

## CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 21<sup>st</sup> JUNE 2021

|                                 |   |
|---------------------------------|---|
| <b>PARTICIPANTS</b>             | Chris Hyams (Chair). Lisa Weaver-Lambert, Paul McLoughlin, Cosette Reczek, Sharon Saxton, Toyin Odutayo   |
| <b>IN ATTENDANCE</b>            | Roy O'Shaughnessy, Rachael White, Sarah Ventham, Stewart Cross, Graham Drummond, Neill Scott, David Lissah, Jackie Chapman, Stuart McKay (MHA MacIntyre Hudson), Lorna Raynes (RSM), Thomas Parker (RSM), Graham Cooper |
| <b>APOLOGIES</b>                | None  |
| <b>DECLARATIONS OF INTEREST</b> | None  |

### 1. MEMBERSHIP

The Committee welcomed Toyin Odutayo to his first meeting of the Committee. The Committee also thanked Professor Anthony Smith for his contribution to the work of this committee, noting that Anthony is to join the Quality Oversight Committee and is to become its Chair.

### 2. MINUTES OF THE MEETINGS HELD ON 22<sup>nd</sup> MARCH 2021

The minutes of the meeting of 22<sup>nd</sup> March 2021 were approved as a correct record and will be signed by the Chair.

### 3. MATTERS ARISING

The committee noted:

- With respect to the Group's Business Continuity Plan, work is ongoing to update this and the updated plan will come to the committee's October meeting;
- It has been decided to add Health and Safety as the additional area for review as part of RSM's internal audit plan for 20/21 so that a full assurance opinion can be given in November.

NS/  
GD

All other matters arising have been actioned, or are included within the agenda.

### 4. HEALTH AND SAFETY UPDATE

A report was received and the committee noted:

- David Lissah has recently been appointed as the Group's Head of Health and Safety (H&S) and was welcomed to the meeting. He is currently reviewing H&S from a one college/organisation model viewpoint and forming a forward view on H&S arrangements for the Group, including further embedding a culture of H&S. This work is likely to have implications for the Group's H&S Policy. Also, the opportunity is being taken for RSM to undertake an internal audit review of H&S compliance.
- Changes to the Group's facilities management arrangements will also have implications for 'Key Duty Holders' and this will be the focus of CPD, in addition to which further training is planned, including a re-run of the British Safety Council's H&S for Directors course and a wider rollout of the Institute of Occupational Safety & Health training for appropriate staff.
- Significant work has been undertaken in reviewing and updating the Group's Business Continuity Plans (BCP), including drawing learnings from disruption caused by the Covid-19 pandemic. Testing of the plans will be undertaken before bringing the BCP back to the committee in October.
- Challenges have been identified in compliance, in relation to the effective deployment of first aiders in parts of the Group and arrangements are being reviewed.

The committee noted that the report to this meeting served to bring greater visibility on a number of areas of risk. The committee provided challenge with respect to whether there were any risks that the management team are unable to mitigate against and are likely to remain of significant concern. The Head of Estates advised that he does not consider there to be any. He highlighted that some of the current risks reflect a period of transition – in relation to both the arrangements for facilities management and also changes to the staff management structure.

The committee asked about future reporting and how to achieve an improved visual representation of compliance. It was noted that the H&S team is currently looking at the use of Microsoft Power BI to support this. The committee also requested the internal auditor's assistance in providing examples of best practice in H&S reporting.

## 5. INTERNAL AUDIT

A progress report was presented by the internal audit service. The following was noted:

- Three further reports have been finalised and are included in the agenda for this meeting. This completes the reviews detailed in the internal audit plan for 2020/21, with the exception of the reviews of H&S (currently in progress) and Payroll (at quality review stage), and also Sales to Cash and General Ledger. The final two of these are to be deferred until 2021/22 in order to allow changes to systems and finance staff to settle down and to avoid the busy financial year-end period.
- With respect to Subcontracting, the Group is required to provide a certificate to the ESFA and the GLA, for which RSM have been engaged by the Group to undertake, but this sits apart from the internal audit review.

