

CAPITAL CITY COLLEGE GROUP**AUDIT COMMITTEE****Minutes of the Meeting held on 21st November 2017**

- PRESENT** Joel Featherman (left 19:30), Mike Magras (from 18:10), Fiona Thompson (Chair), Maarten Zuurmond
- IN ATTENDANCE** Graham Drummond (Director of Governance), Nirmal Borkhataria (Group Finance Director), Caireen Mitchell (Group Director Planning and Performance), Stewart Cross (Director of Integration and Information) Graeme Clarke (Mazars, CCCG/CONEL Internal Auditors), Lee Newman (Mazars, CCCG/CONEL Internal Auditors), Katharine Patel (from 16:50) (Buzzacott, CCCG External Auditors), Connie Coles (RSM, CONEL External Auditors), Julie Ellis (Governance Officer), Claire Collins (Group Director of Human Resources & Operational Development)
- APOLOGIES** Dr Leslie Brissett

The Chair opened the meeting by inviting all present to introduce themselves.

Reports for approval or discussion

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| 1. PREVIOUS MINUTES | Action |
| 1a. MINUTES OF THE MEETING HELD ON 13th JUNE 2017 | |
| The minutes were agreed and signed by the Chair as a correct record. | |
| 1b. MINUTES OF THE MEETING HELD BY TELEPHONE CONFERENCE ON 27th SEPTEMBER 2017 | |
| The minutes were agreed and signed by the Chair as a correct record. | |
| 2. MATTERS ARISING | |
| 2a. With respect to the minutes of the meeting held on 13 th June 2017, it was noted that: | |
| <ul style="list-style-type: none"> • In relation to item 1, there remains a vacancy for a co-opted member of this committee, which will be re-advertised; • In relation to item 3, insurance for high-risk employment-related legal claims has been acquired; • In relation to item 11, a schedule of business was circulated to ensure that all of the committee's responsibilities are carried out within the year and will be included as a standard item for all meetings. | GD |
| 2b. With respect to the minutes of the meeting held by telephone conference on 27 th September 2017, it was noted that: | |
| <ul style="list-style-type: none"> • In relation to item 1, the Chair met with Katharine Patel of Mazars to discuss materiality and the approach to CONEL. Confirmation was awaited at this meeting as to whether recent work on VAT by the auditors (review of the Group's partial exemption special method) would have any effect on the financial statements audit and audit plan; • In relation to item 2, terms of reference in respect of the review of financial planning, monitoring and control of core financial systems had been issued by Mazars and agreed with the previous Director of Finance and the Director of Financial Accounting. | KP |
| 3. CCCG INTERNAL AUDIT | |
| Four written reports were received and considered as follows: | |
| 3a. Outstanding actions/recommendations | |

A summary tracking sheet of audit recommendations and their status as judged by CCG management was presented by the Director of Governance (further details had been made available as Appendices 2, 3 and 4). The Committee noted:

- Of the 80 outstanding recommendations:
 - 38 have been implemented with 41 in progress;
 - 27 are overdue; entries relating to ICT strategy and project management were a few years old;

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

3b. Commercial income

In relation to a report on commercial income, the following was noted:

- An overall assessment of adequate assurance was given;
- The report confirms that controls are in place and the amount of oversight by the main Board appears to be in sufficient detail;
- Areas for further improvement include:
 - Commercial courses are being run before the commercial assessment and risk aspect of the contract costing template is being run;
 - The weekly estimated funding outturn report produces information by cost centre/code only. The ability to monitor the contribution of each course will be implemented and the report will be reconciled to the ILR on a termly basis for non-government funding streams.

3c. HR Extended Follow-Up

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

- This extra review was commissioned as part of the Internal Audit Plan for 2017/18. The auditors have undertaken this to follow up progress on the audit of HR's New Starter Process. The focus of the review was on controls and processes for pre-employment checks and the subsequent induction and monitoring process. The initial report gave limited assurance as there appeared to be significant areas for improvement following the harmonisation of the WKC and CIC college systems;
- The follow-up shows that good progress is being made; there is an awareness of the requirements amongst staff and these are being managed. Terms of reference and a flowchart are in place to ensure the correct procedures are followed. No priority 1 recommendations remain outstanding;
- An external consultant has been used to provide the focus needed to resolve key areas of risk; for example, every single WKC staff file has been monitored for compliance.

