

EALING, HAMMERSMITH AND WEST LONDON COLLEGE FE CORPORATION

Meeting	AUDIT COMMITTEE		
Date	08 October 2019	Time	18.00
Venue	Hammersmith and Fulham College, Room LT3, Gliddon Road, London W14 9BL		
Chair	Maria Vetrone		
Present: Callum Anderson; Maria Vetrone; David Paine			
In attendance: David Round (Clerk to the Corporation); Anil Nagpal (Executive Director, Finance & Resources); Daniel Canham (Mazars); Graeme Clarke (Mazars)			
<i>Attendance at meeting = 100%</i>			

	ITEM
1.	APOLOGIES FOR ABSENCE Apologies were received from Karen Redhead.
2.	DECLARATIONS OF INTEREST None.
3.	MINUTES Minutes of previous meetings held on 26 June 2019 were approved as a correct record and duly signed by the Chair on behalf of the Committee.
4.	MATTERS ARISING The matters arising report tracking actions from the previous minutes and other items carried forward were received and noted. In relation to the minute concerning estates strategy, members received a detailed update regarding the current position. As requested at the Board meeting in July, an independent valuation of the Southall site had been commissioned which had confirmed that the bids received were broadly in line with current market values. Finance and General Purposes Committee met on 24 September 2019 and reviewed the options including receiving an update about the value of the net capital receipt which would arise from the disposal of the main block after taking into account relocation costs and other factors. A case conference meeting had taken place with the ESFA on the same day where the matters of the College's request for the re-profiling of payments in 2019/20 and the phasing of the EFS debt repayment had been discussed. The Committee had subsequently written to the ESFA to get clarification of the agency's position in writing so that the Committee could make an informed recommendation to the Board on 17 October. The ESFA

had responded to confirm that it did not have concerns about the recommendation to sell blocks A&B at Southall, which were currently unused. The ESFA had attended a meeting earlier that day at the College and it was understood that a case was being put to the relevant body later in the month.

The Chair suggested that the College may wish to consider updating the estates strategy in conjunction with a 5 year finance strategy in due course.

5. RISK MANAGEMENT REPORTS

5.1 STRATEGIC RISK REGISTER

The updated strategic risk register, taking account of the latest position in relation to the College estate, financial performance and plan and other matters, was discussed by the Committee. The College explained that the register would need to be updated to align with the new College strategic plan which was being presented to the Board for approval later in the month. It was also noted that an operational risk management group was being created at the College.

The significant net risks after mitigation were: -

Risk 10

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. The financial support provided by the ESFA was insufficient to support the College over the duration of the recovery plan which means that the College is having to manage cash flow and debtors extremely carefully and is dependent upon the realisation of capital assets to sustain viability.

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. The implications of the above would be to delay the repayment of the Exceptional Funding Support (EFS) resulting in a continued Financial Notice to Improve from the ESFA and also prejudice a very significant capital receipt and stop the implementation of a new build project at the Hammersmith campus. It would also have serious implications for the College's Recovery plan because of the impairment provisions in the College accounts and the development of a fit for purpose environment for teaching and learning in the future.

Risk 13

Failure to ensure that the quality of teaching learning and assessment at least maintains the current Ofsted grade of 'Good' leading to a poor inspection result at the next inspection and consequential impact on the College reputation and student recruitment.

Risk 18

Inability of the College to at least maintain the assets of the College estates and to provide an appropriate infrastructure for learning including IT in the 21st century leading to a deteriorating student experience, negative impact on the College's reputation, student recruitment and income.

Three (3) risks had declined in net risk scores: -

Risk 5

Capacity to achieve non pay targets resulting in failure to achieve planned I&E target putting further strain on cash when college is operating with minimum working capital headroom.

Risk 6

Failure to achieve staff cost savings resulting in failure to achieve I&E target and staff spend/turnover profile of 65% thus putting further strains on cash.

Risk 9

Increase in Teachers' pension costs in 2019/20 16.48% to 23.6% with a net impact of £400k additional costs.

No net risk scores had increased.

