CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 4TH OCTOBER 2023

PARTICIPANTS	Chris Hyams (Chair), Paul McLoughlin, Toyin Odutayo (items 1-4), Weiye Kou, Ellen Lee, Nana Brew
IN ATTENDANCE	Pablo Lloyd, Kurt Hintz, Rachael White, Sarah Ventham, Jackie Chapman (items 1-5) Stewart Cross, Graham Drummond, Jeremy Wells (item 3), Lorna Raynes (RSM), Stuart McKay (MHA MacIntyre Hudson), Graham Cooper
APOLOGIES	Sanna Jordansson
DECLARATIONS OF INTEREST	None

The Chair welcomed everyone, and particularly Nana Brew, Staff Governor, to her first meeting as a member of the committee.

1. MINUTES OF THE MEETING HELD ON 20TH JUNE 2023

The minutes of the meeting held on 20th June 2023 were approved as an accurate record.

2. MATTERS ARISING

The committee reviewed the updated action tracker and noted:

With respect to a decision on whether the operational position is be included alongside the EBITDA as a risk within the risk register, this matter is to be considered at the forthcoming Finance Oversight Group meeting.

Other matters arising, which are all low risk, are completed or being taken forward as agreed.

3. ICT UPDATE – CYBER SECURITY REPORT

The Director of Technology, Infrastructure and Service presented the Annual Cyber Security Report and noted progress since the previous update to the committee in September 2022, as follows:

- With respect to external validation, the Group has retained its Cyber Essentials and Cyber Essentials Plus certifications.
- The Group continues, year on year, to update its software and hardware. During the past year, this has included ensuring that all out of date Windows 10 software has been replaced. Also, the rollout of Windows 11 has commenced with staff laptops, as part of a broader process to replace all Windows 10 by 2025. Similarly, all Mac devices have been upgraded to the latest operating system.
- On an ongoing basis, critical and security patch management is undertaken using centralised tools, which meet the requirements to retain the Cyber Essentials certifications.
- In terms of network infrastructure, security management processes have been maintained, with monthly review meetings held with the company that maintains the firewalls, security patches etc.
- The annual penetration test was conducted by JISC in April 2023 and no critical vulnerabilities were identified. Whilst 7 high vulnerabilities were found, four of these were 'false positives'. The other three are being resolved or managed as reported. These include DOM-based link manipulation, for which the committee requested a date for resolution and the Director of Technology, Infrastructure and Service agreed to revert to the committee. JW
- Multi Factor Authentication (MFA), remains in place, and enhanced MFA, using number matching, has been rolled out to all staff. SMS as a method of authentication is being discontinued and alternatives, mainly use of authenticator apps, will therefore be rolled out over the next few months.
- The Group signs up to various additional services, which include JISC Network Resolver Services (JNRS) and National Cyber Security Centre (NCSC) Mail and Web Check services.
- All new staff are required to complete mandatory cyber security training module. Random email phishing campaigns are run for existing staff, with staff who fail to identify phishing emails required to complete follow-up training.

- Work is being completed to migrate data from servers that are due to be commissioned and the team is confident that the timescales for decommissioning will be met.

4. ANNUAL SUBCONTRACTING REPORT

A report was received and the committee noted:

- This annual report to Governors, which covers sub-contracted provision that took place during 2022/23, along with plans for 2023/24, is required under the terms of the Group's contractual commitment with the ESFA.
- Over the past three years, the Group has been following a strategic aim to reduce subcontracting unless for specific reasons, being either partnership development or growth.
- A new subcontracting standard was introduced by the ESFA approximately twelve months ago. The first audit under the new standard was due to be completed over the summer, and whilst the Group has submitted the information required, no feedback has yet been received from the ESFA. It is understood that there is a national delay due to the volume of reports received by the ESFA. The work undertaken to complete the audit did, however, highlight a number of actions that the Group needs to add into its subcontracting processes. Whilst the Group has robust processes in place with regard to contracting and compliance, the new standard includes a much greater emphasis on supporting subcontractors.
- The data in the report appears to suggest that the Group is about to contract out the same value as last year, but this includes a number of specific changes, which the Group Subcontracting manager explained:
  - Apprenticeships: The Group ceased subcontracting of new apprenticeships three years ago. In view of the length of some apprenticeships, a number of legacy contracts are still running, but there is no intention to subcontract further provision, due to the complications and risks involved.
  - ESFA AEB: Approximately £1.75m of the Group's ESFA AEB provision is outside London. Historically, c. 50% of this has been subcontracted, but this has been gradually reduced over the past three years. The intention this year is to reduce this further. So far, only 10% of the overall contract amount has been released to subcontracting, with the potential to go up to 25% if needed, although there are currently plans in place for the Group to deliver this direct. Going forward, it is also the intention to reduce this subcontracting further.
  - GLA Free Courses for Jobs (Level 3): For the last two years the Group has not had arrangements in place to deliver this provision itself, as a consequence of which it has been subcontracted out. Due to the length of the Level 3 programmes, some of these, amounting in total to c. £450k of the contract value, roll over into the current year. However, the number of new starts for the current year has been reduced considerably, and the intention is that this subcontracting will also reduce further going forward.
  - GLA AEB: Subcontacting has again been decreased over the past two/three years. The intention this year had been to reduce this further from c. £3m to £1m, with the latter only with partnerships already in place. However, the Group has developed a new partnership with 3T Energy to open a wind turbine training centre in London, the first of its kind. Initially, this will involve a subcontracting arrangement, but as part of a longer term strategy that will see the Group taking over delivery within the next two years. Also, this year, the Group has successfully secured a place on the Bootcamp framework and will be applying for Bootcamp funding to replace the AEB.
  - 16-18 Study Programmes: Over the last year, the Group has only subcontracted to specific organisations. This year, the intention is to support the Group's growth strategy in 16-18 provision by contracting out 300 starts, which will cost c. £1.3m this year, but will generate £2-3m next year in terms of lagged funding and further growth opportunity. A bid will be made for in-year additional funding this year, but with no guarantee that this will be successful.
- A schedule was provided of the individual subcontractors that the Group worked with in 2022/23, with a risk rating for each based upon quality, performance and responsiveness. The committee noted that there are far fewer contractors with a high risk rating than in previous years. The main reason for the higher number in previous years had principally been subcontractors failing to meet targets. There had been tighter management of this last year, following an earlier release of contracts – meaning that subcontractors were not rushing to catch up. The early release of contracts has been repeated this year, and the Group Subcontracting Manager explained the process for supporting and monitoring subcontractors, supported by a comprehensive subcontracting manual and quality monitoring of each subcontractor by a nominated Group Assistant Principal. The committee queried the consistency around risk ratings, which was explained further, along with the action planning process for managing

risk and the ultimate sanction of cancelling the contract and transferring the provision to an alternative subcontractor.

5. INTERNAL AUDIT

An early progress report in relation to the 2023/24 internal audit plan was presented and the following was noted:

- The majority of internal audit assignments have now been scheduled, with the exception of the anti-fraud review, for which a scoping meeting has been held but is unlikely to be completed in time for the November meeting, and is more likely to be slightly later in the year.
- The only other change to the timetable is the Key Financial Controls audit, now scheduled to start in June. This is later than originally planned, in order to allow more time for the new sales module in the finance system to be embedded and for the review to therefore be more meaningful.
- Appended to the report were copies of RSM's latest updates on procurement.

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

- The approach to the subcontracting audit were different to previous years due to changes in ESFA rules associated with the introduction of the new subcontracting standard that came into effect during 2022/23. The audit now takes the form of an assessment against the 91 requirements within the standard, and a comment and RAG rating in relation to each. The amount of work involved in the review is therefore substantially greater. As a result more actions have been raised compared to previous years.
- The Chair asked about how the overall outcome report benchmarks against that of other colleges and the internal auditor advised that whilst there are slightly more actions than seen in other cases, this reflects the large number of subcontractors that the Group uses. The challenge across the sector has typically been providing the evidence required to demonstrate what has been done.
- The Executive Director for Growth and Partnerships highlighted that the wording of the new standard is specific with regard to requirements and unless, for a particular contract, the Group has experienced an issue or there has been an action that has been escalated, then this is raised as a finding. The fact that the Group has not been able to provide any examples does not however mean that there is not a process in place if needed. Going forward, consideration will be given to include 'no issues were relevant' in reporting, so as to be able to demonstrate that areas have been considered but that there is nothing to report.
- The ESFA will be reviewing the audit outcome, but none of the internal auditor's clients who have submitted returns have yet received feedback. If the ESFA are fully satisfied, it will be three years before a further review is required.
- With respect to the action relating to the role of the audit committee in oversight and escalating matters to the Board, it was highlighted that the Board delegates oversight to the committee and that the committee's annual report to the Board brings the Board's attention to any matters of concern or high risk. The committee monitors actions arising through an action tracker that is reviewed at each meeting and special meetings have been held to discuss any matters of particularly high risk. Significant risks are also added to the Risk Register, which goes forward to each Board meeting, following regular discussion of subcontracting risks, along with other risks, at meetings of the Group Leadership Team.

