

EALING, HAMMERSMITH AND WEST LONDON COLLEGE FE CORPORATION

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| Meeting | AUDIT COMMITTEE | | |
| Date | Thursday 27 February 2020 | Time | 18.00 |
| Venue | Hammersmith and Fulham College, Room E351, Gliddon Road, London W14 9BL | | |
| Chair | Maria Vetrone | | |

Present: Maria Vetrone; David Paine (by video conference); Callum Anderson

In attendance: Daniel Canham – Mazars; Anil Nagpal – Chief Operating Officer (COO); Karen Redhead - Chief Executive (CEO); David Round (Clerk to the Corporation)

Attendance at meeting = 75%

| | ITEM |
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| 1. | APOLOGIES FOR ABSENCE Apologies were received from Shawez Mir. The Clerk confirmed that the meeting was quorate. |
| 2. | DECLARATIONS OF INTEREST There were no declarations received. |
| 3. | MINUTES Subject to deleting Karen Redhead from the list of those in attendance, the minutes of previous meetings held on 12 December 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. Other than those matters arising which are covered in reports to this meeting, the COO confirmed that he would send the regularity questionnaire to the Chair for review as agreed (ACTION: AN). |
| 5. | RISK MANAGEMENT REPORTS |
| 5.1 | STRATEGIC RISK REGISTER The CEO led on the presentation of the updated strategic risk register which had been subject to detailed review at senior management level. As a result a number of the new risk |

scores had changed and those where the risk score had increased were the matter of particular focus for the Committee. The specific risks discussed by the Committee were as follows: -

Risk 2: Apprenticeship income targets are not achieved leading to reduced cash receipts each month; assessor caseloads below efficient levels.

The net risk score for apprenticeship income had been increased to 12 (High Risk) because an assessment of the work required to achieve the target of £950k indicated that that the College team responsible for the area would have to work very hard to achieve the target. In discussion, members of the Committee asked whether the CEO was confident that the team was clear about what they needed to do to deliver the income. It was commented that the team was relatively undeveloped at the College and it lacked some of the deeper understanding of the actions required to ensure that the administrative hurdles associated with the post-reform apprenticeship system were swiftly rapidly. The CEO gave the example of the numbers of student in 'DLOCK' in the funding system where funding was suspended because of administrative issues relating to the apprentice's registration. There was potential to achieve higher levels of income from apprenticeships but the skills and experience in the team was not fully developed yet. The CEO assessed the risk of not achieving the target as high but she was very firmly focused on ensuring its delivery.

Risk 5: 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.

The net risk score for this risk had decreased and was now assessed as 8 (Acceptable). The College was well on target to achieve the target in line with the financial plan, as confirmed by the Integrated Finance Model for Colleges (IFMC) which is due to be submitted to the ESFA this week.

Risk 16: Poor quality apprenticeship provision leading to poor Ofsted outcomes, reputational damage and lost opportunity to grow provision.

The net risk score had decreased to 10 (High) following the latest review. The College had graded apprenticeships as 'Inadequate' in its Self-Assessment Report (SAR) this year. This reflected the large number of historical 'legacy' apprentices from before 2018 who are not responding to attempts to contact them and who are unlikely to complete or complete within time. The profile of current apprentices is much more positive and live reports run on the College's student records and MIS system show that in year retention is significantly up.

Risk 21: ESFA launched subcontracting consultation which may result in a cap on the proportion of provision that can be subcontracted (10% by 2023-4) – NEW RISK

This was a new risk that had been added to the strategic risk register. It was noted that the ESFA's position was that subcontracting was high risk and there had been a small number of

colleges whose finances had been seriously prejudiced by high levels of subcontracting activity. The College's current proportion of subcontracting to ESFA income was 28%; the consultation proposed that a cap on permitted levels of subcontracting be set at 25% of ESFA post 16 income in 2021/22, further reducing that percentage to 17.5% in 2022/23 and to 10% in 2023/24. It was noted that the College is developing a plan to mitigate the potential loss of this funding by increasing the proportion of provision that it delivers directly, in both devolved and non-devolved areas.

