

## EALING, HAMMERSMITH AND WEST LONDON COLLEGE FE

<b>Meeting</b>	<b>AUDIT COMMITTEE</b>		
<b>Date</b>	12 December 2019	<b>Time</b>	18.00
<b>Venue</b>	Hammersmith and Fulham College, Room E351, Gliddon Road, London W14 9BL		
<b>Chair</b>	Maria Vetrone		

**Present:** Maria Vetrone; David Paine; Shawez Mir

**In attendance:** Daniel Canham – Mazars; Graeme Clarke – Mazars; Hannah Catchpool - RSM UK Group LLP; Michael Prosser - RSM UK Group LLP; Anil Nagpal – Chief Operating Officer (COO); ~~Karen Redhead - Chief Executive (CEO)~~; David Warnes – Deputy Principal Business Development and Marketing; Sarah Connerty – Governance Adviser

*Attendance at meeting = 75%*

**A confidential pre-meeting between the representatives of the audit firms and Audit Committee members took place.**

ITEM	
1.	<b>APOLOGIES FOR ABSENCE</b> Apologies were received from Callum Anderson and Karen Redhead.
2.	<b>DECLARATIONS OF INTEREST</b> There were no declarations received.
3.	<b>MINUTES</b> Minutes of previous meetings held on 08 October 2019 were approved as a correct record and duly signed by the Chair on behalf of the Committee.
4.	<b>MATTERS ARISING</b> The matters arising report tracking actions from the previous minutes and other items carried forward were received and noted. The Internal Audit Plan for 2018-19 is included on the agenda at item 6.1 (ii)
5.	<b>RISK MANAGEMENT REPORTS</b>
5.1	<b>STRATEGIC RISK REGISTER</b> 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 COO reported that since the last meeting some new risks have been

incorporated into the register and the Exec team have reviewed net risk scores as requested by the Committee.

The Committee considered the register and the following updates were suggested: -

- Include the date the risk was created to demonstrate to governors how long the risks have been in place
- Include the timescale and details about whether the risk is imminent, ongoing etc
- Include a date alongside the commentary

The Committee considered the risks and the following discussions were raised:

- Risk 7 – *increase in Teachers Pension costs in 2019-20. 16.48% to 23.6% with a net impact of £400k.* The Committee asked if the risk is ongoing; COO reported that the TPS is funded in the current academic year. The College needs to ensure that there is sufficient money coming through to cover the TPS.
- Risk 11 – *Lack of investment in IT infrastructure, leading to outages, failure to provide effective IT service to students and staff and exposure to cyberattack.* The Committee asked if there is pre-emptive work being carried out and the COO confirmed that the IT team already have systems of work in place and he agreed to update the commentary to reflect this
- Risk 9 – *College's processes and systems for the management of student data do not meet funding rules, leading to an adverse ESFA funding audit and a claim for funding clawback.* The Committee asked for an update on the progress following the audit on learner numbers and student data and the COO noted that there is a lot of work to do. It was noted that the Committee usually receive a follow up report on progress of audit recommendations and this will be available for the next meeting and will be a standing item going forward. The Chair noted that the process for audit is now becoming embedded at the College and progress is being made to implement outstanding audit recommendations
- The Committee requested about progress in implementing the learner number recommendations. The COO reported that there has been progress which he will supply to members of the Committee (**ACTION AN**)

The Chair noted that she was pleased to see that the College was focused on the mitigating actions with a view to reducing the net risks.

**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 next meeting of the Committee. The Chair noted that the risk assurance map would give the Committee, and Board, assurance that each of the strategic risks are being managed. The Chair agreed to share a risk assurance map template with the COO.

**RESOLVED – the risk assurance map to come to the next Audit Committee.**

**6. INTERNAL AUDIT**

**6.1 Internal audit assignment reports**

**(i) Audit Recommendations Follow-up report**

Mazars reported that the position is better than reported and given the background of the College progress is good.

The Committee considered the report and the following areas were discussed: -

- *4.1 - Tracking and reporting of IT equipment* – the Committee asked the auditors about obsolete IT kit. The COO reported that the College is trying where possible to update systems. He assured the Committee that asset registers are in place but re focus is needed as College has not invested in infrastructure for some time. The Directors of IT and Estates are developing a three-four year strategy on the asset base. The College is also working on high level strategic issues such as cybersecurity.
- *4.7 – the Technology One System allows finance staff to self-approve invoices.* The Committee asked if audit trails are in place to ensure that controls are effective. The COO commented that this issue arose from Tech One system implementation and is too costly to remedy in the short term.
- *4.3 – Security pass access and network accounts of employees who have left* – The Committee asked for an update as of today about what happens when an employee leaves. The COO noted that he will request the latest information and report back to the Committee **(ACTION: AN)**
- *4.6 – accurately reporting information in relation to students who have received additional learning support during the year* – the COO agreed to discuss the issue and recommendations further with David Paine outside the meeting.

