

**CAPITAL CITY COLLEGE GROUP****AUDIT COMMITTEE****Minutes of the Meeting held on 20<sup>th</sup> March 2018**

<b>PRESENT</b>	Leslie Brissett (by telephone from 18:10, from item 2), Joel Featherman, Mike Magras, Fiona Thompson (Chair), Maarten Zuurmond
<b>IN ATTENDANCE</b>	Graham Drummond (Director of Governance from 18:10, from item 2), Nirmal Borkhataria (Group Finance Director), Caireen Mitchell (Group Director Planning and Performance to 20:30, end of item 9), Stewart Cross (Director of Integration and Information), Simon Evans, (Director of Financial Accounting), Lee Newman (Mazars, CCCG/CONEL Internal Auditors, to 20:10, end of item 8), Sarah Mason (RSM, CONEL External Auditors, to 7:30, end of item 4), Julie Ellis (Governance Officer)
<b>APOLOGIES</b>	Katharine Patel, Buzzacott CCCG External Auditors

There were no declarations of interest.

**Reports for approval or discussion**

1. **MINUTES OF THE MEETING HELD ON 21<sup>st</sup> NOVEMBER 2017** **Action**  
 The minutes were agreed and signed by the Chair as a correct record, subject to the following changes.  
  
 In relation to item 3a Outstanding actions/recommendations, there were 79 and not 80;  
  
 With respect to the confidential minutes, in the reference to the division of labour between management accounts and general audit, the word "audit" should read "accounting" and was amended accordingly.
2. **MATTERS ARISING** **GD/JE**  
 With respect to the minutes of the meeting held on 21<sup>st</sup> November 2017, it was noted that:
  - In relation to item 2a Matters Arising, there have been at least five applications following the advertisement of the vacancy for a co-opted member of this committee. The applications are of a high calibre; the Committee asks that the applications are acknowledged as soon as possible;
  - In relation to item 5.1 External Auditor Appointment, Management Reports and Letters, it was expected that if any adjustments would be required in the light of the merger of the pensions schemes, this would take place later this year;
  - In relation to item 7 Risk mop-up training sessions on risk management for managers have taken place. HR will be contacted to ensure that all who should have received the training have done so;
  - In relation to point 10 Regularity Self-Assessment Questionnaire, the items considered as KPIs in draft form including monitoring attendance, responses to the self-assessment review and feedback on auditors' performance will be regarded as in place.
3. **CCCG INTERNAL AUDIT 2017/18**  
 Six written reports were received and considered as follows:
  - 3.1.1. **Outstanding actions**  
 A summary tracking sheet of audit recommendations and their status as judged by CCCG management was presented (the master tracker has been sent by e-mail to provide further detail). The Committee noted:

- Recommendations are tracked from the source of the report making them. The original management response and updated management responses, due date and responsible department appear on the tracker;
- Despite being marked as complete by management, auditors still require further evidence to confirm recommendations relating to exam registration and funding assurance including attendance records, provision of study programmes for 16-19 year olds and learning aim dates (see 3.1.3 below).

The committee was of the view that the format of this report was much clearer, but would benefit from an indication as to which were the high priority recommendations and more detail on progress made.

### **3.1.2. Internal Audit Strategy Update and Operational Audit Plan and Internal Audit Progress Report**

In relation to the above report, the following was noted:

- A combined operational plan (including CONEL) had been included within the papers for the committee's consideration. It was further noted that CONEL's original audit of apprenticeships – levy income has been replaced with a joint review of subcontracting controls within CCCG. CONEL's core financial systems – treasury management will be incorporated into CCCG's reporting procedures;
- Progress against the combined plan includes the finalisation of one CONEL and four CCCG audits. A draft report has been compiled for CONEL on cyber security and GDPR readiness and a planning review for CONEL's learner numbers completed;
- An overall assessment of adequate assurance was given for financial planning and substantial assurance for safeguarding for CCCG;
- CONEL received a rating of adequate assurance for HR and substantial for facilities and estate management.

### **3.1.3. Follow-Up**

A follow-up report was received and considered. The Committee noted that:

- 30/44 of the recommendations accepted by management were classified as implemented. 20 of these 30 have been confirmed as implemented by the follow-up and 1 had been superseded;
- 21 outstanding recommendations have passed their target date of implementation;
- It was noted that it was not always easy to track the individual recommendations in the action plan to the table of overall auditable areas on page 3;
- Discrepancies in the detail from the 'Outstanding Actions' report (3.1.1) represented timing differences, and Internal Audit and CCCG finance team reconcile the two reports for consistency and completeness;
- Registration and MIS still remain areas of concern and five out of eight recommendations relating to funding assurance, including two priority 1 recommendations remain not implemented. Learning aim achievement will need to be re-audited. Full training for enrolment staff will be given to prevent the errors that had happened in the past. As there is now a permanent manager of MIS, there should be more stability than there has been in the past regarding the oversight of this area.

