# CAPITAL CITY COLLEGE GROUP

AC 02/10/2018 **ITEM:1**

### AUDIT COMMITTEE

#### Minutes of the Meeting held on 19th June 2018

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| **PRESENT** | Leslie Brissett (to 19:50, item 10), Paul McLoughlin, Fiona Thompson (Chair) |
| **IN ATTENDANCE** | Graham Drummond (Director of Governance), Nirmal Borkhataria (Chief Operating Officer), Stewart Cross (Director of Integration and Information), Simon Evans, (Director of Financial Accounting), Katharine Patel, Buzzacott CCCG External Auditors; Graeme Clarke (Mazars, CCCG Internal Auditors), Lee Newman (Mazars), to 20:10, end of item 8), Julie Ellis (Governance Officer) |
| **APOLOGIES** | Mike Magras, Cosette Reczek, Joel Featherman |

The Chair welcomed Paul McLoughlin, appointed to this Committee as a co-opted member at the Board meeting of 23rd May, to his first meeting.

There were no declarations of interest.

Items were heard out of the numbered order on the agenda to ensure that those requiring approval were dealt with before the meeting became inquorate at 19:50.

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| Reports for approval or discussion | | |
| **1.** | MINUTES OF THE MEETING HELD ON 20th MARCH 2018 The minutes were agreed and signed by the Chair as a correct record. | Action |
| **2.** | **MATTERS ARISING**  With respect to the minutes of the meeting held on 20th March 2018, it was noted that:   * In relation to item 2, there have been no adjustments as yet to the pension schemes as a result of the merger; * In relation to item 3.1.4, it was confirmed that auditors will be conducting a second audit from 2nd July concentrating on reforecasting and reporting actuals; * In relation to item 3f Subcontracting Controls, the Group is not at present seeking legal advice on whether management fees on subcontracting are subject to VAT or whether they should fall under the charities’ exemption. This position will be reviewed should the need arise; * In relation to item 3.3 KPMG Funding Assurance Report, a follow up audit will take place next month and the findings reported to the next audit committee meeting.   The Committee asked that a list to track the progress of action points raised at meetings be compiled. | **JE** |
| **11.** | **COMMITTEE SELF ASSESSMENT (and Schedule of Business)** |  |
|  | A paper on committee self-assessment with the terms of reference attached and the schedule of business were received and considered. It was noted:   * Committee self-assessment is carried out as part of the annual report to the board. In the light of the limited time available at this meeting, comments could be passed onto the Director of Governance outside of the meeting; * The committee terms of reference refer to three meetings held annually whereas at least four are usually required to complete its business and revised terms should reflect this. The terms of reference of all committees are being reviewed as part of the Governance Review and will be discussed at the Chairs’ Group meeting of the 28th June before presentation at the Board meeting of 11th July. Proposed amendments to the terms will be distributed to Committee members before the Chairs’ Group meeting for comments. | **GD** |
| **3.** | **ANNUAL HEALTH AND SAFETY REPORT** |  |
|  | The annual health and safety report was considered and received. The Committee noted:   * Policies and procedures for the Group have been approved; H&S committees for each college meet twice yearly; lessons were learnt from the merger between CIC and WKC to ensure that due diligence for the CoNEL merger better covered H&S and any major risks have been tackled; * Recent sentencing council guidelines for corporate offences have resulted in the level of fines imposed by courts increasing significantly, with no leniency for public sector defendants. Proposed guidelines for offences of gross negligence manslaughter state that courts should be considering custodial sentences as a starting point for these offences, indicating an increased willingness to allocate individual liability in respect of crimes committed in a corporate setting. The Group will re-visit its insurance cover for legal expenses to check that it remains adequate; * Although it is regarded as good practice to have a Health and Safety governor, in the event of a corporate offence the Executive would bear ultimate responsibility. There is also uncertainty about the legal liability that a nominee may assume and it may not be prudent to appoint someone at this time. Legal advice received indicates that it is unlikely that there would be someone on the Board qualified to undertake such a role. Appointing a member of the audit committee might create a conflict of interest as he/she would have oversight of health and safety; * Appendix A to the report highlights risk factors, with action taken and plans to mitigate those identified. The record of accidents and incidents was reproduced and does not indicate any systematic concerns. The Group is keen that “near-misses” do not go unreported; * There are no H&S targets, as it would be very difficult to set these meaningfully in the light of the diverse nature of the students. The Alexandra Centre for learners with profound learning difficulties requires a high level of risk management with each student requiring 6 separate risk assessments for issues such as behaviour and medication; * The Group instructs Britsafe to conduct three independent audits per year to provide management and this committee with assurance; * The Group employs a full time Health and Safety Manager who is a member of the Health and Safety Institute and will be joined shortly by a full-time deputy. Other members of staff will have designated H&S duty holder status. The Group Head of Health and Safety is qualified to train staff and governors; an outline of the issues on the Group’s obligations could be covered at a Board meeting. In addition, there are numerous one-day and online courses which may be suitable for Governors to undertake; * Benchmarking with other colleges is difficult because the level of reporting is very different; * Although the H&S report is presented annually, the item will be listed again in the autumn for an update on matters including identifying the duty holders. | **SE**  **GD/DW** |
