

**CAPITAL CITY COLLEGE GROUP****AUDIT COMMITTEE****Minutes of a meeting held on 19th November 2018**

<b>PRESENT</b>	Mel Brookstone, Keith Brown, Paul McLoughlin, Cosette Reczek (items 1-9), Fiona Thompson (Chair)
<b>IN ATTENDANCE</b>	Graham Drummond (Director of Governance), Stewart Cross (Director of Integration and Information), Simon Evans, (Director of Financial Services), Graeme Clarke (Mazars, CCG Internal Auditors), Rachael Wright (Mazars), Wayne Gellion, (KPMG – items 1-5), William Ockendon (Mazars) (items 1-4), Katharine Patel (Buzzacott, External Auditors), Julie Ellis (Governance Officer)
<b>BY TELEPHONE</b>	Leslie Brissett (items 1-8), Nirmal Borkhataria (Chief Operating Officer – items 1-9)
<b>APOLOGIES</b>	None
<b>DECLARATIONS OF INTEREST</b>	None

This was Mel Brookstone's first meeting and the first meeting in person for Cosette Reczek and Keith Brown, having both taken part in the last meeting by way of conference call.

**Action****1. MINUTES OF THE MEETING HELD ON 2nd OCTOBER 2018**

The minutes were agreed and signed by the Chair as a correct record.

**2. MATTERS ARISING**

With respect to the minutes of the meeting held on 20<sup>th</sup> March 2018, it was noted that:

- With respect to Item 2, it had been agreed at the Committee meeting of 19<sup>th</sup> June 2018 that an action point log would be presented at every meeting to monitor implementation. The log was presented to this meeting and the format was welcomed. Some of the action points were discussed as follows:
  - Items described as ongoing (1 and 2) such as complying with website publishing obligations should appear in the Committee's schedule of business; **GD**
  - Item 7 – readiness for MIS and ESFA audit should remain on the log until finalised;
  - Item 12 – more work on scenario planning to achieve more accurate forecasting will be conducted in January;
  - Item 13 – readiness for compliance with the General Data Protection Regulation (GDPR) should remain a standing item until complete and should then be an annual report; **GD**
- The Committee requested that the following items be added to the log:
  - An audit of the content of the financial regulations. No specific instruction or timing has been issued to the internal auditors for this, though it was agreed at the meeting of 2<sup>nd</sup> October 2018 that some of the contingency days in the audit timetable could be used for this;
  - Monitoring of the appointment of a director of procurement. It was indicated at the meeting of 19<sup>th</sup> June 2018 that when this appointment was made, the requirements stipulated of providers in our subcontracting agreements regarding their compliance with the Modern Slavery Act could be rolled out across other business areas;
- With respect to Item 3.3 Follow-Up, the Committee will consider the inclusion of monitoring of benchmarking in internal audit reports where appropriate as an action point.

**3. HEALTH AND SAFETY (H&S) POLICY AND STATEMENT**

A revised health and safety policy and statement was received and considered. It was noted:

- The policy takes into consideration the more stringent sentencing guidelines for corporate

health and safety offences and legal advice has been taken. Care has been taken to ensure that responsibilities and duties are not assigned which could not be met;

- The Group Leadership Team (GLT) and senior managers are undertaking a one-day H&S training course; there is a training session planned for Governors at the board workshop on 15<sup>th</sup> March 2019.
- The first Group-wide H&S audit has been conducted by Britrisk Safety and the internal auditors are assessing H&S compliance;
- The Committee was assured that the promotion of reporting near misses will be an early priority for the restructured H&S team.

It was **AGREED** to recommend the policy and statement to the Board for approval.