### **3.1.4. Core Financial Systems – Planning/Budgeting**

A report was received and considered. It was noted that:

- An assessment of adequate assurance was given in respect of risk management and internal control arrangements;
- An HE income shortfall of £620K resulted in part from poor recruitment but also due to a budgeting error where partner costs were not subtracted from fee assumptions in the case of LBSU and the error has been repeated this financial year;
- There has been an improvement to the budgeting planning process following the audit highlighting that two budget holders were unable to provide details of the assumptions used by MIS regarding retention and achievement rates. Although the practical outcome of

inaccurate budgeting and forecasting is primarily a concern for the Group's Finance and Resources Committee, the Chair requested that management look more closely at this from a risk perspective with the auditors to ensure that the findings are taken into account during the budgeting cycle about to commence, and report back. The Committee also noted that procedures around in-year reforecasting and reporting actuals against budgets are the subject of a further audit taking place in the first week of July.

### 3e. **Safeguarding**

This report was received and considered. It was noted that:

- An overall assessment of substantial assurance was given with two minor recommendations made in relation to the greater desirability of online over paper storage of student documentation;
- There is a high awareness among students of what to do in the event of bullying, harassment or discrimination; there are informative leaflets posted around the college site.

The committee was pleased to note the assessment given in this area and commended the staff involved.

### 3f. **Subcontracting controls**

This report was received and considered. It was noted that:

- An assurance rating is not given for subcontracting as the ESFA determines whether bodies merit funding. Performance would be consistent with a substantial assurance rating, if this was not the case;
- Six of the eight recommendations have been implemented;
- The Group is taking legal advice on whether management fees on subcontracting are subject to VAT or whether they should fall under the charities' exemption.

### 3g. **Other**

A proforma internal audit satisfaction survey was included in the papers to serve as a reminder that the surveys should be completed as a matter of course and this should be added to the KPIs for CCCG as regards audit processes.

## 3.2 **CONEL – FACILITIES AND ESTATES MANAGEMENT**

This report was received and considered. It was noted:

- An overall assessment of substantial assurance was given;
- Recommendations made included:
  - producing verified space utilisation reports and not relying on estimates. This will follow as a result of joining CCCG;
  - introducing a KPI in contracts to address snagging issues, for example, the percentage resolved within a week. The timeliness of response to facilities maintenance requests compared to targets set in the service level agreement is at 55%, which requires improvement.

The auditors wished to thank the committee and the executive for their support in completing the various reports.

## 3.3 **KPMG FUNDING ASSURANCE REPORT AND UPDATE REPORT**

This report was received and considered. It was noted that:

- Following the SFA Audit Review in October 2016 it had been decided that KPMG, an SFA appointed audit service would be used to carry out a funding assurance audit based on sample sizes agreed with the Group;
- Eleven recommendations were made of which four were high priority, six medium and 1 low and all were agreed by management;
- High priority recommendations related to:
  - the accuracy of learner enrolments;
  - a mismatch between planned enrolment hours and actual attendance;
  - an absence of evidence for start dates and learning delivery;

- English and maths within apprenticeships;
- The Group can expect to hear in July if it will be subject to an SFA audit;
- A review of the college's use of the SFA's provider data self-assessment toolkit (PDSAT) software to ensure the accuracy of the ILR data using the data from the LIR dated 8 June 2017 was carried out. Errors which would affect the accuracy of funding claims continue to appear and it was recommended that the Group continue to review PDSAT reports throughout the year.

The committee noted that although steps had been taken to address issues, there was still work to be done to bring the controls over learner numbers up to an acceptable standard; follow-up of the implementation of the recommendations should continue to be included in reports to the committee.

SC

#### 4. CONEL'S FINANCIAL STATEMENTS, FINAL AUDIT FINDINGS REPORT AND REGULARITY ASSURANCE

4.1 The following reports were considered and received:

- Financial statements and report for the period 1<sup>st</sup> August – 31<sup>st</sup> October 2017;
- Final Audit Findings Report;
- Regularity Self-Assurance (sent by e-mail).

