view that the cost of making these adjustments to the financial statements outweighs any benefits that will be gained by the users of the financial statements."

Subject to the amendment to the Letter of Representation referred to above, the Audit and Risk Committee and Finance and Resources Committee agreed to **RECOMMEND** the Report and Financial Statements and Letter of Representation to the Board for approval.

The Corporation Chair thanked the Executive Vice Principal: Finance and Corporation Development for the work he had put in preparing the Report and Financial Statement, and the External Auditor and Chair of the Audit and Risk Committee for the support they had provided to the Executive Vice Principal.

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

The Committee met in private with the External Auditors. The discussion is recorded as a separate confidential minute, available to Independent Board members only.

4. **Date of Next Meeting**

The Audit and Risk Committee followed this meeting.

The next meeting of the Finance and Resources Committee is on Wednesday, 9 February 2022 at 4.30pm. The meeting will be held via Zoom.

5. **Any Other Urgent Business**

There were no items.