

SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
Held on 8 June 2017 at 9.00 am

¹PRESENT Mrs Z Carter (E); Mr R Fawcett (E); Mr C Wilson (E).

In attendance: Mr J Brown, KPMG (present to minute 121)
Mr M Cheetham, RSM (present to minute 121)
Mrs A Nash, KPMG (present to minute 121)
Mr S Horrobin, Director of Finance (absent for minutes 121)
Mr T Jackson, Principal (absent for minutes 121)
Mrs S Willson, Clerk to the Corporation

APOLOGIES & MEMBERSHIP

63. Apologies had been received from Mr Beck and Mr Fullbrook.
64. The Committee welcomed Mr Fawcett who had been appointed as a member of the Committee for this meeting.

DECLARATION OF INTERESTS

65. There were no interest to declare.

MINUTES

66. **Resolved** - that the minutes of the meeting held on 2 March 2017 be confirmed and signed as a correct record.

Subcontracting controls (minute 32/17)

67. Responding to a clarification sought at the meeting on 2 March as to the status of the five subcontractors listed in the RSM report on subcontracting controls, the Principal reported that four were limited companies and the fifth was a self-employed individual with a long established relationship with the College and a small number of learners.

Committee Performance Review (minute 32/17)

68. The Clerk reported that the query regarding the meaning of “data quality” contained within the requirements for audit committees set out in the Code of Good Governance had been followed up with the AOC. The AOC had confirmed that there was not a specific underlying definition and the general interpretation applied that high quality data should be fit for its intended uses and accurate/consistent, with examples cited such as requirements of the SFA in relation to funding or of Ofsted in regarding quality.

INTERNAL AUDIT

Key Financial Controls

69. The Committee had received the report of RSM of 24 April 2017 on the audit of key financial controls, covering general ledger, other income and debtors, payroll and procurement and payments.

¹ (E) = External; (C) = Co-opted Committee Member

70. The report confirmed that the Board could take substantial assurance that the controls were consistently applied and operated effectively (“green” rating). RSM has raised three low priority actions and the Director of Finance & Facilities had confirmed actions to address these.
71. The Committee welcomed the positive assurance given by the audit and noted the continued progress demonstrated by College management in the design and application of key financial controls.

Follow Up Review

72. The Committee had received the report of RSM of 18 May 2017 which reported the outcome of the review undertaken to follow up progress made by the College to implement previously agreed management actions.
73. RSM confirmed that all of the actions reviewed had been implemented.

Internal Audit Progress Report

74. The Committee had received the report of RSM of 8 June 2017 which confirmed progress against the 2016/17 internal audit plan.
75. The Committee noted that five of the seven audits had been completed and reported. Of the remaining two, the Subcontracting audit had been deferred and fieldwork for the Learner Number Systems audit had commenced in May.
76. M Cheetham confirmed that no issues had arisen during the course of RSM’s work which would prevent the provision of an annual audit opinion.
77. Responding to a Member’s question about the scope of the Key Financial Controls audit year on year, M Cheetham explained that there were fundamental financial controls in all colleges which RSM would expect to include in the scope but that there was also some flexibility to agree with management areas which it would be timely and beneficial to review in order to inform and support improvements.
78. The Committee welcomed the additional briefings provided by RSM on key legislative, policy and risk updates for the FE sector.

IT CONTROLS

79. The Committee had received the IT Controls Comparison Feedback Paper of RSM of 11 April 2017 and a report from the Deputy Principal providing additional information to support the management actions set out in the audit of General IT Controls received at the previous meeting.
80. M Cheetham noted that the IT Controls Comparison report confirmed the oral report given by the RSM IT Partner at the previous meeting that the College performed at least as well when compared with the outcome of audits across three areas of controls at the four other colleges and as well as two of the other colleges in the fourth area of control, disaster recovery.
81. The Principal summarised the actions taken by management since the last meeting, including the additional information provided on the measures in place to prevent flooding of the data centre room and backup room in the ICT centre on the Sparsholt College campus and a summary of the College’s internet security defences.
82. The Principal noted that the actions in relation to data back up and disaster recovery were progressing and would be reviewed and signed off by the SLT. This would include an

evidence-based plan for data restorations, including assurance about the ability of the College's "cloud based" suppliers to restore data to critical software systems.

83. Responding to questions about comparisons with disaster recovery testing in other organisations, the Principal reported how systems were tested via unplanned events such as power outages and partial restores and explained that there were insufficient resources to carry out a full system shut down without a severe impact on the College's operation. The actions currently underway by management in relation to data restoration were intended to provide additional assurance that key systems could be resupplied and repopulated with College data in the event of a failure.
84. In relation to overall business recovery planning, the Principal confirmed that there was a Crisis Management Plan in place which covered all aspects of the College's activities, including student and animal care, and that this had been applied in a number of recent cases, including power outages and student medical related cases.
85. The Committee was satisfied that the report provided additional assurance in relation to risk of flooding and internet security and noted the progress reported in relation to disaster recovery planning.