The Chair commented that the register was well constructed and detailed; however, she queried whether the net risk profile was accurate given an objective assessment of the College's position and the level of current inherent risk in the business i.e. the College was in intervention; it had a potential insolvency risk; it was operating with deficit budgeting and a significant EFS debt; and the estates issues including the Hammersmith Gateway project being currently on hold. 33% of net risks were scored as Significant or High; 67% as Acceptable or Low. The College commented that in the case of Risk 5 (capacity to achieve non pay targets resulting in failure to achieve planned I&E target putting further strain on cash when college is operating with minimum working capital headroom), the decline in net risk reflected the success of the College in taking robust actions to control non-pay expenditure last year resulting in a forecast outturn that exceeded the planned budget, even though it was set at a deficit level. The College commented similarly in the case of Risk 6 regarding pay costs although the Chair responded that the College's pay cost to income ratio was still very high and well above sector benchmarks, which needed to be taken into account in the scoring of net risk or the risk definition needed to change. The College noted that the gross risk profile was very different, however, and indicated a high level of gross risk within the business. It was **AGREED** that the net risk profile be reviewed when the new strategic plan was approved and the description of the risks be precisely articulated (**ACTION: AN**).

It was also recommended that new risks be added for subcontracting controls; IT and cyber risks; and learner number systems (**ACTION:AN**)

5.2 RESOLVED: that the strategic risk register report be noted.

RISK ASSURANCE

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**).

6. INTERNAL AUDIT

6.1 SUBCONTRACTING CONTROLS AUDIT

It was noted the objective of the audit assignment was to undertake a 'review of the design and operation of the systems and controls for managing subcontracted delivery at West London College (College) for the funding year 2018/19, in accordance with the Education Skills and Funding Agency (ESFA) Guidance 'Providing external assurance on subcontracting controls' dated June 2018'. It was also noted that the ESFA requires the Accounting Officer of the College to submit a certificate each year to confirm that the College has received a report from an external auditor that provides assurance on their arrangements to manage and control their delivery subcontractors. An external auditor is defined as an auditor that is external to the college.

The audit report identified 5 recommendations:

Priority	No of recommendations
1. Fundamental	0
2. Significant	2
3. Housekeeping	3

The significant recommendations concerned: -

1. The procedures as to how the financial health of a company is determined and when an enhanced financial health check should be prepared (for example if the contract is over £1m or there are credit agency higher risk assessments) should be documented by the College within their subcontracting procedures manual. The procedures should cover situations where a company is in a group situation. Credit agency checks should be performed on the group accounts.

It was noted that the College had already undertaken a review of its due diligence procedures and this recommendation had been completed.

2. The due diligence checklist should include a section to show that the statutory accounts are not overdue. If the accounts are overdue the contract should not be signed. If the contract has been signed and the accounts are overdue then payments should be withheld until the accounts are filed.

College management had accepted the recommendation and had implemented it.

Members of the Committee were advised about the position of the ESFA in relation to one of the College's historical subcontractors (SCL) which had been the subject of adverse publicity in the trade press. The College had suspended payments to the subcontractor in 2017/18 and the College's work with SCL, which had taken place under previous management, did not relate to apprenticeships which the ESFA had ruled to be on contravention of funding rules. Nonetheless, the agency had determined that there was a breach of the funding rules in the case of the College and that a clawback would be apply. The College was challenging the assumptions of the ESFA in relation to SCL and discussions were ongoing.

Members of the Committee noted that there was a recommendation that contingency be built into budgets against a potential clawback. It was also noted that the College was reducing its reliance on subcontracting.

It was also noted that significant changes had taken place in the management of subcontracting and a new manager was responsible for the area. Contracts with SCL had been entered into by the previous Principal. Following discussion, it was **AGREED** that the College's due diligence procedures be circulated to members of the Committee (**ACTION: AN**).

6.2 LEARNER NUMBER SYSTEMS AUDIT

The representatives of the College's internal auditors (Mazars) introduced the audit assignment report on learner numbers systems. Members were advised that the audit was a core audit that the auditors recommended was done annually. The audit established the robustness of the College's procedures and systems for the processing of key learner data linked to funding claims. The scope of the audit stated: 'our work is designed to provide an assessment on whether the College funding claim provided to us on 27 June 2019 (R10) and submitted to the ESFA was in compliance with the funding rules'. The approach of the auditors aimed to mirror, as far as possible, the audit approach used by the ESFA in actual funding audits and was robust and detailed.

The audit opinion given from the assignment was that there was '**limited**' assurance in relation to 16-18 funding and AEB 19+ funding, loans, and apprenticeships.

The audit identified 18 recommendations, 6 of which were high priority (fundamental).

