

CAPITAL CITY COLLEGE GROUP AUDIT COMMITTEE: 24th JUNE 2019

MINUTES

PRESENT	Leslie Brissett, Paul McLoughlin, Fiona Thompson (Chair)
IN ATTENDANCE	Chris Hyams, Stewart Cross (Director of Integration & Information, Interim Group Finance Lead), Graham Drummond (Director of Governance), Simon Evans (Director of Financial Services), Jeremy Wells <i>[until item 5]</i> , Graeme Clarke and Rachael Wright (Mazars internal audit) <i>[until item 10]</i> , Katharine Patel (Buzzacott external audit) <i>[until item 4]</i> , Wayne Gellion (KPMG), Graham Cooper (Clerk)
APOLOGIES	Mel Brookstone, Keith Brown, Cosette Reczek
DECLARATIONS OF INTEREST	None

The Chair welcomed everyone to the meeting, and specifically Chris Hyams, who had been appointed as a new Group Board member, and as Chair of the Audit Committee, from the end of the July Board meeting. Chris was therefore attending this meeting as an observer.

- 1. MINUTES OF MEETING HELD ON 26th MARCH 2019** **Action**

Subject to a number of minor corrections, particularly with regard to the allocation of actions, the minutes were agreed as an accurate record and, once corrected, would be signed by the Chair.
- 2. MATTERS ARISING**

The Committee noted that:

With respect to action 1, publication on the website compliance, this did not feature in the internal audit plan to be considered later in the meeting, and a decision would be needed in due course as to whether there should be an internal audit assignment on this matter.

With respect to action 2, use of scenario planning to achieve more accurate forecasting, the Committee considered that this was a matter for the Group Board to consider.

With respect to action 13, formulae used with respect to the risk register, the Committee had had an email discussion on the matter and this had been closed.

With respect to the follow-up on cyber security this was on the agenda for this meeting.

With respect to action 20, the revised internal audit plan 2018/19, an update on the current year was included with the internal audit reports for this meeting and the Chair noted that it was proposed that this should be accepted, but that there was also a need to consider how this impacts upon the 2019-20 plan and whether any items dropped from the current year should be followed up next year..

The Committee noted that all other actions had been completed or were covered in the papers for this meeting.
- 3. EXTERNAL AUDIT PLANNING**

The External Auditor presented the strategy for the audit for the 31st July 2019 year end, and the Committee noted the following key aspects:

 - The scope of the Audit, as set out on page 3, was in line with that for the previous year. A timetable for the work included presentation of the audit findings to the Audit Committee meeting on 20th November 2019 and presentation of the final Report & Accounts for approval to the Group Board meeting on 12 December 2019.

- The framework for the audit was largely the same as the previous year, although subject to changes in the latest iteration of the Account Direction to include alignment with Office for Students (OfS) requirements.
- Key issues of audit significance to be covered, representing key risk areas, were set out in the report, the two most significant areas, as is typical, being Income Recognition and Expenditure being over budget, particularly relating to the pay award.
- Details of proposed fees were included, totalling £49.35k. Whilst this compared with £60.75k in the previous year, the latter included £11.75k relating to additional one-off work in relation to the merger.
- The Chair queried the proposed accounting treatment of fees relating to the cancelled Tottenham Project, given their materiality. The Director of Integration & Information advised that these costs were currently capitalised, and the Chair asked that the position is checked in order to avoid any significant surprises arising from a last minute change in accounting treatment. **SC**
- As usual, a form relating to regularity and fraud would be provided for completion. **SE**
- The auditor was asked about materiality thresholds, which she advised would be 1% in relation to income and 1% in relation to expenditure.

The Committee accepted the audit plan.