3d. Annual Internal Audit Report

The draft annual internal audit annual report was received and considered. It was noted that:

- The annual opinion given was that risk management and internal control arrangements were adequate;
- Of the four other audits in the year where a formal assurance level was issued, Core Financial Systems, General Ledger and Commercial Income had been as adequate, with HR New Starter Process receiving limited assurance (see Item 3c above);
- With reference to pages 5-8 of the report the Group had performed below the benchmark standards and had received more significant recommendations than other clients of the internal auditor from the FE sector; the internal auditors acknowledged that monitoring risk and controls during the first year of merged arrangements posed additional challenges.

The auditors wished to thank the Committee and the Executive for their support in completing the various reports.

3e. Learner number system audit

An oral update was presented on the learner number systems. It was noted that:

- A draft report was not yet available in respect of this additional audit by KPMG for CCCG commissioned on this area in the light of shortcomings revealed in the extant systems in the prior year, although the work had been performed in July. It appeared from the information available that there would be no adverse impact on the external audit reports;
- The written findings will need to be taken into consideration before the external auditors can sign off the financial reports;
- The impact of cybersecurity and the advent of the General Data Protection Regulation (GDPR) on learner numbers will be considered and fed into the Group's policy.

The committee requested that the management response should be finalised as a matter of priority, given that the audit had been specifically commissioned because the learner numbers represented a high risk area, and that an update be provided prior to the Corporation meeting in December.

4. REPORT FROM CONEL'S AUDIT COMMITTEE

The following reports had been included within the papers for the meeting; and were considered and received:

- Internal audit outstanding recommendations;
- Internal audit progress report;
- Internal audit annual report;
- 2017/18 internal audit strategy update and operational plan;
- Risk register and risk management strategy and procedure

Internal audit reports on Human Resources (Training and Development) and a progress report had been circulated to members via email prior to the meeting.

The committee noted the following:

- The last chair of the CONEL Audit Committee before the College's dissolution approved the Annual Audit Committee report to the Corporation, concluding that the College had a framework of control providing reasonable assurance that the College's objectives would be met effectively and efficiently;
- CONEL had been subject to an ESFA funding audit in September. The report had been made available two days previously. The committee further noted that this audit had not resulted in any significant funding adjustments;
- CONEL's procedures on safeguarding are being adopted by the Group, as is its risk register format;
- Uncertainty relating to the merger is regarded as the greatest risk;
- Assurance was mostly adequate in respect of the areas under assessment with substantial assurance given in respect of Quality Management and Core Financial Systems.

The committee noted that the Group Director of Finance and Operations is currently reviewing the schedule to align future work across the Group, but it is anticipated that most of the internal audit plan is likely to proceed. The committee will review the schedule at the next meeting.

5. EXTERNAL AUDITOR APPOINTMENT, MANAGEMENT REPORTS AND LETTERS

5.1 The External Post Audit Management Report for CCCG and CONEL were considered and received. It was noted that:

- The External Auditors for both institutions have given assurance that the financial statements give a true and fair view of their financial status and with respect to regularity;
- As the institutions were continuing to operate as before post-merger, no re-assessment of assets and liabilities was required; some adjustment of pensions figures may be required in due course in the light of the merger of the pensions schemes;
- Attention was drawn in section 4 of the CONEL report to two adjusted misstatements and to a large number of unpaid invoices as detailed within section 6; a review of purchase ledger practices is to be carried out in respect of the latter.