The committee undertook a review of outstanding actions and noted:

- There had been further good progress in reducing the number of outstanding actions. A further 50 had been completed, which will be validated by the internal auditor, leaving 13 to be completed, mainly relating to training, the sales ledger and the linkage between the finance system and MIS system. The committee noted that a number of the outstanding recommendations are of High priority. It is anticipated that with attention being given to the links between the finance and MIS systems; progress in completing these will be achieved before the next meeting of the committee.
- There will be additional actions to be added, arising from the reviews being reported today and those currently being completed.
- The Committee needs to reflect on its current KPI in relation to timely implementation of recommendations and reporting against this KPI.

GD &  
CH

The committee received and noted a report relating to the audit undertaken by RSM (outside the scope of their usual internal audit work) to support the Group's certification to the ESFA regarding compliance with requirements relating to ESFA AEB and apprenticeship funding. A separate report will be prepared for GLA funding. The committee noted:

- RSM have completed their audit and report, enabling the certificate to be signed, although four actions have been raised by RSM. These include an issue relating to apprenticeships with one subcontractor in particular, with whom future enrolments have been discontinued until the matter is resolved;
- ESFA requirements have changed, in that a copy of the audit report is now required to be submitted with the certificate.

The Committee sought reassurance from the internal auditor, who confirmed that the nature and quantum of recommendations is not out of line with those found in other colleges.

An internal audit report on Risk Management was received. The following was noted:

- The overall opinion provided in the report was one of reasonable assurance.
- The focus of the audit was on compliance with policy and benchmarking of the nature of risks included in the risk register with the risk registers of other colleges.
- Two recommendations were included in the report, one low priority and one medium.
- The medium priority recommendation, relating to streamlining of the risk register and ensuring that it links to the Group's current strategic objectives, has already been completed, overseen by the committee.

-----

An internal audit report on Staff Utilisation was received. The following was noted:

- The overall opinion provided in the report was one of reasonable assurance.
- Three medium recommendations were included in the report, relating to documentation of staff utilisation policies to ensure consistency, action planning and maintaining a matrix of staff skills.

The Committee observed that one of the colleges within the Group (in this instance WKC) is performing less well than others, although received assurance that all colleges have improved utilisation levels, and are currently at or around the target level of 98%.

-----

An internal audit report on Learner Number Systems was received. The following was noted:

- The audit had found a number of areas on non-compliance with funding requirements, including issues relating to withdrawals.
- Progress had been made in relation to prior year recommendations relating to AEB provision and study programmes, but the scope of the review this year had been extended to include post May 17 apprenticeships. Three new High level recommendations had been made in relation to aspects that could potentially impact on apprenticeship funding.

The internal auditor explained what the next steps would be if this had been an ESFA funding audit, advising that further checks would be required by the Group, followed by re-testing by the internal auditor and quantification of the funding risk. The external auditor highlighted the importance of these considerations in assessing whether an adjustment is necessary to the Group's Financial Statements.

The management team commended the internal auditor's expertise and diligence in relation to this review.

## **6. EXTERNAL AUDIT PLANNING: UPDATE**

A Committee received and reviewed the financial statements audit strategy for the year ended 31<sup>st</sup> July 2021 and the external auditor highlighted a number of issues, which the committee noted:

