



## UNCONFIRMED MINUTES

### THE CORPORATION OF WALTHAM FOREST COLLEGE

#### AUDIT COMMITTEE

#### MINUTES OF THE MEETING HELD ON 21 NOVEMBER 2019

#### MEMBERS OF THE COMMITTEE

Youness Abidou (Chair)	present	Member
Renatta Nzomono	present	Member
Kapil Wadhvani	present	Member
Graham Woolnough (Vice Chair)	present	Member

#### CLERK TO THE COMMITTEE

Val Bartlett	Clerk to the Corporation
--------------	--------------------------

#### IN ATTENDANCE

Stephen Dean	present	Grant Thornton
Sharon Gravener	present	Scrutton Bland
Joy Kettle	present	Principal & Chief Executive
Lynda Croft	present	Interim Deputy Principal Corporate Resources (IDPCR)
Alastair Milloy	present	IDPCR Designate
Abena Rodman- Tay	present	Director of Finance & Estates
Nicholas Brick	present	Health & Safety Consultant

#### **1416 APPOINTMENT OF AUDIT COMMITTEE CHAIR AND VICE CHAIR 2019-20**

Graham Woolnough proposed Youness Abidou as Chair of the Audit Committee and Renatta Nzomono seconded this.

Youness Abidou proposed as Graham Woolnough Vice Chair of the Audit Committee and Renatta Nzomono seconded this.

These appointments are to be reported to the Corporation at its meeting to be held on 10 December 2019.

***It was agreed that Graham Woolnough Chair this particular meeting.***

#### **1417 APOLOGIES FOR ABSENCE**

There were no apologies.

#### **1418 ATTENDANCE OF THE PRINCIPAL, INTERIM DEPUTY PRINCIPAL CORPORATE RESOURCES (IDPR), THE IDPR DESIGNATE AND THE DIRECTOR OF FINANCE & ESTATES AT THE MEETING OF THE AUDIT COMMITTEE**

The Committee agreed that the Principal, Interim Deputy Principal Corporate Resources (IDPR), the IDPR Designate and the Director of Finance & Estates, should all be invited to attend the meeting.

Introductions were then made and the Chair welcomed all to the meeting.

#### **1419 DECLARATION OF INTERESTS**

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

#### **1420 MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 20 JUNE 2019**

The minutes of the Committee meeting held on 20 June 2019 were approved by the Audit Committee and signed by the Chair as a correct record.

#### **1421 MATTERS ARISING FROM THE MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON 20 JUNE 2019**

- The Information Security Policy is to be forwarded to Governors for information.

There were no other matters arising from the Minutes of the meeting held on 20 June 2019.

#### **1422 CALENDAR OF MEETINGS – 2019-20**

Members noted the dates for the Audit Committee meetings in 2019-20:

- Tuesday 10 March 2020
- Thursday 11 June 2020

#### **1423 AUDIT COMMITTEE TERMS OF REFERENCE – ANNUAL REVIEW**

The Audit Committee noted that there were no amendments required and agreed to recommend its Terms of Reference 2019-20 for approval to the Corporation for immediate application.

#### **1424 HEALTH AND SAFETY – ANNUAL REPORT 2018-19**

The Committee received the Health and Safety (H&S) Annual Report for 2018-19 which satisfies the requirement within the College Health & Safety Policy as the management review of health and safety performance for the year.

The key H&S performance indicators and items for 2018-19 were identified and the following was noted in particular:

- The SLT and staff continued to receive H&S support from the H&S consultant
- The number of reported accidents decreased from the previous year
- Significant progress has been made in ensuring all high-risk activities and learning environments were risk assessed
- 45 students participated in the ERASMUS programme with work experience in Spain and Portugal, the programme was thoroughly risk assessed by the College to ensure students would be safe
- In-house health & safety training was received by many staff
- Personal work-place risk assessments were undertaken where relevantly identified
- Documented health & safety procedures were reviewed and, where necessary, new procedures were introduced

Governors were informed that the main focus of 2018-19 was to embed the new policies and procedures, review the existing risk assessments and where necessary document new ones, and ensure training was undertaken including that which is mandatory for new starters.

