

EALING, HAMMERSMITH AND WEST LONDON COLLEGE FE CORPORATION

Meeting	AUDIT COMMITTEE		
Date	26 June 2019	Time	18.00
Venue	Hammersmith and Fulham College, Room LT3, Gliddon Road, London W14 9BL		
Chair	Maria Vetrone		

Present: Callum Anderson; Maria Vetrone; Sundeep Sangha; David Paine

In attendance: David Round (Clerk to the Corporation); Anil Nagpal (Executive Director, Finance & Resources); Daniel Canham (Mazars); Hannah Catchpool (RSM); Michael Prosser (RSM)

Attendance at meeting = 100%

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

ITEM	
1.	APOLOGIES FOR ABSENCE Apologies were received from Karen Redhead.
2.	DECLARATIONS OF INTEREST None.
3.	MINUTES Minutes of previous meetings held on 03 April 2019 were approved as a correct record and duly signed by the Chair on behalf of the Committee.
4.	MATTERS ARISING The Clerk reported that all matters arising were covered on the agenda.
5.	RISK MANAGEMENT REPORTS (SECTIONS TO BE REDACTED AS REQUIRED WHEN PUBLISHED)
5.1	STRATEGIC RISK REGISTER The new strategic risk register was presented to the Committee. The register had been developed at a wider senior leadership meeting and took a whole-College approach, replacing the previous financially-focused risk register. The risk profile was high, reflecting the status of the College being in administered status and having a financial notice to improve. There were 4 Significant risks, 5 High risks, 8 Acceptable risks and 1 Low risk. The significant risks were:

Risk 10- Cashflow pressures and risk of insolvency

There remains a significant risk to the solvency of the College until the Southall disposal is realised. If this were to be delayed for any significant period there would be major risks in terms of cashflow and solvency. The Board is kept fully up to date and is monitoring the situation very closely.

Risk 11 - Failure to implement all aspects of the estates strategy

The Board received an update on the estates strategy implementation at the meeting on 22 May 2019, including feedback from the GLA on its capital bid. The Hammersmith Gateway project remains on hold until the 3 conditions for its progression are met (i.e. capital funding support; sale of the Southall blocks to provide capital headroom; and a favourable outcome from the listing application - now confirmed).

Risk 13 - Quality of teaching, learning and assessment

The Quality Improvement Action Plan (QIAP) is being implemented and is monitored by the Curriculum, Performance and Quality Committee and reported to the full Board on a regular basis. College management is giving particular attention to the quality of teaching and learning, student attendance, punctuality and progression. Improved reports are available to aid College managers. A new governor link/engagement strategy is being developed at the Board and to strengthen the capacity of governors to provide supportive challenge and scrutiny, particularly in relation to teaching, learning and assessment.

Risk 18 - Inability to maintain the college estate and infrastructure

The Board received an update on the estates strategy implementation at the meeting on 22 May 2019 including feedback from the GLA on its capital bid. The bid was placed on the reserve list. The Hammersmith Gateway project remains on hold until the 3 conditions for its progression are met (i.e. capital funding support; sale of the Southall blocks to provide capital headroom; and a favourable outcome from the listing application - now confirmed).

The Committee requested and received an update regarding the planned disposal at the Southall campus. The bids were significantly below the valuation provided by the College's appointed agents, which was in the range [REDACTED]. Members of the Committee expressed surprise at the low level of the bids and the disparity with the valuation. They asked whether the College had been given an explanation by the agents for this outcome. It was explained that Brexit, the volume of existing residential development in the Southall area and the conditions relating to the disposal including A 2 year delay in obtaining vacant possession and the liabilities in relation to the adjacent leisure development had impacted adversely on the bids. Members of the Committee said that this information was known previously and they expressed disappointment about the quality of the advice received from the agents. There was also a view that the bidders may have perceived the College as pressured seller, thus depressing valuations.