RISK MANAGEMENT

86. The Committee had received the report of the Principal providing the third and final monitoring report of 2016/17, including the Risk Register assurance report and the Dashboard.
87. The Principal confirmed that management's review of the risks had resulted in the overall levels remaining the same, except in the case of the risk relating to the Areas Reviews which had reduced from "contingent" to "low". There were some new elements to risks, such as in association with the introduction of the new T-levels, which were explained in the commentary. Three risks related to funding remained "significant".
88. The Committee noted the report under Summative Risk 6 of a small scale incident of fraudulent activity undertaken by a junior member of staff which had been investigated and confirmed as an isolated occurrence. The member of staff had resigned and actions had been taken by management to verify and correct the information concerned. The Committee Chair confirmed that the Chairman and he had been notified by the Principal when the incident was discovered and that the report to the Audit Committee, with the auditors present, completed the required actions under the Financial Regulations.
89. The Principal proposed adding to the Risk Register for 2017/18 under the "College financial success" summative risk, the sub-risk that increases in pension costs could adversely impact on the financial health of the College.
90. The Committee discussed the financial risks associated with pension costs and the measures being taken by management to seek to mitigate them, which had been reported to the Resources Committee and the Board. The Director of Finance & Facilities highlighted the important role of the pension schemes' actuaries and J Brown agreed that actuaries could take stronger measures to address pension deficits in light of the weaker balance sheets of some colleges.
91. Following up the potential risk highlighted by the Principal at the previous meeting in relation to the recruitment of key staff given the local rising cost of living, the Committee Chair questioned whether this should be included in the Risk Register to be kept under review. The Principal reported that the affordability of housing in Hampshire was an issue

- highlighted in the EM3 LEP's economic plan and suggested that the risk relating to loss of key specialist staff (8.4) be amended to include recruitment.
92. The Committee also discussed whether to add a specific reference to remuneration linked to the morale of staff to the Risk Register and concluded that this could be reported under the existing risk (8.2).
 93. **Resolved** – that a sub-risk relating to the risk of increases in pension costs be added to the Risk Register in 2017/18 and that sub-risk 8.4 be revised to include reference to possible future challenges to recruit key specialist staff.
 94. The Committee Chair sought clarity on the monitoring of risk 6.7 in relation to the potential failure to achieve and maintain relevant accredited standards, noting that the Committee had asked the internal auditors to consider risks which appeared as “significant” before controls had been applied. The Principal explained that, where the standards covered by the risk were business critical, these were reported through the assurance report and relevant Board and committee reports.
 95. The Committee noted that the current summary and sub-risks would form the basis of the Risk Register for 2017/18, together with any amendments or new risks arising from the 3 Year Strategic Plan, and the Risk Management Plan would be presented to the Board in October for approval.
 96. **Resolved** – that the Board of Governors be recommended that the format of the Risk Management Plan, incorporating the Risk Register Dashboard and Assurance Report, provided an effective format for risk management and reporting for 2017/18.

PROCUREMENT

97. The Committee had received the annual report on procurement providing assurance on the effectiveness of the College's arrangements for securing value for money.
98. Members welcomed the report, noting the work of the Procurement function during the year to support key budget holders in undertaking 16 tenders, including one OJEU, with a focus on delivering value for money and reducing commercial risk. Savings of £115k had been achieved over the year and significant progress made to materially improve procurement processes, including the core contract used with most suppliers and improved tender documentation.
99. In response to a question about tender requirements in the case of limited or unique suppliers, the Director of Finance & Facilities explained that the Principal and he were able to authorise waiver forms and reported, additionally, that proposals were to be presented to the Resources Committee to revise the Procurement Policy to add three specific areas where purchase orders would not be required.
100. Asked by a Member whether additional savings could be achieved through combining procurement expertise and contracts with other colleges, the Director of Finance & Facilities explained that the approach to procurement and level of expertise varied between colleges and that it would be challenging to develop shared procurement, although he continued to use informal networks to assess the value for money of potential suppliers. J Brown noted that other sectors had established shared procurement, through considerable investment, and with mixed success. Members recognised that the effort and resources involved would have to be justified by the potential savings.