An internal audit of H&S took place in May 2018 where eight recommendations were made and an action plan was put in place. A subsequent internal audit visit in May 2019 to check on progress, concluded that many health and safety items could be closed out, with the remainder prioritised for action in 2019-20.

The Committee requested that the Minutes from the Health & Safety Committee meetings be forwarded to the Clerk for the attention of the Governor H&S Champion for his information.

The Committee noted the Health and Safety Annual Report for 2018-19.

*18:20 NB left the meeting*

## 1425 DRAFT FINANCIAL STATEMENTS 2018-19 AND AUDIT FINDINGS REPORT

The Audit Committee was asked to receive and consider the draft Financial Statements for 2018-19 and the Audit Findings Report as prepared by the Financial Statements Auditors, Grant Thornton.

The final drafts of these documents are to be submitted to the Corporation for consideration and subsequent approval at the Corporation meeting to be held on 10 December 2019.

The Financial Statements Auditors presented the Audit Findings Report and Governors' attention was drawn in particular to the points as detailed below.

The Committee was informed that the current draft version is still to be reviewed by Grant Thornton and in particular, the 'Going Concern' is still to be worked through and the reporting of Senior Post Holders pay to be agreed.

The IDPCR then updated the Committee on the current financial position which is indicating a deficit before other gains and losses in the year of (£482k) (2017/18 deficit of (£463k)); from a total income of £21,892k (2017/18: £20,369k). Excluding FRS102 pension adjustments of £376k (2017/18: £499k), the College achieved a deficit of £109k (2017/18: surplus £37k).

<b>Operating surplus/(Deficit) £</b>	<b>2018/19 £'000</b>	<b>2017/18 £'000</b>
Total Income	21,892	20,369
Total Expenditure	22,374	20,832
<b>(Deficit) before tax</b>	<b>(482)</b>	<b>(463)</b>
Add back: restructure costs	140	67
Add back: FRS102 (section 28) pension adjustments	376	499
<b>Adjusted operating surplus</b>	<b>34</b>	<b>103</b>

The above has resulted in a financial health grade of 'requires improvement' as calculated by the ESFA.

The Balance Sheet as at 31 July 2019 indicates negative net assets of (£5,323k) compared to positive net assets totalling £1,294k in the previous year. The deterioration is largely due to the significant increase in the LGPS pension deficit in 2018/19.

The cash position was then explained with a net cash outflow of (£751k) in 2018/19 compared to (£529k) in 2017/18.

The Committee concurred that improving the cash operating position is imperative.

The Committee then discussed the basis for the College's 'Going Concern' statement which looks ahead for a minimum of 12 months following Board approval of the financial statements and up to 2 years.

The Financial Statements audit is being used to support Grant Thornton's view along with information supplied regarding the College's:

- Income and Expenditure accounts
- Balance sheet
- Cash flow
- Financial forecasts

Discussion was then held around 'Going Concern' and the current arrangements with the bank. The College currently has a revolving credit facility arrangement which reduces over the term and will be paid off by January 2022. The College does not currently have an overdraft facility in place.

The Principal and IDPCR reported that they have very recently met with the bank to keep them apprised of the College's on-going financial position. The bank has indicated that it would be supportive with regard to an application from the College for an overdraft if required, as soon as the financial statements have been approved by the Corporation and Grant Thornton in December 2019.

In response to a Governor's question if the audit has highlighted any issues, it was noted that Grant Thornton is still to reach its conclusions as there is still some information outstanding.

The point was made by a Governor that there is a concern regarding cash flow and that as the information provided to Governors is ever changing, this has led to uncertainty. In short, the College must improve its financial position very quickly with rigorous monitoring and tight management.

The Principal provided assurance that the Improvement Plan is currently being worked through in detail, in a controlled and transparent way including thorough forecasting and assumptions and mitigating actions to ensure the plan is realistic and achievable.

