

## Audit & Risk Committee

Minutes of the meeting held on 29 November 2018 at 10am in Room OP116/117

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

Apology: Malcolm Sugden

In Attendance: Rob Cressey (Group Finance Director), Jennifer Foote MBE (Company Secretary and General Counsel), Elizabeth Fitzgerald (Divisional Finance Director)), Rebecca Gissing and Kim Lyall (PwC), Kate Mackenzie (Deputy Company Secretary and Solicitor), Lisa Randall (RSM), Paul Taylor (COO) and Caroline Wilson (Senior Financial Accountant).

Andrea Holms (DPO) for item 31/18.

### Part A

<b>24/18</b>	<b>Pre Agenda Review</b>  Prior to the start of the formal business, committee members met with representatives of both the internal and external auditors. The external auditors (PwC) reported that the audit had proceeded smoothly with good engagement from the finance team. It was confirmed that no significant issues had been identified which needed to be brought to the attention of the Committee in this forum. Staff and management joined the meeting.
<b>25/18</b>	<b>Part A Minutes of the meeting held on 23 May 2018</b>  The Part A Minutes of the meeting held on 23 May 2018 were approved as a correct record.  <i>Paula Cole joined the meeting</i>
<b>26/18</b>	<b>Internal Audit Reports</b>  <b>Cyber Security</b> The committee received the report on cyber security which concluded that the Group had adequate controls in place. The further management actions to enhance the control framework were shared. The committee sought clarification in respect of the process around ensuring the timely blocking of access for leavers. The policy in respect of USB sticks and the differentiation between colleagues and learners was also discussed with the significant impact on learners should they be prevented from utilising the same.  <b>Subcontracting Controls</b> The Committee received a report on Subcontracting Controls in respect of ESFA Contract as mandated by the ESFA. The Committee was reminded that this contract was no longer in existence. Novus and TP were both also not in scope and therefore whilst the actions would no longer be of relevance to TMC they could be embedded into wider Group practices. The recommendations were shared and in response to a query from the committee it was confirmed that the volume of recommendations was not due to materiality but due to the size and scale of the organisation.

	<p><b>Internal Audit Follow Up Report 2017/18</b>  The committee received and discussed the Internal Audit Follow Up Report for 2017/18. The committee noted the revised implementation dates in respect of certain management actions and sought and received assurance that the actions would be completed in line with the revised timeline.</p> <p><b>Internal Audit Report 2017/18</b>  The committee received the year end Audit Report for 2017-18. The committee received assurance that an adequate and effective framework for risk management, governance and internal control was in place. Some areas for further improvements to the framework had also been identified. In response to a query from the committee it was confirmed that the Group fell within the upper quartile in respect of size and scale. The committee also sought and received assurance that a process for following up internally on management actions was in place.</p> <p><b>Internal Audit Plan 2018/19</b>  The committee received and discussed the Internal Audit Plan for 2018-19. Assurance was provided that scoping had taken place and the plan to be delivered was considered. The revised timeline was due to the need to ensure that resources could be properly deployed for a well organised audit. This was in light of the potential for resource pinch point due to the high priority and simultaneous work that was being carried out in Novus and the TMC.</p> <p><b>2018/19 Internal Audit Progress Report</b>  The Divisional Finance Director presented the Internal Audit Progress Report. It was reported that since the last report 12 out of the 14 actions had been implemented. The two "High" level actions in respect of Health and Safety Training Processes were flagged and the progress against these was outlined. A discussion in respect of KPI's for training followed with the committee's steer given that whilst the overall KPI in respect of training needed to be 100%, so as not to skew the figures for the purposes of interim reporting the measure should allow for a window of time for colleagues to complete whether as a new starter or for refresher training. In response to a committee query it was confirmed that information security and GDPR were also included in the suite of Group training. Two actions in respect of VLE were confirmed as having their deadline extended to feed into the new Digital Strategy Policy that was awaited and was in train with expectation of completion in January. The Internal Audit Progress report from the internal auditors was also received for assurance against plan.</p>
27/18	<p><b>Regularity Audit and Annual Financial Statements 2017-18</b></p> <p><b>LTE Group Audit Findings Report</b>  The external auditors confirmed their independence. The external auditors presented their Audit Findings Report including significant audit and accounting matters. The Committee discussed the risks in detail.</p> <p>In respect of the risks around fraud and management override of controls and also revenue recognition it was confirmed that there were no significant matters.</p> <p>In respect of the risk on medium term financial sustainability initial work had been undertaken with updated work in respect of PEF awaited. The Group FD reassured the committee of the sensitivities that had been worked through and had been received by Board in respect of PEF and the land purchase and more detail in respect of this could be shared. The external auditors confirmed that testing of these sensitivities would be undertaken by them.</p>