4. **FUNDING ASSURANCE**

The Committee received a Funding Audit Assurance report dated May 2019 from KPMG, and also an update from management. The Committee noted:

- This audit had been commissioned by the Group, with the aim of obtaining assurance regarding the effectiveness of measures taken to improve controls in this area;
- The resolution of issues associated with the underlying learner information systems had been treated as a priority, under the oversight of a task force comprising senior management that had met every three weeks since January.
- The recent report from KPMG showed that progress had been made towards ensuring that the Group is compliant with ESFA funding regulations for 2018/19, but that there were still 10 observations arising from the latest KPMG report, of which 3 were classified as High. These had been accepted by management.
- The Committee discussed further the actions that had been taken to resolve the issues that had given rise to last year's clawback, but noted the risk, in the event of an audit by the ESFA in October/November, that if an error rate is detected, however small, the ESFA might decide to extrapolate this in order to determine an amount to be clawed back from the Group for the current year. The current external climate suggested that in such a case the ESFA would take a robust approach, and, depending upon the findings, an extrapolation resulting in a £1 million clawback was not beyond the realms of possibility - albeit that it was hoped that the steps taken to improve the robustness of data would mean that this was unlikely.
- It was not yet known whether the College would receive an ESFA funding audit, and the ESFA had yet to appoint firms to undertake these or to select colleges to be inspected. The ESFA delay could mean that the College would have less time to respond to any findings during an audit, further adding to the risk of a clawback,

The Committee advised that it remained extremely concerned regarding the possibility of a funding clawback, which could be substantial in relation to the Group's financial outturn for the year. The Chair asked that this risk is highlighted to the Group Board at its next meeting, at which she would not be in attendance. **SC**

With regard to the previous year's recommendations, the Committee noted that there was no process for sign-off of these having been implemented, although the view of management was that the previous report was superseded by the latest KPMG report. The management team was nevertheless asked to undertake an assessment as to whether any of the specific recommendations from the previous report were still relevant.

5. **CYBER SECURITY**

The Committee received a report on progress made against the recommendations in the Cyber Security report by Mazars in November 2018, and noted:

- The overall opinion of the internal audit service in November 2018 was to give limited assurance. The report had identified 11 recommendations for the ICT Department to implement, 9 of which were due for completion by May 2019.
- 8 of the recommendations had now been signed off as complete following a recent internal audit follow up. 2 recommendations were not due for completion until July 2019. 1 recommendation due for completion in March 2019, relating to missing policies, was still outstanding and a revised date for completion of July 2019 had been set.
- The Committee had recommended penetration testing at previous meetings. Testing had therefore been commissioned, and had been undertaken by JISC in early April 2019. A number of findings had arisen, of which 8 had been classified as critical and 13 classified as High. All issues had come as a surprise, but there had been no compromise to the security of student data to the extent that this should give rise to concerns. JISC would be asked to do a follow-up audit in July. The Committee asked to be provided with an update on the follow-up in due course.
- Going forward, penetration testing would be undertaken annually, and consideration would be given to using different providers to undertake this, with the aim of testing different approaches.

JW

6. SUB CONTRACTING ANNUAL REPORT

The Committee received the annual report providing an overview of sub-contracted provision for 2018/19 and planned provision for 2019/20. The Committee noted:

- that its responsibility is to review the controls in place, not to assess the overall strategy.
- there was a rigorous process of controls in place; due diligence, quality management and contingency planning.
- the subcontractors listed had all been assessed as of good quality and low risk, and it was proposed that they would be given further contracts in 2019/20.

The Committee stressed the importance of the annual report being forward-looking and that the Committee is made aware of any significant changes or material concerns that arise during the year.

7. INTERNAL AUDIT REPORTS

a) Outstanding Actions

The Committee received management's Audit Recommendations Tracking Report June 2019 and noted:

- 41 recommendations remained outstanding from the report to the March 2019 Audit Committee, to which had been added 5 recommendations from the Subcontracting Controls Internal Audit February 2019 report and 4 from the Core Financial Systems - Payroll Audit February 2019 report, resulting in a total of 50 recommendations.
- Of the 50, arising from their visit in April/May, Mazars had signed off 20 as having been completed.
- Of the 30 remaining recommendations, management had confirmed that they considered that 15 had been implemented, resulting in 15 remaining.
- The recommendations from the reports by Mazars and KPMG to this meeting would be added to the tracker.