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

- The review was undertaken as part of the 2022/23 internal audit programme and looks at how the Estates Management Strategy has been developed and how it is being delivered.
- The overall opinion provided in the report was one of Reasonable assurance. Two 'Medium' priority actions were identified. The first relates to the new approval process for projects that has been put in place, but where there is a lack of clarity in relation to where current projects fit into the approval process. This was largely seen as due to the early stage of the implementation of the process. The second action relates to the need for the action in the risk register relating to capital projects, which had not been updated since 2021, to be updated.
- Overall, with regard to the development of the strategy and the processes and monitoring, these were in line with what the internal auditor would expect to see and demonstrated progress from the last internal audit review of capital projects undertaken before the Estates Strategy was put in place.

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

- This was part of the Key Financial Controls review for 2022/23.

- The overall opinion was one of Reasonable assurance. Two ‘Medium’ and Five ‘Low’ priority actions were identified.
- One of the Medium actions related to a purchase order being raised after receipt of invoice. The second related to the two-stage verification process for change of supplier details, where the internal auditor was satisfied regarding enhancements to the procedure, but the recording of the actions taken was not complete for the changes relating to a number of suppliers. The internal auditor therefore acknowledged the progress, but noted that the improved process needed as yet to be fully embedded.
- The CFO explained the process of internal compliance checks and monthly exception reporting relating to end-to-end payment processing.
- A query was raised regarding the comment in the report on the internal auditor only being able to match 27% of purchase orders and invoices, and the internal auditor undertook to revert to the committee with further detail and clarification on this matter.

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An internal audit report on Sickness Absence was received. The following was noted: LR

- The overall opinion provided in the report was one of Partial assurance, mainly due to issues of inconsistency of practice across the Group.
- Two ‘High’, two ‘Medium’ and one ‘Low’ priority actions for management had been identified.
- One high level recommendation (which represented a combination of two separate high level findings) related to the retention of HR case notes on file and the consistency of practice and procedures relating thereto across the Group.
- The second high level recommendation related to lack of consistency in documenting return to work meetings.
- With respect to the two medium level recommendations, one related to lack of consistency in documenting contact between line managers and staff who are on long term sickness. The second related to a lack of clarity in guidance relating to when matters should be referred to Occupational Health, in order to ensure consistency of practice. The staff governor highlighted the need for additional staff training on dealing with sickness related issues, and the CFO confirmed that this is recognised as an important next step following on from the recent re-writing of the Sickness Policy.
- The committee asked about benchmarking of sickness levels against those across the sector. The internal auditor brought the committee’s attention to statistics in the report that showed that the Group’s sickness levels are higher than the sector average. The Chair highlighted that the Group’s level is actually almost double the average and has seen a recent significant increase, and he sought comment from the management team on this. The CFO and interim CEO advised that it is recognised that more work needs to be done to tackle areas of high sickness across the Group and that this is taking place. This is one of the strategic health indicators being monitored by the GLT on a monthly basis for 2023/24.

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The committee received for information a copy of RSM’s September 2023 Counter Fraud Newsletter.

6. RESERVES POLICY UPDATE

A report was received and the following was noted:

- The GLT has reviewed the Reserves Policy and it is good practice and appropriate for the Group to have in place a policy and to monitor the level of reserves.
- The policy remains unchanged from that submitted for the previous meeting, for which the CFO had apologised for the inaccuracy in the reserves calculation that had been circulated.
- Although the policy states that it is not due for review until 2026, the CFO pointed out that as the Group is now classified as public sector, a new Financial Planning Handbook is expected and that this is likely to include new stipulations with regards to reserves.
- A spreadsheet was appended illustrating the calculation of reserves. This was based on a template provided by the external auditor which had been adapted to reflect the Group’s particular circumstances.

7. UPDATE ON EXTERNAL AUDIT

The external auditor provided a verbal update on progress. He advised that the usual controls work has been completed, and the work on the Teacher’s Pension Scheme has been filed. The V Sparks CIC audit is virtually complete. Fieldwork on the main Group audit due to commence on 30th October, with meetings scheduled and no problems currently identified/anticipated. With regard to pensions, a separate discussion may be organised if needed, as last year.

8. RISK REGISTER

The committee received for information a copy of the risk register

9. COMMITTEE SCHEDULE

The committee received for information the updated schedule of committee business. The committee asked that subcontracting is added as a standing annual report. GD

10. BOARD MINUTES

The committee received for information the notes of a Group workshop held on 15th June 2023, along with the minutes of the Group Board meeting of 5th July 2023.

Dates of next meetings:
Wednesday 22nd November 2023 at 5.00pm
Monday 25th March 2024 at 5.00pm
Tuesday 18th June 2024 at 5.00pm