



**Minutes of the Meeting of the
AUDIT COMMITTEE**

held in the Board Room, Fawcett Building,
Willesden Centre,
at 4pm on Monday 28th November 2016

MEMBERS

Present
[5/5:100%]

Name

Vineeta Manchanda - Chair
Tony Johnston
Diane Kennedy
Peter Child
Jan Knight

Category

Independent
Independent
Independent
Independent
Independent

Vacancies [0]

IN ATTENDANCE**Name**

Fiona Chalk
Eamonn McCarroll
Anthony Moore
Andy Cole
Mary Prince

Damien Byrne
Karl Bentley
Chris Mantel
Graeme Clarke
Jerry Barton
Katherine Patel

Office

Clerk to the Corporation
Vice-Principal Finance
Financial Accounting Manager
Principal
Assistant Principal Enterprise and
Employment
KPMG
RSM
RSM
Mazars
Mazars
Buzzacott

[Action]

1 APOLOGIES FOR ABSENCE

No apologies were received.

2 DECLARATIONS FOR INTEREST

Tony Johnston declared an interest in item 5. His previous role gave rise to involvement with a named sub-contractor.

3 MINUTES OF THE PREVIOUS MEETING

The minutes of the meeting held on 23rd June 2016 were unanimously approved. **Clerk**

4 MATTERS ARISING

Report on sampling system test group by Mazars

The report was noted.

[Action]

Report on Executive Actions to endeavour to close the gap between learner numbers and funding

The report was noted.

7 INTERNAL AUDIT

Internal Audit Reports 2015/16

Assets and Inventories

Members noted limited assurance has been given with 7 priority 2 and 2 priority 3 recommendations. All recommendations have been accepted by management and will be implemented this term, with one exception, the College should consider a physical verification spot check of a sample of the fixed asset register on at least an annual basis by a member of the finance team. This will be done in May 2017. Members noted that there has been a staff resourcing issue due to staff cuts.

Information Security and Data Protection

Members noted adequate assurance has been given with 2 priority 2 and 3 priority 3 recommendations. Management have accepted all recommendations. Management advised that they are currently looking at the use of encrypted USBs and looking at how to implement this. The college is rolling out Office 365 which allows access to the college systems from home so USBs will not be required. The Chair requested that a termly report be issued to Finance Committee on all IT matters, including critical and major network issues and work done to mitigate these issues, as well as summarising findings from the IT data disaster recovery tests undertaken.

GW/Clerk

IT Network Security

Members noted adequate assurance has been given with 5 priority 2 and 1 priority 3.

INTERNAL AUDIT ANNUAL REPORT 2015/16

Members noted that this annual report is one source of assurance for the Board in regard to the college's control systems. The Internal Auditors opinion was noted that they consider that the College of North West London's governance, risk management and internal control arrangements with the exception of Assets and Inventories (which received a Limited Assurance) are generally adequate and effective to manage its achievement of the college's objectives. Certain weaknesses and exceptions were highlighted by our audit work, none of which were considered fundamental. This and all other matters have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.

Members noted the benchmarking information on the college presented by Mazars and that currently, CNWL ranks below other Mazars FE clients, with more limited and adequate assurance ratings issued than average.

A summary of the Priority 1 and Priority 2 recommendations was noted.

The Chair asked the Internal Auditors which area gave them greatest concern going forward. The Internal Auditors stated this was a difficult question to answer as audits are a snapshot in time. It was noted that IT is an area where there have been a number of concerns. Also, Assets and Inventory is an area in the FE sector of historical issues. The college has put significant investment into this area which means it will take time for improvement to show. The Chair requested a letter from the auditors clarifying the above.

[Action]

UPDATED 2016/17 AUDIT PLAN

The updated plan was noted.

