

## CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 17<sup>TH</sup> NOVEMBER 2021

<b>PARTICIPANTS</b>	Chris Hyams (Chair). Sanna Jordansson, Paul McLoughlin, Cosette Reczek, Toyin Odutayo
<b>IN ATTENDANCE</b>	Rachael White, Sarah Ventham, Stewart Cross, Graham Drummond, Stuart McKay (MHA MacIntyre Hudson), Mike Cheetham (RSM), Graham Cooper
<b>APOLOGIES</b>	Roy O'Shaughnessy
<b>DECLARATIONS OF INTEREST</b>	None

The Committee noted that Lisa Weaver-Lambert has stood from the CCCG Board and is therefore no longer a member of this committee. A letter of thanks has been sent to Lisa for her contribution to the Board and the work of the committee. Sharon Saxton has also stood down as a member of this committee – but remains on the Board and has been appointed as the Board's Deputy Chair. The Board is in the process of appointing new members and it is hoped that one or two of these will become members of the committee.

### 1. MINUTES OF THE MEETINGS HELD ON 5<sup>TH</sup> OCTOBER 2021

The minutes of the meeting of 5<sup>th</sup> October were approved as an accurate record.

### 2. MATTERS ARISING

The committee reviewed the action point tracker and noted:

1. A report on Value for Money will be provided to the March 2022 meeting of the committee.
2. The means by which the Group is to meet the requirements of the new Audit Code of Practice were added to the committee's terms of reference, which were then approved at the last Board meeting.
3. Fraud measures undertaken have been included within the draft annual report from the committee to the Board to be discussed later in the meeting.
4. An update on Business Continuity Resilience Review and Testing will be provided to the March 2022 meeting of the committee.
5. Resolution of outstanding EY recommendations will be discussed under agenda item 3 of this meeting.
6. With respect to the committee's KPI relating to completion of internal audit recommendations, the Director of Governance has emailed members of the committee with a suggested approach, to be discussed later in this meeting.

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### 3. OUTSTANDING AUDIT RECOMMENDATIONS

An updated summary and a detailed schedule of progress in relation to outstanding recommendations had been circulated. The committee noted that, of the 91 recommendations tracked since the report commenced, 71 have been completed and 20 are currently outstanding. Of the 20, 15 are in progress and overdue and 5 are in progress but not yet due. This compares with 26 outstanding recommendations reported to the last meeting of the committee in October.

The committee reviewed the position in relation to each of the overdue outstanding recommendations, noting progress achieved to date and further work outstanding. Whilst substantial progress had been made in relation to many of the recommendations, no update was included in respect of a number that related to apprenticeships, as updates had not yet been received from the CCCT Managing Director who is responsible for these. The committee expressed disappointment at being provided with a schedule that was incomplete, particularly as these recommendations were significantly overdue. It was agreed that the CCCT Managing Director will be invited to the next meeting of the committee to report on progress, and that, similarly in the future, the relevant member of the management team responsible for overdue outstanding recommendations will be requested to attend in order to provide an update and explanation. The committee also requested that for future reporting the schedule of progress includes

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all date revisions and the date upon which each recommendation is completed, in order to provide greater transparency of the timing of closure of recommendations.

The Chair reaffirmed the methodology by which the committee intends to ensure that appropriate rigour is maintained in relation to monitoring of overdue outstanding recommendations. In addition to the summary tracking the number of recommendations, a detailed schedule of progress on outstanding recommendations shall be provided to each future meeting of the committee. The committee will scrutinise, in particular, those that are overdue. The committee noted that, in addition, the internal auditors will, as part of their ongoing work, continue to undertake follow-up visits on recommendations, against which the management team will reconcile their report.

#### **4. INTERNAL AUDIT: PROGRESS REPORT**

The Committee received the report and noted:

- For all assignments to be undertaken in accordance with the 2021/2022 Internal Audit Plan as agreed at the last meeting of the committee, start dates have either already been agreed or proposals have been issued for consideration. Subject to finalising the remaining dates, it is expected that all reviews will be completed in-year as planned.
- The next meeting of the committee will be provided with a follow-up report on recommendations from the internal auditors, in accordance with the discussion on the previous item.
- A useful update on sector developments was also included in the report.

