



THE CORPORATION OF WALTHAM FOREST COLLEGE

AUDIT COMMITTEE

MINUTES OF THE MEETING HELD ON 12 JULY 2021

MEMBERS OF THE COMMITTEE

Renatta Nzomono (Chair)	present	Member
Michael Eichhorn	present	Member
Jacqueline Young	apologies	Member

CLERK TO THE COMMITTEE

Naomi Shoffman	present	Director of Governance (DoG)
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IN ATTENDANCE

Janet Gardner	present	Principal & Chief Executive
Abena Rodman-Tay	present	Interim Deputy Principal Corporate Resources (IDPCR)
Nadeem Khalifa	present	Director of BIP (DoBIP) (Item 1499-1504 only)
Stephen Pringle (SP)	present	Wylie Bisset(WB)
Stuart McKay (SMK)	present	McIntyre Hudson (MH)

1499 ATTENDANCE OF THE PRINCIPAL AND OTHER COLLEGE MANAGERS AT THE MEETING OF THE AUDIT COMMITTEE

The Committee agreed that the Principal, and the INTERIM DEPUTY PRINCIPAL CORPORATE RESOURCES (IDPCR), and the Director of BIP (DoBIP), be invited to attend the meeting. The Chair asked all to introduce themselves.

1500 APOLOGIES FOR ABSENCE

Apologies for absence were received from Jacqueline Young due to illness.

1501 DECLARATION OF INTERESTS

There were no issues included on the agenda for the meeting in which they had a personal interest relative to the College.

1502 MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 15 MARCH 2021

The Minutes of the Audit Committee meeting held on 15 March 2021 were approved by the Audit Committee as a correct record.

1503 MATTERS ARISING

Minute 1494

Fixed Assets - SP confirmed that the UPEX register was checked and it was all in order

Safeguarding - SP said he had checked whether the enterprise wide use of MS teams is suitable from a safeguarding point of view and was satisfied that there are no issues with security; only the teacher can control access to meetings and students can only view what is presented by the teacher and cannot message each other.

1504 INTERNAL AUDIT REPORTS 2020/21

The Audit Committee was asked to receive and consider two internal audit reports.

Subcontracting - SP highlighted the following:

- The ESFA requires the College to obtain an annual report from an external auditor as their Adult Education Budget (AEB) and Apprenticeship funding contracts with subcontractors exceed £100,000. For 2020/21 a copy of the report needs to be sent to the ESFA.
- The purpose of this review was to ensure that the College has appropriate subcontracting arrangements in place to ensure that this was in line with ESFA and GLA Guidance and that these have been embedded throughout the whole College. The review also sought to provide assurance to the Corporation Board that:
 - Arrangements to manage and control delivery subcontractors are adequate; and
 - The College complies with guidance issued by ESFA that relates to subcontracting.
- The audit work considered the end-to-end subcontracting process and subcontracting requirements set out in Waltham Forest College's funding agreement and the funding rules for 2020/21.
- The audit process of reviewing the subcontracting controls in place took the form of:
 - reviewing the systems operated by the College;
 - appropriate walkthrough and compliance checks for the relevant areas;
 - discussion with relevant staff; and
 - sample testing where appropriate.
- The report confirms that the College has appropriate subcontracting arrangements in place that have been embedded throughout the whole College. It also confirms that the arrangements in place within the College to manage and control delivery subcontractors are adequate. During the review of the 16-19, AEB and Apprenticeship subcontracted provision areas were identified where the College were not fully compliant with the guidance, this primarily surrounding the following aspects:
 - Subcontracting Agreements – the funding guidance had changed several times and the contracts did not reflect the latest change ; and
 - Information was up to date and available on the internal intranet but had not been published on the public facing website .
- Accordingly two medium grade and two low grade recommendations have been made which management have agreed with.
- From the review of the three low grade recommendations raised in 2019/20, 1 raised was not implemented and the remaining 2 were partially implemented.
- The certificate in respect of the 2020/21 subcontracting controls at the College, which is included within the report, is unqualified.
- The auditors advised that overall the progress the college had made was very good, and had not allowed the impact of covid to affect progress

The Chair thanked SP for the Positive unqualified report and said she would like to understand the reason for the delay in the recommendations being implemented. The DoBIP said that the guidance is regularly updated and changes every 2/3 months, which is why some are partially implemented as it is a challenge to keep up with the changes.

