



# WANDSWORTH COUNCIL LIFELONG LEARNING- WANDSWORTH BOROUGH COUNCIL

Skills Funding Agency: Subcontracting Arrangements

31 MAY 2017

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## BACKGROUND

As part of its approach to mitigating the risks attached to the subcontracting of further education delivery from lead providers (those who contract directly with the Skills Funding Agency (SFA)) to other training providers, the SFA has included a clause in its funding agreements for 2016/17 which requires lead providers that subcontract a defined level of provision to other training providers, to obtain external auditor assurance on the systems and controls they have in place for managing that subcontracted delivery. In September 2015 the SFA issued guidance on this requirement in its document 'Providing external assurance on subcontracting controls' (the Guidance). The Council subcontracts to 6 training providers.

### **Respective responsibilities**

In accordance with the Guidance, Wandsworth Council's Lifelong Learning (WCLL) is required to certify that an external auditor has provided satisfactory assurance on the systems and controls it has in place to manage subcontractors delivering education and training funded by the Skills Funding Agency in 2016/17 and that the report provided either contains no recommendations or, where recommendations were identified, they have been implemented or there is an implementation plan and timeframe in place.

As the appointed external auditor, it is our responsibility to deliver a report of the sub-contracting systems and controls of WCLL in accordance with the requirements set out in the Guidance. The SFA's wording for this certificate is attached at Appendix C.

To this end we have agreed to perform the following work:

- Perform the review of subcontracting systems and controls which will involve:
  - Identifying and sample testing the design, implementation and effectiveness of controls operated over the 6 subcontracts in place for 2016/17
  - Obtaining evidence to assess compliance with the SFA's funding rules to the extent required by the Guidance.
- Provide a report detailing the findings of the review including, where appropriate, recommendations for improvements to WCLL's arrangements.

It is the responsibility of WCLL to determine whether the work we have done is appropriate for the purpose for which it was intended.

Submission of the certificates of both the Council and the auditor to the SFA, by the 31 May 2017 deadline, is the responsibility of the Council. For the avoidance of doubt, we are not required to submit a final copy of our report to the SFA and, in accordance with the terms of our engagement letter, our report should not be made available to any other third party or reproduced or referred to in any other documents without our prior written consent.

### **Scope**

We have obtained and documented an understanding of the Council's systems for managing subcontracting and, on a sample basis, tested the controls in place that are designed to ensure compliance with applicable SFA standards and funding rules.

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## CONCLUSION

Overall we conclude that substantial assurance can be given over the design, implementation and operating effectiveness of controls for managing subcontracting arrangements in accordance with SFA requirements. Many of the recommendations we made in our review last year have been fully implemented and the SFA arrangements are strengthened as a result.

Our review identified areas for improvement, however we conclude that these do not fundamentally undermine the overall control environment in place. Appendix A sets out our findings and associated recommendations for continuing to strengthen arrangements.

Our detailed findings and a small number of recommendations have been discussed and agreed with Max Walkington - Commissioning Manager. His management responses to our recommendations are included in Appendix A.

## APPENDIX A - FINDINGS AND RECOMMENDATIONS

No.	Issue	Recommendation	Relevant rule	Management response	Significance
1.	No credit risk checks have been carried out on subcontractors. These should have been carried out before subcontracts were entered into, and then annually.	Perform credit checks on all potential providers as part of the tendering process in line with the rules and maintain the scores. Only providers who pass the check should be able to work with WCLL.  This recommendation was also made in the prior year.	A58	Internal checks take place to ensure financial stability for all subcontracted organisations.  WCLL will maintain credit risk check records for 2017/18 provision.	High
2.	The decision making panels declarations of interest are not documented.  No conflict of interest checks are carried out on potential subcontractors.	Complete an assessment of any potential conflicts of interest when considering applications for subcontracts. Document the process and outcome of this assessment to evidence that it has taken place. Update the application process to include explicit questions regarding any potential conflicts and related parties.  This recommendation was also made in the prior year.	A51	For 2017/2018 provision, an enhanced Due Diligence process and documentation check is in place which includes an explicit declaration for Conflict of interest checks.	Medium
3.	There is no evidence of a review of the fees policy by the governing body / board of directors and your accounting officer (finance). Further, there is no physical sign off of the fees prior to publishing.	Publish a physically signed copy of the supply-chain fees on the website, documenting the approval in line with the rule.  Retain a record that a review of the policy is undertaken by your governing body / board of directors and your accounting officer (finance).	A71	Acknowledged - We will publish this document on the WCLL website	Medium

