



CAPITAL CITY COLLEGE GROUP AUDIT COMMITTEE: 18th NOVEMBER 2019

MINUTES

PRESENT	Chris Hyams (Chair), Anthony Smith, Cosette Reczek, Paul McLoughlin, Mel Brookstone
IN ATTENDANCE	Rachael White, Simon Evans, Stewart Cross, Katherine Patel (Buzzacotts), Graham Drummond (Clerk)
APOLOGIES	Roy O'Shaughnessy

1. MINUTES OF MEETING HELD ON 1st OCTOBER 2019

Action

With respect to the 5th bullet point on page 2 it was noted that Ernst Young had been appointed to carry out a forensic review of the Group's financial controls. The minutes are to be amended to indicate that part of their remit was to check whether any additional expenditure should be recorded within the 18/19 financial year. It was also agreed that the sentence within the penultimate paragraph on page 2 should read:

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

With the above amendments, the minutes were agreed as a correct record and signed by the Chair.

2. MATTERS ARISING

An action tracker was considered in conjunction with the minutes of the previous meeting. The following was noted:

- The business continuity plan will be considered at the committee's next meeting;
- With respect to item 3 and the need to inform agencies about the Group's 18/19 financial performance, the Board Chair, the CEO, the CFO and the Director of Governance had recently met with the ESFA to inform them about the Group's 18/19 financial performance and the remedial actions that have been, and are being put in place to ensure financial sustainability on an ongoing basis. It was further noted that:
 - A press statement has been prepared as part of the preparation for the 18/19 Financial Statements becoming public accessible documents. It is intended that the Chief Executive will issue a statement to the education press prior to this;
 - Other key stakeholders such as the OfS will be informed prior to the release of a statement.

3. INTERNAL AUDIT

A summary tracking spreadsheet providing details of all audit recommendations, along with details of outstanding recommendations was considered and received. The following was noted:

- 30 of the internal audit recommendations from Mazars are incomplete and there are a further 5 which are complete but require confirmation from the internal audit service;
- In total (i.e. including KPMG and the external audit service) there are 49 incomplete recommendations and 29 completed but awaiting auditor confirmation, making a grand total of 78 recommendations which need to be confirmed to the committee as being complete, which in line with current protocols, would require confirmation from the internal audit service;
- 18 KPMG recommendations are recorded as being incomplete, of which 12 have 'priority 1' status.

The committee expressed concern about the number of unconfirmed recommendations particularly the 49 recommendations that are recorded as being incomplete, of which 31 are

overdue. It was further noted that all priority 1 status outstanding recommendations relate to the KPMG funding assurance audit, the majority of which are in relation to apprenticeships. It was also the view of the committee that a number of the management responses within the spreadsheet of outstanding actions were unsatisfactory and did not give sufficient assurance that the recommendation would be resolved in a timely manner.

It was agreed that the Chief Financial Officer would oversee the resolution of these recommendations and ensure that management responses were sufficiently robust and time specific for the next meeting of the committee.

RW

The annual internal audit report was noted and received. The committee further noted that subsequent to the committee's last meeting the service provided by the internal audit service was discussed at the Board meeting on 3rd October. Since then a recommendation had been made to the Board that the use of the internal audit service is to be suspended. Committee members had been informed of this decision via email. The issue was to be discussed in more detail as part of item 10.

4. **EXTERNAL AUDIT MANAGEMENT REPORT AND LETTER**

The Buzzacotts partner presented the post audit management letter. The following was noted:

- The external audit service expects to confirm that the financial statements give a true and fair view of the Group's financial position for 2018/19 and have been prepared in accordance with the UK's generally accepted accounting principles. With respect to regularity, all expenditure has been disbursed in line with the expectations for which it was provided. It was further noted that members of staff had worked well with the auditors and the quality of information provided had been high;
- The work of the external audit service is complete, subject to the receipt of the ESFA's reconciliation statement confirming the income due to the Group. As compared to last year, it is not expected that there will be any late adjustments due to funding clawbacks;
- The operational deficit for 2018/19 is £9.2m. It was further noted that this position had deteriorated since the Committee's last meeting due to:
 - A write-off of £350k against the ESFA control account on the balance sheet due to unreconciled balances carried forward post-merger;
 - An additional bad debt provision of £413k with respect to high need debtors;
- The deficit which will be reported in the financial statements and includes the FRS 102 pension adjustment is £15.9m, which includes a past service cost of £955k in line with the McCloud/Sergeant ruling. A note will be provided within the financial statements to this effect;
- In signing the financial statements, the Board will be confirming that the College is a going concern and can remain solvent for a period of at least 12 months;
- As part of the audit, three recommendations have been made (none requiring immediate action) as follows:
 - The basis of bad debt to be reviewed on an individual basis;
 - A review of tax risk is to be undertaken with a view to mitigating the level of risk;
 - With respect to staff, all starter or leaver forms are to be signed as authorised in line with college procedures (evidence of no authorisation was found on one starter and two leavers as part of the audit). With respect to this recommendation it was further noted that:
 - a number of Human Resource (HR) staff have recently left the organisation, however a Head of HR Operations is due to start in the week commencing 25th November and will be focussing on improving the systems and procedures to address administrative weaknesses within the department;
 - controls on the recruitment of staff is a focus of senior managers. For example, a 'star chamber' of Principals and senior directors meet on a weekly basis to review all recruitment requests;