The Audit Committee reminded Management of the very important responsibility of the Corporation regarding the Financial Statements, and that comfort regarding the accounts is essential in order to be able to recommend them to the Corporation and for the Chair of the Corporation to then sign them off.

It was agreed that Management circulate a further updated version of the Financial Statements to the Audit Committee members by 27 November 2019 for their attention and comments. A further Audit Committee meeting will then need to be arranged.

### **Regularity Audit**

The Committee then noted the Regularity self-assessment questionnaire 2018-19, and Grant Thornton reported that there were no matters arising from the Regularity Audit.

### **Draft Audit Findings Report**

The Committee's attention was drawn to the status of the audit and audit opinion. The list of items still outstanding has been updated with the expectation that these will be completed within the next few days.

The auditors reported that their anticipated audit report for the financial statements and regularity audit will be unmodified.

The agreed audit plan has not been altered or changed except for the level of risk concerning key audit areas of:

- Staff costs which represent over 50% of the College's total operating expenditure
- Valuation of the pension scheme is a significant risk area due to the high sensitivity around key assumptions used and the impact of the recent McCloud and GMP rulings

The Committee was then taken through the 'significant findings' regarding the risks identified in the audit plan. It was noted that, subject to the satisfactory resolution of the identified matters, the audit work has not identified any material issues in relation to risk.

There were no matters in relation to fraud.

It was noted that the large numbers of outstanding items required in order to complete the audit were due, in part, to the pressures of high staff turnover during the year. Management reassured the Committee that relevant positions are being filled which will ensure there are sufficient resources to support the preparation of the accounts in future.

The Committee was informed that, subject to the satisfactory resolution of matters set out on pages 4 and 5 of the Audit Findings Report, the audit work has not identified any material issues in relation to the regularity of expenditure (disbursed) and income (received).

There were two unadjusted mis-statements, one relating to the impact of the McCloud Sergeant court case and the GMP pension liability of £(195k) which management consider to be immaterial and the second relating to an immaterial, theoretical error of (£190k) concerning repairs which had been incorrectly classified as additions.

The Committee noted the audit fees, non-audit related fees and the independence of the auditors.

The Audit Committee:

1. Received the draft Financial Statements for 2018-19 and the associated draft Audit Findings Report prepared by Grant Thornton;
2. Noted the 2018-19 projected out-turn of a deficit of (£482k) from a total income of £21,892k. Excluding FRS102 section 28 pension adjustments of £376k, the College achieved a deficit of £109k.
3. Confirmed that the Financial Statements and Audit Findings Report for 2018-19 will be re-presented to the Audit Committee for further scrutiny before being presented to the Corporation at its meeting on 10 December 2019.

## **1426 INTERNAL AUDIT ANNUAL REPORT 2018-19**

The Audit Committee was asked to receive and consider the Internal Audit Annual Report 2018-19.

The Internal Auditors informed Members that, in their opinion, for the year ended 31 July 2018, the College;

- Has adequate and effective risk management processes;
- Has adequate and effective governance processes;
- Has adequate and effective control processes in the majority of areas, with the exception of the control weaknesses identified during the audits of GDPR and Anti-Fraud Framework; and
- Has adequate and effective efficiency, effectiveness, noting that there are opportunities to improve efficiency through the use of technology.

Attention was then drawn to the control weaknesses and in particular the 'Limited Assurance' regarding GDPR compliance, which must be addressed promptly.

These opinions will contribute towards the assurances used by the Audit Committee in its Annual report to the Corporation.

Whilst acknowledging this has been a challenging year for the College, the auditors drew attention to the significant increase in the number of recommendations made than in 2017-18.

There were two 'significant', three 'reasonable' and two 'Limited' assurances opinions issued.

Although the overall conclusion is that the internal controls and risk management are adequate and effective, the auditors have stated that this adverse trend in individual assurance opinions should be monitored closely.