It was noted that:

- A deficit of £3,144k for the period is reported, though as the timing of the compilation of the accounts has affected the figures, the committee was advised not to be unduly concerned by this outcome (see suggested amendments below);
- On legal advice, the Group will no longer challenge a decision by HMRC in respect of a VAT leaseback scheme (p46). £5.3m is earmarked for the tax bill and associated costs;
- The External Auditors have given assurance that the financial statements give a true and fair view of CONEL's status as at 31 October 2017 and with respect to regularity;
- As a result of the acquisition accounting treatment being applied to the inclusion of CONEL in the Group financial statements from the date of merger, the revaluation of CONEL's freehold estate on a fair value basis is likely to result in a depreciation charge increase of £1m;
- The ESFA publishes a proforma self-assessment questionnaire (the Regularity Self-Assurance document) to support corporations in drafting the statement of regularity, propriety and compliance within their annual accounts, which was completed and sent by e-mail;
- The following amendments should be made to the financial statements and report:
  - Page 6: remove the reference to 14-16 learners recruited later in the year, as these are closing accounts;
  - Page 9: the explanation for the loss should be included (see bullet point above within this item). Ordinarily, the accounts will reflect the position over a year. The timing of these accounts meant that they incorporate summer months in which no income is generated;
  - Page 18: clarification that the terms of office of the CONEL governors refer to their original terms; as a consequence of the merger and subsequent governance review, all governors' terms are subject to review;
  - Page 49: an indication that legal advice had changed recently in respect of the likelihood of a successful appeal against HMRC's assessment against the college for its VAT lease and leaseback arrangements in note 20.

Subject to the suggested amendments above, the committee **recommended** the approval by the Board of the financial statements.

4.2 In respect of the final audit findings letter, it was noted that:

- The final letter for signature to be presented to the Board at its meeting on 28<sup>th</sup> March will be signed by the Chair of CONEL prior to its dissolution;

- On page 7, £711k costs incurred for resurfacing football pitches were expensed to the statement of comprehensive income on the basis that the resurfacing has not enhanced the assets. While acknowledging that this is a matter of judgement, the auditors take the view that the costs could be capitalised and have issued an unadjusted misstatement (p9). The judgement concerning the appropriateness of the treatment will be referenced in the letter of representation.

The committee **recommends** to the Board that the letters of representation to RSM in respect of the financial statements and regularity, and the regularity self-assessment assurance questionnaire are signed off.

If approved by the Board, the Chair of the CONEL Board prior to its dissolution will sign off the financial statements to close off the CONEL balance sheet at merger date and the associated documents referred to in this item.

The auditors wished to thank the CONEL committee and the executive for their support in completing the various reports, particularly as their preparation of these has been very soon after that for the 2016/17 financial statements.

The Committee thanked RSM Tenon for their work on this set of accounts and previously as auditors of CONEL, which is now dissolved.

## 5. **RISK REGISTER AND OPERATIONAL PLAN**

A report was received and considered. It was noted:

- The register has been further amended based on CONEL's format and has been adapted following feedback from auditors. Improvements include tracking the direction of risk and identifying whether risks are ongoing or exceptional. It is an evolving document and will be reviewed termly by the Group Leadership Team;
- The document will need to be reviewed to correct scoring and coding errors, for example, at point 7.1, where, despite retaining and attracting staff being a matter over which the Group has a high level of control, the net risk (risk after controls and treatment have been applied) is higher than the gross risk (the risk without mitigating actions being applied);
- It is unclear how the 'change' column assists with appreciating risks and the impact of mitigation, so this could be removed;
- The risks appear to be appropriately identified, but the controllability factors key may benefit from some clarification;
- The current main risks are failure to maintain financial viability of the colleges in the short and medium term, failure to control costs, disruption or failure of business systems and an inability to attract and retain suitable staff.

## 6. **GDPR UPDATE**

A report was considered and received. It was noted that:

- The Group's GDPR steering group will have its third meeting on 26<sup>th</sup> March. The Data Protection Officer (DPO) will be supported by designated officers in each department of the Group, for example, from MIS, Finance, HR and Marketing;
- JISC has been appointed to provide consultancy services to assist the Group in ensuring its compliance with the data protection regulations;
- The Group has produced a "dos and don'ts" fact sheet for staff and there has been a staff awareness session across the Group. More systematic staff training across the Group is being agreed with HR. Staff will be written to, reminding them of their personal responsibilities with respect to data protection;
- The internal auditors will review the Group's arrangements in May 2018. The Group's current plan with respect to GDPR had been added to the report; it was further noted that this plan was iterative in nature.

An update on the timetable and any issues encountered will be provided to the next meeting.

**GD**

## 7. MODERN SLAVERY STATEMENT

A draft statement to comply with the requirements of the Modern Slavery Act was received and considered. The Committee noted:

- The statement is similar in intent to that of other educational institutions required to produce these (those with an annual turnover of at least £36m), but less detailed than some;
- The reference to overseas customers need not appear in the statement as this forms a very small proportion of business (tens of thousands of pounds' worth) and the reference to the Bribery Act should make it clear that the statement is referring to domestic law on this point.

