

EALING, HAMMERSMITH AND WEST LONDON COLLEGE FE CORPORATION

Meeting	AUDIT COMMITTEE		
Date	30 January 2019	Time	18.00
Venue	Hammersmith and Fulham College, Room LT3, Gliddon Road, London W14 9BL		
Chair	Cllr Binda Rai		

Present: Cllr Binda Rai; Sundeep Sangha; Callum Anderson.

In attendance: David Round (Clerk to the Corporation – designate); David Rose (Interim Finance Director); Hannah Catchpool (RSM – external auditors); Michael Prosser (RSM – external auditors); Sonya Panova (Grant Thornton – internal auditors); Andrew Baird (Interim Chair); Karen Redhead (CEO).

Attendance at meeting = 100%

A confidential meeting of the members of the Committee and representatives of the audit firms took place prior to the commencement of the meeting.

	ITEM	ACTION
1.	APOLOGIES FOR ABSENCE No apologies for absence were received. The Clerk confirmed that the meeting was quorate.	
2.	DECLARATIONS OF INTEREST Cllr Binda Rai is a Councillor for the Borough of Ealing.	
3.	MINUTES Minutes of previous meetings held on 19 June 2018 were presented. The Chair noted that the minutes did not give a full account of the meeting and therefore could not be approved. RESOLVED: that the minutes of the Audit Committee held on 19 June 2018 be noted.	
4.	MATTERS ARISING There were no matters arising from the previous minutes.	

5. DRAFT ANNUAL REPORT & FINANCIAL STATEMENT 2017-18, MANAGEMENT LETTER OF THE EXTERNAL AUDITOR AND REPORTING AUDITOR AND LETTER OF REPRESENTATIONS

The Interim Finance Director noted that the presented draft annual report and accounts for 2017/18 were unchanged from those presented to the December Corporation meeting. He confirmed that a deficit of £11.6m would be filed in the financial statements. Income had fallen by £4m but expenditure hadn't reduced. Staff costs to income were 91.6%. The College had expended large sums on consultancy services, partners, subcontractors and professional and preparation fees in relation to the Hammersmith Gateway project. At the beginning of the year the College held £11.6m in cash reserves; at the end of the year had reduced to £508k. The College had found it necessary to apply for exceptional funding support. The cash position was now being managed on a day to day basis.

The draft recovery plan had been submitted to the ESFA by the deadline of 7th January and the financial information to support the plan was due to be submitted tomorrow, 31st January. Feedback from the FE Commissioner's office had been received and the full plan would be presented to the Board on 13th February. The recovery plan addressed the underlying operating weaknesses in the College's financial position. The plan forecast the College achieving a 65% staffing to income target and generating a cash surplus by 2020/21.

Members of the Committee asked whether the Finance department was confident that all matters relating to the previous financial year had been identified and that no further changes to the final position were envisaged. The Interim Finance Director (IFD) advised the Committee that a number of matters had arisen since year end including a liability for historic teacher pension costs that should have been paid 10 years ago; in addition unbudgeted rent and services charges for a former College building had been identified. As far as he was aware there were no additional unknown liabilities in relation to the 2017-18 year.

The meeting of the Finance and General Purposes had asked the IFD to review the statement of non-staffing costs in the accounts (Note 7 Other Operating Costs) which showed a threefold increase between 2017 and 2018. This outcome of the review would be reported to the Board.

The Chair stated that as the audit findings report and draft management letter had been circulated late, detailed queries relating to the audit report should be emailed to the external auditors via the IFD.

IFD

The partner from RSM presented the external audit report highlighting the following matters: -

1. There were a number of omissions in the draft audit findings report, principal of which related to the going concern issue. RSM noted that in concluding last year's audit there had been extensive discussions with the College about the matters of uncertainty in relation to the Hammersmith Gateway project. There were large impairment costs of £8,256k charged to the balance sheet on the assumption that the Hammersmith project would commence in 2017-18. At the time planning permission had not been obtained and a capital grant application to the GLA was awaited. It was now clear from discussions with the College that the project had been rescheduled: planning permission was forecast for January 2020. An additional matter of uncertainty had arisen because of the application to Historic England to list the Hammersmith campus.
2. The auditors had been advised that the Board of the College had approved the new Estates strategy at its meeting on 19 December 2018. The College intended to proceed with the Hammersmith Gateway project but with a reduced scope. They were also advised that the bid to the GLA for capital support had been submitted. The College had taken professional advice in relation to the listing application and had expressed a view on the matter.
3. The auditors wished to understand the College's position in relation to the matter of the building impairment. The external auditor therefore had commented in their management letter that

'The lack of planning permission, outstanding listing claim and the uncertainty over the funding of the project create a reasonable uncertainty over the viability of the project as such we consider it appropriate to highlight these uncertainties to the user of the financial statements in our audit report by including an emphasis of matter paragraph. This disclosure will refer the users to the potential uncertainties disclosed in the financial statements.'

