CAPITAL CITY COLLEGE GROUP BOARD: AUDIT COMMITTEE 22ND NOVEMBER 2023

PARTICIPANTS	Chris Hyams (Chair), Paul McLoughlin, Toyin Odutayo, Sanna Jordansson, Weiye Kou, Ellen Lee, Nana Brew
IN ATTENDANCE	Sarah-Jane Eglen (Observer), Pablo Lloyd, Kurt Hintz, Rachael White, Sarah Ventham, Stewart Cross, Graham Drummond, Lorna Raynes (RSM), Stuart McKay (MHA), Graham Cooper
APOLOGIES	None
DECLARATIONS OF INTEREST	None

1. MINUTES OF THE MEETINGS HELD ON 4TH OCTOBER 2023

The minutes of the meeting held on 4th October 2023 were approved as an accurate record.

2. MATTERS ARISING

The committee reviewed the updated action tracker and noted:

With respect to a decision as to whether the operational position is to be included alongside the EBITDA as a risk within the risk register, this was considered at the Finance Oversight Group. It was decided that the risk should be recorded via both measures and that the short-term risk relates to EBITDA i.e. if this is negative, it would result in financial health being assessed as 'requires improvement', but that the longer-term risk should be recorded with respect to the operational position because if a continued deficit position is delivered this would impact on the quality of the Group's infrastructure and estate. The risk register presented to this meeting has been amended to reflect this approach.

With respect to the annual cyber security report, it was noted that in the annual penetration test 7 high vulnerabilities were found, of which 4 were 'false positives'. The committee will be updated on the resolution of the remaining 3 at its next meeting.

With respect to the Procurement Internal Audit, a response to the query raised at the last meeting had been circulated.

With respect to the Annual Subcontracting Report, this has been added to the committee's schedule of business.

3. INTERNAL AUDIT

A progress report against the 2023/24 internal audit plan was presented by the internal auditor. The following was noted:

- The Staff Utilisation audit is currently in progress and the Student Mental Health is due to commence next week. All other audits for the year have been scheduled. Progress to date is therefore in line with the plan.
- The report includes an update on follow-up of previous actions. At the time of the report, there were 41 actions due, of which the internal auditor is satisfied that 31 are evidenced as having been implemented. With respect to the remainder, actions have been undertaken to implement the learner recommendations and these will be checked by the internal auditor when the annual learner numbers review is undertaken. There are also 3 recommendations that have been implemented but were not checked in time for the report, 1 recommendation has been superseded and there are 6 that are overdue. The latter include 2 relating to the Financial Regulations, which are on the agenda for this meeting, 2 that relate to the new sales ledger that needs time to embed, 1 relating to apprenticeship payments, completion of which relies on obtaining information from employers, and 1 relating to Health and Safety training which is planned but has not yet been delivered.

- Appended to the report, for the committee's information, are two client briefings, one relating to emerging issues in FE generally and a second relating to lessons learned from the ESFA subcontracting standard review.

The committee noted the overall positive progress with regard to implementation of recommendations, resulting from the focus applied by management team on resolution of issues raised and more realistic timescales being agreed. This is a significant improvement on the position two to three years ago when the committee had been concerned regarding the pace of implementation and the number of overdue actions.

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The final internal audit report from the 2022/23 programme, on HR Contracting and Pay Policy, was received. This focused particularly on hourly paid staff and had been undertaken by RSM's specialist Employer Services Team. The review was undertaken on an advisory basis as the Group was already aware of various issues that needed to be resolved, with some plans already in place. The assignment looked at how the Group might be able to learn from and embed best practice seen elsewhere. The advisory actions related to matters including reward and recognition strategy and compliance with related policies, Service Level Agreements for the HR team and inconsistencies in paperwork relating to employee contracts. Also, recommendations were made regarding the frequency of reporting on HR matters and communication to increase awareness of new HR strategies and policies amongst line managers and HR managers.

The committee acknowledged the challenges relating to harmonisation and updating of legacy contracts and requested further information regarding the extent to which the issues identified are spread across the entire sample of contracts reviewed or whether multiple findings relate to a small number of the contracts. The internal auditor agreed to check this and to provide a response for circulation to the committee members. LR

The committee asked about the situation regarding the absence of a pay policy. The CFO explained that work has been taking place on the pay policy and the reward and recognition strategy, and that this is reaching the stage of being finalised for implementation in early 2024. She also assured the committee that this will involve ensuring adequacy of resources in the HR Department, working with support from the management team. An update on the implementation of the pay policy would be provided at the next meeting. GD/RW

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The committee received the draft Annual Internal Audit Report for 2022/23 and noted the following:

- The overall opinion was Amber/Green (unqualified), meaning that the organisation has an adequate and effective framework for risk management, governance and internal control, albeit that the internal auditor's work has identified further enhancements to the framework to ensure that it remains adequate and effective. This is the second highest of the four possible levels of opinion and is informed by judgements relating to three areas: governance, risk management and internal control.
- The level of opinion has been the same every year since the current internal auditors were appointed, although last year it was a marginal decision whether or not to give a lower Amber/Red opinion, in view of the volume and nature of recommendations made in the various internal audit reports during the year. That is not the case this year. The internal auditor also advised that Amber/Green is the most common level of opinion given for college groups of a comparable size, in view of the breadth of issues faced, and that typically only a few smaller colleges are given the higher opinion. A benchmarking report will be provided to the next meeting.
- The report includes a summary of the internal audit work completed during the year and as the HR Contracting and Pay Policy review has now been finalised, the report will be reissued as Final.

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The committee received for information a copy of RSM's briefing on its approach to Delivering Internal Audit Effectively.

4. EXTERNAL AUDIT REPORT AND LETTER OF REPRESENTATION

4.1 AUDIT FINDINGS REPORT

The external auditor presented the Audit Findings Report for the year ended 31st July 2023 and the following aspects were highlighted and noted:

- The external auditor advised that, with thanks to the Finance team for their help, the audit had run very smoothly this year, notwithstanding additional work required in relation to the regularity audit.
- The audit was conducted according to the audit plan presented to the June 2023 meeting of the committee, with no changes.
- With respect to matters arising from the audit:
  - Regarding management override of controls, a paper on accounting estimates and areas of judgement has been prepared for review by the Financial Oversight Group. The internal auditor is satisfied with the work that has been undertaken.
  - In relation to Related Party transactions, due to unforeseen circumstances, the Group was unable to obtain the related party declaration for a member of the executive team who left during the year. This point is referenced, as a non-standard clause in the draft letter of representation;
  - As the College is reclassified as Public Sector from December 2022, it is no longer able to provide a parental guarantee to its subsidiaries being Capital City College Enterprises Ltd and Apprenticeship First Limited. The 22/23 financial statement going concern note is therefore to be amended to reflect the uncertainty of the future of these two entities. MHA will agree wording with the College Chief Finance Officer;
  - The amount of testing that is required in relation to the regularity audit is significantly greater than in previous years and this work is being finalised, although the external auditor is satisfied in relation to the work that has been completed to date. It is expected that a number of other colleges will have qualified regularity audit opinions this year as a result of the new rules being introduced.
  - With respect to capital expenditure, a reallocation adjustment has been made to correct the allocation of fixed asset additions and transfer of assets from the Assets under Construction classification, along with a recommendation regarding the management of the fixed assets register. An advisory recommendation has also been raised regarding cyclical condition surveys.
  - With regard to Going Concern, the external auditor has not identified any matters that give reason for doubt in relation to the ability to sign off on this for the Group. With regard to the two subsidiary companies (Capital City College Enterprises (CCCE) and Apprenticeship First Ltd (AFL)), however, the initial assessment indicates that there are material uncertainties over Going Concern as both entities are currently loss making and have negative reserves at the year end. As colleges are now part of the public sector, managing public money rules prevent colleges from giving guarantees or indemnities for subsidiary companies. The situation is made more complicated by the existence of inter-company debt between the two CCCG subsidiaries and the Group. The issue relating to AFL is likely to be resolved, given the intention to wind up the company, but the position for CCCE is less clear, although an approach related to the possibility of plans for the company to become dormant is being discussed. Board meetings for both subsidiary companies will be taking place in the week commencing 4th December so their approved accounts can be submitted to the ESFA by the end of December.
- Lower bond yields have resulted in the Group being in a surplus position this year on the LGPS. The Group has decided not to recognise a pension asset as no refund is due to the Group and there is unlikely to be a reduction in future contributions. The external auditor has discussed the accounting treatment with the CFO and the Chair. This is likely to be the predominant approach taken by colleges across the sector.
- The audit is largely complete except for resolving the remaining issues on regularity as discussed.
- With regard to the adjusted misstatements, the most significant items relate to the impairment to the pension asset to nil, and an adjustment arising in the ordinary course from the R14 submission. Others relate to reclassifications. In addition, there are a number of disclosure misstatements related to staffing issues etc, which have been corrected.
- The external auditor highlighted the one non-adjusted misstatement. This relates to the Fire Station property at Tottenham Green, for which an offer has been received that is in excess of the current book value. A decision has been taken not to recognise this as an unrealised gain at this stage. The external auditor has agreed that this is not material and the gain will be recognised once the property is sold.
- The committee reviewed the audit findings (including various advisory recommendations) and management responses. The external auditor particularly highlighted the importance of the recommendation relating to recording validation of changes to standing data. Other recommendations included matters relating to treasury management (concentration of deposits), and the fixed asset register.
- At the Chair's request, the CFO provided further explanation of the approach to mock funding audits and enhancements to this so as to minimise the risk of clawback. Improved reporting and sharing of findings and lessons learned is to be implemented. It was agreed that twice-yearly reporting to the GD