8 EXTERNAL AUDIT FINDINGS REPORT 2015/16*POST AUDIT REPORT*

The following were noted:

- this is the first year of Buzzacott's contract with the college.
- the key audit issues and Buzzacott's responses
- Buzzacott's expressed their thanks to the Eamonn McCarroll and Finance team during the audit process.
- FRS102 new accounting standards have required a re-stating of the accounts
- Financial health grate is good as is the Going Concern status to December next year
- Fixed assets adjustments – operating position not affected
- Clawback of £630k by SFA
- £139k clawback for sub-contracting in 2014/15
- The waiver letter from Barclays has been taken into account by Buzzacotts
- Financial ratios and Good grading – primarily due to the college's strong cash position
- The pension liability is not a cash item but is shown on the balance sheet
- The pension liability will be paid back over the life of the fund so this will be built into future years budgets
- CNWL discount rate is lower than the sector average. Management to look into achieving lower costs given the college is the second major contributor and report back to the Audit or Finance committee.
- The college has no choice but to be part of the Brent Council scheme, which is one of the worst performing funds in the country.
- The college merger will look at the possibility of moving pension schemes, depending on what colleges join the merger.
- The £381K associated development costs have been capitalised – there is no set deadline for when this amount will not be capitalised and could be a write off in future years if the site development does not go ahead.

EM/Clerk

Members noted Buzzacott's audit opinion as follows:

Auditor's report on the financial statements - We intend to issue an unqualified opinion in our auditor's report. We expect to express our judgement that the financial statements give a true and fair view of the College's surplus of expenditure over income the year then ended; and have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice.

Accountant's report on regularity - We intend to state that in the course of our work, except for the subcontracting fraud mentioned in the Statement of Regularity, Propriety and Compliance, nothing has come to our attention which suggests that in all material aspects the expenditure disbursed and income received during the year ended 31 July 2016 has not been applied to purposes intended by Parliament and the financial transactions do not conform to the authorities which govern them.

2015/16 AUDITED ACCOUNTS

It was resolved the Audit Committee recommend the financial statements to the Corporation for approval.

EM/VM

2015/16 COMPLIANCE SELF-ASSESSMENT QUESTIONNAIRE

Noted

FRAUD QUESTIONNAIRE

Noted

6 RSM AUDIT REPORT

Members noted:

- RSM have given an unqualified opinion on the ILR audit.
- The college has worked hard to improve its data
- Data errors have led to a reduction in SFA funding
- Areas considered were Start Dates • Withdrawal Dates • Hours on non-regulated ESOL aims not amended for late starters • Recording learners as meeting/being exempt from the EFA Condition of funding for maths and English when they do not • Planned hours for EFA study programmes • Compliance with the maths and English requirements for Intermediate Apprentices who already hold level 1 • No evidence to support achievement of Apprenticeship Frameworks
- Findings included poor timetabling, registers not robust, ILR numbers unreliable, the EasyIS system is poor and didn't provide the required data
- A new learner number system will be purchased for this year – is currently going through the tender process. Members asked management to take into account the merger when securing a new system
- The college reporting on English/Maths 16-18 is within the 5% tolerance margin
- The situation has been exacerbated by a key staff member on long-term sick
- Errors were avoidable and should have been picked up earlier
- Subcontracting monitoring/quality visits had not happened
- 4 subcontractors were operating under a service level agreement rather than formal contracts so the college was exposed
- All subcontractors now have new contracts

Members asked why these matters had not been reported to the Audit Committee earlier. Management advised that the serious problems with the current system and a need to purchase a new system was reported to Corporation in July 2016. Members stated that had not been given this detailed background information at that time.

RSM advised that a funding audit is often the catalyst for other issues in IT and at least half of the colleges they audit have issues in this area. The use of a regular mini funding audit was not as a good precautionary measure to help prevent the situation arising again. RSM stated that they are happy that the college now knows where it is but it believes the college needs ongoing support, perhaps of an internal auditor, for ongoing support and validation.

Members asked how the SFA select which colleges to audit. They were advised that some are random, some are based on a risk category.

