Approved minutes

COLCHESTER INSTITUTE CORPORATION

Minutes of a virtual joint meeting of the
AUDIT AND RISK AND FINANCE AND RESOURCES COMMITTEES
held on 8TH December 2022

Present
Audit and Risk Committee

Mark Davies, in the Chair	Terry Smyth
Irene Kettle	

Finance and Resources Committee

Richard Wainwright	Steve Blake
Alison Andreas	Richard Block
Stephanie Bettinson	Kevin Prince

In attendance:

Gary Horne	Deputy Chief Executive
Hazel Paton	Clerk to the Governors
Adam Smith	Scrutton Bland, External Auditor

1. **Apologies for Absence**
   Apologies for absence were received from Lisa Blake.

2. **Declaration of any conflicts of interest**
   None.

3. **Report and Financial Statements 31 July 2022**
   The Committees received and considered:

   - CIC/ARFR/22/1, Report and Financial Statements year ended 31 July 2022
   - CIC/ARFR/22/2, External Auditor's Report to the Audit and Risk Committee
   - CIC/AFRF/22/3, Report on Going Concern

   The Acting Chair of the Audit and Risk Committee introduced this item by briefly summarising for the meeting the key areas that were to be addressed in terms of the presentation of the Financial Statements, key accounting treatments, concept and implications of going concern statement, formal documents and reports to the Board.

   It was reported that:

   - The outcome for the year to 31 July 2022 was positive.
   - Financial Health was Good
   - The current financial performance for the year to date reflected the economic climate and headwinds that may adversely impact on the outcome for the year.
   - There were very few accounting treatments and compared to the prior year they were not contentious or unusual. In summary they related to end of lease dilapidations; outstanding Lennartz VAT amount; actuarial gain in respect of the pension scheme; and gross up of trade creditors.

The External Auditor reported that the FRS102 pension scheme valuation is not the same as the actual scheme liability. An FRS102 gain can only be recognised as an asset in two situations: (i) if there is a legal entitlement to a refund, which is very rare; or (ii) the organisation is able to create a situation where it can reduce future contributions. As markets change a deficit in respect of the pension scheme is likely, largely because of a movement in the discount rate, which is the most sensitive of the assumptions.

The Acting Chair of the Audit and Risk Committee summarised the concept and implications of the going concern statement. It was reported that:

- Debts need to be met as and when they fall due for a period into the future
- It is the responsibility of the Board to approve the going concern statement, and Governors have personal responsibility in the event something goes wrong.
- It is a management responsibility to model forecasts to provide the necessary evidence and comfort Governors require.
- Four assumed scenarios had been modelled to stress test the forecasts as set out in the report on going concern. The forward projections into the budget year 2023/24 and year after were based on the current position and the agreement to make an immediate in year pay award and further pay award from April 2023. For each case mitigating actions had been identified to realign the cost base to meet any reduction in income.
- One of the key tests in terms of solvency is the cash at bank position. Following the decision of the ONS to reclassify colleges as public sector organisation, there is to be a smoothing of the FE funding profile in March 2023. As a result, the end of March test, a traditional cash pinch point, will not be so much of a concern in the future.
- At this stage, with the approval of the pay award, the College was forecasting a drop in Financial Health from Good to Requires Improvement. However, there was still headroom against the bank loan covenant position.

Governors noted that the pay settlement created a level of increased financial risk and the potential for Good financial health grade to be impaired for one year.

The Deputy Chief Executive reported that the scenarios had focussed on downside risks, but there were potential upsides which could improve income. Since the date of the report, as part of the ONS reclassification of colleges the DfE had announced that it will bring forward some capital allocations for colleges. Colchester Institute had heard the previous day that it had been allocated £318k to put towards energy saving capital works. £100k would be used to install photovoltaic panels at Braintree, saving c£20k per annum. The other £200k would be used for additional photovoltaic panels on Blocks B and C at Colchester, where proportionate savings in utilities were expected. The College was also hopeful of some additional in year funding to help with inflationary pressures.

Governors noted the reference in the report on going concern to working in partnership with key stakeholders and questioned why, in the context of developing relationships, this was only in terms of short life project teams. It was reported that funding is often short life. An example was given of the ESNEFT (East Suffolk and North Essex NHS Foundation Trust) short life 12-month project. In terms of developing relationships, this had turned out to be a very successful seed funding initiative whereby future funding had been secured to support new variants of the health-based project in Essex and Suffolk.

