CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 23rd MARCH 2022

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

The Chair welcomed everyone, including Weiye Kou to her first meeting of the committee.

1. MINUTES OF THE MEETINGS HELD ON 17TH NOVEMBER 2021 AND 2ND February 2022

The minutes of the meetings held on 17th November 2021 and 2nd February 2022 were approved as an accurate record.

2. MATTERS ARISING

The committee noted that all actions were either completed, included in the agenda for this meeting or scheduled for a future meeting, as detailed in the updated action tracker. The Director of Governance provided assurance that the Business Continuity Resilience Review and Testing project is in progress and that a report will be provided to the June meeting.

There were no other matters arising.

3. ESFA FUNDING AUDIT

The Committee received an update on progress with respect to the recent ESFA Funding Audit undertaken by PricewaterhouseCoopers (PwC). Whilst the report on the outcome of the audit is not yet available, the MIS Director provided an update based upon the initial feedback discussion with PwC. The Committee noted:

- With respect to the audit of 16-18, AEB, Loans and Apprenticeship funding streams, a sample of 120 learners had been selected (30 for each group) and a full investigation of their records was then undertaken to test each individual's eligibility for funding, their existence as learners throughout their course programmes, and the completeness and accuracy of the Group's funding claim. A few queries had been raised, details of which were provided to the committee, and which the MIS Director advised she is confident can be addressed. Only one minor potential impact on funding was identified from this part of the audit, relating to three learners who should have attended an industry placement but who had not done so, although the MIS team believe that, as the placement hours were supplementary to core study programme hours, there is a basis for expecting that there should be no clawback arising from this.
- A longer list of findings was provided relating to the further part of the audit of a sample of 57 Provider Data Self-Assessment Toolkit (PDSAT) reports, covering approximately 630 learners. The majority of the findings are considered likely to be management letter points, with no funding impact. For a few, however, a small overclaim or underclaim had been identified. It is estimated that adjustments relating to these will amount to a net overclaim of c. £25k in total across the four funding streams (including both ESFA and GLA funding).
- Having been presented with these findings, the MIS team is now gathering evidence to feed back to the auditors, which is expected to take place before the end of the current week. PwC will then review that feedback, expected to take a further week. It is understood that the ESFA is keen that findings should be agreed by the end of March, and a final audit report is required to be issued by PwC by the end of April.

- The potential overclaim, and therefore clawback, of c. £25k is modest compared to that which resulted from the last ESFA audit based on 2016 data, believed to have been c £560k. The MIS Director advised that the team considers the findings of the current audit to be satisfactory and non-contentious and that the relatively low number of findings gives confidence in the Group's controls. The Internal Auditor recalled that the internal audit review last summer had raised a significant number of concerns and advised that the committee should take assurance from the fact that PwC have not raised the same level of concerns, which should be regarded as a sign of progress. The Committee noted this progress as very encouraging.
- The internal auditors are due to start their audit of this year's data at the beginning of May.

4. INTERNAL AUDIT

4.1 FOLLOW UP

The Committee received and noted the Internal Audit Follow Up report as at 14 March 2022, which reviewed progress made to implement agreed management actions from previous audits undertaken mainly in 2020/21. The Internal Auditor advised that overall progress was in line with reasonable expectations, albeit he would have preferred to see more. Follow up on the previous funding audit had, however, been delayed due to the ESFA funding audit taking place. A further Follow up report will be provided to the next audit committee meeting.

4.2 SUB CONTRACTING CONTROLS

The Committee received the Sub Contracting Controls (GLA) audit report and the committee noted:

- There were no issues raised in 5 of the areas covered. In the other two areas, there were issues identified as needing management action, but these were minor. The Internal Auditor advised that the outcome compared well with similar audits of other providers.
- Although the final report was dated 17 February 2022, the first draft had actually been produced in June 2021, with the implementation dates for management actions of September and October 2021. The CCCT Managing Director advised that the implementation dates were correct. It was understood that the reason for the delay in issuing the final report was that following challenge by the committee in relation to the wording of the draft report, this had gone back to the internal auditors to be amended. The CCCT Managing Director also advised that the overall number of sub contactors used is much higher, but that the report covers only those that are GLA funded, whereas the majority are ESFA funded.
- The covering certificate had been signed, submitted and accepted, notwithstanding that the certification had not been ticked to confirm the outcome and the status of implementation of recommendations.