4. Governors' attention was drawn to the specific representations included in the draft letter of representations which were material to the going concern opinion. The wording of these representations was yet to be finalised and the College was invited to comment on the draft as presented (**ACTION:** members of the Committee, CEO and IFD).

**IFD / CEO
RSM**

Other matters of report were as follows: -

5. The audit noted that there had been significant staffing changes in the Finance department of the College over the past 12 months. The audit found that bank reconciliations were not performed; it also found that journal adjustments were not documented. This was an area of risk and a control deficiency. It was also noted that the same issues had been identified in the audit last year audit. In response to these findings the IFD commented that poor practices had been employed in the department at the time but that new staff were in place and clearly-understood and documented procedures were now being followed. Bank reconciliations were now routinely undertaken. The Chair commented that it was essential that systems were process-driven and not dependent upon personnel.
6. The treatment of bursary funds was a misstatement in the draft financial statements as the College acted as an agent, leading to an overstatement of income and expenditure. In response to questions, the external auditor stated that following the issue of new guidance, Adult Discretionary Learner Support Fund payments should now be treated as income.
7. Payments made to suppliers identified that some invoices had been paid before the invoices were processed in the finance system. This was a control deficiency.
8. A control deficiency was identified in relation to subcontractors as the College was unable to provide contracts in some instances. In discussion it was clarified that this related to work previously and wrongly classified by the College as partnerships. It was also noted that Grant Thornton, the College's internal auditors, had examined the College's subcontracting work and had issued the subcontracting controls certificate. The Chair asked for clarity on these matters and asked where and how a schedule of subcontractors and partnerships would be made available to the Corporation. The Clerk commented that his practice elsewhere was to ensure that the Curriculum Committee received a report that notified it of subcontractors and partners, the nature and value of the work and providers' quality assessment (Ofsted, if applicable). The Finance Committee would receive the Subcontracting Supply Chain, Fees policy and charging policy and that this would be presented to the Board. These practices had been incorporated into the new cycle of business for the Corporation.
9. As a matter brought forward from the previous year, there remained a number of unused bank accounts which had been left open. A control deficiency was identified although there was no evidence that the accounts had been used. The Chair of the Committee asked who was responsible for the oversight of the College's bank accounts and who

IFD

	<p>had the authority to open and close accounts. The audit partner commented that this was a management control issue. ACTION: the College should take immediate action to review College bank accounts.</p> <p>10. In the review of audit, accounting and regularity matters the external audit findings report had identified the incorrect treatment of the Evolve Learning Group Ltd in the prior year as a wholly-owned subsidiary. In fact the company was structured as a private company limited by guarantee: the guarantor was the previous CEO and Principal. No investment had been made by the College in the company. This matter had been resolved satisfactorily as the sole director of the company was the Principal and Accounting Officer and therefore the treatment in the accounts was considered reasonable. It was, however, recommended that this matter be reviewed and regularised (ACTION: CEO/IFD). It was also noted that misstatement about the treatment of staff costs in Evolve had been identified and corrected by management during the course of the audit.</p> <p>The Chair thanked the external auditors for their very full and detailed report. It was AGREED that the College would update the management response to the audit findings for presentation to the Committee.</p> <p>In response to questions from the Committee, the College provided assurance that major changes to processes had been made and that there had been a strengthening of the Finance team. The new Finance Director would be starting in the role in early March and it was appropriate that he be allowed to make an assessment of the department's structure and capabilities. The RSM partner commented that in the course of their audit work they had seen a significant improvement in the quality of the working practices in the department compared to the previous year.</p> <p>RESOLVED: that the draft Annual Report & Financial Statement 2017-18, management letter of the external auditor and reporting auditor and Letter of Representations be noted.</p>	<p>CEO/IFD</p> <p>IFD</p>
<p>6.</p>	<p>POST-16 ACOP REGULARITY QUESTIONNAIRE</p> <p>The Committee reviewed the draft regularity questionnaire completed by the College. Section 46 of the Post-16 Audit Code of Practice ('the Code') 2017 states that:</p> <p>'To support college corporations in drafting the statement on regularity, propriety and compliance, ESFA will publish a self-assessment questionnaire. This will provide clarity over the framework, including the interpretation of the key requirements and the type of evidence that should be considered.'</p>	