The team is now looking to review the arrangements every quarter as we also need to meet GLA requirements and plan to pick up any changes throughout the year. The IDPCR advised that all internal audit recommendations come to SLT and are flagged up so this will be added and monitored. The Chair asked whether this will all be implemented by the due dates. The DoPIP said that because they are contractual all arrangement will be updated before the next contracts go out. The Principal explained that previously different areas worked in different silos, but this has now been brought in under one report to SLT for oversight and monitoring

SMK-observed that there are a couple of places where it highlights that the college is not documenting the rationale for subcontracting, and as the external auditor he would want some comfort that there is a rationale for it. The Principal advised that the rationale for it goes to Corporation at the start of the year with full details of the subcontracting plan and how this links to the strategic priorities of the curriculum plan and then is monitored at various points in the year and is based on curriculum intent and changing needs. The DoBIP said that the rationale is also explained on the website

Follow up - SP highlighted the following:

- The purpose of the review was to assess whether the College has appropriately implemented the internal audit recommendations made in 2019/20 and earlier years. The review considered whether any issues are outstanding beyond the agreed implementation deadline.
- The review also considered all outstanding recommendations to provide the Board, via the Audit Committee, with independent assurance that the IAS is satisfied that these recommendations have been fully implemented by the College and can therefore be removed from the audit action plan.
- This assignment is part of the agreed 2020/21 Annual Internal Audit Plan for the College.
- The report provides the College with a substantial level of assurance surrounding the implementation for recommendations raised in 2019/20 and previous years. Of the 27 recommendations 2 have not been Implemented, 2 have been Partially Implemented, 5 have been Superseded and 18 have been Fully Implemented. The majority are low grade recommendations.
- Overall this is a positive review.

A Governor asked how the auditor looks at due diligence – SP said that the college has due diligence guidelines which comply with the FE sector albeit is not as detailed as in the financial services sector. The key thing is that the recommendations are moving forward, and the college is at a good and strong point for next year with a culture where the actions are being addressed.

A Governor asked how does the college compare to other colleges? SP said this is a very positive report. Some other colleges have been using Covid as an excuse for not implementing recommendations although this is not necessarily comparing like for like as it depends on which areas are being reviewed. So, the starting point for next year is very small which is good.

The Committee thanked for the senior team for pushing forward on this despite the challenges of Covid.

The DoBIP withdrew from the meeting

1505 INTERNAL AUDIT NEEDS ASSESSMENT

SP advised that he had met with the IDPCR and the Principal to look at the audit areas and agreed that process for preparing the plan. He invited feedback from the Committee.

The Chair said she was concerned that risk management is not reviewed annually. SP said that as part of the SLT and Governors Reporting review they will use the board assurance framework to look at what reporting is in place, one of them being risk. The Chair said it would be helpful to see some standards in the sector so we have a target to work towards then we can tailor the audit to it.

The Committee agreed that the rest of the plan was logical and were happy to move forward with what has been suggested. It was agreed that the Committee will be asked to agree the scoping of reviews before they are finalised.

SMK observed that a learner numbers review has not been carried out for 3 years and that reliance should not be placed on the Year end audit of learner numbers as this is very different. The Chair asked for and SMK explained the difference between the audits but essentially they will adopt a check list approach to see what is being done by the college throughout the year and will not be drilling down so they will not be able to give assurance that if the college has a funding audit it will have a clean review.

The Principal suggested that we should look at planning this in, given that the level for threshold for clawback is expected to go back to 97% next year and also the apprenticeship funding agreement is very complicated

The IDPCR agreed this should be planned for and explained that this wasn't included as the funding audit had just been done and in line with best practice it depends on what is found, so if the review is clean it is not necessary to do it again so soon unless something has changed.

It was agreed to include a learner numbers audit in the Plan for 2022/23. A Governor asked whether we could do a self-assessment in between. The Principal said that she is looking at doing that from an Ofsted point of view especially with Apprenticeships being a hot topic.

The Committee agreed to recommend approval of the plan to the Board subject to the changes discussed being included in the 2022-23 plan.