Priority	No of recommendations
1. Fundamental	6
2. Significant	9
3. Housekeeping	3

The fundamental recommendations were as follows: -

1. 16-19 learner numbers – missing forms

- (i) The MIS team should ensure that all forms are in place prior to entering the learner onto the ILR, which could be controlled using a file checklist.
- (ii) The MIS team should conduct spot checks on a regular basis to ensure that all appropriate forms are in place for each learner.
- (iii) Wider staff should be reminded of the requirement for completion and retention of all documents in the individual learner files.

The College accepted the recommendations which were being implemented.

2. 19+ learners – evidence of prior learning

- (i) For 19+ learners, the MIS team should ensure that Prior Learning Records are retained in individual learning forms for all learners.
- (ii) The MIS team should carry out a wider check of PLR to confirm all are held in student files.

The College noted the recommendations and will implement where required by the funding rules.

3. Apprenticeships – off the job training

- (i) The paper off the job training logs should be collected for all learners on a monthly basis to ensure that the off the job training is occurring and learners will achieve the 20% requirement.
- (ii) An exercise should be performed to ensure that the log books where available are reviewed.

The College accepted the recommendations and was in the process of their implementation, including amending procedures where required.

4. Apprenticeship attendance and continued Learning

The Apprenticeship Team should ensure that reviews of apprentices occur in accordance with the funding rules. These should be recorded, signed by all parties and a copy should be stored in the individual learner files.

The recommendations were accepted and use would be made of electronic portfolio systems.

5. Apprenticeship evidence of prior learning

The Apprenticeship Team should ensure prior learning is obtained and retained in individual learner files.

The College accepted the recommendations and would amend procedures as required.

6. Apprenticeship funding

The Apprenticeship Team should ensure invoices are sent to employers at the appropriate time to claim funding. Reconciliations to the DAS should take place to ensure all employers are registered in order to claim funding.

The College accepted the recommendations and would amend procedures as required.

Mazars commented that they had found more errors than they would expect to find in an 'average' college, based on their own audit work. It was noted that the recommendations particularly related to apprenticeship work. There was discussion about the resourcing and management of the area and it was noted that the current MIS manager had started in the new year and was working hard to overhaul historical processes and systems that were not optimal. Members asked the College management whether there was clarity about who was responsible for what in the data process and was this an area of weakness. The College commented that the new MIS manager was highly effective and was delivering significant improvements in reporting and transparency; nonetheless, there remained much work to do. It was noted there was it was still possible that a funding audit could be undertaken. It was not possible to extrapolate funding directly from the audit findings.

On behalf of the Committee, the Chair commented that she welcomed the College's positive response to the recommendations. It was clearly an area of focus for the College and the Committee look forward to reviewing the progress in the implementation of recommendations.

6.3 CORE FINANCIAL SYSTEMS AUDIT

The scope of the audit was to 'review of the adequacy and effectiveness of key control arrangements for payroll and expenses at WLC.' A further piece of work on purchasing and

procurement had been undertaken and would be reported to the next meeting (**ACTION: Mazars**).

An audit opinion of **'adequate' assurance** was given. It was noted

'Based on the work carried out by Internal Audit, we have provided Adequate Assurance. We have identified areas for improvement in the control environment in section 04, particularly when compared to payroll systems we have seen operating in our wider client base. Whilst the results of our sample testing indicate that staff members we sample tested were paid accurately and on time, we have identified lack of evidence maintained in new starter files. This includes the efficiency of processes, administration and oversight, and authorisation of payroll reconciliations to ensure accurate payments are made.'

Four (4) audit recommendations were made, none of which were priority 1 (fundamental).

Priority	No of recommendations
1. Fundamental	0
2. Significant	3
3. Housekeeping	1

All recommendations had been accepted by the College.

6.4 FINANCIAL REGULATIONS (ADVISORY REPORT)

The College had requested that the internal auditors undertake a review of the College's financial regulations. An advisory report had been issued. The main findings of the audit were that: -

- (i) The regulations were largely in line with those in other colleges;
- (ii) The documentation was, however, overly long at 200 pages and cumbersome for staff to use;
- (iii) The regulations had not been updated for some time and a review was highly recommended; and
- (iv) College staff should be briefed on the financial regulations with clear guidance in relation to accountabilities.

The College had accepted the recommendations in the report.

