

Audit & Risk Committee

Minutes of the meeting held on 19 November 2020 at 10am via Microsoft Teams

Present: Paul Candelent, Paula Cole, Phil Lanigan (Chair) and Malcolm Sugden

In Attendance: Rob Cressey (Group Finance Director), Jennifer Foote MBE (Company Secretary & General Counsel), Alex Hire (RSM), Angela Hunter (MD Group Operations and Deputy CEO), Sam Loughney (PWC), Kate Mackenzie (Deputy Company Secretary and Solicitor), Sally Marchant (Group SHE and Risk Director), Lisa Randall (RSM) and Caroline Wilson (Senior Financial Accountant).

Rob Cressey asked the Committee to note that his brother in law was a Partner at RSM

Part A

29/20	<p>Part A Minutes of the meeting held on 17 June 2020</p> <p>The Part A Minutes of the meeting held on 17 June 2020 were approved as accurate to be signed by the Chair in electronic form.</p>
30/20	<p>Financial Statements and Regularity Audit 2019/20</p> <p>Consolidated Financial Statements 2018/19 The Committee received the draft consolidated Financial Statements for 2019/20 for scrutiny and review prior to their recommendation to the LTE Group Board. The two areas of additional narrative and disclosure for this year were highlighted. These related to the extra information about the impact of the Covid-19 pandemic and the new reporting requested by the Office for Students (linked to LTE Group's HE provision).</p> <p>The Group CFO reported on LTE Group's financial performance for 2019/20 which included confirmation of financial health grade 'Good'. The increased cash flow position compared to the previous financial year was highlighted as evidencing good trading. In respect of the balance sheet, reference was made to the review of the pensions deficit liability as detailed below.</p> <p>LTE Group Audit Findings Report The external auditors PwC confirmed their independence. PwC presented their Audit Findings Report including significant audit and accounting matters. The Committee discussed the risks in detail. It was confirmed that work in respect of Going Concern, LTE Group's impairment assessment in regards to the investment in Total People and finalisation of TP revenue testing were still to be completed alongside some additional regulatory work. The calculation in respect of materiality was delineated.</p> <p>In respect of management override of controls and revenue recognition it was confirmed that there were no significant matters. It was confirmed that the output of testing to date had confirmed that the revenue recognised was considered reasonable. In order to complete the work on this, work on clawbacks and testing of accrued income relevant to Total People was still in train with anticipated completion by the end of November.</p>

In respect of pension scheme assumptions and increase in pension liability PwC confirmed that they had received the actuarial report and completed their work over the assumptions and provided assurance that they all fell within an acceptable range. The overall conclusion was that the assumptions were reasonable and therefore that the pension obligations were also materially reasonable.

PwC provided their view in relation to the key accounting judgements that had been applied by management in the preparation of the financial statements including the investment in Total People.

The meeting focus moved to Going Concern considerations. Due to the short to medium term uncertainty as a result of the pandemic on the financial operation of the Group (relevant to all businesses in the current climate) together with the significant in-year financial commitments of the estates strategy, then significant focus on this element of work was still ongoing before any confirmation of the organisation as a Going Concern for the next year. The ongoing work related to one key judgement relating to the consideration of the appropriateness of inclusion of the proceeds of non-committed property disposals within the forecasts.

The CFO provided assurance of the robustness of the audit, rationale for the assumption of receipts, downsides and the deemed appropriate methodology for the modelling of disposal sensitivities in this context. The Committee sought clarification on the expected quantum of receipts and timeline of current disposals in the pipeline and this was confirmed. The underlying work and confirmation of sensitivity testing was ongoing. The next steps in this process and the evidence base required before the financial statements could be signed by the external auditors on a Going Concern basis was shared together with an indicative timetable for a conclusion to be reached. The Group CFO confirmed that a robust cashflow had been provided to 2021 and this was what was being tested.

It was agreed that, in light of the challenges presented by Covid-19 and other movements in the economy, once the position in regards to Going Concern had been concluded then a paper would be circulated to the Committee detailing the underlying assumptions and sensitivities that had been adopted (and including a timeline) in order to ensure that members had the opportunity to review as part of their remit.

Malcolm Sugden joined the meeting

In respect of uncorrected adjustments and internal control recommendations it was confirmed that there was nothing of material significance identified.

RESOLVED that, subject to the receipt of the additional information on relevant for the conclusion of the opinion on Going Concern by members, the Committee note

1. its assurance in respect of the scrutiny of the draft Financial Statements and Regularity Audit prior to their consideration by the LTE Group Board;
2. the expectation of PwC to sign the Financial Statements as a Going Concern to be dependent on the outcome of ongoing sensitivity work in respect of cash flow for the statutory corporation over the next twelve months including sensitivity modelling and assumption testing in regards to property disposal receipts.