Two out of the three recommendations were due for completion prior to the committee's next meeting and will be added to the committee's action tracker.

GD

The Chair invited the Buzzacotts' partner to comment on the Ernst Young report with specific reference to the finding that £1.5m worth of invoices with 17/18 dates had been included within the 18/19 financial year. The partner confirmed that this was being looked into, however initial findings have indicated that in a significant proportion of cases, although the invoice date was within the 17/18 financial year the activity had taken place within the 18/19 financial year, and was therefore correctly allocated. In some instances, this was not the case and therefore an accrual of

invoices may need to be provided within the final version of the financial statements. The partner agreed to discuss this further with the Chief Financial Officer and a recommendation with respect to the accrual of invoices would be made to the Board at its meeting on 12th December.

KP/RW

The audit representation letter was received and recommended for signing by the Board's chair at its meeting on 12th December.

5. 2018/19 FINANCIAL YEAR

The draft financial statements for the year ending 31 July 2019 were considered and received. The following was noted:

- Despite reporting a deficit of £15.9m (including pension adjustments), the College continues to possess a strong balance sheet (p.25), with total unrestricted reserves of £283m; however this has decreased by £17.5m as compared to 2018;
- The statement of cash flows (p. 26) indicates that net cash outflow from operating activities has increased from £3.6m to £5.2m which can partially be explained by a decrease in creditors due within one year of £9m as part of the adjustment for non-cash items, which in part can be attributed to the payment of a VAT liability associated with the College of North East London. This has also impacted on the amount reported as part of note 16 (p. 40) which indicates that creditors falling within one year has fallen from £24.3m to £15.3m. It was further noted that 2018 had been an unusual year for the amount owed within one year, and had also included an ESFA funding clawback;
- The level of cash (and investments that could be readily turned into cash) has fallen from £28m to £17m as compared to July 2018.

The committee agreed that typographical errors and minor amendments would be reported to the Director of Financial Services outside of the meeting, however the following observations were made with respect to the draft statements:

- The section on senior staff pay (p.36) should be reviewed with reference to any responsibilities that the College has in relation to reporting senior staff pay in line with other codes of best practice or regulations; for example, the AoC Code of Good Governance and the Office for Students regulations, however it was further noted that a separate report would be considered and approved by the Remuneration Committee in this regard;
- Details of the gender pay gap provided on page 9 are to be checked for accuracy;
- The wording of the second paragraph in the section about the Teacher Pension Scheme (TPS) is to be reviewed (p. 28) and to be cross referenced against other sections of the statements (e.g. p.44);
- The governance section is to be reviewed e.g. the membership of the audit committee includes two co-opted members;
- Under the HE/FE SORP, deferred capital grants received from government sources are recorded as deferred income on the balance sheet and released to the I&E as income (not as a reduction of depreciation expenditure) over the life of the associated asset.

GD
SE

SE

GD

Subject to the above amendments and reviews, the Committee agreed to recommend the signing of the Financial Statements by the Board's Chair and the Chief Executive at the Board meeting on 12th December.

The regularity audit self-assessment questionnaire for the financial year ending July 2019 was noted and received. It was agreed to recommend that the Chair of the Board signs this document.

A fraud assessment for the financial year ending July 2019 was noted and received.

6. ERNST YOUNG REVIEW OF FINANCIAL CONTROLS

Following the reporting of the unbudgeted variance in expenditure which had resulted in a worsening of the financial deficit which had been reported to the committee's last meeting, Ernst Young (EY) had been appointed to carry out a review the Group's systems and procedures. Their report was considered and received. Some of the contents had already been discussed by the committee as part of the previous item, however it was agreed that the recommendations within the report (on p. 24) should continue to be monitored by the committee and are to inform the contents of updates to the committee on what remedial actions have been put in place and the impact they are having.

RW

Lastly, it was noted that with respect to the problem of purchase orders not being in place prior to expenditure being committed, this is being monitored on an individual basis and compliance with the financial regulations is improving. This will continue to be monitored and reported to the committee.