	<p>Section 48 of the Code states that: "The college corporation must be able to support their statement of regularity, propriety and compliance and the responses given in the self-assessment questionnaire.'</p> <p>It was reported that the Finance and General Purposes Committee had requested a review of a number of aspects of the questionnaire viz.</p> <ol style="list-style-type: none"> 1. The College would confirm the statement regarding the receipt of professional advice in respect of the statement regarding termination payments; 2. The College would review the statement regarding staff training in the requirements of the Bribery Act; and 3. The internal arrangements for the oversight of public interest disclosures would be confirmed. 4. Other matters of drafting e.g. Clerking services. <p>The Chair commented that she, as a member of the Committee and a governor, was unaware of the significant settlement payment made to a former senior post holder. Other members of the Committee concurred and noted that it had not been disclosed to the Board.</p> <p>RESOLVED: that subject to the matters detailed above being confirmed satisfactorily, it is noted that the Chair and Accounting Officer shall sign the regularity questionnaire.</p>	
<p>7.</p>	<p>SUBCONTRACTING SUPPLY CHAIN, FEES AND CHARGING POLICY 2018/19</p> <p>The Committee were advised that the ESFA sets out funding rules relating to subcontracting. These rules state that: 'your governing body / board of directors and your accounting officer (senior responsible person) must be satisfied that all subcontracting you undertake meets your strategic aims and enhances the quality of your offer to learners. Examples of the senior responsible person are: chief executive, managing director, principal or their equivalent. The reasons for subcontracting set out in your published supply chain fees and charges policy should reflect your strategic aims. You must not subcontract to meet short-term funding objectives. Further, 'Your supply-chain fees and charges policy must be reviewed and signed by your governing body / board of directors and your accounting officer.'</p> <p>In response to questions from the Committee it was confirmed that subcontractors are within the scope of Ofsted at inspection.</p>	

	<p>Following consideration, it was RESOLVED that the subcontracting supply chain, fees and charging policy be duly noted.</p>	
	<p>SETTLEMENT PAYMENTS, 2017-18 AND TO DATE</p> <p>The Committee noted that the Post-16 Audit Code of Practice Regularity questionnaire stipulates that:</p> <p style="padding-left: 40px;">‘The corporation shall demonstrate that payments in respect of termination:</p> <ul style="list-style-type: none"> • are regular and represent value for money • no payments made where disciplinary action would have been more appropriate.’ <p>The Committee noted the settlement payment made in respect to a former senior post holder and referred to its concerns expressed earlier. The Committee noted the assurance provided by the College that</p> <p style="padding-left: 40px;">‘The Senior Leadership Team will ensure that the ACOP regulations are complied with whenever any settlement payments may be required, thus ensuring that payments in respect of termination are regular and represent value for money; and that no payments are made where disciplinary action would have been more appropriate.’</p> <p>RESOLVED: that the report on settlement payments be noted.</p>	
<p>8.</p>	<p>ANNUAL REPORT OF THE AUDIT COMMITTEE</p> <p>The Committee noted that The Post-16 Audit Code of Practice requires the Audit Committee to prepare an annual report setting out its activities during the previous year. This report should cover:</p> <ul style="list-style-type: none"> • a summary of the work undertaken by the committee during the year • any significant issues arising up to the date of preparation of the report any significant matters of internal control included in the reports of audit and • assurance providers • the committee’s view of its own effectiveness and how it has fulfilled its terms of reference • the committee’s opinion on the adequacy and effectiveness of the corporation’s assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets <p>The annual report is to be submitted to the Corporation before the statement of corporate governance and internal control in the annual accounts is signed. The Regularity Questionnaire has to be signed by the Chief Accounting Officer and the Chair of the Corporation and made available to the external auditors to inform the regularity engagement.</p>	