In reaching the audit opinion, the Committee was informed that the auditors considered:

- All audit work undertaken during 2018-19 and the conclusions of this work;
- All audit work undertaken during 2016-17 and 2017-18 audit years where relevant;
- Progress made with any follow-up action taken in respect of audit work from previous periods;
- The Financial Statement Auditors 2018-19 Management Letter

The summary of audit findings was then noted and that the anti-fraud framework audit had been prompted by the College as it had recognised this as a weakness.

Discussion was then held on GDPR compliance which still needs to be further embedded across the College with all staff needing to continue to be aware of, and acting upon, the requirements. Governors were informed that further training and awareness workshops are being planned to ensure there is ownership and accountability. In response to a Governor's question, it was noted that whilst GDPR has improved, it is still currently indicating 'Limited' assurance. Discussion was then held regarding the post of Data Protection Officer and the demands of this role on relevant staff. It was noted that Management are currently reviewing this remit and possible options.

The Audit Committee agreed to receive the Internal Audit Annual Report for 2018-19 and that it is to be presented to the Corporation at its meeting to be held on 10 December 2019.

## **1427 INTERNAL AUDIT REPORTS 2019-20**

The Committee received and considered the following Internal Audit reports:

### ***Additional Learner Support***

The objective of this audit was to review how the costs of support are assessed and agreed, how actual costs incurred are monitored in-year and how final funding levels are agreed with Local Authorities.

The audit assurance opinion for this audit was 'Reasonable' with two 'medium' and six 'low' recommendation being made.

The Committee then discussed the two 'medium' recommendations.

The first concerned staffing request forms needing to refer to the rationale of the actual business need.

The audit had identified that there is a risk of a post being recruited to without adequate challenge or assessment of need and that it may not have been authorised as proposals to alter a post were, on occasion, being discussed outside the bi-weekly staff panel meetings, thereby presenting a potential risk.

By way of response, Governors were assured that business rationale for staff is in place on staff request forms.

The second 'medium' risk referred to budget holders having access to regular and complete income and expenditure budget activity to allow for scrutiny and decision making. It was noted that budget holder activity will be included as from the October 2019 Management Accounts.

At the request of the Committee, Management are to re-check the due dates of the recommendations to ensure they are realistic and achievable.

#### ***Payment Card Industry Data Security Standards (PCIDSS) and Cyber Security***

The objective of this audit was to provide assurance on the processes and mechanisms in place to meet the Payment Card Industry Data Security Standards (PCIDSS) requirements. Additionally, the audit also reviewed the areas of cyber security compliance as required by the standard.

The audit assurance opinion was 'significant' and the Committee noted the five 'low' recommendations.

#### ***IR35 Preparedness Review***

The objective of this audit was to provide assurances on the processes and mechanism by which the College identify any temporary or interim staff and whether they fall in or out of scope of IR35 legislation.

The audit assurance opinion was 'significant' and the Committee noted the four 'low' recommendations.

#### ***Progress report 2019-20***

The Committee noted the Internal Audit progress report for 2019-20.

The Audit Committee noted the progress update on the internal audit reports.

### **1428 GDPR**

The Interim Deputy Principal provided the Committee with a verbal update on GDPR.

Minute 1426 refers to the discussions already held on the Internal Audit Annual Report which references GDPR.

### **1429 RISK MANAGEMENT REPORT**

The Audit Committee received an update on the Risk Management Register and the relevant changes to the format were noted.

The Principal drew attention in particular to the 'red' risks relating to strategy and finance.

A Governor queried how the Senior Team are managing risk and if the Risk Register is used during meetings. The Principal assured Governors that it is used, including its relevance to the College's Financial Plan.

Discussion was then held regarding the RAG rating and ordering of the risks as Governors wished to understand from Management how they use the Risk Register, manage risk, what is being done about the risks and how they move over time.

Arising from these discussions, it was suggested to the Principal that as the current format is difficult to digest, it be condensed into the 10 main risks which may include 5 critical risks and to review those risks which are similar but appear twice on the register.

