

CAPITAL CITY COLLEGE GROUP AUDIT COMMITTEE: 17th NOVEMBER 2020

MINUTES

PRESENT Chris Hyams (Chair). Lisa Weaver-Lambert, Paul McLoughlin, Cosette Reczek, Sharon Saxton, Anthony Smith

IN ATTENDANCE Roy O'Shaughnessy (CEO), Rachael White (Chief Financial Officer), Simon Evans (Director of Financial Services), Stewart Cross (Director of Integration & Information), Graham Drummond (Director of Governance), Mike Cheetham (RSM Tenon internal audit), Rakesh Shaunak and Stuart McKay (MHA MacIntyre Hudson external audit), Graham Cooper (Clerk)

APOLOGIES None

DECLARATIONS OF INTEREST None

1. MINUTES OF MEETING HELD ON 5TH OCTOBER 2020 **Action**
The minutes were agreed as an accurate record and would be signed by the Chair.

2. MATTERS ARISING
The committee noted that:

With respect to the Group's insurance arrangements, a tender for services had been undertaken earlier in the year. FE Protect, in partnership with Aviva, had submitted a quote that had been more competitive on price and provided additional cover than the proposal submitted by Zurich Municipal, the incumbent. Following a recommendation to the Group Board, FE Protect had been appointed as the Group's insurers with effect 1st August 2020, for a period of 3 years with a possible extension to 5 years.

3. INTERNAL AUDIT
3.1 OUTSTANDING ACTIONS/RECOMMENDATIONS

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

At the committee's meeting in October, a total of 80 outstanding recommendations (i.e. those that had not been signed off by the internal auditor) had been reported, at which time 20 of these had been signed off by RSM Tenon and 60 had been carried forward. There had not been a review by RSM Tenon since that time, so the number currently remained at 60. An internal review by management had been undertaken, however, as a result of which 33 (55%) of these recommendations had been identified by managers as having been completed, with 27 (45%) remaining to be completed. These 27 recommendations comprised 7 High, 12 Medium and 8 Low level recommendations.

The committee noted that with regard to a number of recommendations, whilst actions had been taken to address weaknesses and progress had been achieved, it was not possible for these to be deemed complete until underlying processes are completed, which in some cases would be at the financial year end. The committee nevertheless asked to be provided with further assurance that high priority recommendations are being completed with the required degree of urgency. Whilst progress to date was noted, it was agreed that an additional interim meeting of

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and
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this committee is to be organised for January to receive an interim report on further progress towards completion of recommendations.

3.2 UPDATE ON PROGRESS

The committee reviewed progress on actions relating to internal audit reports (considered at the previous meeting) and noted:

With respect to recommendations from the IA report on Sales to Cash:

Of 7 recommendations, 3 (1 High and 2 Medium) remain to be completed. A key factor in completion of the remainder is the implementation of the finance functionality in the Group's EBS system. The committee requested further assurance regarding the group-wide implementation of the EBS system. The Director of Integration advised that the system, provided by Tribal, is the most popular system used by colleges across the FE sector. Implementation of the system has involved significant planning, testing and phased implementation since mid 2019 and functionality of the system relating to Registrations, Course Files and Admissions has already been rolled out successfully. The implementation of the Finance functionality is due for completion in January 2021, which will enable the resolution of the outstanding actions by April 2021.

With respect to recommendations from the IA report on Purchase to Payments:

Of the 6 recommendations, 4 remain in progress. The committee reviewed progress in relation to the completion of each of these, noting in particular the labour-intensive nature of the work to do so and that the management of which had been made more challenging by the Covid-19 lockdown.

With respect to recommendations from the IA report on Funding Assurance:

A meeting of the Funding Assurance Management group had been convened and an action plan had been developed. This included steps to record pastoral activity relating to 16-18 students more accurately. It was noted that the audit had included a review of apprenticeships pre May 2017 and the committee agreed with a recommendation made by the management group that the internal audit schedule for this year should include an audit of apprenticeships which started after this time i.e. since the introduction of the levy.

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The committee accepted that certain recommendations would take time to be completed, but the committee asked that in instances where this is some time ahead, progress against milestones is reported so that the committee can be assured that completion is on target.