| **4.** | **AUDIT REPORTS/LETTERS 2017/8** |  |  |
| **4.1.** | **EXTERNAL PLANNING REPORT** |  |  |
|  | The External Audit Strategy for the year ending 31 July 2018 was received and considered. It was noted:   * The timetable for completing the work to audit the Group’s financial statements, fees, terms of engagement and a sector update were included in the letter. A breakdown of how fees are calculated will be supplied; * Issues of audit significance in compiling the financial statements were identified at the pre-audit planning meeting and include: * As the merger of CCCG and CoNEL does not meet the criteria for merger accounting, acquisition accounting procedures will need to be applied. The fair value of CoNEL’s net assets acquired at 1st November 2017 will be subject to a revaluation of CoNEL’s land and buildings (p4). CoNEL’s loan covenants will be closely monitored; * There may need to be re-assignment of costs to the correct accounting period and of items incorrectly capitalised (p5); * The requirement that the Board issues a regularity statement in the annual report in respect of appropriate arrangements for governance, risk management and internal financial control; * The ESFA has not issued its template for reporting yet, but few changes are anticipated to the way the accounts will be prepared. | **KP** |  |
| **12.** | **FINANCIAL IMPLICATIONS OF CoNEL BUILDING REVALUATION** |  |  |
|  | A report of the financial implications of CoNEL’s building revaluation was received and considered. It was noted:   * CPRE valuers have been appointed to assess the assets’ value. While the value of CONEL’s land has increased, that of its buildings has decreased. Long useful asset lives valuations utilised, (over 25-50 rather than 5-10 years) have resulted in the carrying values being in excess of the fair value. This policy is being reviewed across the Group as there are different practices across the colleges. Revised figures may be available next week and any change in policy will be recorded in the financial statements; * The Group has a choice as to how it accounts for properties at 266 High Road, Tottenham and the Tottenham Green Enterprise Centre. They are not part of day-to-day operations, being used as an Indian café and joint venture company with the London Borough of Haringey respectively and could be treated as investment properties rather than tangible non-current assets. There are no plans to bring the properties back into the mainstream estate. A market rent is received for CONEL’s freehold properties, except in respect of a property known as the fire station, for which a peppercorn is received; * Investment properties are not subject to depreciation, but would be annually adjusted on the basis of a professional revaluation every five years and changes recorded in the income and expenditure account; * Subject to completion of legal formalities, the Finance & Resources Committee have agreed to extend the leases on the properties for TGEC to continue to allow them to be used for charitable purposes.   The Committee **AGREED** to treat the properties as investment properties and that decisions relating to accounting policy fall to this Committee. |  |  |
| **4.2.** | **INTERNAL AUDIT – CCCG** |  |  |
| **4.2.1.** | **OUTSTANDING ACTIONS** |  |  |
|  | A report on outstanding audit recommendations was received and considered. It was noted:   * The summary was sent to the Committee as a hard copy. The full report with the detail of each recommendation was sent by e-mail; * There are 38 complete and 63 incomplete recommendations in the June 2018 report; * The summary was a helpful document, but would be improved by the inclusion of information on what items had been removed from the list to track progress. | **SE/NB** |  |
| **4.2.2.** | **FOLLOW-UP** |  |  |
|  | This item was adjourned to the next audit committee meeting as departmental management responses are still being awaited. |  |  |
| **4.2.3.** | **MIS AUDIT ISSUES AND FUTURE PLANS** |  |  |
|  | A report was produced in response to the Committee’s request and received and considered. It was noted:   * Good progress was reported in addressing areas of concern over MIS capability including response to urgent college requests for missing data and functionality, submitting accurate ILRs and establishing enrolment and funding figures for the Group; * The Group is in a stronger position than in the recent past in the event of an ESFA audit, which can be triggered in the event of significant change, such as recent merger or the appointment of a new principal/chief executive.   The Committee regarded the appendix summarising MIS issues raised in audit reports as a helpful tracking format, but requested that target and completion dates be included in future versions. | **SC** |  |
| **4.3.** | **INTERNAL AUDIT – CONEL** |  |  |
| **4.3.1.** | **CYBER SECURITY AND GDPR READINESS REVIEW** |  |  |
|  | The last two audit reports for CONEL were received and considered. It was noted that:   * Based on the fieldwork carried out in October 17, limited assurance was issued. The area has now been added to the risk register; * The recommendation that the college should develop a policy that requires personal mobile devices to be kept up-to-date with vendor updates and application patches was regarded as impractical by management. CONEL considered some penetration testing, but due to the rapid changes in software and technology, decided not to follow the recommendation at the time it was made; * CONEL management did not accept that a recommendation for a data flow mapping exercise was necessary in that a procedure was being formulated at the time of the recommendation and that the perceived “unreadiness” was due to the timing of the fieldwork. |  |  |