Actions required may then be detailed as to how to improve the control element, with new controls being introduced over time, thereby providing more comfort.

The Principal assured the Committee that risk is also referenced in the regular performance boards.

The Committee noted the Risk Management update.

#### **1430 ANNUAL REPORT OF THE AUDIT COMMITTEE – 2018-19**

The Committee was asked to receive and comment on a working draft of the Annual Report of the Audit Committee for 2018-19 prior to its submission to the Corporation on 10 December 2019.

The content of the report includes key issues, membership of the Committee and dates on which the Audit Committee met in 2018-19, a breakdown of auditor's fees and summary details of the internal Audit checks.

The Committee then discussed the Internal Audit Opinion given the comments made in the Internal Audit Annual Report 2018-19 and with reference to Minute 1426.

The Committee concurred that an additional paragraph be added to the Audit Opinion section which references the control weaknesses identified regarding GDPR and the Anti-Fraud Framework. This is to provide assurance and will therefore include reference to:

- Internal Audit Follow-up reports on recommendations
- To be an Agenda item at the next Audit Committee meeting
- Internal Audit to work closely with management in improving the relevant areas of 'limited' assurance

The Clerk is to update the annual report once the Financial Statements have been revised.

The Committee noted and agreed the content of the Annual Report of the Audit Committee for 2018-19.

#### **1431 ESFA – LETTER TO CHAIRS OF GOVERNORS JULY 2019 AND LIST OF INSTRUCTIONS**

The Committee noted the ESFA letter and responses to the list of Must/Should Do's which provided assurance regarding the actions taken.

This list and documented actions is to be presented to the Corporation for information at its meeting on 10 December 2019.

***20:00 SG left the meeting***

#### **1432 PROCUREMENT OF AUDIT SERVICES**

The Audit Committee discussed the length of time both the Internal Audit Service and the Financial Statements auditors had been engaged by the College.

The Committee agreed that a tender exercise was now timely and that, in the first instance, it would be pragmatic to review the Internal Audit service with the preferred organisation to commence work with the College as from August 2020.

Therefore, a tender is to be prepared in the new year with a view to holding interviews for the Internal Audit Service on 10 March 2020 i.e. in advance of the scheduled Audit Committee meeting.

A recommendation may then be made to the Corporation on 24 March 2020.

A review of the Financial Statements auditors is to take place at a later date to be agreed, meanwhile the Audit Committee is to recommend to the Corporation that Grant Thornton be retained as the Financial Statements Auditors for 2019-20.

#### **1433 ITEMS TO BE ADDRESSED AT FUTURE MEETINGS OF THE AUDIT COMMITTEE**

The Committee noted that the agendas for future meetings would include the following items:

- Internal Audit - Monitoring Statement on issues previously identified in reports presented to the Committee
- Internal Audit - Review of Audit Reports
- Risk Register – review
- GDPR
- Review of the Performance of the Financial Statements Auditors
- Procurement of audit services

**1434 ACTION POINTS ARISING FROM THIS MEETING OF THE COMMITTEE**

- To inform the Corporation that Youness Abidou was duly appointed Chair and Graham Woolnough as Vice Chair of the Audit Committee for 2019-20.
- The Audit Committee agreed to recommend its Terms of Reference 2019-20 for approval to the Corporation for immediate application.
- The Audit Committee agreed that the Internal Audit Annual Report for 2018-19 be presented to the Corporation at its meeting to be held on 10 December 2019.
- To present the 2018-19 Annual Report of the Audit Committee to the Corporation subject to the Financial Statements being satisfactorily updated and reconsidered by the Audit Committee in order to then;
  - o Request the Corporation and the Chief Accounting Officer to consider the 2018-19 Annual Report of the Audit Committee;
  - o The Audit Committee recommends the Financial Statements 2018-19 and Letter of Representation to the Corporation for approval.
- That Grant Thornton be retained as the College’s Financial Statements Auditors for 2019-20.

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

.....  
**Signed**

.....  
**Date**