SE

3.3 2020/21 INTERNAL AUDIT PLAN

The committee received and noted a copy of the 2020/21 Internal Audit Plan, as previously agreed.

3.4 ANNUAL INTERNAL AUDIT REPORT

The committee received the report and the committee noted:

- The Annual Report provided a summary of the work that had been planned and delivered by RSM Tenon since their appointment, but the report did not provide a formal audit opinion for the year. The Internal Auditor advised that, had he been asked to provide such an opinion, only a partial/qualified opinion would have been possible. The Committee agreed to consider the implications of this when reviewing the draft Statement of Internal Control that would form part of the Strategic Report & Financial Statements.

The committee asked the Internal Auditor whether the coverage of the 2020/21 Internal Audit Plan is sufficient to enable an opinion to be provided for the current year. The Internal Auditor confirmed that the plan has been developed and agreed so as to ensure that this is the case.

4. EXTERNAL AUDIT MANAGEMENT REPORT AND LETTER OF REPRESENTATION

4.1 POST AUDIT MANAGEMENT LETTER (FINANCIAL STATEMENTS AND REGULARITY)

Rakesh Shaunak and Stuart McKay of MHA MacIntyre, the external auditors, presented the post audit management letter. The following was noted:

- The external audit service expects to provide an unqualified opinion that the financial statements give a true and fair view of the Group's financial position for 2019/20. With respect

to regularity, an unqualified opinion will also be made that all expenditure has been disbursed in line with the expectations for which it was provided.

- The work of the external audit service is substantially complete, subject to:
 - receipt of the approved Strategic Report & Financial Statements signed by the Board, and
 - receipt of the signed letter of representation.
- Work to enable sign off of the audit report comprises of
 - a final post balance sheet review, and
 - conclusion of the going concern review. Preliminary discussions with the management team on the current and possible impact of Covid-19 have taken place and it is the external auditors' current view that the Group is well placed, from a financial viewpoint, to continue to operate for the foreseeable future. As is usual practice, these considerations will be kept under review as part of a full assessment prior to the signing of the audit report.

There had initially been eight audit findings arising from the external auditors' work, but one had been resolved already. The findings were detailed within the management letter. The committee reviewed the recommendations and noted the management responses. The committee asked that dates are agreed for completion of agreed actions arising from the recommendations.

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- With regard to misstatements/adjustments, after raising matters relating to the actuarial calculation of pension liabilities, the financial statements have been amended to reflect the changes agreed, being a reduction in the actuarial loss from £32 million to £22 million.

4.2 AUDIT REPRESENTATION LETTER

The committee received and reviewed the draft audit representation letter. The external auditors confirmed that this follows the standard format, subject to two specific additional representations:

- Confirmation that the holiday pay is materially accurate per the financial statements at £1,966,835.
- Confirmation that no covenants have been breached in relation to the Salix Loan.

The Committee agreed to recommend the audit representation letter for signing by the Board's chair at its meeting on 15th December.

5. 2019/20 FINANCIAL YEAR

5.1 STRATEGIC REPORT AND FINANCIAL STATEMENTS 2019/20

The draft Strategic Report and Financial Statements for the year ending 31 July 2020 were considered and received.

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 Statement of Governance and Internal Control, the committee reviewed the draft wording of the statement from the Audit Committee and agreed that, in the context of the change of internal auditors during the year and the review by EY, the wording should be revised. In order to ensure that the statement is not interpreted as implying that there has been a deterioration in internal controls, the wording should make clear the strengthening of the committee's identification of weaknesses, leading to robust actions having been taken and that the committee is monitoring to ensure the completion of implementation of all audit recommendations.

The external auditor highlighted that the College Accounts Direction requires comment on any areas of significant weakness, whilst leaving it to the Committee to determine what is significant. The committee noted the issue of non-compliance with regard to Learner Number Systems, but that this had related specifically to 16-18 students and that a more detailed explanation might

therefore be appropriate, but also that the statement should nevertheless recognise that the issue had been identified and that the committee had ensured appropriate action was taken.

The Chair and the Director of Governance would liaise on revisions to the wording of the statement from the Audit Committee and a revised draft would be circulated for approval by the committee.