The Chair of the Finance and Resources Committee reported that in discussing the proposed pay award the Committee had focussed on going concern and were comfortable with the answers it received. Some of the reported upsides were already coming through.

The External Auditor reported that:

- The ONS decision to reclassify colleges as public sector had been discussed at a recent College Auditors forum. There had been a lot of challenge around going concern. Funding will be coming through earlier, aiding cash flow. The other area where there was a lot of discussion was around third party bank borrowing, particularly balloon payments. This only affects going concern if the balloon payment needs to be made in the next twelve months. Now that colleges are in the public sector they need approval to roll payments over which they will not get as it not in the Government's interest to borrow on a commercial basis.
- The cash from the Lennartz VAT refund had assisted the working capital position.
- The report on going concern was very detailed and was to be commended. The budget for the year had been updated to forecast for this financial year and the following financial year based on known factors. The College can meet its liabilities for the foreseeable future (12 months). The four scenarios only looked at downsides and documented why they were not likely, and the mitigating actions that would be taken if they did occur.
- The going concern basis is appropriate.

The Deputy Chief Executive and his team were complemented on the good work that they had done.

Governors questioned the unsecured loan in the consolidated cash flow. The Deputy Chief Executive believed this related to the new finance lease that the College had entered into to support the roll out of new PCs. He agreed to look into this outside the meeting and if appropriate change the presentation in the final accounts.

Governors questioned the timeframe for the closure of Colchester Institute Enterprises (CIE) Ltd, which was made dormant as at 1 August 2021. It was reported that the first stage would be to reduce the share capital down to £1. There would also be an impairment down to £1 in the College accounts. **Action:** The Finance and Resources Committee was asked to determine the timing for the closure of CIE Limited.

A suggestion from a Member that the statement on the reclassification of colleges should be expanded was accepted. It was agreed to add "Management consider that there are on no immediate or adverse implications for Colchester Institute at this time, and none that impact their assessment of Going Concern". Other minor typographical errors were noted and will be corrected.

The External Auditor drew Governors' attention to key points in the Report to the Audit and Risk Committee. It was reported that:

- The Acting Chair of the Audit and Risk Committee had commented in some detail on the Report prior to the meeting. These comments had been accepted and were reflected in the Report issued to the Committee.
- There were no outstanding matters that would not be expected at this stage of the audit.
- The audit was conducted in accordance with the audit plan presented to the Audit and Risk Committee in June 2022.
- The restricted cash in the prior year accounts had now been received back from the bank.
- Accruals included £331k in respect of electricity from the previous provider. The auditors had seen the calculations and they seemed to be reasonable and not materially misstated.
- Evidence had been provided to support the provision for dilapidations which were reasonable.
- The Auditors concur with the going concern assessment.
- As mandated by ISA 240 two significant risks had been highlighted at the planning stage: Management override of controls which is non rebuttable, and improper revenue recognition, which can be rebuttable.

- Internal audit specialists had been used to look at apprenticeships, where there is a risk of clawback. The auditors were satisfied that the majority of the documentation was in place and correctly accounted for.
- Management override of controls looked at journals and potential management bias. Unusual journals during the year and at the year were tested but nothing was found.
- There is still an amount of Lennartz VAT which the College is trying to recover from HMRC. There is now precedent that if the cash is received it is recognised in other income.
- It was noted that although the Director of Finance does not process journals, they do have the ability to post journals which would not be subject to any review or approval. It was suggested that access right was removed.
- There were a number unadjusted errors, which were noted by the Committee. The overall impact of the unadjusted errors was only £48k, which was not material.

The Letter of Representation was noted.

The Report and Accounts for the year ended 31 July 2022 were recommended to the Board for approval, subject to the amendments agreed during the meeting.

The Acting Chair of the Audit and Risk Committee thanked the Deputy Chief Executive and his team for producing the financial statements, Committee Members for their contribution to the discussion, and the External Auditor for what has been a good relationship over a number of years.

4. **Internal Audit Annual Report 2021/22**

CIC/ARFR/22/4, Internal Audit Annual Report 2021/22, was received and noted.

5. **Annual Report to the Board**

CIC/ARFR/22/5, Audit and Risk Committee Annual Report to the Board and Chief Executive, was received, considered and APPROVED.

6. **Regularity Self-Assessment Questionnaire 2021 to 2022**

CIC/ARFR/22/6, Regularity Self-Assessment Questionnaire 2021 to 22, was received and noted.

7. **Any Other Urgent Business**

There were no items.