committee on this will be implemented and the Director of Governance will add this to the schedule of committee business.
- The Chair also raised the issue of the high concentration of treasury deposits with a single institution and he sought assurance regarding plans to spread the risk by increasing the number of institutions. The CFO confirmed that the Treasury Management Policy will be reviewed by the end of December and that, having now completed the latest Group cashflow forecast, decisions will be taken in the next month or so on how best to spread these deposits. An update will be provided at the committee's next meeting;
- A breakdown of the external auditors' fees, in accordance with the initial fee quote, was provided.

4.2 AUDIT REPRESENTATION LETTER

The Committee reviewed the Audit Letter of Representation, noting as already highlighted, that this includes a non-standard clause in relation to the absence of a related party transaction declaration from a former member of the executive.

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. 2022/23 FINANCIAL YEAR

5.1 ANNUAL REPORT & FINANCIAL STATEMENTS FOR THE YEAR ENDED 31ST JULY 2023

The Committee received the draft Group Annual Report & Financial Statements for the year ended 31st July 2023 for review and scrutiny and recommendation to the Board. The committee noted:

- A reconciliation shows that the operating loss of £4.2m as previously presented to the Board in the management accounts is confirmed as the audited position prior to consolidation of the subsidiaries and the statutory reporting adjustments in relation to the pension deficit. The latter adjustments result in a bottom line consolidated surplus of £9.7m.

The Chair reminded members of the committee's responsibility for detailed scrutiny of the Report & Accounts prior to these going forward to the Board with the committee's recommendation for approval. It was agreed that all members of the committee will provide detailed comments to the CFO, copied to the Chair, by the following Tuesday.

5.2 REGULARITY SELF-ASSESSMENT QUESTIONNAIRE (2022-23)

The Committee received for review the draft completed Regularity Self-Assessment Questionnaire, noting that this requires to be signed by the Chair of the Board and the CEO. No issues were raised.

5.3 FRAUD QUESTIONNAIRE

The Committee also received and noted the draft completed Fraud Questionnaire, which is to be provided on behalf of the Board to the external auditors in relation to the year-end audit.

6. RISK REGISTER

The committee received a report along with the updated risk register. A review of the register had been undertaken by the Group Leadership Team (GLT) on 14th November and a number of changes were made to the register:

- Three completely new risks have been added:
  - Risk 5: Operating Surplus 23-24 and beyond, net risk 12. This risk has split off from the EBITDA outturn, as discussed earlier, with the risk rating reflecting the fact that achieving an operating surplus is a critical and more challenging focus for the business.
  - Risk 9: Staff and Student Wellbeing, net risk 9. This is an emerging risk as learners and staff change their living/working patterns following Covid-19, and many also face a cost of living challenge.
- Risk 18: Public Sector Reclassification, net risk 12. This reflects the lack of visibility of the new public sector regulatory framework and a risk that the Group could break them without realising, or that they could constrain action.
- Six risks have been renamed:
  - Risk 1: "Failure to continue to improve quality of teaching, learning and assessment post-Ofsted" has been changed to "Failure to maintain the quality of education".
  - Risk 2: "Failure to turn round the decline in 16-18 learner numbers" has been changed to add "…and establish consistent growth".

- Risk 4: “Failure to deliver a positive Educational EBITDA outturn” has been rolled over to 2023-24.
- Risk 6: “Failure to maintain at least ESFA Financial Health Good" has been rolled over to the period 2023-2026.
- Risk 8: “Weaknesses in the Learner Journey …” has been changed to focus more on technology and has been moved from Support Services to Strategy and Culture.
- Risk 11 “Industrial Action” has been shortened to remove reference to “Trade union resistance to necessary change”.

No net risks have been increased.