1506 FINANCIAL STATEMENTS AUDIT STRATEGY

SMK introduced the Financial statements audit strategy and highlighted the following:

- This year there are three revised Auditing Standards 540, 570 and 700 apply in relation to accounting estimates, going concern and fraud.
- The AEB achievement is currently tracking at 90-92% which is close to the 90% threshold set by the GLA. However, the College have been prudent in making a provision for a 5% clawback amounting to £402k and also submitting a business case for a softer approach.
- There is further consideration this year in light of the recent changes released in the Audit Code of Practice (ACoP) for 2020/21, this has clarified the assurance required over the entitlement of the ESFA income based on the data recorded within the MIS systems, therefore the external audit will document systems and controls in this area this year as well as conduct analytical review and review of internal audit reports in this area to gain assurance.
- Under International Standard on Auditing (UK and Ireland) 260 the auditors should inform those charged with Governance of the following matters in relation to audit planning:
 - Any issues that may bear on the auditors' independence and the integrity and objectivity of the audit engagement Partner and staff;
 - The principal ways in which the risks of material misstatement will be addressed;
 - The concept of materiality and its application to the audit approach;
 - The audit approach to the assessment and reliance on internal controls;
 - The extent to which reliance will be placed on internal audit.
- At the planning stage, it is anticipated that there will be an overall financial statements materiality of 1% of income based on the 2021 projected outturn.
- All misstatements found in excess of 5% of materiality will be reported
- Misstatements below this threshold will be reported if they are deemed to be material by nature.
- The audit approach will be risk based, the key risk areas being:
 - Business Risk – plans for the future including the impact that Covid-19 has had on the College particularly on projected results and operational impact will be assessed.
 - Fraud Risk discussions with management demonstrate that appropriate safeguards appear to be in place to mitigate the risk of a material fraud occurring that would not be identified. There were no concerns identified that required specific review as part of the audit process. A more detailed assessment will be completed once a detailed review of the work of internal audit and the College's risk register has been completed.
 - This year ISA 700 requires the auditors to be explicit in their audit report regarding the approach they have adopted to consider fraud and irregularity as part of the audit. The auditors shall ask for confirmation of their enquires of Governors in the letter of representation, which we shall be highlighted in the Audit Findings Report.
 - Significant Audit Risks are detailed below and have arisen from the auditor's knowledge and understanding of the College and its environment.

- Entitlement and Recognition of Income - The recent change in the Audit Code of Practice issued by the ESFA has clarified that the agency does not provide assurance over the entitlement of income. Therefore, assurance is required in this regard based on the MIS data based on the accuracy and assurance over student data and learner records. This is new to everyone and will be the first time MIS managers will have the external auditor looking at them. The auditors may well find the audit trail slightly hard to follow. If this proves difficult then the auditor will have to take a substantive approach based on a sample of students' records, however a controls-based approach is more efficient and provides more comfort.
- Capital Expenditure & Commitments - The College has significant freehold property assets which is material to the balance sheet. The College has a capital development plan as well as an extensive ongoing obligation to maintain its buildings to an acceptable standard. There is a risk that assets have not been correctly capitalised, accounted for or recorded within the fixed asset register and that capital commitments have been disclosed. There is also a risk that the market value of buildings has fallen below the carrying value which suggests a potential impairment in value.
- Opening Balances - As this is a first-year audit there is a risk that opening balances are misstated.
- Going Concern - In addition to the risk that the college is unable to pay its debts as they fall due the impact of Covid-19 will be reviewed as part of the going concern procedures, for at least 12 months from approval of the financial statements (up to December 2021). the approach will need to reflect the revision to ISA 570. The auditors will Perform a stand-back exercise and review of the reserves and going concern of the College in line with new ISA 570.
- Key Financial Controls - If the key financial controls used in recording transactions for financial statements if not designed adequately or can be overridden by management or not operational will increase the risk of material misstatement and or fraud. As this is the first year for this audit firm the key financial controls of the College have not been previously reviewed.
- Financial Reporting - The FE/HE SORP combines the requirements of institutions of both Further and Higher education throughout the United Kingdom, and following the Triennial Review of FRS 102, a 2019 SORP was published. Additionally, the financial statements must comply with the requirements as outlined in the 2020/21 College Accounts Directions. An updated Supplementary Bulletin is due to be issued by the ESFA in Summer 2021, we will review the College's Annual report and the Going Concern Accounting Policy to ensure appropriate disclosures have been made. The audit approach will need to reflect the revision to ISA 540 in relation to accounting estimates and judgements.

SMK invited questions

The Principal asked about the questionnaire that will be sent out. SMK said he will share this with the Principal first, it is pretty self-explanatory and just for this Committee to complete.