GD/NB

#### **4. INTERNAL AUDIT**

##### **4.1 OUTSTANDING ACTIONS**

A report on outstanding audit recommendations was received and considered. It was noted:

- An updated version of the tracker summary was produced and the committee commended the clearer format. The full report with the detail underlying each recommendation was sent by e-mail;
- Of the 78 recommendations (down from 88 in the previous version of the tracker), 54 are complete/superseded and 24 in progress. Five items relating to H&S, staff utilisation and payroll have been assumed resolved or superseded due to age. The Committee would welcome more detail on closed off items at the next convenient point after closure.

SE

##### **4.2 ANNUAL INTERNAL AUDIT REPORT**

A draft of the internal audit annual report for the year ended 31 July 2018 was considered and received. It was noted:

- The report gives the Group unqualified assurance in all areas except cyber security;
- While the Group appears to underperform in complying with recommendations as against its peers, the internal auditors observed that other colleges have not faced the challenges of two mergers in close succession;
- The Committee asked that the report be clarified at page three to indicate that there were two and not three fundamental recommendations in respect of cyber security as a consequence of CONEL being absorbed into the Group plan;
- As an independent college, CONEL fed back more systematically on audit reports. It was suggested that a closure meeting on site at the end of the audit would ensure that feedback was timely. Feedback could be a prerequisite before the report is finalised. Any requirement that the Group fed back on the reports could be monitored via the action tracker. The Committee observed that there was no assessment of the college or audit committee, in particular with reference as to how they were performing against KPIs.

RW

RW/NB

##### **4.3 CYBER SECURITY**

A report on cybersecurity was received and considered, which gave limited assurance. It was noted:

- The Group has faced significant challenges in its endeavours to harmonise college systems and the colleges have responded positively. Cybersecurity, focussing on the vulnerability to external attack, requires further and priority attention;
- The following two priority one recommendations were made by the internal auditors:
  - Windows XP is no longer supported by the vendor yet a server and two computers were still using it at the time of the audit. The NHS was a high profile casualty of problems arising from similar systems. While the report indicates that these items were removed from the environment, the Committee seeks assurance that all unsupported systems be upgraded. A report will be circulated in January, giving the IT department sufficient time to test current systems;
  - The disaster recovery plan needs to be tested to expose and remedy any weaknesses; there had been no test for twelve months. This will be tested in February and will be monitored as an action item;

NB

NB

- It is recommended, as a priority two recommendation, that penetration testing take place in the light of the significant changes to the systems. Penetration testing has not been carried out for two years as it was not regarded as a priority within budget constraints. The Committee asked that the cost/benefit analysis of penetration testing be reconsidered; NB
- While it is common practice to outsource services, many risks for outsourced services remain borne by the Group, such as those in respect of configuration, malware and patch management. To minimise risks, agreements with providers should include appropriate terms attesting to the level of care to be exercised by the provider and agreements will be reviewed accordingly; NB
- Cyber security should be given more prominence in the Group Risk register. SC

## 5 KPMG FUNDING ASSURANCE

A report on funding assurance based on 17/18 learner numbers was received and considered. It was noted:

- Using the ESFA guidance, a large number of high risk funding errors across all funding streams were identified, with the position appearing to be worse than that in last year's audit;
- This may be due to information being unavailable at the time of the audit rather than an indication of faulty practice. The MIS team struggled to provide evidence in the time available due to weaknesses in the team compiling the information and colleges failing to maintain paper records. Whilst the Group was not included in the ESFA funding assurance sample this year, the inability to provide this information to the ESFA if requested would result in the clawback of funding;
- The importance of the accuracy of the returns to the ESFA is critical in the light of the proportion of the Group's funding that comes from this source as indicated in p2 of the report and greater awareness of this needs to be achieved. The Committee will recommend that extra resources be provided if required to ensure that learner records for 18/19 meet funding requirements;
- The Committee were assured that the audits have assisted in improving the understanding of the issues this year and some recent appointments within the MIS team will result in improvements to the team. Management accept that significant improvement is a priority and will implement an internal testing of enrolments by January to test current arrangements;
- A regular ESFA audit would cover the data collection only of the previous year, but it has the power to investigate up to seven years' worth of data in the event of a suggestion of irregularity;
- A move to automated enrolment in the long term may resolve some of the issues around the accurate recording of data.