4.3 GDPR GOVERNANCE

The Committee received the final report dated 24 January 2022 on the internal audit review of GDPR Governance. The Committee noted:

- This was an advisory review, with no overall assurance provided.
- Two Medium priority actions were raised:
    1. Although there had been in-depth training when GDPR legislation was introduced in 2018, there has been a lack of adequate refresher training of personnel responsible for ensuring protection of personal data.
    2. There is a lack of standardisation of procedures relating to updating and deletion/retention of personal data
- There were also four Low priority recommendations.
- The Internal Auditor advised that the issues are similar to those being seen in audits of other colleges. Whilst there was a significant amount of activity around GDPR compliance when the regulations were first introduced, the level of incidence of major issues has been low in the college sector, and there has been very little by way of recent communications from the Information Commissioner's Office.

4.4 INTERNAL AUDIT PROGRESS REPORT

The Internal Auditor presented the report on progress against the internal audit plan for 2021/22 as approved by Audit Committee at the 5 October 2021 meeting and the committee noted:

- The Internal Auditor advised that not as much progress had been achieved as he would have hoped to see by this time.

- There had been requests by management to delay some internal audits, due to staff changes in the relevant areas. In relation to the Learner Number Systems audit, this has been delayed until the ESFA audit has been completed.
- Additionally, following discussions with the Chief Finance Officer (CFO), it was proposed that the audit of HR contracting and pay policy is deferred until 2022/23. The CFO explained that the scope of the HR audit included a review of Hourly Paid Lecturer (HPL) contracts, but that this is currently a subject of discussion with the unions, along with the Pay Policy which is currently under review. In the circumstances, it is considered that an audit will add more value once changes have been implemented. Consideration has been given to amending the scope of the HR audit, but no other aspects have been identified that could usefully replace those elements that are to be deferred, as others are also subject to changes that need to be implemented and embedded prior to testing. It is also considered that the scope of the audit as currently agreed is essential to ensure the required level of assurance regarding those areas in scope.
- Apart from the HR audit, all other audits have now been scheduled to take place before the end of the academic year. The Internal Auditor confirmed that these will be sufficient to enable him to issue overall assurance opinion for the year.

4.5 RSM CONFORMANCE WITH THE IIA STANDARDS AND CODES OF PRACTICE

The Committee received and noted a report on RSM's conformance with the IIA Standards and Codes of Practice dated January 2022. The outcome of the IIA EQA review was an assurance that RSM 'generally conforms' with the requirements, which is the highest rating that can be achieved. The Internal Auditor explained that it is a requirement that a copy of the report is provided to all clients.

4.6 BENCHMARKING REPORT

The Committee received a copy of the RSM FE Benchmarking of Internal Audit Findings 2020/21 report. The Internal Auditor highlighted that, although this included only two years of CCCG data, and the majority of the 2021/22 reviews were still to be undertaken, there were initial signs of a favourable trend compared with other clients, in terms of levels of assurance getting higher and the number of recommendations coming down. The Committee noted the report.