INTERNAL AUDIT STRATEGY 2017/18

101. The Committee had received from RSM the Internal Audit Strategy for 2017-20, including the draft Internal Audit Plan 2017/18.
102. The Committee Chair reported that, further to the action agreed at the previous meeting, he had written to the RSM Partner, M Cheetham, regarding the service provided by the auditors and had received a response which had provided satisfactory assurance in relation to the matters raised by the Committee. The Committee Chair had also met with M Cheetham, with the Clerk present, and the reappointment of RSM by the College had subsequently been confirmed.
103. Introducing the Internal Audit Strategy, M Cheetham explained that the proposals for 2018/19 and 2019/20 were provisional and would be revisited in a year's time and that the plan for 2017/18 could be revised mid-year if the College's circumstances changed. The plan for 2017/18 had been devised to include areas which would enable RSM to provide the Board with an audit opinion at year end. It did not include the separate audit of subcontractors which had been an SFA requirement in the previous two years and would be an additional cost if required again in 2017/18.
104. Acknowledging that there was no external requirement for the Board to seek an annual internal audit opinion and that some colleges had instead redirected audit activity, the Committee Chair confirmed the continued value to the Board of the assurance provided by the internal audit opinion.
105. The Committee noted that there were a number of proposed areas for audit in years 2 and 3 of the Strategy where the College already received external independent assurance, for example in relation to Safeguarding and quality, and there would need to be further consideration as to whether these should be included in future annual internal audit plans.
106. Following the earlier discussion about business continuity and crisis management, a Member questioned whether it would be useful to add this an area for a future audit.
107. **Action** – that RSM and College management consider the value and timing of an audit of business continuity planning in future years or as one of the areas to be covered by the Risk Management and Governance audit in 2017/18.
108. The Committee also noted that procedures for compliance with data management regulations could be an appropriate area for audit in future years, following the introduction of the new General Data Protection Regulation.
109. **Action** – that RSM update the numbering of the Risk Register references in Appendix B and add indicative audit days to the fees stated in Appendix A in the Internal Audit Strategy to be presented to the Board.
110. **Resolved** – that the Internal Audit Plan 2017/18 be recommended to the Board of Governors for approval.

EXTERNAL AUDIT STRATEGY

111. The Committee had received KPMG's External Audit Plan and Strategy which set out the proposed approach to the audit of the financial statements of the College for the year ending 31 July 2017.
112. J Brown summarised the key area of audit, explaining that the plan was similar to that of previous years as the audits of the financial statements in recent years had not raised any significant issues.

113. The Director of Finance & Facilities reminded the Committee that the College's bank loan covenants were currently monitored under the UK GAAP accounting standards. Of the three banks, one had confirmed the covenant would remain under UK GAAP and the other two had indicated they wished to convert the covenants to FRS 102. Under the covenants, one of these required the College's agreement, the other could be imposed.
114. J Brown noted that the auditor's assessment of the College's financial position in terms of going concern was based on the underlying financial risks and sustainability and that this was not affected by changes to the accounting standards.
115. Responding to a Member's question, the Director of Finance & Facilities explained that the College's monthly management accounts were mainly calculated under FRS 102 but with a number of items reserved for reporting at year end, for example year end interest rate SWAPS and pensions.
116. **Resolved** – that the Board of Governors be recommended to approve the External Audit Plan and Strategy for the year ended 31 July 2017.

REGULARITY AUDIT & GOVERNANCE

117. The Committee had received the report of the Clerk to the Corporation on the ESFA requirements for the regularity audit for the year ending 31 July 2017 and information from the then SFA/EFA and the ESFA regarding financial management and governance.
118. The Committee noted that the new self-assessment questionnaire for regularity, propriety and compliance had not yet been published by the ESFA but that, once published, any issues arising from the new questionnaire or the audit process would be reported to the Chair of the Audit Committee.
119. The Committee also noted the letter from the former ESFA Chief Executive, Peter Lauener, in relation to governance and financial management and the summary provided by the Clerk of the procedures the College had in place which satisfied the recommendations outlined in the letter.
120. Responding to a Member's question about how the College assured itself that the requirements set out in College policies were being fulfilled, the Principal explained that the focus tended to be on performance management reporting which measured and reviewed outcomes across key areas and then, if necessary, investigating whether there were issues arising which resulted from non-compliance with policies or from policies no-longer being fit for purpose. Additionally, the content of all policies was reviewed on a regular basis. As well as the Board and its committees, receiving a range of performance reports, significant outcomes and systems were also reviewed independently by the internal auditors, Ofsted and other external bodies.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

121. In the absence of College management attendees, the Committee received assurance from J Brown and M Cheetham that communications and relationships between the auditors and College management remained constructive and positive.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

122. Asked about current dealings with the auditors, the Principal reported that the recent audit of Learner Numbers had demonstrated the high level of competence needed from the internal auditors because of the complexity of the funding rules and systems. In this instance, the management team involved had related that it would have been helpful to

have been able to clarify queries and initial findings earlier in the process. Management were satisfied, nonetheless, that RSM had the continuing expertise to continue to provide this auditing service.

123. The Committee noted that College management would continue to communicate any feedback about the audit process to RSM in order to inform future work.
124. The meeting closed at 11.50 am.