The Committee thanked the Director of Financial Services for the clarity of the report.

b) Follow-up

The Committee received the Internal Audit Report on the June 2019 Follow-up visit and noted the good progress made, the main areas being the Financial Reporting and Budget Setting process and Cyber Security, the recommendations relating to which had largely been resolved in the previous report.

c) Facilities and Estates Management

The Committee received the Internal Audit Report in Estates and Facilities management dated March 2019. The Committee recalled that the report had previously been presented to its March meeting, but that it had considered the management responses to have been inadequate. The reissued report contained new management responses, whilst the recommendations remained unchanged.

The Committee discussed the strategy with regard to aligning the expiry dates of external contracts. This was expected to include renewal of the current contract with Kier, but as Kier had recently put the relevant part of its business up for sale, a change of ownership would provide an opportunity to terminate the contract if the Group wished to do so. It was noted that

the Group CEO was keen to bring the activities covered by a number of contracts in-house. The Committee noted that the overall strategy relating to external contracts was not within its terms of reference.

The Committee asked that it is noted that the final report including the updated management responses had not been issued on 15th March as dated, and asked for this date to be checked.

SE

d) Curriculum Planning

The Committee received and noted the Internal Audit Report on Curriculum Planning dated June 2019. The Chair referred the Committee to the comment on page 2 of the report regarding the CCCG Curriculum Strategy, highlighting that this is something that should be circulated to all three of the Group's Education Boards, not just the CIC Education Board.

e) Risk Management

The Committee received the Internal Audit Report on Risk Management dated May 2019, noting that this was useful to have in the context of the later discussion on Risk Management. The Chair noted the importance of ensuring that going forward the Committee has a good understanding of the risk assurance mapping. The potential for work to be undertaken on risk appetite was also highlighted. This would be picked up as part of the later discussion on risk management.

f) Governance

The Committee received the Internal Audit Report on Corporate Governance dated June 2019, and noted that it was pleased to see that governance remained a major strength, being one of the few areas to receive an internal audit Substantial Assurance rating. In this respect, the Committee commended the Director of Governance.

The Committee also noted that the report contained useful points in relation to training. Whilst this was framed in the context of training for the broader membership of the Group Board and College Education Boards, the need for training specifically for new members of the Audit Committee in relation to the areas of responsibility of the Committee was particularly noted. This was especially relevant at the present time in light of three members of the Committee stepping down and the need for new members.

The Committee also commended the format of the Internal Audit satisfaction survey included as an appendix to the report.

g) Internal Audit Progress report

The Committee received and noted the Internal Audit Progress Report dated 24 June 2019.

h) Internal Audit Strategy and Operational Plan 2019-20

The Committee received the Internal Audit Strategy and Operational Plan 2019-20. The Committee noted the mapping to the Risk Register and to previous reports, and that there was no backlog of work to be carried forward. The Committee asked the internal auditor about the number of days work (100) and he advised that this was considered appropriate for the size of the Group, in the context of the assurance mapping required. The total number of days also included ten days unallocated/contingency. The Committee accepted the plan.

8. RISK MANAGEMENT AND RISK REGISTER

a) Risk Register

The Committee received and noted a report including the latest update to the Group's Risk Register. The Committee held a discussion on the interconnectivity between individual risks in the register and took assurance that management understood the conceptual issues relating to this, but agreed that the Risk Register should remain as it is, rather than become overcomplicated and confusing by seeking to define risk interdependencies.

b) Risk Management Policy

The Committee received an updated Risk Management Policy for approval. The Committee noted that the policy had been completely rewritten, combining elements of the previous Group policy, the former CONEL policy and a number of specific internal audit recommendations arising from a review by Mazars in April 2019.

The Committee suggested that consideration should be given in due course to the criteria and process for escalation of risks to the Group Risk Register – e.g. the process for determining whether a risk that appears on an individual college register should be escalated to appear on the Group Risk Register. The suggestion was also made that the Committee might look from time to time at a sample of some of the individual subsidiary college/departmental risk registers.