	<p>In respect of estates and campus developments the focus of the auditors work was detailed and assurance was given to the committee of the conclusions reached by the Group. A discussion focused in on the assumptions around pension liabilities. The auditors confirmed that the resulting liability fell within their expected range when reviewing the assumptions in totality with the specific outcome on each assumption as detailed in the paper. The challenge in ascertaining the specific information required by the auditors from Tameside Council (which administered the LGPS scheme on behalf of Greater Manchester) in order to satisfy the audit procedures was shared and the work is in train in this regard.</p> <p>The impact of the 2017 FRS 102 triennial review on the treatment of surplus from Novus Cambria (NC) to its parent organisations was highlighted and the committee was informed that this had been reflected and amended in the NC financial statements. A discussion continued as to the treatment of this in the final LTE Group statements. The accounting for the charitable donation paid by TP was also being reviewed in line with the latest guidance.</p> <p>In respect of Internal Controls the timely removal of leavers from the payroll system was highlighted. Whilst improvement had been seen this still required dedicated focus. The COO provided an update in respect of the work that had been carried out to try and address this issue. The issue was largely one of compliance and a compliance dashboard had been created for this and other Group issues. The committee requested sight of the compliance dashboard at the next meeting together with the trend of overpayments over an 18 month period.</p> <p>In respect of misstatements and any significant audit adjustments the auditors confirmed that they were continuing to challenge management in respect of the treatment of prepaid marketing expenses as to whether these should sit on the balance sheet or sit as expenses. Management explained what the amounts comprised and why they felt the accounting treatment was appropriate.</p> <p>Other than as stated above there were no major concerns and all basic audit controls were in place demonstrating good practice across the board.</p> <p><b>Consolidated Financial Statements 2017-18</b></p> <p>The Committee received the draft consolidated Financial Statements for 2017-18 for scrutiny and review prior to their recommendation to the Board. The Group Finance Director reported on LTE Group’s financial performance for 2017-18 which included confirmation of financial health grade ‘Good’. Discussion took place on whether showing the NC figures in the accounts as a restatement was the most appropriate accounting treatment and this would be considered further by management and the auditors outside of the meeting.</p> <p><b>RESOLVED</b> that, the Committee note its assurance in respect of the scrutiny of the draft Financial Statements and Regularity Audit prior to their consideration by the LTE Group Board .</p>
28/18	<p><b>Gifts and Hospitality Report</b></p> <p>The Group Finance Director presented the Gifts and Hospitality Annual Report and details of twenty individual declarations were provided.</p>
29/18	<p><b>Audit &amp; Risk Committee Annual Report</b></p> <p>The Company Secretary and General Counsel presented the Audit &amp; Risk Committee Annual Report. The report covered the work of the Committee throughout the year and would be submitted to the LTE Group Board.</p>

	<b>RESOLVED</b> that the Annual Report (submitted as an appendix to these minutes) be recommended to the Group Board for approval.
<b>30/18</b>	<b>PFA Audit (TPL ESFA)</b>  A verbal update was provided to the committee in respect of the TPL ESFA PFA Audit. It was confirmed that the full report had not yet been received and would be reported to the next meeting. It was anticipated that there may be some qualifications on the new contract with the expectation of some clawback.
<b>31/18</b>	<b>GDPR Implementation Update</b>  The DPO provided the committee with an update in respect of GDPR implementation and compliance The progress since the last meeting was shared including her appointment as the new DPO as of 1 August 2018. Evidence was provided to assure the committee of the Group's commitment to GDPR compliance.
	<b>RESOLVED</b> that as the items to be considered are deemed confidential, the Committee move into confidential session.
	----- <b>Chair</b>  ----- <b>Date</b>

The meeting closed at 12:40pm

## **LTE Group Audit & Risk Committee Annual Report 2017/18**

### **Introduction**

It is a requirement of the Post 16 Audit Code of Practice for the Audit & Risk Committee to produce an annual report for the corporation summarising its activities for the year to the date of the report and giving an opinion of the assurance frameworks in place. In doing so the Committee is mindful of the requirements of governors as trustees under general charity law and of the standards of good practice as set out in the Code of Good Governance for English Colleges.

For the purpose of this report the period covered is August 2017 to November 2018.

### **Membership & Meeting Attendance**

The membership and meeting attendance for 17/18 is set out below.

	22/11/2017	9/03/2018	23/05/2018
Paul Candelent	X	✓	✓
Paula Cole	✓	✓	X
Phil Lanigan	✓	✓	✓
Malcolm Sugden	✓	✓	✓

### **2017-18**

Philip Lanigan continued his appointment as the Chair of the Audit & Risk Committee. Malcolm Sugden also continued as a member of the Committee supported by co-optees Paula Cole and Paul Candelent.

In addition the Remuneration Committee requires one of its three members to be the Chair of the Audit & Risk Committee ex officio.

### **Terms of Reference & Governance Framework**

The Committee's Terms of Reference are unchanged following the review of its constitution by the Group Board in 2017. They remain consistent with the requirements of the Post 16 Audit Code of Practice and reflect the standards as set out in section 6 of the Code of Good Governance for English Colleges. Members of the Audit & Risk Committee have the opportunity, via a pre-meeting agenda review, to discuss any issues with both Internal and external Auditors before representatives of the group's management arrive.