#### **5. EXTERNAL AUDIT REPORT AND LETTER**

##### **5.1 AUDIT FINDINGS REPORT**

The external auditor presented the Audit Findings Report and the committee noted:

- The audit has been largely completed. This has taken slightly longer than anticipated, although the information provided was substantially accurate, which means that there are no significant adjustments. The remaining steps to be completed are a post balance sheet review and the going concern certification.
- The external auditor declared that MHA MacIntyre provided non-audit services to the Group during the year, in relation to a number of specified areas, although these were provided by their Business Service Team, which is separate from the audit team.
- A post-balance sheet event in relation to property disposals is included in the Financial Statements.
- The auditor fully expects to be in a position to provide the required statement in relation to going concern, which, as normal will follow the Board's sign-off of this.
- There have not been any significant developments in relation to financial reporting requirements this year, although Streamlined Energy and Carbon Reporting, whilst not a requirement as yet, is expected to become so. The Group should give consideration to preparations for this, in terms of producing comparative data for future use.
- There has, however, been a change in relation to accounting estimates for 21/22, with a specific requirement going forward for those responsible for governance to review the accounting estimates prepared. The auditor has provided a template for this purpose for review by this committee during the year.
- The external auditor was largely satisfied in relation to accounting policies and estimates, noting specifically that, with regard to pensions, the discount rate and the pension increase are in line with benchmarks, albeit salary increases at 3.8% are slightly higher than the average seen elsewhere. This is not sufficient to give rise to a material misstatement.

With regard to deficiencies in internal controls, two Grade B recommendations were made, relating to bank reconciliations and creditor reconciliations, the main issue being the lack of evidence of appropriate authorisation. There were also two Grade C recommendations, in relation to ensuring that the Group is undertaking an annual impairment review of investment properties, and with regard to petty cash reconciliations. The external auditor recommended that the committee considers receiving an annual report on the findings of the sample checks that are undertaken, in order to be assured that when an issue is identified, a root cause analysis is provided to identify whether the cause is systemic or an individual case, and what actions are being taken. It was agreed that the leadership team would provide this analysis as and when needed, going forward. With regard to register reconciliations, an advisory recommendation was made, to improve the robustness of the process to remove absent learners from the Individual Learner Record (ILR).

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With respect to the work undertaken on the ILR, the committee noted:

- The scope of the work required and undertaken by the external auditor, in order to be able to provide assurance that the financial statements are true and fair, and with respect to materiality, is more wide reaching than the work undertaken in this area by the internal auditor, or the work likely to be covered by an ESFA audit.
- Specifically, three key areas were covered by the audit:
  - data validation, i.e. the use of data interrogation tools and sample tests undertaken by the Group in relation to data once it has been entered into the ILR. The audit confirmed that this is being done well.
  - checks undertaken in relation to source documentation to ensure that the data entered into the ILR is accurate. In this respect, there are two sources of assurance, the first being the Group's own monthly cycle of checks, upon which the auditor had made a number of recommendations. Secondly, the internal auditors undertake an assignment, the findings of which the external auditors had reviewed and had noted one specific area of concern and potential liability arising therefrom, to be discussed later
  - ongoing entitlement – ensuring the registers are used to ensure that students who leave are removed from the ILR. The audit confirmed that this work is generally robust, but with one advisory recommendation.

Overall, the external auditor was satisfied from the work that had been completed that reliance can be placed upon the Group's controls and processes.

- As part of the work, however, the external auditor had also considered the financial implications of the follow-up work undertaken by the internal auditor. This had given rise to a Grade A recommendation, which was significant from the point of view of financial risk to the Group. Specifically, a change of rules relating to apprenticeship funding had not been picked up for a number of years, giving rise to the possibility that a funding audit looking back at these years could result in a clawback exposure, which in a worst-case scenario could amount to £7.3m; although it was recognised that the risk of this occurring is very low. From a contingent liability point of view, the external auditor was satisfied that in the event of this being identified, the Group would have the opportunity for remedial action which would reduce the potential liability materially. Also, as time passes, this potential liability will diminish. The internal auditor advised that, notwithstanding that an ESFA funding audit of the Group is not being undertaken this year, the management team must be mindful that a future audit could take account of the situation going back a number of years. How the ESFA would respond to the findings of such an audit is difficult to anticipate, as some colleges have been subjected to a significant clawback whilst a more lenient approach has been taken with others.

The committee expressed its significant concerns regarding the matters brought to its attention in relation to the ILR, and sought reassurance from the management team that steps are being taken to establish how these issues have arisen, and that there is a culture and process in place designed to ensure that they do not recur, nor arise in other parts of the business. The issues have been most significant in relation to apprenticeship provision.