| **6.** | **GDPR UPDATE** |  |  |
|  | A paper on the Group’s progress to comply with the requirements of the General Data Protection Regulation was considered alongside the above internal audit report. It was noted:   * The Group has a central record of processing activity, a data retention schedule and staff and student privacy notices and is rolling out training to all staff. The Data Protection Action Plan attached as Appendix 1 sets out the progress made in respect of key policies and procedures; * A recent GDPR audit recommended that the Group implement a data breach policy; * The Group assured the Committee that it can demonstrate to the Information Commissioner that it is continuing to exercise best endeavours to comply with the GDPR.   The committee will continue to receive updates as the Action Plan progresses, including on the Group’s ability to identify and report a breach within the 72-hour deadline. |  |  |
| **4.3.2** | **LEARNER NUMBERS** |  |  |
|  | The committee noted that:   * CONEL did not accept that the recommendation at 4.1 that planned learning hours be reconciled with the timetabled hours early in the summer term as the college already did this; * It was accepted that the auditors base their work on a random sample of learners. In the view of CONEL’s management, the strict application of criteria to denote readiness at the time of the audit was a mechanistic approach. It was pointed out that the college regularly satisfies funding bodies’ audits in respect of the same periods. The internal auditors acknowledged that the response could have made reference to timing;   The committee queried whether these disputed issues could have been identified at the scoping phase of work on the report. It was noted that the difference of opinion was unfortunate and acknowledged that the observations of the internal auditors are made with the objective of co-operatively improving systems. |  |  |
| **9.** | **FINANCIAL REGULATIONS UPDATE** |  |  |
|  | The Group’s Financial Regulations updated for the 2018/19 academic year were received and considered. It was noted:   * There are a few typographical errors in the document to be corrected, but the review of the Regulations was otherwise welcomed as thorough. Consideration should be given as to whether it is necessary or desirable to include contact details of the Data Protection Officer; * The Committee asked for an audit report on the contents of the regulations.   Subject to the amendments above, the Regulations were **APPROVED.** | **FT** |  |
| **10.** | **FINANCIAL ETHICS POLICY REVIEW** |  |  |
|  | The Financial Ethics Policy updated to reflect the changes to item 9 was received, considered and **APPROVED**. |  |  |
| **7.** | **MODERN SLAVERY POLICY - ASSURANCE** |  |  |
|  | A report on assurance in respect of the Group’s compliance with its modern slavery statement was received and considered. It was noted:   * Clauses used in standard subcontracting agreements were attached for reference. The Group is recruiting a procurement manager and it is proposed that similar wording be extended to agreements in other areas of the Group’s business when that appointee is in post; * The Group is not specifically required to adopt particular forms of wording in its transactions with other parties in respect of modern slavery at this time. Compliance with section 54 of the Modern Slavery Act 2015 requires businesses to state what they are doing, if anything, to ensure their supply chains are free of slavery and human trafficking. Organisations are expected to be alert to these issues and continuously review and build upon their modern slavery statements and business practices. |  |  |
| **5** | **RISK REGISTER AND OPERATIONAL PLAN** |  |  |
|  | The risk register and operational plans were received and considered. It was noted:   * The risk register is continuously reviewed. This edition includes a section for evidence of the effectiveness of the controls, colour-coded to indicate external, group-wide and departmental sources of assurance. The colleges each have a register that feeds into the Group-wide one; * Two risks have been increased and seven reduced. There are no new risks. The highest net risks relate to adult curriculum, controlling costs, business planning and integration of information systems. Areas that could be added to the register include cyber security, corporate criminal liability, cyber security and the high level of interim staff; * The updated operational plan was held to be largely self-explanatory. |  |  |
| **8** | **SUBCONTRACTING** |  |  |
|  | The annual report on subcontracting was received and considered. It was noted:   * The Group is obliged to report on subcontracting activity to the Committee. Education and Skills Funding Agency rules stipulate 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 Committee’s view was that the report submitted would be more suitable for the purposes of the Finance and Resources Committee than this committee as it focusses on the revenue generated rather than giving assurance in respect of compliance. It was noted however that auditors’ reports should provide some assurance on this. |  |  |
| **13.** | **MINUTES OF THE MEETINGS OF THE FINANCE AND RESOURCES COMMITTEE OF 28TH FEBRUARY AND 2ND MAY 2018** |  |  |
|  | The minutes and confidential minutes of the meetings of the Finance and Resources Committee of 28th February and 2nd May 2018 were received for information. |  |  |
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The next meeting will take place on 2nd October 2018, venue to be confirmed.

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

Fiona Thompson, Chair of the Committee