## APPENDIX A - FINDINGS AND RECOMMENDATIONS (CONTINUED)

No.	Issue	Recommendation	Relevant rule	Management response	Significance
4.	The evidence of the company registration check (incorporating a check that the accounts were not overdue and that there was no notice to wind-up) was dated as at April 2017 after the tendering process. We could not verify that the check took place before the contracts were awarded.	Retain the companies house check performed as part of the tendering process by printing a dated copy of the records to evidence when the check took place .  This recommendation was also made in the prior year.	A57	Company registration checks have taken place in the last year. For 2017/2018 provision, WCLL will maintain records which are dated appropriately.	Low
5.	The contingency plan does not include a contingency for if WCLL needs to withdraw from a subcontract arrangement.	Include within the plan a contingency specifically for if WCLL needs to withdraw from an arrangement	A61	A contingency plan is in place. This document outlines the process whereby a 'Subcontractor closes and is unable to provide service to learners'.  WCLL will amend the document to make it clear that the process outlined is inclusive of WCLL needing to withdraw from a subcontract arrangement. WCLL are a Main Provider and as such are not in any subcontracted arrangement to withdraw from.	Low

## APPENDIX B - DEFINITIONS

LEVEL OF ASSURANCE	DESIGN of internal control framework		OPERATIONAL EFFECTIVENESS of internal controls	
	Findings from review	Design Opinion	Findings from review	Effectiveness Opinion
<b>Substantial</b>	Appropriate procedures and controls in place to mitigate the key risks.	There is a sound system of internal control designed to achieve system objectives.	No, or only minor, exceptions found in testing of the procedures and controls.	The controls that are in place are being consistently applied.
<b>Moderate</b>	In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.	Generally a sound system of internal control designed to achieve system objectives with some exceptions.	A small number of exceptions found in testing of the procedures and controls.	Evidence of non-compliance with some controls that may put some of the system objectives at risk.
<b>Limited</b>	A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.	System of internal controls is weakened with system objectives at risk of not being achieved.	A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.	Non-compliance with key procedures and controls places the system objectives at risk.
<b>None</b>	For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Poor system of internal control.	Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework.	Non-compliance and/or compliance with inadequate controls.
Recommendation Significance				
<b>High</b>	These relate to the identification of control weaknesses which may result in WCLL not satisfying specific requirements within the 2016/17 SFA rules and have the potential, if not addressed, to undermine WCLL's ability to effectively manage their subcontractors in line with the objectives of the contract.			
<b>Medium</b>	These relate to the identification of potential control weaknesses or breaches of the 2016/17 SFA rules, we do not however feel these significantly undermine the subcontracting procedures.			
<b>Low</b>	These relate to observations where changes to arrangements could further enhance the control WCLL has over its subcontracting management, or would simplify the controls processes.			

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## APPENDIX C - DRAFT CERTIFICATE WORDING

### Providing external assurance on subcontracting controls

#### Certificate

##### Lead Provider

We certify that the report prepared by BDO LLP provides satisfactory assurance on the systems and controls we have in place to manage subcontractors delivering education and training funded by the Skills Funding Agency in 2016/17.

We certify that the report identified no recommendations or, where recommendations were identified, either these have been implemented or there is an implementation plan that sets out when the recommendations will be completed by.

The full copy of the report and, where relevant, the implementation plan are available to the SFA if required.

Name:

Job title:

Signature:

Date:

##### External Audit Company

We certify that we have delivered a report of the subcontracting systems and controls of Wandsworth Council Lifelong Learning in accordance with the requirements set out in 'providing external assurance on subcontracting controls'.

Name: Lisa Clampin

Job title: Partner

Signature:

Date:

For and on behalf of BDO LLP



FOR MORE INFORMATION:

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