

CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 20TH JUNE 2023

MINUTES

PARTICIPANTS	Chris Hyams (Chair). Sanna Jordansson, Weiye Kou, Ellen Lee, Paul McLoughlin,
IN ATTENDANCE	Pablo Lloyd, Kurt Hintz, Rachael White, Sarah Ventham, Stewart Cross, Graham Drummond, Jackie Rusling, Neill Scott (item 3), Mike Cheetham (RSM), Stuart McKay (MHA), Graham Cooper
APOLOGIES	Toyin Odutayo
DECLARATIONS OF INTEREST	None

1. MINUTES OF THE MEETINGS HELD ON 22ND MARCH 2023

The minutes of the meeting held on 22nd March 2023 were approved as an accurate record.

2. MATTERS ARISING

The committee reviewed the updated action tracker and noted:

With respect to the risk register, the Chair advised that he had expected to see both Operational Breakeven and Educational EBITDA included as financial metrics being monitored, in accordance with the recorded action from the previous meeting. He noted also that the Financial Oversight group had considered both of these measures to be important. However, the risk register as presented now included only Educational EBITDA. It was agreed that this matter would be discussed further and referred back to the Financial Oversight group.

CH/
SC

All other matters arising are covered in the agenda for this meeting.

3. HEALTH AND SAFETY UPDATE

3.1 HEALTH AND SAFETY AUDIT REPORT AND ACTION PLAN

The committee received a report and noted:

- An independent audit has been undertaken by Britrisk to review the Group's framework and operating systems relating to Health and Safety. This reviewed 10 areas, including policies, structure, operating systems and reporting procedures.
- An action plan has been drafted by the Health and Safety team to address the findings set out in the audit report. This reintroduced the 10-point check process used previously. The audit had highlighted that ownership and accountability for Health and Safety was not sufficiently addressed at a local level and that there is a need for identification of Duty Holders with whom responsibility for compliance rests. This is now being addressed through the actions proposed in the plan. All the actions are considered by the team to be measurable, auditable, achievable and suitably prioritised, although deadlines will need to be signed off by the Group's new CEO.
- Part of the challenge to date has been that a full Health & Safety team is not yet in place. Progress is being made to achieve this by appointing a third Health & Safety manager as previously agreed.
- The Total Scorecard for the recent visit was 69%, which reflected various areas of non-compliance. This compared with previous visits having resulted in a total score of up to 84%. The Head of Estates advised that the target is to raise the score to over 80% again, within a year.

3.2 BUSINESS CONTINUITY UPDATE

The committee received a report, including an updated BCP, and the committee noted:

- The BCP had been approved at the previous meeting on the basis that this would continue to be refined throughout the year. Progress in doing so had been made as detailed in the report.
- With respect to departmental plans, those for Estates and ICT, being two critical areas, have been completed and put in place.

- The BCP has been circulated to everyone who needs to be familiar with the process. Training is due to commence in October, starting with the Critical Incident Management Team.

4. INTERNAL AUDIT

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

- Since the report was prepared, the Learner Number Systems report has been completed, and is also included with the reports for this meeting.
- As discussed at the previous meeting, two reviews (Quality Assurance and HR Recruitment) were cancelled from the 2022-23 programme. Additionally, the timing of three further reviews had been pushed back at the request of management, so overall progress was not as the internal auditors had hoped to see by this time. This has also created difficulties for resource planning by the internal auditors, so requests to push back reviews next year will be resisted.
- The timing issues referred to also have implications for the work of the committee and, as a consequence, only the report on the Learner Number Systems audit is available for this meeting. The CFO advised that although the reports relating to the remaining audits are not yet available, and the recommendations have yet to be agreed, the audit activity relating to those audits has been completed.
- The internal auditor assured the committee that, despite the delays, progress is still on track to enable him to provide a full assurance report for the year.

The draft internal audit plan for 2023-24 was received and the committee noted:

- The internal auditor advised that the plan has been informed by discussions with the management team and external issues relevant to the sector. It also includes a sufficient number and breadth of audits so that an annual opinion can be provided.
- Areas to be covered therefore include a balance and mixture of standard reviews relating to key financial controls and student records as well as other areas informed by taking a risk-based approach, including student mental health and wellbeing, which is currently a key area of focus across the sector.