Subject to the above amendments and reviews, the committee agreed to recommend the signing of the Strategic Report and Financial Statements by the Board's Chair and the Chief Executive at the Board meeting on 15th December.

GD

5.2 REGULARITY AUDIT SELF-ASSESSMENT QUESTIONNAIRE

The committee received and reviewed a copy of the draft completed Regularity self-assessment questionnaire. The Committee noted the requirement for the College to have in place a regularity assurance report and that the checklist upon which this questionnaire is based is provided as part of the Post-16 Audit Code of Practice 2018-2019. The committee noted that the questionnaire will be signed by the CEO as the Accounting Officer and by the Chair of Governors.

5.3 FRAUD QUESTIONNAIRE

The committee received and reviewed the draft completed Board Assessment of Fraud Risk, noting that the questionnaire has taken a number of formats over the past few years, this latest format having been provided by MHA MacIntryre Hudson.

6. RISK REGISTER

The Group Risk Register, which has recently been reviewed by the Group Leadership Team, was considered and received. The committee noted that there have been various changes to the Group Risk Register as detailed in the covering report:

- A new section has been introduced at the suggestion of the FE Commissioner, to record high priority college level and service level risks.
- Eleven completely new risks have been added, many arising as a result of changes in the external environment, including the AEB not being available to EU nationals from 2020-22 as a consequence of Brexit. Other risks include a failure to ensure that the right people are in the right posts post-restructuring, and a number of emerging risks including the failure to improve GCSE maths for WKC adults. A further significant risk is an increase in employer contributions to the Teachers' Pension Scheme beyond the current April 2021 date until which contribution levels are currently guaranteed.
- No existing risks on the Group Risk Register have been increased and four risks have been decreased.

The committee noted that the continued build-up of risks on the Group Risk Register over the past few years has resulted in it becoming somewhat unwieldy, and that the Committee agreed that it should be reviewed with the objective of separating out the major strategic risks from operational risks. The Director of Integration and Information noted that the Group's new Strategic Plan would provide the opportunity to link the strategic risks to strategic objectives. With regard to the format of the register, the external auditor highlighted the usefulness of the three levels of defence that set out the sources of assurance in relation to operational risks. The committee also noted that it might be useful to consider risk appetite, although it was noted that this subject is considered as part of the Risk management policy, but that the level of risk appetite in relation to individual risks has not hitherto been applied to the Group Risk Register.

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7. DRAFT ANNUAL REPORT FROM THE COMMITTEE TO THE CORPORATION

The Committee received and considered the draft annual report to the Corporation and advised as follows:

- The draft will require to be updated to reflect discussions earlier in the meeting, specifically with regard to the statement from the committee in the Strategic Report & Financial Statements.
- The dates on which Paul McLoughlin and Cosette Reczek were co-opted as members of the committee should be added to the report.
- The report should also include reference to the committee's oversight of actions arising from audit reports, to the stage of completion of implementation.

- The relevant professional development that had been organised for and completed by members of the committee should also be referenced.
- With regard to the committee's KPIs, the committee considered that the target for the number of ongoing/unresolved recommendations to be minimised below 50%, although in line with the target for previous years, is too low. Also, going forward, KPIs should be agreed by the committee, and there should be a balance of risks relating to risk management and to audit.
- With respect to Risk Management, reference numbers should be added, cross-referencing to the Risk Register, which is to be appended to the report.
- Reference to the review of the Risk Management Policy by the committee during the year should also be added.
- The report should highlight the robust management of the risks arising during the year as a result of the Covid-19 pandemic and the innovative ways in which the Group has responded in order to mitigate these risks.

It was agreed that the Director of Governance would revise the draft report and would circulate this to members of the committee along with the revised draft statement on internal controls for inclusion in the Strategic Report & Financial Statements. GD

8. SCHEDULE OF BUSINESS

The committee received and noted the committee's schedule of business for 2020/21.

9. BOARD MINUTES

The committee received for information copies of the minutes of the Group Board meetings of 25th September 2020 and 30th October 2020.

The next meeting of the committee had previously been scheduled for 22nd March 2021, but as agreed, an additional interim meeting involving members of the committee will be arranged to be held in January 2021 to review progress on completion of internal audit recommendations.

Signed as a correct record: _____

Chris Hyams, Chair