The COO explained that because of resource pressures it had not been possible to undertake an annual review of the regulations. The regulations required a significant overhaul and would be informed by this audit assignment report. The review would be undertaken in the current academic year and presented to the Committee and Board for approval.

6.5	<p>AUDIT RECOMMENDATIONS FOLLOW-UP AUDIT REPORT</p> <p>The report was deferred to the next meeting (ACTION: Mazars)</p> <p>RESOLVED: that the audit assignment reports of the College's internal auditors be noted.</p>
7.	<p>INTERNAL AUDIT PLAN FOR 2018/19</p> <p>The College's internal auditors presented a draft audit plan for discussion and review by the Committee. It was noted that 48 days were assigned to internal audit. The Committee considered the plan and following discussion it was AGREED to defer the assignment related to HR Recruitment Retention and Succession Planning to 2020/21 and to replace with an assignment focusing on IT risks, particularly cyber security in 2019/20, if necessary adjusting the number of days allocated with the planned contingency days.</p> <p>RESOLVED: that the revised internal audit plan be updated as discussed and be presented to the December meeting for approval (ACTION: Mazars).</p>
8.	<p>PROGRESS REPORT ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS</p> <p>It was noted that there were twenty two (22) audit recommendations made by the previous College internal audit partner, Grant Thornton. Of these recommendations, nineteen (19) have been implemented or have been superseded. There are three (3) outstanding recommendations which are being followed up and these are in progress. One of the outstanding recommendations related to higher education. Since the audit the College had applied for registration with the OfS and matters had yet to be finalised. This had impacted upon the HE strategy recommendations.</p> <p>The actions have been independently reviewed by Mazars and will be incorporated into their follow-up report at the next meeting.</p> <p>RESOLVED: that the progress report on the implementation of internal audit recommendations be noted.</p>
9.	<p>PROGRESS REPORT ON THE IMPLEMENTATION OF EXTERNAL AUDIT RECOMMENDATIONS</p> <p>The College reported that follow-up actions arising from the external audit of the annual report and financial statements for 2017/18 remained work in progress. Of the sixteen (16) significant recommendations, twelve (12) had been completed and four (4) remained in progress. All of the seven (7) medium priority recommendations had been implemented.</p> <p>There was discussion of the continuing systems difficulties being experienced by the Finance team which were hindering progress in putting in place streamlined and efficient processes. The COO commented that despite some expenditure on consultancy services from the supplier of the system there remained major operational problems. The College was the only English college user of the system and was tied into a contract. Nonetheless, following the completion of the financial statements it was planned to undertake a review of the optimal</p>

	<p>way forward with consideration being given to adopting a system that was more widely used in the further education sector in England.</p> <p>RESOLVED: that the progress report on the implementation of external audit recommendations be noted.</p>
10.	<p>FRAUD REPORT Management confirmed that there were no recent incidents of fraud at the College.</p>
11.	<p>COLLEGE ACCOUNTS DIRECTION 2018/19 The College Accounts Direction for 2017/18 accounts published by the ESFA was noted. The Committee noted the changes which made more explicit the duties of Corporation members in relation to the 'statement of regularity, propriety and compliance' in the published financial statements and report.</p>
12.	<p>ANY OTHER BUSINESS The Clerk reported on the letter from the Chief Executive of the ESFA to College Chairs in July 2019 concerning an investigation at Bournville College, Birmingham in 2015 to 2016 which found activities that 'fell significantly short of the expectations for college governance and the oversight of expenditure'. Following the receipt of the letter the Clerk and the SLT team had reviewed the 15 recommendations in the letter and confirmed to the Chair that the College had the appropriate controls in place. A copy of the letter and the checklist was made available to members of the Committee</p> <p>There was no further business and the meeting closed at 19.33.</p>
13.	<p>DATE OF NEXT MEETING The next meeting would take place on 12 December 2019 at 18.00.</p>

CONFIDENTIAL ITEM

Representatives of the internal audit partners withdrew from the meeting at this point.

14.	<p>APPOINTMENT OF EXTERNAL AUDITORS RESOLVED: that the Committee wishes to make a recommendation to the Board to appoint RSM as the College's external auditors for a further year.</p> <p>The COO undertook to confirm when the contract was next due for tendering (ACTION: AN).</p>
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Chair's signature  Date 12/12/19

Author	David Round
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