

## CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 16<sup>TH</sup> NOVEMBER 2022

<b>PARTICIPANTS</b>	Chris Hyams (Chair), Sanna Jordansson, Paul McLoughlin, Toyin Odutayo, Weiye Kou
<b>IN ATTENDANCE</b>	Kurt Hintz, Rachael White, Sarah Ventham, Stewart Cross, Graham Drummond, Lorna Raynes (RSM), Stuart McKay (MHA MacIntyre Hudson), Graham Cooper
<b>APOLOGIES</b>	Roy O'Shaughnessy
<b>DECLARATIONS OF INTEREST</b>	None

### 1. MINUTES OF THE MEETINGS HELD ON 5<sup>TH</sup> OCTOBER 2022

The minutes of the meeting held on 5<sup>th</sup> October 2022 were approved as an accurate record.

### 2. MATTERS ARISING

The committee reviewed the updated action tracker and noted:

With respect to Business Continuity, a full report was provided to the October 2022 meeting, including a verbal update from the Director of Technology and Infrastructure on how the Group's IT systems are managed from a business continuity perspective. The committee requested a follow-up report setting out the progress against the 16 recommendations arising from the scenario test that was undertaken in November 2021 and this is provided in the report for agenda item 8. The full Critical Incident Plan, incorporating ICT business continuity, will be brought to the March 2023 meeting.

RW

With respect to the vacancy on the committee, three candidates are to be interviewed next week and it is hoped that this will lead to an appointment.

With respect to the LGPS, a meeting was held, attended by the Chair of the committee, the CFO, the Director of Governance and the Finance Director, at which the external auditor provided further explanation and insights in relation to current changes and in relation to the implications for the Group of volatility in scheme valuations due to changes in the discount rate used in actuarial calculations.

### 3. INTERNAL AUDIT: PROGRESS REPORT

The Committee received and noted the report.

With respect to progress against the internal plan 2022/23, the committee noted that two of the audits have commenced. The committee discussed the possibility of reducing the scope of the programme by removing two of the planned audits. As part of the wider requirement to cut costs across the Group, the CFO had sought to identify a cost saving of £10k in relation internal audit work. The internal auditor advised that the plan as currently drawn up is comprehensive and that it would be possible to cut two audits from the programme without compromising the internal auditor's ability to provide an audit opinion for the year. Certain audits, e.g. Key Financial Controls, must be included. From discussion between the CFO and the internal auditor, three of the planned audits had been identified as possible for deferral. These were HR Recruitment, Quality Assurance and Estates Management. None of these areas had been reviewed by RSM since their appointment. With respect to Quality Assurance, it was noted that there are other sources of assurance, including the anticipated Ofsted inspection. Also, the Group is already aware of actions required in relation to HR Recruitment and has an action plan to implement these. Estates Management is an area of significant spend for the Group and, whilst audits have been completed recently in relation to Health and Safety and project management, there are other important aspects to this and the committee discussed the extent to which a wider audit of Estates Management might help to identify income generating, or more likely, cost saving opportunities.

The committee therefore agreed to defer the audits relating to Quality Assurance and HR Recruitment from the current year. With respect to the audit of Estates Management, it was agreed that the committee

would review a proposal setting out the scope of the audit at its next meeting, noting that this would push the timing of the audit back to June 2023.

The committee reviewed the status of the 24 actions due, noting that 18 have been implemented. Although the report indicated that there had been no response in relation to 6 actions, the Finance Director provided a verbal update on progress, including advising that the three actions categorised as 'Follow Up' related to Health & Safety. The committee noted that the position with regard to follow up had improved significantly from the previous year.

The committee also received and noted RSM's Further Education Autumn 2022 Emerging Issues briefing.

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

##### **4.1 AUDIT FINDINGS REPORT (FINANCIAL STATEMENTS AND REGULARITY)**

The external auditor presented the Audit Findings Report and the following aspects were highlighted and noted:

- The external auditor declared that MHA MacIntyre had provided services to the Group in addition to the statutory audit. These related to reporting on the Teachers' Pension Scheme Certificate for the year to 31<sup>st</sup> March 2022 and to the preparation of the 2021/22 Financial Statements, which had been conducted by a separate team who are not connected with the audit process. The external auditor therefore confirmed MHA MacIntyre Hudson's independence within the meaning of regulatory and professional requirements.
- The audit has been conducted according to the audit plan presented to the June 2022 meeting of the committee. Work has yet to be completed in relation to the statement of Going Concern, but no significant concerns in relation to this have been identified so far. Other matters arising include a review of the accounting treatment of the Group's 'in kind' investments in 01Founders, regarding which the auditor was satisfied.
- With respect to the LPGS pension scheme liability, after discussion with the Executive team and the chair of the committee, a judgement had been made not to adopt early the provisions of the Pension Increase Order that will take effect from 2023. The auditor was content with this judgement.
- With respect to the ruling in the recent Court Case (Harpur Trust vs Brazel) relating to Working Time Regulations and holiday pay for part time staff, the Group has undertaken an assessment of the likelihood of a potential liability and has concluded that no such liability would exist. The Group has implemented the correct payment of holiday pay in this academic year, ensuring that the risk of two years' back pay per affected employee is negated.
- With regard to the value of investment properties, an audit misstatement of £400k had been identified, to reflect the fair value based on a valuation during the year of the Tottenham Green fire station property. Given the bespoke nature of the property and the current uncertain economic uncertainty, the auditors had accepted the decision not to record an increase in the value within the Group's valuation of its fixed assets.
- The audit work on the Financial Statements is substantially complete and the external auditor anticipates issuing an unqualified audit opinion for the Group and its trading subsidiaries.
- Draft Letters of Representation for the Group were provided. The only non-standard representation related to the fair value of the Tottenham Green Fire Station being considered to not materially differ from 2021 and remaining at £1.6m.
- With regard to deficiencies in internal controls, two Grade C recommendations were made, relating to the detail of records in the Fixed Asset Register and quarterly debtor reconciliations, both of which have been accepted and are being actioned by management.
- With regard to internal controls surrounding the Group's ILR system, the audit had identified significant areas of good practice but also some potential areas of weakness, arising from which recommendations had been made for the future. The committee reviewed these recommendations and was satisfied with the management responses and actions.
- All recommendations from the previous year's Audit Finding Report had been satisfied and a summary of how these had been addressed was noted.
- Changes to the Post-16 Audit Code of Practice had been introduced during the period of this year's audit, relating to the auditor's responsibility to report on any issues of irregularity or impropriety, in relation to the Regularity Audit. With regard to this, there was one finding relating to debtor reconciliations, upon which the management response had been accepted, and also one advisory point relating to fixed asset disposals, which had been accepted.
- The committee asked, as had been agreed previously, that implementation of the recommendations is followed up by the internal auditors and is added to the internal audit tracker for the purpose of reporting progress to the committee.

## 4.2 AUDIT REPRESENTATION LETTER

The Committee reviewed the Audit Letter of Representation, noting as already highlighted, that this includes only one non-standard clause, in relation to the fair value statement of the Fire Station, being that 'the fair value of the investment property at the year ended 31 July 2022 is considered to not materially differ from the 2021 valuation and remains at £1.6m'.

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. 2021/22 FINANCIAL YEAR

### 5.1 ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31<sup>ST</sup> JULY 2022

The Committee received the draft Group Annual Report & Financial Statements for the year ended 31<sup>st</sup> July 2022 for review and scrutiny and recommendation to the Board.

The CFO advised that when the Report & Financial Statements are presented to the Board, a reconciliation will be provided between the audited out-turn and the pre-audit out-turn set out in the management accounts presented to the October Board meeting, which was a £952k Operating Deficit.

The committee noted some minor adjustments and corrections required to the text of the report and it was agreed that members of the committee will email the Director of Governance in relation to these and any further changes. A copy of the final version will be circulated to members of the committee and the committee agreed, subject to there being no substantive changes required, to recommend the Annual Report & Financial Statements to the Board for approval at its December meeting.

GD

### 5.2 REGULARITY SELF-ASSESSMENT QUESTIONNAIRE (2021-22)

The Committee received the draft completed Regularity Self-Assessment Questionnaire noting that this requires to be signed by the Chair of the Board and the CEO. The CFO explained that the only material change from last year relates to a number of insurance claims during the year, details of which were included.

The committee advised on a change of wording in relation to internal controls relating to prevention of fraud, noting that the Group's internal processes, rather than the internal audit service should be stated as the first line of defence against fraud.

The committee also discussed the impending decision by the Office for National Statistics (ONS), on the future status of colleges. If it is determined that colleges are to become public bodies, regularity accountability in future years will increase and some of the freedoms that colleges currently have as education providers will be diminished. This would lead to a risk of regularity audits being qualified. There are a variety of issues and impacts that would need to be considered, including VAT registration, colleges' ability to take on independent debt, and HR and pension related implications. A decision by the ONS should be known in time for the Board to consider at the December meeting whether or not this is an issue for further consideration.

Subject to amendment as advised, the committee agreed to recommend the Regularity Self -Assessment questionnaire for signature.