It was resolved to recommend to Corporation that a mini funding audit take place in May 2017 for reporting to the June Audit Committee.

EM/Clerk

5 KPMG AUDIT REPORT

Members noted that:

- Keyrail where engaged in March/April 2015
- The SFA mandated the KPMG audit
- The key focus was on engagement of Keyrail, working patterns and general subcontractor controls
- Findings included issues around documentation, due diligence, lack of contract and monitoring of the contract with £214k being paid to Keyrail with no evidence of learning by any of the 79 students
- Both staff members involved in this area have now left the college

The report and its recommendations were duly noted.

[Action]

Management advised:

- that they had met with the SFA on 25th November to discuss the KPMG and RSM audits as both reports echo and reflect substantive issues. The SFA confirmed that they will be issuing a Condition of Funding letter to the Chair of the Corporation setting out the assurances they want as the college's response to the recommendations in the report.
- they will be drawing up a Post Audit Action Plan to monitor implementation of the recommendations and the Audit Committee will have a role in oversight of the plan – its robustness and management's implementation of the said plan. This plan will have merged key priorities from both reports
- they will be redrafting relevant policies and looking at staffing roles and responsibilities to ensure capability
- it is intended that the recommendations will be implemented by February 2017 and a report on progress will be presented to the next Audit Committee in March
- The college had already begun reviewing its subcontractors before the audit.
- There are now 9 subcontractors as opposed to 17 last year and all have new enhanced contracts and have undertaken extra due diligence. All will have learning walks this term and had standard review meetings at the college 2 weeks ago to ensure quality systems are aligned
- Mary Prince undertook an internal investigation with one remaining staff member from this area and the investigation concluded there was no evidence of internal collusion and no allegation has been made against any staff member.

MP/Clerk

Members expressed their concern and questioned management:

- other subcontractors may not be meeting the required standards. Management advised that this will be covered in the Post Audit Action Plan as the SFA are looking at assurances that the said delivery and standards at all subcontractors is being met.
- Is there more risk to the college for larger numbers of subcontractors? Management advised that the funding rules state that the college cannot subcontract to fill funding gaps, although subcontracting has been heavily promoted and the college has been asked to take over some extra subcontracted contracts from other providers. They confirmed that the college is trying to do more direct delivery which will reduce the risk to the college.
- The controls in the college seem to have been less than adequate and a series of interim Finance managers has not helped the situation.
- KPMG have not conducted a forensic audit of the emails – have SFA stated they do not need this to be done? Management advised that the SFA approved the scope of KPMGs audit which did not include this work. Members stated that they see this as a gap in the Audit. It was also noted that background checks have also not been carried out on staff members who have left. KPMG advised that it can be expensive and time consuming to capture electronic data and data disappears over time. Members asked that historic email data be captured now in case the Police require this work to be done. The police investigation is on hold until it receives this Audit report and they will decide if there is a criminal or civil case to be had. Members asked for sight of the email trail that shows the SFA do not require the forensic email investigation to take place.
- Members questioned why some items in the recommendations were deemed not to be High risk. Management advised that actions on these items had already been taken so the risk is now reduced – it's simply a

VM/PC/MP

[Action]

reporting timing issue.

The Audit Committee noted the KPMG report, **and it was resolved that the committee recommend to Corporation, acceptance of the report's recommendations** VM/Clerk

Management and the Clerk were asked to leave the meeting so the committee members could talk with the Auditors.

The meeting closed at 5.40 p.m.

- 9 **AUDIT COMMITTEE ANNUAL REPORT**
Deferred
- 10 **RISK MANAGEMENT – RISK REGISTER 2015/16**
Deferred
- 11 **ANY OTHER URGENT BUSINESS**
Deferred
- 12 **DATE & TIME OF FUTURE MEETINGS**

Wednesday 8th March 2017 at 6.30 p.m. (following Finance and Resources)

Signed.....
(Chair of the Committee)

Date.....