The committee accepted the plan as presented.

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

- The internal auditor highlighted that there is increase in the number of errors identified from 2022/23. In the event of a funding audit, some of these would give rise to a risk of clawback.
- The Director of MIS advised that the number of errors was nevertheless considerably less than 2021-22. A key area of focus this year has been apprenticeships, as this is an area where there has been considerable change in the rules, and whilst many of the recommendations relate to apprenticeship funding, this accounts for less than 5% of the Group's total funding income. Several of the findings also arise due to the in-year position and timing of the audit. These will be resolved in the fullness of time or as part of the year-end process. Also, not all of the recommendations have funding implications. All are nevertheless accepted, have been prioritised, and are being actioned.

5. EXTERNAL AUDIT PLANNING UPDATE

The committee received and reviewed the Audit Planning Memorandum provided by MHA for the audit for year ending 31st July 2023. The external auditor highlighted a number of issues, which the committee noted:

- The new accounting standard ISA (UK) 315 has a significant impact on the approach to audits this year. It introduces five new inherent risk characteristics to assist risk assessment (complexity, subjectivity, change, uncertainty, and susceptibility to misstatement due to management bias or other fraud risk factors). These lead to a more controls-based focus for audits. Whilst this is an approach that the external auditors have taken in previous years' audits of the Group, the ability to take account of control deficiencies without having to embark on substantive testing is diminished by the new standard.
- The ONS reclassification of colleges as part of the public sector means that the auditors need to look at each transaction from the perspective of whether permission is needed and whether it needs to be disclosed. There are separate thresholds for each.
- Materiality will be set at a level of 1% of income, which based on last year's figures is an indicative £1.1m. Performance materiality is just below £1m and the triviality level is £58k. This approach to materiality is consistent with last year.

- MHA have also been asked to provide assurance reporting on the Teacher's Pension Scheme and they also provide corporation tax services to Vspark CIC, Capital City College Enterprises Ltd and Apprenticeship First Limited. The external auditor assured the committee that none of this additional work compromises their independence and that where necessary, work is undertaken by separate teams to ensure this.
- Key audit risks are identified in a risk matrix. The first three key risks (Fraud risk in revenue recognition, Management override, and Related Party transactions) are significant risks for every college. The placing of the remaining seven of the key audit risks on the matrix is based upon the external auditors' knowledge of the Group. The external auditor talked the committee through the changes and approach in relation to the each of the key audit risks. Regularity, in particular, is an area of significant additional focus this year following the reclassification into the public sector. Significant additional testing is largely driven by the Audit Code of Practice and the Managing Public Money (MPM) Treasury rules, and includes a requirement for enhanced declarations by Governors, which the external auditor explained.
- The schedule of fees for the external auditors' services includes an inflationary increase and also the additional work required due to ISA (UK) 315 and additional regularity testing.
- The external auditor advised of an increase in focus on reserves policies across the sector, which may become a requirement in the future. The Group is well-placed should this happen, work having already been undertaken to put a reserves policy in place.

6. RISK MANAGEMENT

The committee received the updated Group Risk Register, and the committee noted:

- As agreed at the previous meeting, the register has been reformatted with headings to group related risks together.
- The register was reviewed by the Senior Leadership Group on 9th June 2023, and subsequently by the Group Leadership Team. Whilst there was significant discussion, no completely new risks were added and no risks have been renamed.
- A number of net risks have been changed. Most notably, the net risk relating to security/network failure has increased, reflecting the number of cybersecurity attacks that the Group has experienced this year. The net risk relating to financial health has been reduced, as a consequence of the 2023-24 budget planning and greater confidence arising therefrom. The risk relating to 01 Founders has been removed, following the successful move of 01 Founders to within the Group structure.
- The committee noted the high risk rating relating to industrial action. The Executive Principal apprised the committee of the situation regarding current disputes in relation to pay, and he advised that ongoing industrial action, including further strike action, is expected.
- The committee also noted that the Risk Management Policy was reviewed last year and, in the absence of a change in approach, will ordinarily be reviewed every three years.