- Four net risks have been decreased:
  - Risk 2: 16-18s Turn Decline into Growth, net risk down from 16 to 12, as enrolment of new 16-18s this year has been stronger.
  - Risk 3: AEB Growth, net risk down from 12 to 8, as enrolment of adults this year has been much stronger.
  - Risk 11: Industrial Action, net risk down from 16 to 12, as the impact of this has been reduced by the Government’s decision to (partially) fund a significant pay rise, which has resulted in a lower level of support for strike action.
  - Risk 12: Capital Grant-funded Developments, net risk down from 12 to 9, reflecting greater confidence now that progress with these major developments is on a secure footing.
- One risk has been removed: Risk 7: Cost reduction, net risk previously 12. This has been incorporated into risk 4: Positive EBITDA Outturn 23-24. SC
- These changes to the register result in a highest risk rating of 15 relating to Risk 16 in connection with cyber security and the risk of Security/Network Failure/loss. There are then 8 risks with the next highest net risk rating of 12.

The committee questioned the decision to reduce the risk rating for Risk 11 relating to industrial action, noting the continued calls being made for strike action and the likelihood of this happening, notwithstanding the pay rises that have been awarded and the more marginal outcome of ballots relating to such action. Additionally, whilst noting that the increase in 16-18 enrolment this year is to be commended, the committee considered that this might well be a one-off increase, and that it is too early for the increase to be seen as evidence of an ongoing trend. The same observation was made in relation to AEB growth, especially noting the risk rating has been reduced from a high risk to a medium risk. The committee discussed these issues further and advised that the ratings in relation to these three risks should be revised to their previous level. It was agreed that these changes to the register will be made prior to the register going forward to the December Board meeting with the committee’s annual report to the Board. SC

The committee also discussed and stressed the importance of further consideration being given to the risk of misalignment of the curriculum as a consequence of this not keeping up with advancements in technology, leading to the risk of the curriculum not equipping learners with the skills needed to succeed in the workplace and the further risk of this impacting on recruitment. The committee considered that this should be explicitly recognised in the risk register. A placeholder would be added into the register at this stage pending deliberation by the GLT as to how to appropriately capture this in the register going forward.

7. BUSINESS CONTINUITY UPDATE

The committee received a report and the following was noted:

- Since the Business Continuity Plan was reviewed by the committee at its previous meetings, a firm of business continuity consultants has been engaged to review the plan. Informed by that review, a number of changes have been made to the plan and an action plan has been created to take forward the remaining actions. An update on the action plan will be provided at the committee’s next meeting; GD
- A successful half-day training session has been held for the Critical Incident Management Team. The learnings from this have also been incorporated into the plan.

The committee discussed the frequency of future reviews of the plan. It was noted that a report on the internal audit assignment on the plan will be presented to the committee, most likely at its June 2024 meeting. It was agreed that thereafter the committee will review the plan annually. The Director of Governance will add this to the committee’s schedule of business. GD

8. FINANCIAL REGULATIONS

The CFO presented the Financial Regulations, which are reviewed by the committee annually. The committee noted:

- A thorough review has been completed this year, following benchmarking against other colleges and to ensure that the regulations take account of known changes arising from the move of colleges to the public sector.
- Updates to the regulations include the addition of DfE approvals required in relation to acquisitions or disposals and write offs of bad debts or intercompany debts, as well as a tightening of processes in relation to procurement.
- Delegated authority levels have been increased in line with benchmarking against the sector and other colleges, with an increase from £150k to £200k in the CEO's delegated authority to authorise purchase orders and to sign contracts.
- The CFO also advised that the Financial Regulations will require to be updated further when the awaited DfE handbook for colleges is issued.

The Committee approved the revised Financial Regulations as presented.

9. DRAFT ANNUAL AUDIT COMMITTEE REPORT TO THE BOARD 2022/23

The committee received and reviewed a first draft of its annual report to the Board, prepared by the Director of Governance. The draft will be updated to incorporate matters covered at this meeting, including GD
the Audit Findings Report from MHA and the internal auditors' annual report. The Director of Governance will then circulate a final draft for feedback by members of the committee in time for this to go forward to the December Board meeting.

10. SCHEDULE OF BUSINESS

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

11. PAPERS IN SUPPORT OF THE BUSINESS CONTINUITY PLAN

The committee received for information the following items in support of the Business Continuity Plan (item 7):

- Report from Critical Incident Management Team Exercise – Tuesday 17th October 2023
- Updated Business Continuity Action Plan
- Business Continuity Checklists
- Seven Point Business Continuity Plan Health Check

12. FE & HE DIGEST: WINTER 2023

The committee received for information, a copy of MHA's FE & HE Digest Winter 2023 containing latest news from the Further and Higher Education sectors.

13. BOARD MINUTES

The committee received for information:

- Draft minutes of the Group Board meeting of 19th October 2023.

Dates of next meetings:
Wednesday 25th March 2024 at 5.00pm
Tuesday 18th June 2024 at 5.00pm