	<p>The Committee's draft annual report was reviewed. It was noted that as audit work had only recently been completed there were a number of gaps in the report which would be updated. The Clerk drew attention to the reference in the report to other matters of materiality including the FE Commissioner's intervention report and the decision to place the College in Administered Status. The report detailed the urgent actions taken by the College to improve its governance arrangements in response to the recommendations of the FE Commissioner's report. It was further noted that the draft report proposed that assurance opinion of the Audit Committee was one of 'limited assurance about the adequacy and effectiveness of the College's audit arrangements, its framework of governance, risk management and control and its processes for securing economy, efficiency and effectiveness.'</p> <p>It was AGREED that the updated report be circulated to members of the Committee for comment prior to presentation to the Board on 13th February (ACTION: Clerk).</p>	Clerk
9.	<p>INTERNAL AUDIT ASSIGNMENT REPORTS</p> <p>The representative of the internal audit firm attended for this item to present the assignment reports.</p> <p>9.1 Additional Learning Support</p> <p>It was noted that the agreed scope of the report was to review 'the adequacy and effectiveness of controls in place to ensure that support needs required are identified, an appropriate level of support is provided to meet student needs, and that outcomes are being monitored.'</p> <p>The overall assessment of additional learning support provision at the College included the following observations: -</p> <ul style="list-style-type: none"> • 'Through our review and via discussions with staff, we noted that the voice of the learner, through consultations and their involvement in the design of the support needed, is at the centre of ALS provision and that learners are encouraged to take up support that is tailored, as far as is possible, to meet their own needs and requirements'. • 'The key areas where we have identified the need to strengthen the processes and controls in place include the need to conduct a cost benefit analysis to assess the impact/effectiveness of different ALS services and that best value for money is achieved, although it should be noted that this is only one aspect of deciding if an ALS provision is successful. There is also a need to clearly document that learner's consent is obtained, to clearly document the review of whether the support provided continues to address the needs of the learner and 	

update the High Needs Support Plans and Disability Support Plans accordingly. We also identified that there is a need to clearly document learner comments and agreement with the reviewed plans as part of the review process for Disability Support Plans and EHCP Annual Reviews (in the cases of non-attendance from the learner and/or their families).'

No High level audit issue were identified from the audit; four (4) Medium level issues were identified; and one (1) low level audit issue. The College's management has accepted the findings of the report.

RESOLVED: that the internal audit assignment report on additional learning support at the College be noted.

9.2 IT Support Services

The scope of the report was to assess 'the adequacy and effectiveness of controls in place which the College has to ensure that the right level of support is provided to meet student and staff IS needs'.

The overall audit assessment noted that: -

- 'The key areas where we have identified weakness include one high priority finding relating to developing a systematic approach to asset management, including the need to maintain an up-to-date asset register of College IT assets and record equipment loans made to staff.'
- 'Other areas for improvement we identified related to the need to ensure that incidents are resolved on a timely basis, in line with the SLA targets, the need to remove security pass access and network accounts, which were still enabled for two employees who have left the College since March 2018, and to ensure that stretched KPIs are set in all relevant areas to enable the College to monitor the effectiveness of the IS services provision.'

One (1) high level audit issue was identified:

- 'the IT department does not have a reliable system for recording and tracking IT assets held by the College across each campus, including equipment that is issued to staff on loan, and therefore there is no oversight over asset ownership and management.'

In addition, three (3) Medium-level issues and three Low-level issues were highlighted. The College's management has accepted the audit recommendations.

CEO

The Committee noted the weaknesses in the system for IT asset management and the absence of robust exit procedures relating to the management of IT assets held by staff who are leaving the organisation. There was a need to ensure that the IT asset register and the overall College asset register were integrated. The CEO commented that the College would wish to amend some of the management responses in the report (**ACTION: CEO**).

RESOLVED: that the internal audit assignment report on IT support services be noted be noted.

9.3 Internal Audit Follow-up Report

The internal auditors followed-up the progress made by the College in implementing agreed recommendations arising from previous audit assignments conducted in prior years in respect of HE Provision (2017-18), Governance (2015/16), Risk Management (2017/18) and Purchasing Process (2016/17). A total of ten (10) recommendations were reviewed of which two (2) had been completed, seven (7) were in progress and one (1) was outstanding. It was noted that the reasons for the delay in implementing the recommendations was because of 'internal changes in management, the finance team and other pressures placed on the management team. The recommendations in progress and outstanding at the time of our reviews in July and November related to HE Provision (2), Risk Management (1), Purchasing Process (4), and Governance (1).'

The high level audit recommendation was that there should be an independent check of bank details amendments from suppliers and that an exception report should be developed to identify changes to bank details for sampling and review of requested changes and supporting documentation. The College had provided an update in November 2018 to state that the process of supplier bank detail amendment now required approval by the Head of Finance and confirmation of bank details is provided on a Google form from the supplier. The recommended exception report had been commissioned from the system suppliers.