In discussing options and the implications of this disappointing development, the Committee noted that: -

- The College was in active discussions with the bidders about possible options
- F&GP Committee had met last week and had asked the College to explore whether there was interest in purchasing blocks A & B, which would be an unencumbered sale. This was the original plan for the Southall site and would avoid significant refurbishment and fit out costs for bringing the back into use.
- The ESFA and the FE Commissioner's office had been advised of the situation and the implications for the timing of the repayment of the exceptional financial support (£8.5m). The ESFA had requested further information from the College.
- A member of F&GP Committee (Peter Chapman), who was a property specialist, had taken part in the discussions with the agents and the bidders.
- Governors owed a duty to safeguard the assets of the College and a property disposal at a very low price could be interpreted as not meeting their charity trustee responsibilities.

Governors asked what impact a delayed sale would have on the College's cash position. The Executive Director (Finance and Resources) referred members to the management accounts and 24 month cash flow forecasts which identified the position with and without capital receipts. The College would run out of cash by November/December 2019. The Committee sought assurance that the College was operating at the required pace and had the right skills and advice to progress the options in relation to the Southall disposal urgently.

In the light of the discussions the Committee proposed that Risk 11 'Failure to successfully implement all aspects of the Estates Strategy. This specifically concerns a) delays or the failure to progress the Southall disposal; and b) failure to achieve GLA funding support for the Hammersmith Gateway project' should have its Net Risk score increased. The same was also recommended for Risk 13 (Cash flow pressures and the risk of insolvency leading to delayed payments to key suppliers and subcontractors because of the end of Exceptional Funding Support (EFS) in March 2019.) (**ACTION: AN/DR**).

The Committee thanked the Executive Director (Finance and Resources) and the Director of Governance for their work on developing a broad strategic risk register. The significant demands on the workload of the Executive Director (Finance and Resources) and the finance team were noted and the Committee was pleased with the progress that had been made and the quality of the register. It was noted that the strategic risk register was a dynamic document that would be reviewed and updated as required. An operational risk register would be developed.

RESOLVED: that the strategic risk register report be noted.

5.2	<p>RISK ASSURANCE</p> <p>The College noted that best risk management practice included the development of a risk assurance map describing the three lines of defence to provide assurance in relation to the principal risks facing the College. The College had yet to develop a risk assurance framework but noted that it was part of the cycle of business for the Audit Committee and it would be developed for the December meeting of the Committee (ACTION: AN/DR).</p>
6.	<p>EXTERNAL AUDIT</p> <p>6.1 EXTERNAL AUDIT RECOMMENDATIONS UPDATE REPORT</p> <p>As requested at the previous meeting of the Committee, a progress tracking document had been prepared which tracked and reported on progress in implementing the recommendations of the external auditors in their audit findings report for the 2017/18 accounts. The Committee noted that of the sixteen items listed as significant, ten are deemed to be completed with six deemed as in progress. Of the seven items listed as medium, all are deemed to be completed. Representatives of RSM who were the College's external auditors commented that they would be reviewing the actions as part of their external audit of the 2018/19 accounts; good progress had been made but there remained a concern about the lack of progress in relation to bank reconciliations and the continuing use of suspense accounts. Bank reconciliation was a fundamental financial control. In discussing the issue the Committee noted the considerable pressures on the finance team and asked whether it was possible to bring in additional resource. It was noted that the College had contractual commitments in relation to the College's accounting system (Team 1) for two more years. The system was inflexible and expensive and EHWLC was the only English college using the system. Changes to the system required expensive consultancy services. The production of the management accounts also required considerable manual intervention. Moving to a new system was not a practical option at the moment because of year-end processes and the other difficulties facing the College. Members of the Committee offered to make representations to the system suppliers if required.</p> <p>RESOLVED: that the external audit recommendations report be noted.</p> <p>6.2 EXTERNAL AUDIT PLAN: 2018/19 FINANCIAL STATEMENTS</p> <p>Representatives of the external auditors from RSM presented their audit plan. The areas of audit focus/risk were set-out which were</p> <ol style="list-style-type: none"> 1. Income recognition 2. Pension scheme liabilities 3. Going concern 4. Management override of controls 5. Regularity review 6. Partnership arrangements 7. Hammersmith campus redevelopment 8. Evolve Learning Group Limited