### 5.3 FRAUD QUESTIONNAIRE

The Committee also received the draft completed Fraud Questionnaire, which is provided on behalf of the Board to the external auditors as part of the audit work. The committee approved the completed questionnaire as presented, although for future years recommended a greater extent of focus on non-financial risks.

## 6. RISK REGISTER

The committee received and reviewed the risk register and noted:

- A review of the risk register was undertaken by the Group Leadership Team (GLT) in November 2022.
- The context for the risk register last year had been the Group's growth strategy, but the reduction in 16-18 year old enrolments by c. 400 this year provides a different context, and will have implications for funding in 2023-24. This had led to a re-evaluation and renaming of some of the risks.
- One completely new risk had been added to the register, being Risk number 5: Cost reductions lead to adverse impacts on learners and staff. Pay and non-pay savings will be necessary to meet cost and

income pressures, and this needs to be managed carefully to minimise impact.

- Three risks have been renamed:
  - Risk 2: Failure to deliver a breakeven outturn in 2021-22 has been rolled over to 2022-23
  - Risk 3: Financial Sustainability Plan has been changed to refer to the Three-Year Financial Plan 2022-25 to be agreed by the Board
  - Risk 7: Failure to deliver 16-18 growth has been renamed Failure to halt the decline in 16-18 learners
- Five net risks have been increased:
  - Risk 3: Three Year Financial Plan 2022-25, net risk up from 12 to 16. This increase reflects the sharp decline in 16-18 learners in 2022-23, and higher costs, especially due to the staff pay rise and increased energy prices.
  - Risk 6: Estates Strategy, net risk up from 12 to 16. This risk has increased temporarily due to market conditions and the need to secure contractors for the construction process.
  - Risk 8: AEB Growth, net risk up from 8 to 12. Increased AEB flexibilities have helped the Group, but low unemployment rates have reduced recruitment on to long courses, which could require additional subcontracting to meet funding contracts.
  - Risk 12: Business Continuity, net risk up from 9 to 12. Critical incident plans prepared and scrutinised by Audit Committee in June 2022, but are not yet live, and further work is required.
  - Risk 14: Legislation, net risk up from 9 to 12. Some legacy compliance issues are emerging from an ageing estate.

The Committee asked about the risk to the Group of ongoing industrial action. The Executive Principal advised that following agreement with UCU, which represents the majority of teaching staff, there is no longer a threat of industrial action by these staff during the current year, although it is difficult to see how the Group will be able to meet anticipated union demands next year. Negotiations on the 2023 pay award are due to start in April 2023 and there is therefore a risk of industrial action by UCU members in 2023. During the current year, strike action by NEU members is ongoing, being led nationally, although this involves a much smaller number of the Group's teaching staff.

The Chair noted that the FE Commissioner last year had asked whether the risks relating to quality oversight are reviewed by the Quality Oversight Committee and it was noted that this was undertaken at the May meeting of the Quality Oversight Committee.

## **7. DRAFT ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD 2021/22**

The committee received and reviewed a draft of its annual report to the Board and the committee noted and advised as follows:

With respect to the Internal Audit Opinion, although the internal auditor had provided the opinion that the Group has an adequate framework for risk management, governance and internal control, the point had been made when conveying this opinion that the internal auditor had thought very seriously about whether the number and level of management actions across the areas reviewed during the year mean that only a partial opinion should be given. The decision to give a full opinion had therefore not been as strong as in the previous year. The committee advised that its report to the Board should reflect this.

The draft report would also be updated to include matters covered at this meeting, particularly the updating of the Risk Register.

With respect to the comments on whistleblowing policy, reference to actions discussed to raise awareness of the policy will also be added.

In relation to cyber security, which had been discussed at the October meeting, and the effectiveness of phishing emails to staff, the committee asked that additional assurance is provided next year.

The Director of Governance agreed to circulate the final version of the report to the committee.

GD

## **8. HEALTH AND SAFETY UPDATE**

The committee received an update report on progress in implementation of the recommendations arising from the November 2021 critical incident testing, as requested at the last meeting, and the committee was assured by the CFO's involvement in oversight of progress.

The CFO advised the committee that the Group's Health & Safety Director is due to leave the Group before the end of December, and she apprised the committee of arrangements made for additional external specialist resource to provide support on an interim basis until a replacement is settled in post. Additionally, the CFO intends to work with each of the individual college Health & Safety committees to support them in relation to their terms of reference.

**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 a workshop held on 28<sup>th</sup> September 2022
- Draft minutes of the Group Board meeting of 20<sup>th</sup> October 2022.

Dates of next meetings

Wednesday 22<sup>nd</sup> March 2023 at 5.00pm

Tuesday 20<sup>th</sup> June 2023 at 5.00pm

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

Chris Hyams (Chair)