SC

The Director of Integration & Information, Interim Group Finance Lead was asked to consider these issues further.

The Committee also noted the reference in the policy to risk appetite and noted that this was not an aspect that the Committee had previously discussed in depth. Members of the Committee expressed a number of views on the usefulness of including risk appetite in relation to individual risks on the risk register, particularly in instances where no further identifiable action can be taken to mitigate the risk. It was suggested that doing so would help to focus attention on how comfortable the Group is in accepting the residual risk. Further consideration would therefore be given as to whether a future version of the policy should be more explicit with regard to risk appetite.

SC

The Committee **APPROVED** the Risk Management Policy

9. POLICY OVERSIGHT

a) Reserves Policy

The Committee received a discussion paper relating to the development of a Reserves Policy, noting that the Group had not previously had a specific policy on this issue. The following points were raised:

- More work was need to explain why three months of average operating costs was the appropriate amount to set for a minimum Operating Reserve Fund. Additionally, cyclical variations that affect the quantum of this should be considered.
- With regard to the calculation, there also needs to be greater clarity as to what is included in the definition of freely available cash – specifically whether cash investments that require a notice period that can be broken subject to payment of a penalty should be included.
- There was a need for a clear distinction between reserves held for contingency purposes and reserves set aside as an investment 'pot'.

The Committee commended the paper as a discussion document and it was agreed that the Director of Financial Services would consider the issues further and would also consult with the external auditor. The Committee also noted the need for clarity relating to the delegation of authority to use reserves once a policy is put in place.

SE

b) Financial Regulations Update

The Committee received the Group's Financial Regulations document for periodic review and:

- The Committee noted that the proposed changes mainly addressed specific recommendations from the internal audit review in March 2019 and replacement of all references to the Finance & Resources Committee with references to the Board. In addition, there were a number of cosmetic changes relating to titles, typographical corrections etc.
- The Committee asked about how effectively the Financial Regulations are communicated to staff and the Director of Financial Services advised that the annual process of reissuing them includes publication on the staff intranet, relevant newsboards, and discussion at Finance and SMT meetings etc. Staff involved in managing relevant processes are aware of where to find them for ongoing reference as required.
- The Committee suggested that it could be worthwhile to include a short section, i.e. more than the current passing reference, to funding requirements. The Director of Financial Services confirmed that consideration would be given to this.

The Committee **APPROVED** the updated regulations with the changes as proposed, under the authority delegated to it by the Board.

c) Treasury Management

The Committee received for review the Group's Treasury Management Policy and noted the proposed changes which related mainly to updating to reflect name/title changes and replacing references to the previous Finance & Resources Committee to reflect responsibilities now transferred to the Group Board.

The Committee also noted that references to maintaining an 'Operating Reserve' should be included in accordance with a Reserves Policy (as discussed earlier) once that is agreed.

The Committee **APPROVED** the Policy with the changes as proposed.

10. PAYROLL FRAUD

The Committee received a report on a recent payroll theft perpetrated against three members of staff. The Committee noted:

- Reporting of the incident had been escalated promptly at the time that it had been discovered. The Chair of the Committee had been notified at the time, as had the internal auditor as required under the Group's Financial Ethics Policy. It had also been reported to Action Fraud, the national fraud reporting centre managed by the City of London Police. The value had not been sufficient to trigger reporting to the ESFA.
- The HR Services Administrator had liaised with the software providers, who had initiated their own investigation. A number of recommendations had resulted from the investigation and were in the course of being implemented aimed at preventing a recurrence of the incident.

The Committee considered it important to note that the incident had been a theft committed by a third party, not a fraud committed by a member of staff.

11. OFFICE FOR STUDENTS UPDATE

The Committee received a report in relation to progress to improve the accuracy of data, to address issues arising from the Office for Students (OfS) Individual Learner record (ILR) reconciliation exercises for 2016-17 and 2017-18. The Committee was also provided with a copy of a letter from the OfS dated 19th June 2019.

