



## CAPITAL CITY COLLEGE GROUP AUDIT COMMITTEE: 1<sup>st</sup> OCTOBER 2019

### MINUTES

<b>PRESENT</b>	Chris Hyams (Chair), Anthony Smith, Lisa Weaver-Lambert, Cosette Reczek (on phone), Paul McLoughlin, Mel Brookstone
<b>IN ATTENDANCE</b>	Rachael White (on phone), Simon Evans, Stewart Cross, Graeme Clarke (Mazars), Rachael Wright (Mazars), Helen Haddock (on phone for items 1-3), Graham Drummond (Clerk)
<b>APOLOGIES</b>	None

#### 1. MINUTES OF MEETING HELD ON 24<sup>th</sup> JUNE 2019

**Action**

It was noted that with respect to item 3, the fees associated with the cancelled Tottenham project would be included within the Group's income and expenditure account as part of its 2018/19 Financial Statements, and would not be capitalised. With this amendment the minutes were accepted as an accurate record, and were signed by the Chair.

#### 2. MATTERS ARISING

The following matters arising were noted:

- With respect to the funding assurance discussion (item 4) it was noted that the Group had not been included within the round of current ESFA funding audits. It was further noted that:
  - An internal working group has met since January, which has been focussing on the resolution of recommendations emanating from audits carried out by KPMG, with the aim of reducing the risk of non-compliance with ESFA funding regulations;
  - The new audit methodology being used by the ESFA involves providing less notice, and the visits can occur at any point during the academic year;
  - A further report on this issue will be considered at the committee's next meeting;
- With respect to Internal Audit follow ups (item 7) and the good progress that had been noted in relation to financial reporting and budget setting, it was the view of the committee that the recent issues identified with respect to poor financial control leading to an increased deficit, casts a different light on the view held at the time of the meeting. This would be discussed in more detail in item 3.

SC/GD

The action point tracker was considered and received. It was agreed that:

- A risk rating should be added to each item to indicate the seriousness of the unresolved issue;
- More detail needs to be provided with respect to some of the actions e.g. a date for resolution and an update on progress if the action has not been resolved;
- With respect to some actions e.g. funding assurance, the monitoring responsibility is ongoing and therefore the action should be included within the schedule of business for the committee.

GD

#### 3. UPDATE ON 18/19 FINANCIAL POSITION AND EXTERNAL AUDIT

The Chief Financial Officer explained that since the last meeting the Group's draft year-end financial position has worsened from an anticipated operating loss of £5.3m to £8.5m. A report giving further analysis and a breakdown of the internal controls that have been put in place, was considered and received. It was noted that:

- The largest variance (£2.3m) that has come to light is with respect to staff pay at Westminster Kingsway College, particularly with respect to the use of Hourly Paid Lecturers and agency staff;
- An internal review of procedures has highlighted a lack of control and widespread non-compliance with the Group's financial regulations; for example, the practice of not raising purchase orders in advance of expenditure has been common place. There has also been a culture which has lacked transparency with respect to management reports, and reporting to budgets;

- There has also been a widespread misallocation of budget codes to account for expenditure. Since the issue came to light, the Chief Financial Officer has been undertaking a bottom up review of all budget codes and cost centres, to ensure that budget reporting and accountability is based on the correct information;
- The CCCG Board will be meeting on the 3<sup>rd</sup> October to consider a reforecast budget for 2019/20, along with a cost saving scheme aimed at maximising the Group's chances of achieving a break-even position;
- Included within the report were details of financial controls that have been put in place. For example, a recruitment freeze has been put in place for all non-teaching staff and a cap has been placed on the budget for teaching staff which will be re-assessed in line with student enrolment numbers. All consultancy and non-essential costs have also been frozen;
- A cross group awareness raising initiative has been undertaken to ensure that all budget holders are aware of their responsibilities, which has included, and will continue to include:
  - Providing clear messages about the expectations of staff and budget holders in particular;
  - 1 to 1 meetings with budget holders.
 It was further noted that a zero tolerance to transgression of the financial regulations has been put in place.

The Committee expressed concern about the Group's financial position and particularly the lack of controls which have been a significant contributory factor to the Group's financial situation. Notwithstanding, members welcomed the financial controls that have been put in place.

Concern was raised by the Committee as to whether sufficient resources were being directed to remedy the situation and ensure that the Group has robust controls and reporting processes in place. In response to this issue it was noted that additional staff were being utilised within the finance team to ensure that a business partnering approach to budgetary control is adopted and sustained.

The Committee noted that the Group would be making a public statement to the press in the next couple of weeks. It was the view of the committee that agencies such as the ESFA and OfS should be informed of the Group's financial performance, and provided with assurance of the remedial actions that have been and are being put in place, prior to any public statements being made. In the normal course of events, the Group would provide the ESFA with a three-year financial forecast in July of each year; current estimations of the Group's ongoing financial performance indicate that the Group will be classified as requiring improvement using the ESFA's criteria for financial health.

The Committee noted that another issue highlighted by the internal review was that there had been a culture of including costs pertaining to the previous year into the next financial year. Members of the Board, including the Chair of this Committee, have agreed that a review should be carried out by an external forensic firm to assess to what extent this has been an issue in previous years, and also to report back in more detail about where the additional unbudgeted expenditure has taken place, and how it has been approved.