- The period covered by these financial statements was not typical, in that it had been particularly challenging for many colleges and other organisations in view of the pandemic.
- The Group is expecting to report an operating deficit of £1.5m, albeit a full re-forecast is currently underway. AEB achievement of 74% is below the threshold currently set by the GLA, the impact of which could be between £1m and £5m, although the Group is still waiting to hear the GLA's final approach and the outcome of the business case submitted. The external auditor will therefore review the assumptions made in relating to provision for this.
- The audit will also look at the exceptional restructuring and redundancy costs during the year. The accounting relating to Visionnaires, VSpark and Founders Ed will add complexity.
- The value of buildings identified for sale and classed as Assets for Disposal at the year-end will be a matter of judgement also subject to review.
- The new Combined Financial Statement reporting will require a three year forward view of I&E/ cashflow and will therefore help to inform the going concern evaluation. Three revised auditing standards have also been introduced (ISA 540, 570 and 700) relating to accounting estimates, going concern and fraud. These are matters to be dealt with mainly by the external auditors, although ISA 540 relating to accounting estimates requires those charged with governance to review and accept the estimates and judgements used in compiling the financial statements (including, for example, LGPS pension liability estimates, valuation of properties held for sale etc). The external auditor will provide a paper for Governors to consider.
- There is further consideration this year in light of changes to the Audit Code of Practice (ACoP) for 2020/21, with respect to the assurance required over the entitlement to ESFA income. The external auditor will therefore document systems and controls in this area as well as conducting an analytical review and a review of the internal audit reports, in order to gain assurance. Initial conversations have already been held with the finance team regarding work to be undertaken over the summer.
- With regard to ethics, independence and fees, MHA MacIntyre Hudson have provided non-audit services to the group during the year, one area being the Teachers' Pension audit (an extension of scope of main audit), and also a corporation tax report on other miscellaneous income (by MacIntyre Hudson's Corporation Tax Department). Their VAT team have also provided advice to the Group in relation to Visionnaires and Founders Ed under a separate letter of engagement. Usual processes had been followed to ensure that independence in relation to the main audit is not compromised.
- The timetable is currently indicative, the interim work to be completed over the summer having been expanded. The main audit fieldwork will be undertaken in October, with reporting back to the committee scheduled for November.
- The audit approach will rely in four key elements: budgetary control; High quality financial and management information; Good levels of financial awareness amongst staff; and Preliminary Decisions for components in the Accounts.
- Materiality will be set at the typical level of 1% of income, with any items below 5% of materiality classified as trivial and not reported to the committee.
- With regard to Business Risk and Fraud Risk, the new ISA 700 requires the external auditor to be explicit with regard to the approach taken. A Board Risk Assessment will be required and relevant

provisions will as usual be included in the Letter of Representation. The new ACoP also requires the external auditor's report to be presented to all governors and a decision will be required as to how to meet this requirement.

- The Key Risk Areas on which the audit will focus are: Entitlement and Recognition of Income, Capital Expenditure and Commitments; Going Concern; Key Financial Controls and Financial Reporting.
- With regard to Recognition of Income, a controls-based approach, in preference to a substantive testing approach, is to be taken. However, this will include a review of how well checks undertaken within the controls processes are documented. If this falls short of requirements, substantive testing will be required, which is likely to be labour intensive and for which the sample size will be relatively large. A judgement on this will be informed by the outcome of the interim work, and should be known by early September. The committee therefore expects to discuss this further at its next meeting in October, but also to be advised of any concerns that arise during the course of the interim work.

## 7. UPDATE ON FINANCE TEAM

The Committee received and noted an update on the Finance team following completion of the recent restructure, with all positions now filled. The new team is better aligned to the requirements of a college group of the size of CCCG and includes an increase in the resource and skills relating to management accounting.

The CFO introduced Sarah Ventham, who has been appointed Deputy Finance Director, and provided an overview of her main duties and areas of responsibility, which include the Group's primary contact with the internal auditors and external auditors.

## 8. FINANCIAL REGULATIONS UPDATE / APPROVAL

The Committee received an updated copy of the Financial Regulations, noting that the main changes are cosmetic – updating of job titles, departmental name changes, structure charts etc. and updating of some authority levels.

New provisions include changes to procurement procedures, now aligned to UK rather than EU requirements, albeit the same limits/thresholds have been retained for the time being.

A more comprehensive review will be undertaken in due course, looking at each section of the regulations, to enhance the regulations from a user perspective.