The Committee noted, having received and reviewed the content of the letter from the OfS and having requested and reviewed the report from management, that it was anticipated that there would be a significant improvement in quality of data for 2018-19.

12. GDPR UPDATE

The Committee received an update report on compliance with General Data Protection Regulation (GDPR) and noted:

- As previously reported to the Committee, during June 2018, the Group had been subject to an internal audit which had scrutinised systems and compliance against the Information Commissioner's Office's 12 steps for compliance with the regulations, which came into force in May 2018. Arising from that report, the Group had received Adequate Assurance and four recommendations had been made.
- Of the four recommendations, three had been implemented and one was ongoing.

Having noted satisfactory progress and that the outstanding recommendations had been resolved to an acceptable low level of risk, the Committee advised that the future reporting should be in relation to data breaches that occur, remedial action taken and any significant issues arising, rather than on the procedures in place. This could be included within an annual report on data protection.

GD

13. WHISTLEBLOWING

The Committee noted that no whistleblowing incidents had been reported or investigated since the Committee received the last annual whistleblowing report in 2018.

14. COMMITTEE SELF ASSESSMENT

The Committee received a report setting out the annual requirements in relation to a self assessment by the Committee of its own effectiveness and a review of its terms of reference. The Committee noted:

- That the Committee faced a significant amount of work in relation to each meeting, and it was increasingly challenging to complete this within the time available. Consideration should therefore be given to the length, frequency and timing of future meetings and the annual cycle of business.
- There was a need to ensure that the work of the internal audit service is appropriately targeted at areas where greatest value can be added.
- The consensus of members was that the Committee had been effective in meeting its terms of reference.
- In addition to the Committee's self assessment, it might be appropriate to ask the auditors, the Executive team and the Group Board to comment on the effectiveness of the Committee.
- Referring the Committee to the KPIs appended to the internal audit report on Corporate Governance, against which to assess the performance of the internal audit service, the Chair suggested that the Committee should consider developing its own KPIs.

Members of the Committee were requested to provide any additional feedback to the Director of Governance, who was asked to reflect on and to include the points already discussed in the

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annual report from the Committee to the Group Board, and to produce a mapping of how the Committee has fulfilled its responsibilities in relation to each aspect of the terms of reference. **GD**

The Committee also reviewed its terms of reference and noted:

- There was a need to update titles in relation to the references to the ESFA and OfS.
- Under 4.1, the responsibility of the Committee in relation to the annual financial statements should read 'in relation to internal control and risk management'.
- the responsibility of the Committee to provide its annual report to the Group Board should also be specifically stated in the terms of reference. **GD**

The Director of Governance was asked to make the necessary amendments to the terms of reference, for ratification by the Group Board.

As discussed at previous meetings, the Committee recommended that in line with the Group's aspirations, the Finance Department should also develop its own KPIs e.g. in relation to the targets for the number of audits judged satisfactory or above, the effectiveness of its response to audit recommendations and the management of internal and external audits. These could draw on findings from the financial improvement plan.

15. FINANCIAL IMPROVEMENT PLAN

The Committee received and noted a progress report on the Group's Financial Improvement Plan implemented by a working party chaired by the Group CEO to make rapid interventions to address identify and address weaknesses in the Group's finance data and systems.

16. INTERNAL AUDIT SCHEDULE 2018/19

This item had had already been addressed under agenda item 7.

17. BOARD MINUTES

The Committee received for information copies of the minutes of the Group Board meetings of 5th April 2019 and 22nd May 2019.

The Committee noted that this would be the last meeting of the Committee to be attended by Fiona Thompson, Leslie Brissett, and also for Keith Brown who had given his apologies, before all three step down as members of the Group Board. The Committee thanked them for their valuable contribution to the work of the Committee and Fiona Thompson for her chairmanship of the Committee.

Dates of future meetings:

Tuesday 1st October 2019 – 3pm meeting/telephone conference

Wednesday 20th November 2019 at 6pm

Wednesday 25th March 2020 at 6pm

Tuesday 23rd June 2020 at 6pm

Signed as a correct record: _____

Chris Hyams, Chair