

Audit & Risk Committee

Minutes of the meeting held on 18 November 2019 at 10am in Room OP116/117

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

In Attendance: Rob Cressey (Group Finance Director), Rebecca Gissing (PwC), Kate Mackenzie (Deputy Company Secretary and Solicitor), Simon Newall (Head of SHE), Alex Hire (RSM), Paul Taylor (COO) and Caroline Wilson (Senior Financial Accountant).
Andrea Holms (Data Protection Officer) for item 32/19

Apology: Jennifer Foote MBE (Company Secretary & General Counsel).

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

Part A

23/19	Part A Minutes of the meeting held on 18 June 2019 The Part A Minutes of the meeting held on 18 June 2019 were approved as a correct record.
24/19	Audit and Risk Committee Annual Report The Audit & Risk Committee considered its Annual Report. The report covered the work of the Committee throughout the year. RESOLVED that the Annual Report (submitted as an appendix to these minutes) be recommended to the Group Board for approval.
25/19	Regularity Audit and Annual Financial Statements 2018/19 LTE Group Audit Findings Report 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. It was confirmed that work in respect of Going Concern and Pensions were areas to complete. The calculation in respect of materiality was delineated. In respect of the risks around fraud and management override of controls it was confirmed that there were no significant matters. In respect of revenue recognition it was confirmed that the output of testing to date confirmed that the revenue recognised was considered reasonable. In order to complete the work on this the final clawbacks in regards to the agency returns were to be agreed with anticipation that this would be concluded at the end of November. In respect of the risk on medium term financial sustainability and the ability to confirm the organisation as a Going Concern for the next year, it was confirmed that this would be predicated on a full understanding of borrowing requirements and commitments and impact of the estates strategy for the period concerned. The work still to be completed was shared. This needed to be obtained before the financial statements could be signed by the external auditors on a Going Concern basis.

The Group Finance Director provided an overview of the funding position with Santander and the connected timeline for completion. The internal financial model was completed in conjunction with RSM and would be sent to KPMG shortly. The dependencies and interconnectivities in respect of the funding models timeline and draw down were explained.

The committee sought assurance that the remaining issues to agree would not result in the late submission of the Financial Statements to the ESFA, It was explained that the intent remained to submit the Financial Statements in line with regulatory requirements.

The chair requested that the timetable in respect of the current funding piece be circulated to the Committee by 22 November in order to ensure that members had had the opportunity to review the process as part of their remit.

A discussion took place on the assumptions around pension liabilities. The expectation currently was predicated on a significant increase in the pension liability together with associated adjustment. The Committee noted that this issue of valuation had arisen last year. It was confirmed that an interim report was not requested this year due to the Brexit timetable. Consideration was given to reinstating the interim valuation cycle and also the Committee sought assurance that banking agreements recognised this issue.

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

In respect of internal controls it was confirmed that there was nothing of material significance. The Committee sought PwC/s opinion in respect of controls compared to last year. PwC confirmed that there had been improvement, with more transparency for the finance team in the organisation, including subsidiaries.

Consolidated Financial Statements 2018/19

The Committee received the draft consolidated Financial Statements for 2018/19 for scrutiny and review prior to their recommendation to the Board. The Group Finance Director reported on LTE Group's financial performance for 2018/19 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 previously detailed above.

RESOLVED that 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 assurance received by them in respect of cash flow for the statutory corporation over the next twelve months, including any change in funding facilities.

26/19	<p>Review with Auditors</p> <p>Committee members met with representatives of both the internal and external auditors. PwC reported that the audit had proceeded with good engagement from the finance team. It was confirmed that there were no significant issues that had been identified which needed to be brought to the attention of the Committee.</p> <p><i>Rebecca Gissing left the meeting .</i></p>
27/19	<p>Internal Audit Reports</p> <p>Internal Follow Up Report: Part 1 and 2</p> <p>The Committee received and discussed the Internal Audit Follow Up Reports for 2018/19. The Committee noted the revised implementation dates in respect of management actions and received assurance that the actions would be completed in line with the revised timeline.</p> <p>Subcontracting Controls</p> <p>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>
28/19	<p>Internal Audit Annual Report 2018/19</p> <p>The committee received the year end Audit Report for 2018/19. The Committee received assurance that an adequate and effective framework for risk management, governance and internal control was in place. Some areas for further enhancements to the framework had also been identified to ensure that it remained adequate and effective.</p>
29/19	<p>Internal Audit Plan 2019/20</p> <p>The Committee received and discussed the Internal Audit Plan for 2019/20. Discussion centred on the strategic review approach and framework. In place across the Group for disaster recovery and business continuity planning. In light of the Head of SHE leaving it was suggested that a revised date of June 2020 be more appropriate to get better value from RSM input. The Committee tested the plans in place to date and the current position was shared with the view that this was focused on drawing together a more comprehensive plan. The June date was agreed.</p> <p>The timing of the ESFA Oversight Plan was discussed and agreed. In respect of operational compliance in was agreed that health and safety would be reviewed first. The committee received the table showing the audit coverage to be provided by RSM and agreed that it reflected all relevant risks.</p>
30/19	<p>Progress Against Internal Audit Recommendations</p> <p>The Senior Financial Accountant presented the Internal Audit Progress Report. Since the report in June 2019 there were thirteen outstanding actions with ten actions having been implemented. The committee was informed that there were no 'high' level actions , three 'medium' level actions , five 'low' level actions and five 'advisory' actions.</p>

	<p>The three medium actions all had deadlines extended but were all now considered to be partially implemented. One of these related to VLE and was being driven by the new Digital Strategy process and one related to the assessment of the COSH inventory. The final one related to the updated risk management policy manual. The committee queried the timeline in respect of the Digital Strategy. The expectation of sign off was confirmed to be end of December.</p>
<p>31/19</p>	<p>Gifts and Hospitality Report</p> <p>The Group Finance Director presented the Gifts and Hospitality Annual Report and details of nine individual declarations available to date were provided.</p>
<p>32/18</p>	<p>Annual Data Protection Report</p> <p>The Data Protection Officer presented the data protection report to the Committee covering the period May 2018- November 2019. The report provided data in respect of the following:</p> <ul style="list-style-type: none"> • Accountability Principle compliance • Personal Data Breaches • Categorisation and volume of data subject rights requests. • Freedom of information and environmental information regulation requests • Data protection complaints <p>In respect of accountability the committee noted that full compliance had been met. No further update in respect of accountability was required as part of the annual reporting cycle. The Committee sought clarification in respect of the three data breaches that had been reported to the ICO. The Committee was reassured to note that these were all quickly closed with confirmation having been received from the ICO that they had been satisfied that LTE Group had taken appropriate and satisfactory steps to resolve and mitigate future risk. No actions had been issued by the ICO.</p>
	<p>RESOLVED that as the items to be considered are deemed confidential, the Committee move into confidential session.</p>
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