It was agreed that at the Committee's next meeting a further report would be provided to reassure members that Group has in place the controls to ensure compliance with the statement.

GD

## 8. WEBSITE COMPLIANCE

A paper on statements and policies that needs to be included on the Group website to comply with statutory and regulatory requirements and/or good practice was received and considered. It was noted:

- The review was triggered by the reference to these items within the 2016/17 Group financial statements and the post audit management report. It had been agreed that compliance would be considered at a future meeting, though the internal auditors take the view that the area need not be the subject of an audit;
- A list of compliance areas was included covering items such as the publication of annual accounts, safeguarding arrangements and the privacy policy. This is a non-exhaustive list that will be monitored. Items likely to be added include the Education and Skills Funding Agency rules stipulation that all prime providers must have a policy for subcontracting and that details of these arrangements must be published annually, including the amounts paid to subcontractors at the end of each year.
- The website can only be updated by the Group's marketing department;
- Keeping the website current relies on individuals remaining alert to the requirements as part of their regular work. Accordingly, the committee recommended that this paper is regularly reviewed and updated.

## 9. APPOINTMENT OF AUDITORS

Auditors were not present for this item.

Performance reviews of internal and external auditors were received and considered. It was noted that:

- The Finance team assessed their performance in 18 of 20 assessment areas by way of a grading from 1-4 with 1 as outstanding, 2 as good, 3 as satisfactory and 4 as inadequate;
- The input of the committee was sought on the two remaining criteria of:
  - attendance at and performance at committee meetings;
  - on-going liaison with the committee.

### Internal

- As regards internal audit, the Internal Auditors received an overall rating of two. It was rated as 1 or 2 in nearly all categories with the single rating of three due to the fact that the Group uses a separate ESFA appointed funding auditor for funding related audits;
- Strengths highlighted by the report and discussions included:
  - The continuity of the relationship;
  - The reports covered the extensive material that needed to be dealt with reasonably concisely;
- Areas for suggested improvement include:
  - Reports could be even more concise and focussed with less "boiler plate" material;
  - The Group would benefit from more guidance on best practice and a steer on how it performs compared to other FE colleges.

### **External**

- As regards the external audit, it was noted that the External Auditors had been re-appointed after a tender exercise last summer, the third time that they had been appointed after a competitive tender;
- The audit partner had changed last year;
- Their approach is regarded as consistently helpful and informative, both in and out of meetings; 1 would be an appropriate rating for contribution at meetings and 2 for on-going liaison.

The Committee will **recommend** to the Board the re-appointment of both sets of auditors.

### **Reports for information or reference**

**10. MINUTES AND CONFIDENTIAL MINUTES OF THE MEETING OF THE FINANCE AND RESOURCES COMMITTEE 28<sup>th</sup> FEBRUARY 2018**

These minutes were received and considered.

**11. COMMITTEE SCHEDULE OF BUSINESS**

The schedule was received and considered. The Committee noted that all the items are standing items and the schedule would be of more assistance if non-recurring items were included. It was suggested that self-assessment, a policy review schedule and GDPR be included.

### **AOB – CORRECTION TO ACHIEVEMENT RATES**

An item of any other business was considered, to inform the Committee about a correction to the achievement rates previously reported to the Curriculum and Performance Committee and the Board. This was being reported to the Audit Committee because of the control implications. The Committee noted:

- ILR returns are required to be made to the ESFA. There is a hard close on the data in early October and this is used to generate student achievement data that is scrutinised in the self-assessment process;
- The national methodology for calculating achievement rates was changed for the 16/17 academic year to provide more time for apprenticeship achievements to be recognised after the hard close. Data for the first full return of 2017/18 is now used to supplement the data from the October hard close of the previous academic year's data;
- As a consequence, achievement rates published nationally differ from those used in the self-assessment process, with a small adverse variance in the rates for education and training provision;
- 353 more leavers were reported in the nationally published data than in the data used for self-assessment;
- About 250 of these related to Functional Skills' learning aims from CIC which had been continued into 2017/18 even though the students had not completed these successfully in 2016/17, inflating achievement rates. 60 were duplicate learning aims;
- The correction will not affect the overall SAR assessment grades allocated;

In the light of other ILR errors, the committee requested and received assurance that procedures are now in place to ensure this practice will not occur in the future.

It was the last meeting for Caireen Mitchell before she leaves to take up the post of Chief Executive and Principal of Croydon College. The Committee thanked her for her endeavours and wished her the best for the future.

The next meeting will take place on Tuesday 19 June 2018, venue to be confirmed.

Signed as a correct record: \_\_\_\_\_

Fiona Thompson, Chair of the Committee