As part of the follow up audit Mazars reviewed 22 recommendations. Nine are implemented, four superseded and nine are partially implemented. There were therefore eight medium-level recommendations outstanding (three in IT Support Services, two in Purchasing, one in Risk Management and two in HE provision) and one low (in IT Support Services) recommendations. Mazars noted that they are confident that actions are being followed through and the tracker shows more progress than reported in the Follow-Up report. They noted that the College's HE provision is small for an FE college and the recommendations which remain on the register due to OFS requirements should be viewed within this context. The COO reported that the College now has OFS registration.

The Chair thanked Mazars for their presentation and report and requested that the College management close down recommendations that have been superseded in a timely manner. It was agreed that there are three or four recommendations that are genuinely in need of management response and action. The Chair explained that at her College recommendations are tracked with very transparent dates around when the recommendation

was raised and actioned and then closed down. The COO confirmed that the College keep separate spreadsheets of actioned recommendations.

Mazars confirmed that the College will get to a position during the follow up audit when audit points can be cleared off and the remaining existing risks will be superseded in new audit reports.

**(ii) Updated internal audit strategy and operational plan 2019/20**

Mazars have updated the plan and strategy which was discussed at the length at the last meeting and the final plan was presented to the Committee. The concerns around IT and cybersecurity risks have been included and HR, recruitment and succession planning has been deferred to next year.

The Committee asked about the skills of the governors and the monitoring of suitability, skills needs and self-assessment to ensure governance is effective. Mazars confirmed that one of their first audits was on governance. Mazars were not able to give substantial assurance at the time, although only a few recommendations were made. It was clear that a large amount of progress on governance had taken place but because processes were new they were not embedded and planning was still going ahead. Mazars noted that there had been significant progress made in relation to governance.

The Committee asked if the strategy was now fixed for the next 12 months and Mazars confirmed that the Committee will continue to review the strategy through the year as the College's risk profile changes.

**(iii) Core Financial Systems Purchasing and Procurement**

Mazars reported that there was an adequate level of assurance. There are no fundamental recommendations or housekeeping recommendations. The Committee considered and agreed it was a good and clean report.

**(iv) Internal Audit Annual Report**

Mazars explained that the report is a summary of all the work done in the shortened year and details levels of assurance. At the time of appointment in March 2019 the College had not had any internal audit undertaken and there was a significant amount of work around its challenging financial circumstances and liaison with key stakeholders including the ESFA and the FE Commissioner. Mazars audit opinion is as follows: *'On the basis of our audit work, we consider that West London College's governance and risk management are generally adequate and effective to manage its achievement of the College's objectives. In respect of internal control we also consider this be generally adequate and effective with the exception of Learner Numbers for which we provided a limited compliance with ESFA Funding Rules assurance and made six fundamental recommendations.'*

	<p>Key issues have been addressed with audit points and there are action plans in place to address them. Mazars pointed the Committee to Section 4 – around Value For Money explaining that the auditors aim to add value through the work carried out. Section 5 provides benchmarking data which may be of use further down the road for the College.</p> <p>It was agreed that the Annual report of the internal auditors is one of the key sources of assurance for the Committee and is used when producing the Annual Report of the Audit Committee and for underpinning the statement of governance. It was agreed that, although the College is not aiming for substantial assurance across the board, in the current FE climate in order to get up to the next level it needs to address the audit points around Learner Numbers as a matter of urgency. The Chair reported that the value of internal audit depends very much on the culture of the College and at senior management level and the willingness to direct internal audit to review areas of weakness at the College to drive performance improvement.</p> <p>The COO noted that the issues have been picked up for a reason and with the exception of a few items to push back on the College will work hard to address the audit points. He noted that a sign of good culture at a college is how the audit service is utilised.</p> <p>In discussion, RSM confirmed that they take comfort from the low number of recommendations, particularly in relation to financial systems and controls.</p> <p><b>RESOLVED: that the audit assignment reports of the College’s internal auditors be noted.</b></p>
7.	<p><b>HEALTH AND SAFETY UPDATE REPORT</b></p> <p>The COO reported on the Health and Safety report and the Committee considered the update. The Committee asked for the College’s views on the 83% figure for staff completing mandatory training. The COO noted that the College would like a higher completion rate from staff but that there had been a lot of change at the College and management was focused on improving staff response to H&amp;S training. He noted that the Health and Safety manager is longstanding at the College which provides a level of continuity. The COO explained that online H&amp;S training with the ‘Smartlog’ system is rolled out and there is a H&amp;S Committee with relevant representation and reporting. The COO noted that staff take H&amp;S seriously due to the work of the Officers involved but that there is always more work to do in raising awareness and finding innovative ways for staff to engage.</p>
8.	<p><b>FRAUD REPORT</b></p> <p>Management confirmed that there were no recent incidents of fraud at the College.</p>
9.	<p><b>DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS, REGULARITY AUDITOR’S MANAGEMENT LETTER AND LETTER OF REPRESENTATION</b></p> <p>The COO reported on the Report and Financial Statements for the year end 31 July 2019. He tabled the Consolidated Statements of Comprehensive Income and Expenditure, the College Statement of Changes in Reserves, the College Balance sheets as at 31 July and the</p>