5. RISK REGISTER

The Committee received the updated copy of the Risk Register, following a recent review by the GLT. The Committee noted that there were no new risks, three risks had been renamed, three risks had been increased and three had been decreased. In terms of highlights:

- Risk 9 relating to FE funding: This has been decreased due to the change in funding rules, especially those of the GLA, being more in line with the Group's approach to skills delivery.
- Risk 4 relating to the Group Culture and Structure has been increased as it is considered that this was underrated, there being more resistance amongst the staff body to changes that the Group wishes to implement than was previously recognised.
- Risk 18 relating to 01 Founders: Although a relatively low risk in the context of the size of the Group, this risk has been increased due to the current absence of a permanent CEO. The Group CEO advised that some additional comfort can be taken from an improved cashflow projection. A full update on 01 Founders will be provided to the 30th March Board meeting.
- Risk 5 relating to Group Strategy has been reduced as the strategy is now in place and has been communicated to staff effectively.
- Risk 17 relating to Industrial Action has been reduced, albeit remaining relatively high, as it had been increased significantly in the previous version of the Risk Register in view of the industrial action that was taking place at that time, which has now since been resolved through effective negotiation.
- The Chair noted that in discussions with the FE Commissioner late last year, the level of risk in relation to Risk 1 (Failure to improve quality of teaching, learning and assessment, to achieve at least Ofsted 'Good' in the next inspection) had been questioned in the context of the favourable annual Self Assessment Report. The Executive Principal advised that although the Group considers that overall effectiveness is now at an Ofsted Level of Grade 2 (Good), and confidence in this is expected to rise, this has yet to be confirmed by Ofsted. The forthcoming Ofsted monitoring visit is expected to provide further assurance and if this goes well, this should give confidence to reduce risk rating.
- The Chair also noted, in relation to the communication and ownership of risk, that although the Risk Register as a whole is overseen by the Audit Committee, the members of the committee are not, in all cases, the best people to assess some of the risks. Risk 1 relating to the quality of teaching, learning

and assessment is a good example of this. The Internal Auditor advised that other college clients adopt a practice of other committees reviewing parts of the risk register relevant to their terms of reference, which is a practice worth considering.

- The Committee noted that briefing sessions have been provided to senior managers with the aim of embedding risk management at a college and local level across the Group. The Executive Principal also explained the process for review and ownership of the Risk Register by the GLT.

6. VALUE FOR MONEY REPORT

The Chair reminded the committee that the question of value for money had been raised in a recent previous meeting. Whilst ensuring value for money is a responsibility specified in the committee's terms of reference, there has not in the recent past been a report focused on this subject. A report was therefore provided to this meeting, presented by the Director of Governance. The committee noted:

- The way in which the Group procures goods and services is capable of having a substantial impact on its financial position. On an annual basis, the Group's annual non-pay budget is c. £33m (of a total budget of £112m).
- Previously, the Group's individual colleges had different practices for procurement, but following merger, the Group appointed Tenet Procurement Services in January 2019 to manage procurement Group-wide. Tenet had produced a Value for Money report on the outcome achieved in 2021 for this meeting.
- The CEO Leadership Team have reviewed the arrangements currently in place and have decided that in line with how most other college groups currently conduct themselves, an in-house solution is regarded as the optimum way of obtaining best value. The service provided by Tenet (3 days per week) has not been sufficient. As a result, Tenet have been given six months' notice and will cease their service to the Group in July 2022. An advert for the role of Head of Procurement has been placed and it is hoped to have someone in place before the end of the academic year. There is a transition risk, particularly in the event that an appointment is not made before the end of the Tenet contract, but this is not considered significant and contingency arrangements have been identified.
- Whilst the Tenet report provides details of all tenders that they have secured, it does not provide an analysis of value derived compared to previous contracts.
- A future procurement strategy is to be developed, which the new Head of Procurement will be instrumental in implementing.

The committee also observed that procurement arrangements in organisations generally have a tendency for pendulum swing between in-house and outsourced, with the latter helping organisations to gain insights that help to secure value for money. Whilst endorsing the Group's current decision to make an in-house appointment, the committee noted the possibility that a different approach might be considered more appropriate in a few years' time as best practice changes.