5.2 Proposed Audit Representation letters and the appointment letter in respect of the annual submission to Teachers' Pensions for CONEL were included for information. The Committee noted that:

- Since the merger with CONEL took place on 1 November, a decision was required whether to prepare a 'long period' set of accounts, or two sets of accounts for the year to 31 July 2017 plus a 'short period' to 31 October 2017. Primarily due to filing deadlines, the latter approach has been adopted. The CONEL Audit Committee pre-merger recommended that RSM should be appointed to complete the audit of both sets of accounts. From 1 November, CONEL will be consolidated into the Group accounts, and Buzzacotts have confirmed that the combination will be on an acquisition rather than merger accounting basis, meaning that fair value rather than the book value will be used to calculate the depreciation charge. Minimal changes to accounting policies are anticipated;
- The Director of Integration, as a former employee of CONEL will be in a position to provide assurance to enable the Board and Executive to make this appointment, and to sign off the 16/17 CONEL financial statements and letters of representation.

The committee agreed that the assessment and appointment of external auditors for the Group be deferred to the following meeting, after the completion of the current year's audit.

The Committee will **recommend** to the Board that RSM be appointed to audit the CONEL accounts for the period between 1st August and 31st October (the period before its dissolution). The Committee will **recommend to** the Board that the audit representation letter to Buzzacott in respect of CCCG's 16/17 financial statements be issued.

6. FINANCIAL STATEMENTS 2016/17

The draft Financial Statements for CCCG and CONEL were presented to the committee. These need to be signed and approved within five months. The Committee noted:

With respect to the CCCG report the following observations were made:

- Although the Group made an operational deficit of £1.2m, it is still assessed by the ESFA as being in outstanding financial health;
- Only a small adjustment of £114K was necessary after the alignment of the accounting policies of WKC and CIC following the merger of August 2016, and the Chair commended the finance team for this result during a period of upheaval;
- The interchangeable use of the terms "College" and "Group" could cause confusion. Whilst reference to a single college is more appropriate for accounting purposes as the Group is a single merged entity, defining the term at an early stage of the document to say that reference to one includes reference to the other, unless otherwise specified, should clarify the report;
- Some assertions would benefit from fuller explanation to avoid negative speculation:
 - A general statement to explain why the Group's financial forecast was not met on page 5;
 - The deficit figure on page 4 includes £1m for restructuring costs. If not able to be justified, such a round figure may give the impression of lacking precision and, as a consequence, plausibility;
 - The reduction of key management personnel from 19 to 9 is unaccounted for on p35;
 - As not-for-profits are under increasing pressure to explain why reserves are held, an explanation on page 6 for doing so would be prudent;
 - Student success as well as achievement rates should be referred to on page 6;
 - It was requested that it be clarified if the Group incurred no interest charges for late repayments of suppliers as asserted on page 6;
 - Reference to staff and the 6th Form Centre should be made to in the report;
- The responsibility for maintenance of integrity of the College website referred to at page 18 refers to the obligation to have the statements available on the website and the Director of Governance will ensure that this is done once they have been approved. The Director of Governance also reported that he has ensured that the ESFA requirement to have an accessible link to 16-18 performance on the website has been met. Some consideration would be given to how the Group would ensure continued compliance with regulations over time with the assistance of the internal audit service;
- There may be pension value adjustments, with the triennial valuation from June 2016 being used as the basis for assessment.

Subject to the suggested amendments above, the Committee **recommended** the approval by the Board of the financial statements. Katherine Patel of Buzzacotts agreed to attend the Corporation meeting in December.

With respect to the CONEL report:

- It is assessed as in outstanding financial health and has a “good” Ofsted rating;
- A surplus of £404,000 was generated for the 16/17 year;
- The college is ranked number 1 for student satisfaction in England;
- It is challenging a decision by HMRC in respect of a VAT leaseback scheme which would cost £5m if the case is lost. Legal counsel’s opinion is that the matter merits challenge (p48);
- KPMG’s due diligence exercise before the merger revealed that there has been some double counting for pensions contributions resulting in pension liabilities being overstated by £1,476K (p55);
- The committee agreed the recommendation that the Chair of the CONEL Board prior to its dissolution should sign the 16/17 financial statements, the accounts to close off the CONEL balance sheet at merger date and auditor appointment letters to carry out this work, supported by the representation letter referred to in 5.2.