### **Strategic Risk Management**

Further to a comprehensive review of LTE Group's ("the Group") strategic risk framework, a revised risk framework has been implemented from January 2017 to provide oversight and assurance at both an operational and strategic level. A new risk register format has been introduced, which may be adapted to the needs of the individual business units. Risk is reviewed at both QBR and Divisional Board level with oversight of significant risks undertaken by the Audit & Risk Committee and the Group Board. The Executive Management team also discuss and maintain oversight of all key risks.

The revised governance framework reflects the Group's operating divisions and responsibility for the oversight of finance, performance, quality and risk (including Health &

Safety) now rests with the Divisional Boards. This allows the Audit & Risk Committee to maintain oversight of strategic risks at Group level.

### **Internal Audit**

The Internal Audit Services for the year were undertaken by RSM Risk Assurance Services LLP ("RSM"). The Committee considered and recommended the approval of the Internal Audit Strategy for 2017/18 to the Group Board. As set out in that strategy, the following audits were undertaken during the year:

- Sub-contracting controls
- IT Cyber Security
- Health & Safety Framework Arrangements

Details of the recommendations of these reports are contained in the IAS Annual Report.

A follow up report on outstanding internal audit actions is submitted to each Audit & Risk Committee and the progress against these is closely and effectively monitored. In this way the Audit & Risk Committee is able to ensure that any significant risk is escalated to the Group Board.

### **External and Regularity Audit**

In March 2017 the Group Board appointed PricewaterhouseCoopers as external auditor for a period of three years (with an option to extend for a further two years in twelve month extensions).

The External and Regularity Audit Services for 2017/18 were undertaken by PricewaterhouseCoopers. An unqualified opinion on the College's Financial Statements for the year ended 31 July 2018 together with positive assurance following the Regularity Audit for 2017/18 is anticipated.

### **PFA Audits**

Three Provider Financial Audits have been carried out by the ESFA during the year. These were a) 2017/18 Funding Assurance Review and b) ESF Match Funding Assurance Review (for both LTE Group and Total People Ltd).

### **GDPR**

The implementation of GDPR throughout the Group was undertaken with the professional advice of PwC and Mills & Reeve. On 1 August the Group Data Protection Officer took up post. Overall responsibility for GDPR compliance rests with the Group Board with oversight and management delegated to the Audit & Risk Committee.

### **Public Interest Disclosures**

During the year 2017/18, two disclosures have been reported under LTE Group's Public Interest Disclosure (Whistleblowing) Policy in November 2017 and August 2018. The matters have been investigated in line with group procedure, the Chair of Governors and Chair of the Audit & Risk Committee were notified and the outcome of the investigations reported to the Novus Divisional Board and Group Board.

### **Financial Regulations**

Group Financial Regulations were reviewed during the year and adopted in July 2018.

## **Health & Safety**

The Committee has been made aware of the increase in health & safety incidents in the prison estate. A working group between Novus and HMPPS was formed to develop an enhanced safety framework for staff working in the prison environment. Through the year the Committee retained a significant focus of health & safety across the group, with this being a standing item on every agenda. Details have been received on the work towards achieving OHSAS 18001 accreditation.

## **Banking and Insurance**

The Committee has considered the need to re-tender for banking services in March 2018 and decided that, due to the need to ensure a consistent relationship with stakeholder banks during the estates strategy, the current relationship with NatWest/RBS would be extended until July 2019. A review of bank mandates was undertaken in March 2018 and updates made as necessary to ensure an appropriate degree of probity was maintained.

The Committee has also considered the need to re-tender for insurance services. This was undertaken in March 2018 and AON was re-appointed as the provider of group insurance.

## **Efficient and Effective Use of Resources**

Business units, subsidiaries and trading divisions are required to submit a three year plan which is approved by the Group Board. These plans are then expected to be delivered, ensuring that group resources are used for the purpose intended and agreed as a prior strategic priority by the Group Board. Monitoring of performance against these plans is undertaken internally at QBR, by the relevant Divisional Boards and escalated to LTE Group Board if required.

The Group Board has established an Investment and Estates Advisory Group to review all significant investment decisions. Reviewing investment considerations in this way by an independent and nimble group of both governors and co-optees allows for a clear, objective oversight of items requiring significant expenditure of college resources. The Board will thus be able to ensure the effective consolidation of its significant investment in resource (including the estates strategy) with the utmost transparency and probity. The Audit & Risk Committee provides a further degree of oversight of the process through its normal course of business.

Management Accounts are submitted regularly to the Divisional Boards and the Group Board together with a commentary from the Group Finance Director. A surplus has been maintained together with a "good" financial health rating from the ESFA.

## **Committee Self-Assessment**

The Committee has considered that it has undertaken its role effectively throughout the year. No issues were highlighted as part of the governor self-assessment report undertaken in August 2018.

## **Opinion**

Having considered all of the above, the Committee is of the opinion that adequate and effective assurance arrangements are in place and that the framework of governance, risk management and control processes allow for the effective and efficient use of resources, maintain the solvency of the institution and ensures the safeguarding of its assets.