Statement of Cash Flows for the Committee to consider and he presented the findings. Key points included:

- The deficit for the year is £8.052m before actuarial loss on the pension scheme
- The profit on disposal of assets is £555k
- The management accounts as at July 2019 included a £2.46m deficit. This then reduced to £2.2m due to strong performance and being ahead of budget
- Increased pension costs of £2,030m which were expected
- A series of adjustments net £4.4m increasing the outturn to £8.6m
- With the profit of disposal of assets at £555k this reduces the figure to £8.1m
- There are significant audit adjustments of £4.4m as follows:
  - Write back all Hammersmith and Fulham Project to I&E (£8,654k)
  - Reverse 2016-17 impairment to I&E £5,382k
  - Reverse 2017-18 impairment to I&E £2,001k
  - Additional depreciation on impairment reversal (£633k)
  - SCL clawback (£2,047k)
  - Subcontractor refund provision (£244k)
  - Other audit adjustments of (£205k) which were available for the Committee to view. These are mostly non cash and include regularising issues such as dilapidations and the lease with WLCA.

At Finance and General Purposes Committee the COO reported that the Committee had supported the decision to address historical issues in the accounts. The Committee were comfortable with an approach that included addressing fundamental and historical items on the balance sheet. The Committee asked if the commentary and PR around the accounts will be ready for next week and the COO confirmed that everything is being pulled together to be ready for presentation to the Board on the 19 December.

The Chair asked in terms of the balance sheet how the revised deficit affects financial performance with the ESFA KPIs. The COO reported that he has worked through and modelled the figures. Currently the College has the status of 'Requires Improvement' but with Exceptional Financial Support (EFS) it reverts to 'Inadequate' and combined with a likely further draw down the College will be 'Inadequate' for some time.

External auditors RSM asked about the bank covenants and if, as a result of the change in numbers, the College will breach a bank covenant later in the year. The COO explained that he had had discussions with Barclays pre audit and at that stage they did not consider the £8.5m to be borrowing to breach the covenants. With the shift in current assets and liabilities the College may breach one of the covenants and the COO wants to do further work on the numbers before confirming. The Chair asked about the College's relationship with the bank and the COO reported that it is very strong. There has only been one year out of five that the College has not breached its covenants and through this Barclays have continued to be very supportive.

RSM reported that last year the College was in breach of its bank covenants and a waiver letter was provided. However there is a risk that unless there is written agreement on any breaches prior to year end the College will not be able to obtain a waiver under the FRS102 rules. The Chair noted that the COO will need to contact the bank as a matter of urgency. RSM explained that if the loan does become repayable on demand it is a matter of fact that the accounts will need to be reclassified with the disclosures. It was agreed this is an urgent matter of business that needs resolving before the Board meeting. The COO reported that the bank have been kept fully informed and are aware of the revised deficit of £8.1m. The bank had previously confirmed that a waiver was not required and it was proposed that the COO contacts the bank to explain the position and request a waiver letter. The COO confirmed that he would report back to the Committee on the bank discussion outcome.