Members of the Committee asked questions about other risks in the register. In relation to **Risk 6** (*Damage to college reputation resulting from current financial difficulties leading to strained relationship with key stakeholders and suppliers, adverse press reporting, negative impact on enrolments and employer engagement, impact on staff morale and potential loss of key staff*), it was asked about the current degree of creditor stretch and how that would be managed in the light of the financial restructuring and recent capital disposal. The COO commented that no suppliers would be beyond 60 days payment terms other than those with agreed repayment arrangements. It was expected that 30 days payment terms would be achieved by the end of April. In relation to **Risk 14** (*Failure to ensure that the quality of education is at least Good at the next inspection and consequential impact on the College reputation and student recruitment*), it was noted that the net risk remained as 'Significant' (score of 12) and whether there were other mitigating actions that could be taken. The CEO commented that this reflected the most recent College Self-Assessment Report (SAR), which had graded the College as 'Requiring Improvement'. The Strategic Plan had set an objective to achieve a 'Good' Ofsted by the end of the strategic planning period (2024). The College had been very honest in its SAR judgement and the CEO acknowledged that there was lots to do in terms of curriculum quality. The College had not been helped by the continuing difficulties in appointing a permanent Deputy Principal for Curriculum and Quality but she was pleased to advise the Committee that the recent interview panel for the role had been able to recommend an appointment, although they would not start until later in the academic year. The CEO's background was curriculum and quality and she would be very focused in this area until the individual took up post.

There was further discussion about **Risk 2** relating to business development and it was asked about the effectiveness of the College's work to engage with employers, particularly the large levy-paying employers. The CEO commented that the business development team had a very clear focus on the GLA's Skills for Londoners priority areas. The College was working with Heathrow airport, the College was the hub base for a London Mayor's Construction Academy and it was working with multiple health trusts in West London. She recently met with the Executive team at Hammersmith and Fulham Council about strategic opportunities for partnership working. The Chair suggested that this information could usefully be added to the Action Plan/Commentary column in the register (**ACTION: CEO/COO**).

Overall, the Committee considered that the presented strategic risk register was an excellent document and the update had been very positive.

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| <p>5.2</p> | <p>RESOLVED: that the strategic risk register report be noted.</p> <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 prepared a draft of the risk assurance map which was being updated in line with the latest strategic risk register and would be presented to the Committee at the next meeting (ACTION: COO/Clerk).</p> <p>RESOLVED: that the risk assurance map be presented to the next meeting of the Audit Committee.</p> |
| <p>6.</p> | <p>INTERNAL AUDIT</p> <p>There were no internal audit assignment reports for presentation to the Committee. The audit manager commented that the field work on cash management and subcontracting was imminent.</p> <p>In discussion with members of the Committee it was noted that Mazars will be undertaking a detailed funding audit as part of its current audit plan, which would be focusing on areas of the highest risk.</p> |
| <p>7.</p> <p>7.1</p> <p>7.2</p> | <p>IMPLEMENTATION OF AUDIT RECOMMENDATIONS</p> <p>Internal Audit Recommendations</p> <p>It was noted that there were 44 audit recommendations on the internal audit tracking sheet. These had arisen from audit assignment work in 2018/19 undertaken by the current auditors, Mazars; 7 of the 44 recommendations were outstanding actions from earlier audits undertaken by the previous auditors, Grant Thornton. In summary, the follow-up tracking showed the following: 12 Completed; 7 In progress/On-track; 25 Outstanding. The schedule of earlier audit recommendations was presented for information.</p> <p>Members of the Committee commented that some of the recommendations that could be readily implemented appeared to be taking some time to be completed and could these be progressed more speedily. There was discussion with the Committee of the validation process for completed recommendations and it was recommended that the tracking sheet be updated to record the College’s assessment of completion status rather than waiting for confirmation from the auditors, who would be validated separately. It was also proposed that it be clear where recommendations had been superseded. The Chair suggested that it would be helpful to categorise recommendations by priority so that progress against the highest priority recommendations could be easily reviewed (ACTION: COO).</p> <p>The COO commented that he expected the financial regulations review would be completed by the end of April.</p> <p>External Audit Recommendations</p> <p>The COO commented that the external audit recommendations was significantly shorter than</p> |

last year. There was discussion of the recommendations relating to the need to update the College Asset Register: the COO said that there would be a major focus on completing this by the end of the year.