It was agreed that the outcome of this audit put at risk the committee's ability to provide assurance with respect to the quality of data to the full board and a remedial plan will be produced and appended to the committee's annual report to the Board. The committee emphasised that going forward, proper controls needed to be in place to ensure that the funding assurance audit should not continue to be effectively part of the first and second lines of defence (i.e. as a prime means of identifying issues), but part of the third line of defence, providing assurance.

SC/GD

## 6. EXTERNAL AUDIT MANAGEMENT REPORT AND LETTER

### 6.1 POST AUDIT MANAGEMENT REPORT (FINANCIAL STATEMENTS AND REGULARITY)

The post audit management report was received and considered. It was noted:

- The Group's accounting team were thanked for their co-operation in ensuring a smooth audit. The external auditors expect to be in a position to confirm that the financial statements give a true and fair view of the Group's finances and that there will be nothing to report in respect of regularity, subject to the items outstanding on p3 of the report. As usual, these include the final ESFA funding reconciliation;
- Excluding the fair value of CONEL's assets, FRS102 pension charges (£5.2m) and one-off merger costs (£700K), there was an operational surplus of £444K;
- There has been an adjustment to correct the incorrect useful life span applied to some

assets for depreciation purposes that took place on the merger of CIC and WKC (disclosure note 11 to the accounts), which has resulted in a prior year adjustment;

- The debtor balances (p15 of the report) need to be quantified and an assessment of social security costs should be included.

SE

## 6.2 AUDIT REPRESENTATION LETTER

The audit representation letter was received and considered. The letter is standard, barring the reference to unresolved electricity charges in respect of the Victoria site, which the Committee were assured were in the process of resolution.

## 7. FINANCIAL STATEMENTS 2017/18

The financial statements for 2017/18 were received and considered. It was noted:

- The headline figures from the accounts are as follows:
  - Turnover is at £112.6m (with £89m from funding bodies);
  - An operational surplus of £0.4m was achieved, with an overall deficit of £5.4m;
  - Total comprehensive income for the year is at £47.3m;
  - Reserves are up to £301.3m compared to £254m the previous year;
  - The Group has returned to outstanding financial status, as defined by the ESFA;
- The financial statements include nine months of CONEL's accounts;
- The Finance and Resources Committee (F&R), which was disbanded in July after a review of the Group's governance arrangements, would have reported to the December board meeting on the reconciliation of the numbers in the accounts with the last forecast. This was covered at the board meeting of 28<sup>th</sup> September, however the committee recommended that this be repeated at the meeting of 13<sup>th</sup> December, particularly in the light of the final adjustments;
- Substantive observations on the accounts were noted as follows; minor typographical errors will be remarked upon separately:
  - On page 4, the operating surplus should exclude net assets acquired at the time of the merger with CONEL;
  - On page 6, it was noted that while it might not be a legal requirement, it would be good practice for the Group to have a reserves policy;
  - Reference to student numbers should be consistent throughout the document (cf. pp.3 and 9);
  - At page 9, the word "mainly" should be inserted between the words "is" and "due" in the first paragraph so the impact of the acquisition of CONEL during the year, and the actual results for the year on the figures are given more acknowledgment;
  - At pages 12-13, the opening comment under "The Corporation" refers to the list of members up to the date of signature appearing in the table, which is not entirely coterminous with those serving during the 2017/18 financial year. The table at present contains information on those members who served in the 2017/18 year and those expected to be serving up to the date of the December board meeting, and there are inconsistencies in the names of the various committees;
  - At page 40, the reference to the wholly-owned subsidiary and joint venture company should include the numbers on page 5;

NB/SE

The Committee asked that signed versions of the accounts be submitted only where legally required due to the risk of identity fraud on signatures (noting that the auditors are no longer required to sign with individual names);

- Consideration should be given to whether future versions of the accounts could include commentary on pay ratios, the gender pay gap and environmental statistics, in line with best practice and the Group's aspirations.