### **Draft Audit Findings Report Year End 31 July 2019**

The report was circulated on the day of the meeting. RSM reported as follows:

- Section 1 provides a good summary and overview of the audit opinion perspective. There are five outstanding areas (review and finalisation of the financial statements, conclusion relating to adoption of the going concern basis and related disclosure, conclusion on the potential prior period adjustment for catering services, reassessment of the bank loan covenant considering audit adjustments, post balance sheet event audit work)
- There are no anticipated modifications to the regularity assurance report. The Chair asked how the auditors can assess this and provide an opinion without the College's submission of the Regularity Questionnaire. RSM confirmed that they have the detailed work programme around compliance and a series of tests in line with the audit handbook. It was noted that they will need to see the completed questionnaire before the audit opinion is finalised. The COO confirmed that this will be completed and work on the narrative is currently underway using the report from last year as a basis
- For the Financial Statements RSM anticipate a modification for the inclusion of a material uncertainty paragraph in relation to the adoption of the Going Concern basis of preparation. The COO reported that the report on SCL confirms that clawback would not jeopardise the solvency of the College. RSM confirmed that they were in receipt of the report and it is helpful but there are a number of uncertainties at the current time
- *Section 2 – Audit, Accounting and Regularity Issues* was raised as part of the audit plan in June and all material items are drawn out later in the report. This section contains a number of disclosures with the Hammersmith redevelopment being the biggest numerical adjustment.
- *Section 3 – Audit, Accounting and Regularity Issues Identified During Audit and Regularity Work* raise points that have come to attention during the audit and RSM confirmed that individually there was nothing material contributing to the number of adjustments. In this section RSM referred to the use of agency staff and in particular the contracted finance team and whether this arrangement on a long term basis provided the best value for money
- *Section 6 – Significant Deficiencies in Internal Control.* The Chair noted the comments in section 6 around agency staff and the finance team and whether this can be removed or

modified to address management's concerns. The COO reported that he only has 2.5 permanent staff in the finance team and the priority at the current time is to get a set of accounts. The Chair suggested that any points that do not impact on the audit opinion could be removed or modified in consultation with management. RSM noted that they were happy to have a discussion about the wording but noted that the cost of agency staff is very high against actual ability and there is an audit question around value for money (VfM) and procurement. RSM noted that there is a responsibility as a college to look at VfM and it comes up as part of the regularity audit, governance and internal control. The COO asked if this had been raised in previous audits and whether the College had better value for money with the previous finance team.

The Committee considered the report and the following points were raised:

*Section 4 – Unadjusted/Adjusted Misstatements* – the Committee asked about the unadjusted calculations and the COO agreed to share offline to the Committee.

*Section 5* – there has been no potential impropriety issues identified as part of the audit.

*Section 6* – It was agreed that this section is open to management response and the COO noted that he felt a number of the items were not significant enough to be included in the section, for example trade receivables which is related to issues with the Tech One accounting system and cannot be addressed at the current time; Bank reconciliations were not undertaken between January and July because of technical issues with the Tech One system, which the Finance team was having to manage. The COO assured the Committee that due process had been carried out and evidence was available for internal audit. It was agreed the revised version following management response would come to the Committee when finalised.

*Section 7* – the COO noted that in the report the subcontracting arrangements come across as current issues and RSM agreed to update the wording to clarify and make clear the reference is a current year issue on prior year funding.

RSM noted the challenges and significant difficulties during the audit which resulted in more time than expect to resolve the report and they passed on their thanks to the COO and team.

RSM reported that the College had received oversight and support during the process from an RSM partner.

#### **Appendix A – Draft Letters of Representation**

RSM reported that there are 21 key judgements included in the financial statements letter. The Committee asked for clarity on judgement 22. *We confirm that the Hammersmith project is not currently viable and there are no immediate plans to demolish the existing site and therefore there are no further indicators of impairment.* The COO confirmed that this is correct and in line with the strategic risk register. He noted that the College had not been successful in receiving