It was noted that a further £300k worth of expenditure has materialised since the problem was initially highlighted, however the Chief Financial Officer informed the committee that additional cross checks have been carried out to find out whether all costs have been identified, and that there was a degree of certainty that they had. No complete or absolute assurance could be given at this stage.

The internal audit service was given the opportunity to give their views on the Group's financial situation and what lessons could be learnt. The following was noted:

- Expenditure controls have not been a focus of the internal audit since merger. It had been agreed to postpone the inclusion of a review of procurement practices in January of this year, until a procurement manager had been in post for sufficient time for systems and processes to be fairly tested;
- The internal audit service has carried out recent reviews on payroll and budgeting processes.

The Committee agreed that the fact that the internal audit service had not been used to look at the financial control environment, did not reflect well on the internal audit planning process.

A significant contributory factor has been the absence of accurate staff establishment lists, both at college and departmental level. This situation is being remedied by the introduction of joint

meetings between Human Resources, Finance and budget holders so that the accuracy of staffing lists can be established.

The committee noted that updates on the financial situation and the control environment would be a standing item until such time as sufficient assurance could be provided and tested. GD

#### 4. INTERNAL AUDIT

The internal audit plan which had been approved by the Board at its meeting on 10<sup>th</sup> July was considered and received. The committee agreed that given the control weaknesses that have been identified and discussed as part of item 3, that its contents are to be reviewed and then discussed with the Chair prior to re-consideration at the committee's next meeting. It was noted that business continuity and follow up reviews were due to take place in November. GD/CH

A record of unresolved internal audit recommendations was also considered and received. The committee expressed concern that it was not possible to decipher the nature of the unresolved recommendations (although the detail was available in the version emailed to members). It was further noted that some unresolved recommendations were over six months old and that it would be helpful to provide the context around this so that the committee could form judgements in relation to the associated risk. It was further noted that there were a number of unresolved recommendations with respect to the KPMG funding assurance audit; an update report on this would be presented to the November meeting. SE  
GD/SC

It was agreed that future hard copy reports would include details of the nature of unresolved recommendations which had significant or fundamental risk attached. SE

An internal audit on the staffing establishment was received. It was noted that:

- An overall assurance of adequate had been provided;
- Six recommendation have been made as part of the report, two of which are significant and four are housekeeping. The resolution of these recommendations would be assessed as part of the internal audit's follow up review.

#### 5. ANNUAL HEALTH AND SAFETY REPORT

The annual health and safety report was presented by the Group's Head of Health and Safety. The following was noted:

- The issue of the whether governors should sit on the Group's internal Health and Safety Committee has been raised at previous meetings. It was further noted that it had been agreed that this was not necessary, and potentially could increase governors' exposure to personal liability. It was further noted that it was the responsibility of the Board to ensure that robust Health and Safety procedures and systems were in place and that the assurance that this is the case has been delegated to this committee;
- The Group employs a Health and Safety manager who has in depth knowledge of enforcement;
- The Group is subject to annual Health and Safety audits from the HSE and also from its insurers UMAL;
- Included within the Group's training and education provision is the Alexander Centre, which teaches learners with a high level of needs. The rate of incidents tends to be higher at this centre;
- Illness incidents at the Kings Cross centre have declined over the last three years, due to improved control and distribution of medication.

The committee welcomed the report and was of the view that it provided assurance that the Group has robust systems and procedures in place. The following comments were provided in order to improve the quality of report to the committee in the future:

- With respect to risk assessments it would be helpful to provide summary details of the outcomes of these e.g. details of how many were red, amber or green;
- Repeat issues and concerns could be highlighted within the report, including whether there was a risk of prosecution;
- Where training has been provided, an indication of the percentage of staff that this has affected should be included e.g. 28 staff have been trained in Health and Safety but no indication is provided in the report about how many (in total) need to be trained.

It was agreed that the committee would receive an update on the outcomes of forthcoming Health and Safety audits, as and when they became available. DW

**6. TRAINING PLAN**

A report which provided two options with respect to training was considered and received. It was noted that:

- In recognition that the committee has three new independent members and other member were relatively new in post, it had been agreed with the Chair that there was a need for training to ensure that members understand their role;
- Two options were included within the paper; 1) the use of the internal audit service 2) to commission the use of an external trainer.

It was agreed that an external trainer, with experience of Further Education, should be used.

GD

**7. RISK REGISTER**

The Group's risk register was received. It was noted that this would be reviewed by the GLT prior to the committee's November meeting.

**8. COMMITTEE SCHEDULE**

A report was considered and received. It was agreed that that schedule should be amended to indicate that the internal audit schedule is agreed at the committee's meeting in June.

**9. BOARD MINUTES – 10<sup>th</sup> JULY 2019**

The Board's minutes were noted and received.

*Dates of future meetings:*

*Monday 18<sup>th</sup> November 2019 at 6pm*

*Wednesday 25<sup>th</sup> March 2020 at 6pm*

*Tuesday 23<sup>rd</sup> June 2020 at 6pm*

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

Chris Hyams, Chair