The committee **APPROVED** the Financial Regulations.

## 9. ANNUAL REPORTS

The Committee considered the following annual reports:

- a) Fraud: The committee was pleased note that there were no issues of fraud reported, although asked for future reports to provide an explanation of measures taken to prevent fraud, and the reporting thereof – and asked that these aspects are included in the report to be provided to the Board in November
- b) Whistleblowing: No instances of whistleblowing were reported.
- c) Data protection: The Committee noted that an internal audit review 2 years ago had confirmed the Group's compliance with ICO standards. There had been a couple of data breaches during the year but these had been minor, and were not reportable to the ICO. RSM are due to undertake a further internal audit review and the Data Protection Policy will also be subject to review next year.
- d) Treasury Management: A report was received and noted, which included a breakdown of cash balances and interest rates. The Deputy Finance Director explained that a more proactive approach is planned with regard to treasury management, although the committee noted the challenges of generating increased income in the current low interest rate environment.

With respect to Data Protection, the committee discussed the major risks associated with cyber security, as have led to major disruption for a number of colleges. Recent penetration testing by JISC had highlighted weaknesses in the Group's systems that are being addressed. Given the significance of this matter, it was agreed that the Director of IT should be invited to the next meeting of the committee to provide a detailed update so as to provide the committee with additional assurance.

## 10. RISK REGISTER

The committee received a report and the updated risk register and noted:

- The committee had spent considerable time reviewing the risk register recently, which had resulted in the revised format as submitted to the recent Group Board meeting.

- The register has since been reviewed by the GLT and a number of further changes as detailed in the report have been made. These include the addition of reputational and financial risks in relation to Founders Ed.
- The highest risk remains the 2020/21 financial outturn which continues to receive a high level of focus by the GLT, financial oversight group and the Group Board.
- The committee highlighted the absence of sources of assurance in a couple of areas of the register, and these will be added.

#### 11. COMMITTEE SELF-ASSESSMENT AND REVIEW OF TERMS OF REFERENCE

The committee noted the requirement for a self-assessment of its effectiveness which would contribute towards the end of year Annual Report. It reflected on its work during the year, noting also that training had been undertaken and had been provided for new members in particular.

The committee noted the following specific matters in relation to its future work:

- Reports from funding bodies: Whilst there had been no audits by funding bodies during the past two years, any such reports shall continue to be reviewed by the committee in the future.
- Value for Money: The main mechanism by which the committee ensures on an ongoing basis that the management team focus on value for money is through oversight of the procurement provisions in the Financial Regulations. The Group has benefitted in the past, however, from a specific review of value for money and the CFO advised that she wishes to pay particular attention to this issue, looking at best practice in the sector. She agreed to do so and to report back to the committee in due course. RW
- Safeguarding: whilst safeguarding of assets is within the remit of the committee, oversight and the Group's arrangements for the safeguarding of vulnerable adults and young people is a direct responsibility of the Group Board, to which an annual report is provided.
- Reporting of audit findings to governors: the means by which the Group is to meet the requirements of the new ACoP should be added to the terms of reference. GD

#### 12. BOARD MINUTES

The committee received for information the minutes of the Group Board meetings of 31<sup>st</sup> March 2021, 6<sup>th</sup> May 2021 (confidential), 28<sup>th</sup> May 2021 and 2<sup>nd</sup> June 2021 (confidential).

#### 13. CONFIDENTIAL DISCUSSION WITH EXECUTIVE TEAM – CONSIDERATION OF REAPPOINTMENT

A confidential discussion was held, which is the subject of a separate confidential minute.

*Dates of next meetings:*

*Tuesday 5<sup>th</sup> October 2021 – 5pm*

*Wednesday 17<sup>th</sup> November 2021 5:30pm*

*Wednesday 23<sup>rd</sup> March 2022– 5:00pm*

*Tuesday 21<sup>st</sup> June 2022 – 5:30pm*

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

Chris Hyams (Chair)