Subject to the amendments above, and the minor suggestions and typos to be submitted to SE, the Committee **AGREED** to recommend that the board signs the financial statements and the audit management letter.

NB/GD

**8. RISK REGISTER (dealt with after item 9)**

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

- The register sets out the position after the first full review since the start of the 2017/18 academic year, with factors such as the political and economic climate and the likelihood of an Ofsted inspection resulting in notable adjustments;
- The format was welcomed as clear and comprehensive and the breakdown of risk according to college was particularly helpful;
- The risk factor figure is achieved through multiplying likelihood times impact. The Charity Commission has noted the increasing use of a figure achieved using likelihood times impact as a starting point, but then adding an impact factor. This latter approach may more accurately reflect the overall impact of risks that have a low likelihood but a very high impact if came to fruition. A report back to the Committee on formulae in use will be given.

CR/SC

**9. FINANCIAL REGULATIONS: DELEGATED AUTHORITY**

A paper on proposed delegated financial limits was received and considered. It was noted:

- The F&R had delegated powers from the Board to approve most transactions between £150 - £750K except acquisitions only disposals;
- The CEO and COO have authority to approve transactions up to £150K. It is proposed that this limit be increased to £500K for all transactions;

The Committee agreed that while these seemed like reasonable limits, it would need some context of which transactions had been referred to the F&R on either side of the limits to gauge whether the revised levels would be appropriate. It would need to consider what controls will be in place to prevent split submissions vis-à-vis the same expenditure. Accordingly, a report will be presented to the next Committee meeting in March 2019.

NB

**10. DRAFT ANNUAL AUDIT COMMITTEE REPORT TO THE CORPORATION 2017/18**

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 e-mail. Reference to insurance arrangements will need to be included in the report. The final report will be presented to the Board at its meeting on 13<sup>th</sup> December.

**11. GDPR UPDATE**

An update on the Group's compliance with GDPR was received and considered. It was noted:

- Following an internal audit, the data protection policy has been revised to include:
  - a data breach policy and notification template; and
  - a data privacy impact assessment procedure for projects where there is a risk of a data breach;
- Website privacy policies, in respect of visitors to the website, are consistent across the websites;
- The drafting of a standard data sharing agreement is the fourth and final recommendation remaining from the audit and will be implemented in the New Year. It was agreed that GDPR should be a standing item until this has been completed and thereafter data protection and management should be an annual report.

GD

**12. REGULARITY SELF-ASSESSMENT**

The annual regularity self-assessment questionnaire was considered and received. It was noted:

- The ESFA publishes a self-assessment questionnaire to support corporations in drafting the statement of regularity, propriety and compliance within their annual accounts;
- The reference on page 1 to corporation sub-committees should be removed;
- The question on cyber security breaches on page 8 indicate that there were no breaches to the Group's knowledge.

Subject to the above amendments, the Committee **AGREED** to recommend the signing of the Annual Regularity Self-Assessment Questionnaire.

**13. REVISED AUDIT COMMITTEE SCHEDULE OF BUSINESS AND ASSURANCE**

The revised audit committee's schedule of business and a report of activities against the committee's terms of reference were received for information and assurance. Both were welcomed as a clear and comprehensive timetable and effective assurance document.

**14. BOARD: MINUTES FROM MEETING HELD ON 28<sup>th</sup> SEPTEMBER 2018.**

The minutes of the Board meeting held on 28<sup>th</sup> September 2018 were received for information.

**15. CONFIDENTIAL DISCUSSION WITH AUDITORS**

The Committee had a discussion with the auditors in the absence of the executive, for which there is a separate confidential note.

The next meeting will take place on 26<sup>th</sup> March 2019, venue to be confirmed.

Signed as a correct record:

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Fiona Thompson, Chair of the Committee