The committee also advised that, whilst sympathetic to time pressures, and noting that management responses had been discussed with the external auditor, it is not acceptable for the committee to receive a report that is incomplete, in that it does not include the management responses. In the absence of the latter, the committee is not in a position to endorse the report for submission to the Board. It was therefore agreed that the management responses will be completed and the report will be re-circulated to the committee in order to enable this to take place.

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In terms of outstanding unadjusted items, the committee noted that a decision had yet to be taken with regard to the treatment of the potential clawback of AEB funding, which the committee and the Board was already familiar with. A decision will need to be taken depending upon the timing of the delayed communication of the outcome of the business case submitted by the Group to the GLA

## 5.2 AUDIT REPRESENTATION LETTER

The Committee reviewed the Audit Letter of Representation, noting that this includes only one non-standard clause, with respect to Investment Property – that the fair value at the year-end is considered to not materially differ from the previous year – i.e. that the Group does not consider any impairment necessary.

The Committee agreed to recommend the Audit Letter of Representation for approval by the Board for signature by the Chair of the Board and the CEO.

### 5.3. COLLEGE REVIEW OF RSM LEARNER NUMBER AUDIT

A report was received and the committee noted:

- The report covered the findings of the report undertaken by the internal auditor during the summer, specifically from an impact point of view rather than in relation to actions/progress on implementation of recommendations.
- The most significant issues related to apprenticeship funding, which the internal auditor advised was a common feature across many colleges. Whilst the number of findings was high, it would be extremely unlikely, given the number of changes in rules in relation to apprenticeship funding over the past few years, for no errors to be identified in a review of any provider. Also relevant was that the annual enrolment process involves a high number of enrolments over a very short period by administrators who are new to the role or inexperienced, albeit that there are back-up checks in place.
- Notwithstanding the current issues, there has been significant progress in resolving issues in relation to 16-18 year-olds and adult learners, which account for a significantly higher proportion of the Group's income.
- The management team assured the committee that the findings are taken very seriously and that oversight of this area is expected to be enhanced by steps that have been taken to strengthen the staff team responsible. Whilst acknowledging this, the committee noted the length of time taken to address the errors and stressed the importance of resolution of these being expedited.

It was agreed that an additional meeting would be schedule in January to monitor the resolution of issues relating to the ILR and also the resolution of internal audit recommendations.

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## 6. 2020/21 FINANCIAL YEAR

### 6.1 ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> JULY 2021

The Committee received the draft Group Annual Report & Financial Statements for the year ended 31<sup>st</sup> July 2021 and the Chair highlighted the responsibility of the committee for recommendation of these to the Board for approval and signing.

No significant matters were raised, although it was agreed that members of the committee will provide any corrections or observations on the text of the Report, subject to satisfactory completion of which, the committee agreed to recommend the Report & Accounts to the Board.

### 6.2 REGULARITY SELF-ASSESSMENT QUESTIONNAIRE AND FRAUD QUESTIONNAIRE

The Committee also received the Regularity Self-Assessment Questionnaire and Fraud Questionnaire, noting that these also require signing by the Chair of the Board and the CEO. No significant issues were raised and again, members of the committee were asked to advise on any drafting issues by email, subject to which the committee agreed to recommend these to the Board.

## 7. RISK REGISTER

The Committee received and reviewed the risk register and noted:

- The register has been updated and reviewed by the GLT.
- No new risks have been added, although most notably, the risk rating in relation to Industrial Action has been increased for reasons that members of the committee are already aware of.
- The risk in relation to the 202/21 financial outturn has been reduced, on the basis of the work undertaken so far on the year-end audit.
- Changes to other risks were also highlighted and noted.

## 8. DRAFT ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD

The committee received and reviewed a draft of its annual report to the Board, noting the need for this to be updated in relation to the matters discussed at this meeting. In particular, it shall be with regard to the number of outstanding audit recommendations and how these have reduced over the year, which could be by means of a linear representation. Proposals for the measurement of success in ensuring timely resolution of recommendations in the future shall also be included.

The Director of Governance agreed to circulate an updated draft to members of the committee for consideration and any further comments prior submission to the Board.

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## 9. SCHEDULE OF BUSINESS

The committee received and noted the current annual schedule of audit committee business.

**10 BOARD MINUTES**

The committee received for information:

- Notes from workshop held on 16<sup>th</sup> September 2021
- Draft minutes of the Group Board meeting of 22<sup>nd</sup> October 2021.

Date of the next meetings:

*Wednesday 23<sup>rd</sup> March at 5.00pm*

*Tuesday 21<sup>st</sup> June at 5.30pm*

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

Chris Hyams (Chair)