Sam Loughney left the meeting

31/20	<p>Audit and Risk Committee Annual Report</p> <p>The Audit & Risk Committee considered its Annual Report. The report covered the work of the Committee throughout the year.</p> <p>RESOLVED that the Annual Report be recommended to the Group Board for approval.</p>
32/20	<p>Internal Audit Reports (RSM)</p> <p>Subcontracting Controls(The Manchester College) The Committee received a report on Subcontracting Controls in respect of ESFA Contract as mandated by the ESFA. The agreed management actions were shared and the implementation dates with an update provided in respect of actions completed.</p> <p>Subcontracting Controls (Total People) The Committee also received a report on Subcontracting Controls for Total People in respect of the ESFA Contract as mandated by the ESFA. The agreed management actions were shared and the implementation dates. The Committee sought assurance in regards to the completion of October actions.</p> <p>The Committee reflected on the higher volume of management actions that had emanated from this audit for Total People and probed whether this was indicative of any challenges within Total People processes. The volume of contractors compared to just one in the College was cited as relevant here. The Committee firmly requested that all actions be implemented in timely manner.</p> <p>Cyber Security Controls- Secure Remote Access The Committee received the report on LTE Group’s cyber security and remote working control framework. This work had been undertaken in response to the COVID-19 pandemic, to assess how LTE Group’s management had implemented the technical controls and processes to enable remote working. The Committee was assured that some areas of good practice had been identified within the information security control framework and these were shared. A number of issues existed and the further management actions, together with implementation dates, to deal with issues identified were detailed which included a total of one ‘High’, seven ‘Medium’, and three ‘Low’ management actions were shared . Partial assurance was provided.</p> <p>The Committee expressed concern with the number of recommendations and queried whether the issue was one of resource, capacity or skills. Moreover given the enhanced reliance on IT capacity at present and with this position likely to endure, the Committee challenged whether the implementation target dates set were early enough. This concern was echoed by management and assurance was provided that the key issues at present were resource, capacity and budget and the work in train to identify and redeploy effective resource in these areas was provided.</p> <p>Risk Management Framework Advisory Review The Committee received the risk management advisory review report. The Committee understood that the scope of the review had been designed to support the work already undertaken by the Group to establish a risk management framework, in order to identify areas where risk management processes could be further strengthened and aligned across the Group. Whilst no formal assurance opinion was provided as part of this review, the Committee was informed that established processes were in place for the identification and assessment of risk, and for the reporting of risk information to the Executive Team and Board.</p>

	<p>This included the updating the Group Corporate Risk Register and Business Unit Risk Registers.</p> <p>It was recognised that a significant amount of work had been undertaken by the management team to strengthen the Group's risk management framework despite the disruptions caused by the Covid-19 pandemic and the impact on resource. Whilst work was required to fully integrate and embed consistent risk management processes across the Group it was considered that the Group Risk Forum was a key element that should support the alignment of risk processes across business areas. The management actions were shared which were designed to assist with ensuring that the Group's approach to risk management was further enhanced and supported. The Committee confirmed its assurance in regards to the work to date in respect of risk and noted that a key focus moving forwards related to Risk Appetite and Tolerance. The need to accelerate this activity in light of the Covid 19 pandemic was cited, and it was flagged that RSM would be supporting with some consultancy work to develop the risk appetite and tolerance framework.</p>
<p>33/20</p>	<p><i>Internal Audit Progress Report 2019/20 and 20/21</i></p> <p>The Committee received and discussed the Internal Audit Progress report for 2019/20 and noted that the themes that had emanated from control observations related to the design of policies and procedures. In respect of the 2020-21 audit plan progress was shared and the Committee noted that the plan was on track save for three changes to scheduled reviews which had arisen since the last meeting. The revised timetable was endorsed.</p>
<p>34/20</p>	<p><i>Progress Against Internal Audit Recommendations</i></p> <p>The Senior Financial Accountant presented the Internal Audit Progress Report. Since the report in June 2020 there were fourteen outstanding actions with eight actions having been implemented and three superseded. The Committee was informed that there was one 'high' level action, six 'medium' level actions, three 'low' level actions and four 'advisory' actions. An update was provided on the progress of the outstanding actions and it was confirmed that a number of actions had been impeded due to the impact of Covid-19. The one 'high' level action and six 'medium' level actions all had deadlines extended in part due to Covid-19 with three of the medium actions paused until after Covid-19. However two of these actions were now considered to be partially implemented. It was confirmed that the follow up review in respect of the Total People actions was scheduled for January 2021.</p>
<p>35/20</p>	<p><i>Gifts and Hospitality Report 2019-20</i></p> <p>The Group Finance Director presented the Gifts and Hospitality Annual Report for 2019-20 and details of six individual declarations were provided. Whilst the Committee was informed that there were fewer declarations for the year due to the impact of Covid-19 the Committee probed what assurance they could take that this list was complete. Whilst assurance was provided that a significant proportion of nil returns had also been received it was agreed that in these unprecedented times staff should be reminded that the period of declaration covered the months predating Covid-19 to allow for validation of the information before the final report was presented to Group Board.</p>

36/20	Total People Exit Plan With reference to Minute No 24/20 refers, the Exit Plan produced by Total People as a requirement of ESFA funding and as approved by the Total People Board was tested for assurance purposes prior to its submission to the ESFA.
	RESOLVED that as the items to be considered are deemed confidential, the Committee move into confidential session.
	----- Chair ----- Date