The auditors highlighted the two key risks which were the matters of Going Concern and the Hammersmith campus development. The Committee had been advised about the latest position in relation to the Southall disposal which was critical to Going Concern. At the time of the sign-off of the accounts, the Board is required to confirm that the College is a Going Concern for the next 12 months.

The audit partner commented that in the last two audits one of the main difficulties had been the Hammersmith campus development and the accounting treatment of the considerable prior sums committed in pre-project inception costs. The previous accounts had capitalised large sums of expenditure attributed to the Hammersmith project. These costs should only be capitalised if they met the definition of an asset in line with FRS102 – section 2 – Concepts and Pervasive Principles, which would only allow the capitalisation of costs if it is probable that future economic benefits would flow to the College. The College had confirmed that it was confident that the Hammersmith project would proceed and the Board had approved the estates strategy in December 2018. This determined that the Hammersmith project would progress provided that capital funding support was received (GLA bid), the sale of the Southall blocks was progressed to provide capital headroom and a favourable outcome from the listing application was obtained. The College had now confirmed that the Hammersmith campus had not been listed by Historic England.

The matter of the Hammersmith development and the lack of planning permission had been reported as a 'matter of emphasis' in the previous audit report. This matter would be a key area of review in the forthcoming audit. The fieldwork plan for the audit and fees were also noted. The College was aware of the audit fieldwork plan and was making arrangements for staff to be available. It was noted that last year audit work had been delayed which had led to increased audit fees and a delay in filing the accounts with the ESFA.

The Audit Committee noted the concerns in relation to the Going Concern and Hammersmith campus matters. Concern was expressed about advice provided to the Board in relation to previous versions of the estates plans although it was recognised that the new scheme was substantively different.

The Committee queried why no specific figure had been identified for accounting 'materiality'. The external auditors explained that different materiality values apply in relation to different elements of the accounts and that it would be misleading to identify a single figure in advance. Actual materiality values would be identified in the accounts.

RESOLVED: that the external audit plan for the 2018/19 accounts be noted.

7. INTERNAL AUDIT

7.1 CORPORATE GOVERNANCE AUDIT

The audit assignment internal audit report in relation to corporate governance was received by the Committee. The College's internal auditors, Mazars, commented on the report noting that

the FE Commissioner had commented adversely on the quality of governance in the previous academic year. Significant changes had been made since the FEC's intervention report including the appointment of a new Director of Governance / Clerk to the Corporation, new Chair and Vice Chair of the Corporation and strengthening of the Board membership. There is a new Corporation structure with specialist committees for Audit, Finance and General Purposes, Curriculum, Quality and Performance, Search and Governance and Remuneration. It was further noted that:

- There are now annual work-plans documented that specify the timing of business for the Board and its committees
- There are two qualified accountants on the Board
- The Board includes a highly experienced property specialist
- The Vice Chair who is an experienced educationalist has been appointed.
- The Search and Governance Committee receives regular skills audits
- Training has been provided for the Board including specialist training for the Audit Committee.
- Inductions of new governors are undertaken by the Clerk.

A key finding of 'Adequate Assurance' was given in relation to the effectiveness of internal controls for corporate governance. Only 1 recommendation was made which was to recruit an additional governor to the Finance and General Purposes Committee to avoid possible quoracy problems. The report commented

'Since the FE Commissioner review in August 2018 significant progress has been made in improving Governance in a short period of time including a significant refresh of the Corporation membership as well as broadening its skill base. At the same time the framework of controls surrounding Governance have been updated and improved. However with the permanent Chair of the Corporation, a number of the Committee Chairs and permanent Clerk having only relatively recently been appointed these changes have not had the time to be fully embedded yet and there remain a number of areas which it has not been possible to address in the time frame but where plans are in place to address. These include the development of Key Performance Indicators for the Corporation and the assessment of the Corporation's performance.'