RESOLVED: that the reports on the implementation of internal and external audit recommendations be noted.

8. REPORT OF PAYROLL INCIDENT TO THE AUDIT COMMITTEE

The Committee received a report about a recent incident involving payroll arrangements at the College. The incident had involved a significant over-payment of payroll to a member of staff who was leaving the College. The sums involved were very large and were unauthorised. Following referral to the College's solicitors, the monies had been quickly returned to the College.

The College had commissioned an investigation led by a manager at the College who was not connected to the HR/Payroll department. The final report arising from the investigation was yet to be received but an account of the events that had led to the incident had been provided to the senior leadership team.

The report had established that the incident did not involve fraud but had arisen because of human error and a failure of systems. A clerical error in the processing of the payment had been made in the Payroll team at the College; there were two levels of checks by managers in the HR and Finance departments but these did not pick up the serious over-payment. The authorised payment had then been sent to the external payroll organisation who had processed the payment to the individual. A member of staff had been suspended.

The Committee expressed their serious concern about the incident noting; -

1. There has to be a system of robust checks on payroll payments because of the risk of fraud;
2. There were a number of systems failures in the initiation, authorisation and processing of a very large and unusual payment;
3. It would appear that the existing systems of checks had not worked and it was questioned why this was the case; and
4. What actions are being taken to address the systematic failures that had taken place so that the matter cannot occur in the future.

The College concurred with the Committee that the incident was a serious failure in core systems. Action was being taken:

- to instigate more robust checking procedures
- to prevent the processing of payment outside normal payroll schedules
- to lock-down outsourced payroll systems
- The HR department structure was being reviewed with a senior post responsible for systems integrity.

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| | <p>In discussion it was noted that the College was not happy with its HR/Payroll systems which were expensive to licence (c£200k p.a.) and as had been shown, did not provide the necessary systems safeguards. The existing supplier contract expired in 2021 and there would be fresh look at the market for more effective and value for money systems. It was noted that many of the individuals who had been involved in the original implementation of the systems were no longer at the College.</p> <p>Internal audit confirmed that core financial systems including payroll had been examined last year as part of the audit programme. This audit had given an opinion of ‘adequate’ assurance with no ‘fundamental’ priority recommendations, 3 ‘significant’ priority recommendations and 1 ‘housekeeping’ priority recommendation. The Committee asked whether the audit had examined systems integrity in relation to payroll processing and whether it had found the problems that become evident. The Committee commented that it was surprising that audit had provided the opinion it had given subsequent events. Internal audit commented that these aspects would have been covered as part of the audit and the recommendations covered in the follow-up report. The Committee requested that a more detailed audit be undertaken in the current year so that it could obtain more robust assurance going forward.</p> <p>It was AGREED that Mazars would review the audit plan for the current year with College management to create the necessary capacity for a further review of payroll core systems. They were also asked to provide a note of the scope of the last payroll audit that was carried out in 2018-19 and to confirm what controls had been reviewed and tested, and why significant control weaknesses in the authorisation of the payroll were not identified during the audit (ACTION: Mazars).</p> |
| 9. | <p>FRAUD REPORT Management confirmed that there were no recent incidents of fraud at the College.</p> |
| 10. | <p>ANY OTHER BUSINESS There was no further business and the meeting closed at 19.27.</p> |
| 11. | <p>DATE OF NEXT MEETING The next meeting would take place on Tuesday 7 July 2020 at 18.00.</p> |

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| 12. | CONFIDENTIAL ITEM {to be redacted from the published minutes} |
| | <p>Representatives of audit firms withdrew from the meeting at this point.</p> <p>The following discussion was redacted on the grounds of commercial confidentiality.</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> |

Chair's signature Date

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| Author | David Round |
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