7. RESERVES POLICY

A report was received and the committee noted:

- Last year was the first year that a reserves policy had been put in place by the Group. The current report includes a refresh of this policy. There are no substantive changes, although the refresh includes revisions arising from the reclassification of colleges into the public sector.
- The CFO advised that the workings relating to the policy as at June 2023 include some errors and that a revised calculation will be circulated to members of the committee. She confirmed, nevertheless, that the Group is currently within the requirements of the reserves policy.

RW

8. ANNUAL REPORTS

The Committee considered the following annual reports:

a) Fraud

The committee was pleased to note that there have been no major incidences of fraud during the year, albeit that there have been a number of unsuccessful phishing attempts which have been identified and dealt with effectively.

b) Data protection

The Director of Governance, who also holds the position of the Group's Data Protection Officer, advised as follows:

- An additional data sharing agreement has been signed, which means the group now has 17 data sharing agreements in place.
- 3 complaints have been forwarded from the ICO to the Data Protection Officer this year – all of

which have been responded to.

- The number of data breaches is reduced from prior year (4 in 2022/23 compared to 11 in 2021/22). None of these were serious in nature and all were resolved promptly.
- The number of subject access requests made during the year is also down, (29, compared to 37 in 2021/22), although the number last year had been higher than normal partly due to requests from student arising from the Centre Assessed Grades process.

c) Whistleblowing

- The Director of Governance advised that there have been no incidences of whistleblowing during the year. There were also no known incidences of staff having concerns but reluctant to engage formally with the Whistleblowing Policy.
- The Whistleblowing Policy was reviewed last year and circulated to staff in order to raise staff awareness of the policy. The committee asked that the process of ensuring staff awareness of the policy is repeated annually.

GD

d) Treasury Management

- The Group has in place the resource and an approach to maximise interest earned on cash balances. Cashflow planning is undertaken on a daily basis and when not required for working capital requirements, excess funds are invested / transferred to one of the Group's three deposit accounts: a Barclays Business Premium Account (BPA), a Santander Treasury Account and a Lloyds Treasury Account. Funds are then returned to the Group's main bank account with Barclays as and when required.
- The interest rate on the BPA, in which the majority of cash balances (c. £20m) are currently held, has increased since September 2022 (and is currently scheduled to increase to 4.2%), reflecting the wider increase in market rates. The balance will significantly reduce when payments are made relating to the current transformational capital projects.
- A longer term strategy relating to treasury management is to be discussed.

9. COMMITTEE SELF ASSESSMENT AND REVIEW OF TERMS OF REFERENCE

The committee noted the requirement for a self-assessment of governance, which is then referred to in the end of year Annual Report. There are two elements: an individual self-assessment by each governor, linked to an appraisal, and also self-assessment by each committee. The Director of Governance provided a copy of the committee's terms and annual schedule of business for reference, and posed a number of questions for the committee to consider and on which to provide feedback, either now or subsequent to the meeting.

The committee advised that enhanced clarity regarding the purpose for which individual papers are presented to the committee would be helpful, and the Director of Governance agreed action this request.

GD

10. MHA FE AND HE DIGEST

The committee received for information a copy of MHA's FE and HE Digest Summer 2023.

11. BOARD MINUTES

The committee received for information the minutes of the Group Board meeting of 31st March 2023

12. ESTATES MANAGEMENT INTERNAL AUDIT ASSIGNMENT

The committee received and noted the Estates Internal Audit Assignment Planning sheet that sets out the scope of the planned audit assignment.

13. CONFIDENTIAL DISCUSSION WITH EXECUTIVE TEAM – CONSIDERATION OF REAPPOINTMENT

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

Date of next meetings:

Wednesday 4 October 2023 at 5pm

Wednesday 22 November 2023 at 5pm

Wednesday 20 March 2024 at 5pm

Tuesday 18th June 2024 at 5pm