RW

7. **RISK REGISTER**

The risk register which has recently been reviewed by the Group Leadership Team was considered and received.

With respect to risks which involve possible physical harm to students it was the view of the committee that the contents of the register should be altered to reflect the potential impact to students as victims, rather than stating the risk as a breach of procedure or deterioration in the organisation's reputation.

SC

8. **FUNDING ASSURANCE UPDATE**

A report which provided an update about the remedial action that has been put in place to address recommendations made by KPMG as part of a funding assurance audit which had taken place in March 2018 was considered and received. It was noted that:

- A task group has been meeting every month since January to oversee the improvements needed with respect to compliance with funding regulations. This group consists of senior curriculum staff, members of the Business, Information and Registry team, the CEO, the Director of Information and Integration and is chaired by the Director of Governance. This group has recently met and the outcomes of the meeting were included within the report;
- An internal review is taking place of apprenticeships and the compliance with regulations. This will be a focus of the task group at its next meeting;
- There has been substantial improvement in the compliance with funding regulations as compared to the previous year, however the following issues continue to a focus for improvement:
 - The sufficiency of details with respect to English and maths initial assessments for adult students;
 - The accuracy and / or sufficiency of planned hours and timetabling of correct hours so that study programme funding thresholds are met.

The above issues will be a focus for the group in the remaining part of the academic year.

The committee agreed with management's view that a further funding assurance audit should take place in March 2020.

9. **DRAFT ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD**

A draft annual report to the board was considered and received. The following suggestions were made:

- Assurance that the committee has met the requirements of its terms of reference is to be included;
- The comments from the discussion about the financial statements is to be included;
- A section on the committee's role to monitor the level of insurance is to be included;
- The dates of the appointment of the co-opted members is to be included, as should be the number of times that the committee has met.

The committee discussed the importance of ensuring that there are effective governance oversight arrangements for the budget setting process was emphasised by the committee. The committee were of the view that considering the challenges that the Group was facing with respect to ensuring that its operations were financially sustainable, the Board should consider the re-establishment of a finance committee.

The Director of Governance agreed to update the report, following the discussion which had taken place as part of this meeting. The report would then be circulated for comment prior to submission to the Board at its meeting on 12th December.

GD

10. **INTERNAL AUDIT: PROPOSAL**

A proposal to re-tender for an internal audit service was considered and received.

The proposal was approved for recommendation to the Board and it was noted that details of the tender would be circulated to the committee for comment prior to issuing to audit firms.

A timetable for the issuing of the tender and the appointment of the successful firm was accepted, however it was the view of the committee that ways in which to speed up the process should be explored. For example, a cut off point for asking questions from firms could be imposed with the answers being shared with all candidate firms. Also, one information session could be provided to which all applicant firms could be invited.

11. ANNUAL SUBCONTRACTOR REPORT

The annual subcontracting report was considered and received. The committee agreed with the proposed values of subcontracting for 2019/20 and requested that future reports give details of the measures used by the College to ensure that subcontractors operated in line with expected quality standards.

12. TRAINING UPDATE

A training event has been arranged for the committee to take place on the afternoon of Thursday 30th January 2020. A schedule for the half day event would be circulated nearer the time.

GD

13. APPRENTICESHIP FIRST: LETTER OF SUPPORT

Apprenticeship First Limited is a wholly owned company, originally set up by the College of Haringey, Enfield and North East London. From March 2019 the company's board decided to suspend activities and the company has become dormant. A use for the company may be found in the future and therefore it will remain dormant for the foreseeable future.

As a result of a negative profit and loss account for the company, the auditors have requested that a letter of comfort is signed to confirm that the College is willing to settle its obligations should the company be wound up in the future.

The committee agreed to recommend that the Chief Executive sign the letter.

14. SCHEDULE OF BUSINESS

The committee's schedule of business was received. It was noted that the timing of the recommendation to appoint the internal audit service would be dependent on the timing of the outcome of the associated tender exercise. Approval to appoint could be made to the Board via email, outside of the scheduled meeting times.

15. BOARD: MINUTES FROM MEETING HELD ON 3rd OCTOBER 2019

The Board minutes from the meeting on 3rd October were noted and received.

16. FINAL FUNDING REPORT 18/19

The final funding report for 2018/19 was considered and received. It was noted that with respect to the adult funding contract, sufficient learning activity has taken place for the College to not be at risk of not meeting the 97% funding threshold. Unlike in the previous year, the College is unlikely to be subject to a funding clawback in this regard.

Dates of future meetings:

Wednesday 25th March 2020 at 6pm

Tuesday 23rd June 2020 at 6pm

Signed as a correct record: _____

Chris Hyams, Chair