7. RISK

A report on the risk register with a draft register annexed was received and considered. It was noted:

- The register is based on CONEL’s format and has been adapted following feedback from auditors. Improvements include tracking the direction of risk and identifying whether it is ongoing or exceptional. It is in draft format and its contents have not yet been considered and agreed by the Group’s leadership team;
- The Group has just completed its self-assessment process so that areas for improvement can be entered into the draft plan and consequently linked to the operational plan;
- The internal auditors have delivered risk management training to managers which was received positively; a “mop-up” session is planned;
- Each college will have its own risk register and the College Boards will be responsible for its oversight; the main register will deal with systemic risks;
- The main risks are failure to win apprenticeship contracts post-levy, failure to control costs, disruption or failure of business systems and an inability to attract and retain suitable staff and these have been appropriately reflected in the financial statements.

The Committee **agreed** to adopt the new format of the risk register, but noted that its contents will be subject to further review by senior leaders.

8. GDPR

A GDPR update, Data Protection action plan and specification to tender for external consultancy services were received and considered. It was noted that:

- The Group’s steering group has had its second meeting;
- Following the advice received from the committee, it had been agreed by GLT to appoint an external consultancy service to assist the Group in ensuring its compliance with the forthcoming changes to the data protection regulations. A tender document inviting expressions of interest has yielded responses from JISC, Essex County Council and Masson Tech Ltd;
- A revised Data Protection Policy, including retention policy, has been presented to the steering group and will be circulated to college management teams;
- Data security issues such as encryption will be addressed in a later phase;
- The internal auditors will review this area in early 2018;
- Although the obligations under the GDPR are stringent and the penalties for infringement potentially high, the Group is following the ICO advice in preparing for the introduction of the new Regulations. A further update will be reported to the committee at its next meeting, in order to monitor progress before the May 2018 deadline.

9. DRAFT ANNUAL REPORT FROM THE AUDIT COMMITTEE TO THE CORPORATION 2016/17

A draft report was submitted to the committee. This will be finalised in the light of discussions at this meeting by the Chair and Director of Governance and circulated to the committee for comments by email. It will be presented to the Board at its meeting on 13th December.

FT/GD

10. REGULARITY SELF-ASSESSMENT QUESTIONNAIRE

A report and draft questionnaire were received and considered. It was noted that:

- The ESFA publishes a self-assessment questionnaire to support corporations in drafting the statement of regularity, propriety and compliance within their annual accounts. This proforma has been prepared for the Group and was attached as Appendix 1;
- At its June meeting, the Committee had considered draft KPIs and a Qualitative Performance Assessment. The KPIs included monitoring attendance at meetings and responses to the self-assessment review;
- There will be a re-emphasis on budgeting and forecasting in the light of the divergence between the forecast and the actual operating figure achieved for the 16/17 year;
- It was suggested that the provision of feedback on auditors' performance should be a KPI. The CONEL auditors received detailed feedback, but the CCCG auditors did not.

The Committee **agreed** to recommend that the chair of the Board should sign the Annual Regularity Self-Assessment Questionnaire.

Reports for information

11. SUB CONTRACTOR CONTROLS

A report on sub-contractor controls was received and considered. The committee noted:

- The Group was subject to investigation last year in respect of a wrongful claim for funding by a subcontractor which has resulted in a focus on controls;
- Controls need to ensure that CCCT delivers on its obligations whilst remaining within the funding regulations;
- The "Guidance on Subcontracting Processes Manual" is available for committee members who wish to review this in more detail;
- The role of the Financial and Resources Committee and the extent of delegated authority and limits upon entering agreements is a critical control on this activity and should be raised at that committee.

12. MINUTES OF THE MEETING OF THE FINANCE AND RESOURCES COMMITTEE 3RD OCTOBER 2017

These minutes were received and considered.

13. CONFIDENTIAL DISCUSSION WITH AUDITORS

The Committee conducted a discussion with the auditor in the absence of the Executive, for which there is a confidential note.

The next meeting will take place on Tuesday 20 March 2018, venue to be confirmed.

Signed as a correct record: _____

Fiona Thompson, Chair of the Committee