A Governor asked if when looking at business risks whether the auditors will conduct scenario planning to see how well the college is prepared and asked if they will carry out something akin to a stress test as to how it will impact – SMK responded that one of the key business risks is planning for growth so this will be looked at in various ways which will include looking at what others are doing in the sector and what thoughts are.

A discussion ensued around the planned stand-back exercise and review of the reserves and going concern of the College in line with the new ISA 570 requirement and looking at monetising the risk register to then assess it against the reserves policy. The Committee was advised that a reserves policy will be coming to the next meeting.

The Chair asked whether the auditors will take a substantive approach in other audit areas if they can't carry out a control-based approach SMK responded that AEB and apprenticeships will be the areas where a sample approach may be required but they may be below materiality. The Chair asked what sort of things would present issues. SMK said that because of the funding complexities, rules and frequent changes this area is open to lots of error.

A Governor asked in terms of the controls approach if the auditors will check for adequacy and effectiveness of controls looking at both inherent and residual risk. SMK confirmed they will test for operational effectiveness.

The Committee was advised that in line with the new ACOP requirement the financial statements will be presented to a joint meeting of the Audit & Risk Committee and Finance & Resources Committee on the 2 December 2021 which the Chair of the corporation will also attend and all governors will be invited to attend.

1507 COLLEGE RISK REGISTER

The Audit Committee reviewed the College Risk Register, noting that there had been some changes and additions which the IDPCR highlighted as follows:

- Risk 1 - There is Significant improvement in the College's Financial Health, cash reserves and cash days. The FEC visit commended the improvement in terms of cash and cash reserves so the risk rating has been reduced.
- Risk 3 - Looking to the new year the senior team has met with unions to discuss how to prepare for enrolment and recruitment.
- Risk 6 - COVID 19 preparation is underway for start of new academic year 2021/22
- Risk 8 - The draft estates strategy will go to the board in July and the environmental and sustainability strategy will be looked at in the autumn. The college's carbon footprint needs to be reduced.
- A new risk line included (No.10-Cyber Security Breach) as per a recommendation from the board. This risk used to be part of Risk No 9-ICT Infrastructure Risk. IT Cyber Essentials accreditation has been achieved but the ESFA has now asked that colleges achieve cyber security plus. A new budget line has been included line to ensure the head of IT can complete the accreditation in time. As part of the IT strategy we will be adding in what we will do in the event of a cyber-attack and this will be included in the BCP as the first 48 hours of attack is crucial.
- Income sensitivity is being modelled and monitored and the IDPCR will look at how to further strengthen the sensitivity analysis.

The Chair commented that Carbon footprint requirements are based on size of emissions we directly or indirectly cause and business activity.

A Governor asked whether it is possible to correlate the sensitivity further and those that are mutually exclusive. As it will help to see the wood for the trees and to start to categorise it. The IDPCR agreed this can be done.

The Committee then discussed the Risks that are now rated green and whether they can be archived. It was agreed to look at how we keep material risks at the forefront and not lose sight of them. Ideally, they could be mapped against the strategic objectives and also a heat map could be used to pull out significant risks. This will be looked at further at the next RM workshop planned for September.

SMK commented that it was good to hear the discussions around the Risk Register

The Principal advised that the FEC report commended the college on its management of risk and finances, and so there will be no further intervention; she thanked the committee for their support and help with this.

The Audit Committee received and noted the updated College Risk Register.

1508 DATE OF NEXT MEETING

Thursday 2nd December 2021

1509 ITEMS TO BE ADDRESSED AT FUTURE MEETINGS OF THE AUDIT COMMITTEE

The Committee is asked to note that the agendas for future meetings will include the following items:

- Monitoring Statement on issues previously identified in reports presented to the Committee
- Internal Audits
- Review of Audit Reports and outstanding recommendations
- Risk Register
- Reserves Policy
- Review of performance of Auditors duration

1510 ANY URGENT BUSINESS

None

1511 ACTION POINTS ARISING FROM THIS MEETING OF THE COMMITTEE

- IAS to include a learner numbers audit in the Internal Audit Plan for 2022/23
- SMK to share questionnaire for Committee to complete this with the Principal first
- Reserves Policy to go to December meeting
- The IDPCR to correlate the sensitivity and categorise and group the risks that are mutually exclusive and those that are not.

19.47 finish

These minutes have been approved by the Audit Committee and signed by the Chair as a correct record.

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Signed

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Date