	<p>GLA funding but is on the reserve list and would want to have some financial headroom before reinvesting in the project.</p> <p>There was a long discussion about the timeframe for completing the accounts prior to the Board meeting on the 19 December. It was agreed to discuss further outside of the meeting.</p> <p><b>RESOLVED:</b> that given the particular difficulties in completing the audit process that the Annual Report and Financial Statements, Regularity Auditor's letter and letter of representation be deferred at the Corporation meeting on 19 December and that an extension be requested from the ESFA. It was suggested that a special meeting of the Board be convened in January when all work had been finalised (ACTION: AN), Updated versions of the documents should be forwarded to the Committee when available for comment.</p>
<p><b>10.</b></p>	<p><b>POST 16 ACOP REGULARITY QUESTIONNAIRE</b></p> <p>The COO noted that the report is in progress and confirmed that the Committee would have sight of prior to the Board meeting on the 19 December.</p>
<p><b>11.</b></p>	<p><b>SUBCONTRACTING UPDATE</b></p> <p>(David Warnes – Deputy Principal Business Development and Marketing joined the meeting at 19.56)</p> <p><b>11.1 SUB-CONTRACTING SUPPLY CHAIN, FEES AND CHARGING POLICY</b> - the Policy will come forward to the Board for approval.</p> <p><b>11.2 2019/20 SUBCONTRACTOR COMPLIANCE WITH FUNDING RULES ASSESSMENT</b></p> <p>The DP BDM reported that there has been increased scrutiny around subcontracting and the ESFA has issued specific regulations which the College have reviewed and provided a compliance check against. Currently the College is compliant with 100 of the 106 rules and after consideration and approval of the Supply Chain, Fees and Charging Policy at next week's Board meeting a further five rules will be compliant. The College has detailed the additional expertise and experience of key staff managing subcontracting, ensured conflicts of interest are managed effectively and put in measures to prevent funding extremist organisations. The final rule around ensuring quality checks with learners and staff is being implemented in the new year and a revised template for visits has been produced in line with the requirements.</p> <p>The Committee considered the report and mapping exercise and the following points were raised:</p> <ul style="list-style-type: none"> <li>• The Committee asked for further information around the Subcontractor RAG rating which shows four out of five partners as amber. The DP BDM explained that partners are rated against three main measures – submissions of paperwork, financial profile and quality performance and measures. Because it is early in the year there is only one set of data for finance and quality and the majority of the red/amber ratings are related to compliance of paperwork. The team are rigorous in rejecting paperwork with missing data and today's partner conference included training sessions on data submissions which should improve performance around submissions</li> <li>• The DP BDM confirmed that all enrolments on the Individual Learning Record (ILR) are compliant</li> </ul>

	<ul style="list-style-type: none"> <li>• The Committee asked if there are consequences when partners are amber or red rated and the DP BDM reported that there are no contractual implications but the team meets with partners every six weeks to address any concerns</li> <li>•</li> </ul> <p>The Chair thanked the DP BDM and noted that the compliance schedule is really helpful and asked that it comes to each Audit Committee meeting as part of its assurance processes. The Committee agreed that this was a good idea due to the national focus on subcontracting and the inclusion of subcontracting on the strategic risk register to monitor progress.</p> <p><b>RESOLVED</b> – that the Subcontracting, Supply Chain, Fees and Charging Policy comes to the Board for consideration and approval. It was also agreed that Subcontracting Compliance Schedule is included as a standing item on the Audit Committee agenda.</p> <p>(David Warnes withdrew from the meeting at 20.04.</p>
12.	<p><b>SCHEDULE OF SETTLEMENT PAYMENTS</b></p> <p>The COO reported that he had taken a broad view of settlement payments and included all 19 payments which totalled £76.1k. 18 are redundancy payments and one is around a dispute relating to back pay of an individual who has left the College. The Chair asked if the payments were within the budget in the pay costs line and the COO confirmed they are within the budgeted figures.</p>
13.	<p><b>ANNUAL REPORT OF THE AUDIT COMMITTEE</b></p> <p>The interim Clerk reported that the Post-16 ACOP requires the Audit Committee to prepare an annual report setting out its activities during the previous year. The report covers:</p> <ul style="list-style-type: none"> <li>• The work undertaken by the Committee during the year</li> <li>• Any significant issues arising</li> <li>• Any significant matters of internal control included in the reports of audit and assurance providers</li> <li>• The Committees view of its own effectiveness and how it has fulfilled its terms of reference</li> <li>• The Committees 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.</li> </ul> <p>The Committee considered the report and noted that it was very comprehensive. The Chair asked for the auditors' view and Mazars confirmed that the report went above and beyond what was usually included. The Committee noted that the audit opinion and the link to the minutes from the 8 October 2019 needed to be included in the final version.</p> <p><b>RESOLVED: The Committee recommended to approve the Annual Report of the Audit Committee subject to the amendments above.</b></p>
14.	<p><b>ANY OTHER BUSINESS</b></p> <p>There was no further business and the meeting closed at 20.42</p>
15.	<p><b>DATE OF NEXT MEETING</b></p> <p>The next meeting would take place on 19 March 2020 at 18.00.</p>

Chair's signature  .....

Date ..... 27/2/20

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