The Committee queried why the audit opinion was not one of 'Substantial Assurance' given that only one recommendation was made. It was commented that normally such a report would indeed lead to a 'Substantial Assurance' opinion; however, it had not yet been possible to see the full implementation of the new controls over a 12 month period, which had led to the opinion of 'Adequate Assurance'.

The Committee remarked that the audit report was a positive one and thanked the Clerk for the work done in relation to governance.

<p>7.2</p> <p>7.3</p>	<p>RESOLVED: that the Corporate Governance audit report be noted.</p> <p>INTERNAL AUDIT RECOMMENDATION PROGRESS REPORT</p> <p>Details of progress in the implementation of recommendations from previous internal audit assignment report was given. It was noted that The follow up reports from the previous internal audit partner, Grant Thornton, had listed twenty two recommendations. These recommendations have been reviewed by the new Internal Audit team at Mazars and the report is awaited. The College has incorporated feedback from the audit work of Mazars in its progress tracker.</p> <p>Of the twenty two recommendations identified by January 2019, thirteen (13) have been implemented or superseded. There are nine (9) outstanding recommendations which are being followed up and these are in progress.</p> <p>The Committee commented that good progress had been made and it was good to see that a robust tracking and reporting system was in place.</p> <p>RESOLVED: that the report on internal audit recommendations be noted.</p> <p>INTERNAL AUDIT PLAN 2019/20</p> <p>This item was deferred because of scheduling difficulties and pressures on the finance team at the College. It would be presented to the next meeting in October 2019 (ACTION: Mazars/AN).</p>
<p>8.</p>	<p>HEALTH AND SAFETY UPDATE REPORT</p> <p>The Committee was advised about the status and effectiveness of health & safety measures and controls at the College to ensure compliance with the Health and Safety at Work Act 1974. Details of relevant trends and actions being taken to address issues were outlined. The Committee had requested at the previous meeting that future reports should include a short summary of the most serious incidents i.e. RIDDOR, which had been actioned.</p> <p>RESOLVED: that the Health and Safety report be noted</p>
<p>9.</p>	<p>FRAUD REPORT</p> <p>It was confirmed that there were no recent incidents of fraud at the College.</p>
<p>9.</p> <p>9.1</p> <p>9.2</p>	<p>COMMITTEE MATTERS</p> <p>AUDIT COMMITTEE TERMS OF REFERENCE AND CYCLE OF BUSINESS</p> <p>RESOLVED: that the Audit Committee approves its terms of reference and cycle of business for ratification by the Board unaltered.</p> <p>AUDIT COMMITTEE SELF-ASSESSMENT REPORT</p> <p>The Clerk introduced the drafted Committee self-assessment report noting that because of the many changes made to the Corporation governance structure at the College and very recent new appointments to membership the Committee, the self-assessment report did not give a</p>

	<p>simple statement of strengths and areas for improvement. The report emphasised the fact that whilst progress had been made, there was much work in progress. The Committee confirmed the priorities for 2019/20 which were: -</p> <ul style="list-style-type: none"> • Risk management policy and effectiveness • Robustness of internal controls • Timely implementation of audit recommendations <p>RESOLVED: that the annual self-assessment report of the Audit Committee be approved.</p>
10.	<p>Any other Business There was no further business and the meeting closed at 19.45.</p>
11.	<p>Date of Next meeting The next meeting would take place on 08 October 2019 at 18.00 in LT3.</p>

Chair's signature *Maria Velazquez*

Date *8/10/19*

Author	David Round
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