The committee noted the report as a base from which to develop value for money reporting further. The committee also suggested that it would be helpful to incorporate efficiency ratios for other colleges in future reports

7. RESERVES POLICY

The committee received a draft Reserves Policy and the Committee noted:

- The draft had been put together following significant internal debate as to whether the Group should have a formal Reserves Policy. The last discussion at the Audit Committee twelve months ago had concluded that this was not necessary at that time.
- There is no legal requirement to have a formal reserves policy, although it is widely regarded as best practice in some sectors (and particularly notable in the Charity sector) to ensure that funds are appropriately held, managed and reported. The CFO has spoken with other colleges and with the External Auditor and Internal Auditor in order to gain further insight into best practice and guidance to help reach an informed opinion, so as to pull together a draft policy that is appropriate for the Group.
- The CFO also clarified that the Group holds both Restricted Reserves and Unrestricted Reserves. The Board has agreed that funds held for a specific purpose should be held in a ringfenced/restricted reserves, and has also determined that disposal proceeds from sales of parts of the Group's estate should be designated as ringfenced/restricted and reported separately in the balance sheet.
- A key question for consideration is the level of reserves arising from the P&L account that should be maintained as free reserves. Many colleges do not have a formal policy (which, if there is one, must be disclosed in their annual Financial Statements). Based on her conversations with other colleges on their approach, however, the CFO suggested that the equivalent of three months' operating expenditure

(which would currently equate to £8m) would be a reasonable amount to set aside as a ringfenced element of general reserves to fall back on in the event of any significant cashflow timing issues.

- The CFO confirmed that she is comfortable with such a policy, as a tool to ensure good stewardship, and with the potential to amend the policy if it is found to be not fit for purpose going forward. The committee also noted, however, that setting a formal policy would bring with it a requirement to declare a breach if it is not complied with. (One possible reason why many other colleges do not publish a formal policy).
- The committee also noted the impact of movements in reserves each year to cover pension liabilities, which is outside the Group's ability to control.
- The committee discussed the possibility, rather than approving a formal policy, of operating with a less formal approved 'guidance' for an initial period
- The External Auditor noted that most charities and academies do have a formal reserves policy. Whilst it is not a statutory requirement for the Grooup to have one, it must state in its annual report and financial statements whether it has one or not. He also advised that consideration might be given to a range of free reserves, such as 'between 3 and 6 months' operating expenditure', but that it is also important to define what categories of assets, particularly from the criteria of liquidity, are permitted as part of free reserves. RW

The committee noted the discussion as good progress, but agreed that the matter requires further consideration. The External Auditor agreed to work with the CFO to develop a framework to be brought back to the June audit committee for discussion.

8. ANNUAL INSURANCE REPORT

A report was received and the committee noted:

- The Group currently secures its insurances from Aviva. A meeting has been held to discuss renewal.
- The vacant Marlborough building currently gives rise to a number of issues, which will be resolved when the building is sold. It currently has a 24-hour security guard, but the insurance company remain uncomfortable with the building being empty, which gives rise to additional risks.
- Cyber security is also a major current consideration. The Finance team is working with the Group's Director of Technology about ways of minimising this risk.
- The Group's buildings are due to be revalued for insurance purposes (at a cost of c. £15k). This has not been done for several years. The insurance company have been clear that, in the absence of a recent valuation, they would take a firm line in respect of any claim.
- The committee asked about insurance arrangements in relation to staff homeworking and was assured that this had been covered in discussion with the insurance company, although no staff are entirely home based, so the context is one of hybrid working and staff working at other premises, along with issues such as storage of laptops offsite etc.
- The Group works with its brokers FE Protect to ensure that all categories of risk are appropriately covered, and they have proved to be a valuable source of advice.
- The volume of claims that the Group has in the last twelve months has been extremely low.
- Further detail is currently being worked through with the insurance company and a formal renewal proposal will be brought to the committee in due course.

9. COMMITTEE SCHEDULE

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

10. BOARD MINUTES

The committee received for information:

- Approved minutes of the Group Board meetings of 15th December 2021 and 20th January 2022
- Draft minutes of the Group Board meeting of 11th February 2022

The meeting was followed by a confidential discussion between members of the committee and the Internal and External Auditors without members of the management team present.

Date of the next meeting: *Tuesday 21st June at 5.30pm*