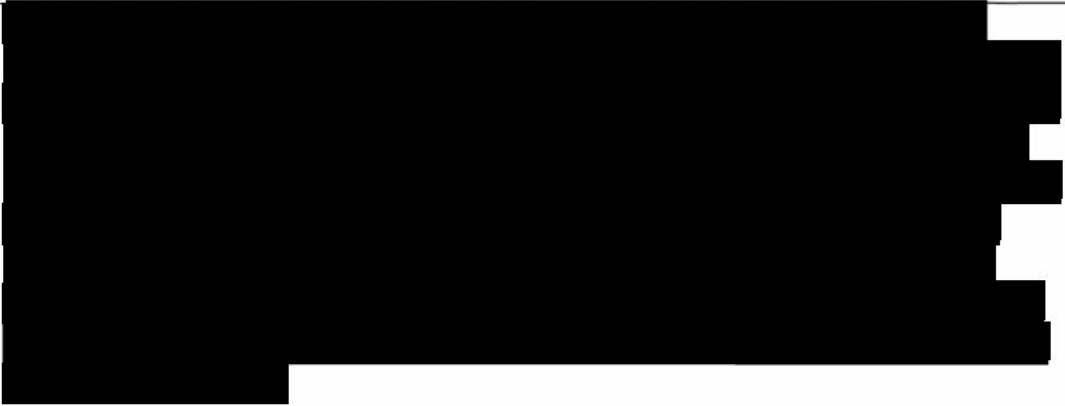
RESOLVED: that the internal audit follow-up report be noted.

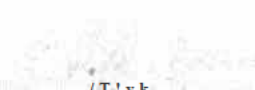
9.3 Internal Audit Annual Report, 2017-18

The Committee noted that the auditors had raised one (1) High priority recommendation, fourteen (14) Medium recommendations and six (6) Low priority recommendations as part of their review of 2017/18. The opinion of the internal auditors was that

'On the basis of the agreed management action plans and subsequent

	<p>discussions, we are satisfied that the College has taken, or is taking, actions to address the issues and control weaknesses that were raised in our individual reviews during 2017-18.'</p> <p>RESOLVED: that the internal audit annual report be noted.</p> <p>The representative of the internal auditors left the meeting at this point.</p>	
10.	<p>NATIONAL DEVELOPMENTS IN FE AUDIT (POST-16 AUDIT CODE OF PRACTICE)</p> <p>RESOLVED: that the Post-16 Audit Code of Practice be noted.</p>	
11.	<p>FRAUD REPORT</p> <p>The Post-16 Audit Code of Practice stipulates that 'It is the responsibility of the corporation in conditions of funding as set out in grant funding agreements and contracts with ESFA to establish and maintain an adequate system of internal control, to ensure compliance, and to prevent and detect irregularities, including fraud.' The Audit Committee is required to ensure</p> <ul style="list-style-type: none"> • 'the proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity • that investigation outcomes are reported to the audit committee • that the external auditor (and internal auditor if applicable) has been informed, and that appropriate follow-up action has been planned/actioned • that all significant cases of fraud or suspected fraud or irregularity are reported to the ESFA • risks around fraud have been identified and controls put in place to mitigate them.' <p>The College advised the Committee of a report of fraud at one of its sites in January 2019. Details of the incident were reported which had led to a significant defrauding of the College. The College had been advised that it was unlikely to recover the monies. The Police had been informed and a criminal investigation was underway. It was noted that the College was required to advise the ESFA of fraud in excess of £10,000. The Committee was advised of the actions taken by the College to prevent a repeat of the incident.</p> <p>RESOLVED: that the fraud report be noted.</p>	
12.	<p>The representatives of the audit firms withdrew from the meeting at this point.</p> <p>{MINUTE TO BE REDACTED FROM PUBLISHED MINUTES}</p> <p>Audit Services: Procurement of internal audit service</p>	

	 <p>RESOLVED: that following discussion, the Committee recommended that the Corporation approve the appointment of Mazars as the College's internal auditors for a period of 3 years with effect from 01 August 2018.</p>	
13.	<p>REVISED TERMS OF REFERENCE OF THE AUDIT COMMITTEE It was noted that the draft revised terms of reference of the Committee had been reviewed at the Board Strategy workshop held on 9th January.</p> <p>RESOLVED: that the draft revised terms of reference of the Audit Committee be commended to the Board for approval.</p>	
14.	<p>Any other Business There was no further business and the meeting closed at 9.00pm</p>	
15.	<p>Date of Next meeting Subject to confirmation, the next meeting would take place on 03 April 2019 at 6.00pm.</p>	

Chair's signature 

Date h.2j1:!" !