

**SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 18 April 2018 at 9.30 am**

¹PRESENT W Fullbrook (C); A Owen (E); SJ Radford (C); C Wilson (E).

In attendance: M Cheetham, RSM (present to minute 224)
S Horrobin, Director of Finance & Finance (absent for minutes 222-224)
T Jackson, Principal (absent for minutes 222-224)
S Willson, Clerk to the Corporation

APOLOGIES, MEMBERSHIP AND SCHEDULING

185. Apologies were received from Z Carter.
186. The Chair welcomed SJ Radford to her first meeting of the Committee as a Co-opted Member.
187. The Chair thanked members for attending the rescheduled meeting; the meeting planned on 1 March 2018 having had to be postponed due to weather warnings. The Chair noted that he had provided the Board of Governors meeting on 22 March 2018 with an oral report of the planned agenda and key points arising from the written reports. The Board had also received the Risk Management Monitoring Report for information and assurance.

DECLARATION OF INTERESTS

188. There were no interests to declare.

MINUTES

189. **Resolved** - that the minutes of the meeting held on 14 November 2017 be confirmed and signed as a correct record.

SUBCONTRACTORS

190. The Committee had received the report of the Vice Principal, Corporate on the ESFA's enquires with a number of colleges into allegations of irregularity in relation to an apprenticeships subcontractor. The report set out the nature of enquiries, which originated from an irregularity discovered by another college, the internal investigation and the response from the ESFA.
191. The Chair confirmed that the instigation of the investigation by the ESFA and the actions taken by management to comply with the ESFA's requests had been reported at the time to the Chairman of the Board of Governors and the Chair of the Audit Committee.
192. The Committee noted that the ESFA had confirmed that it was satisfied by the information supplied by the College and that it met the ESFA's assurance requirements.
193. The Committee welcomed the thoroughness of the investigation led by the Vice Principal, Corporate, and noted that every learner contacted by the College as part of the investigation had positively confirmed their participation, completion and certification.

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

194. The Committee also noted that the required checks, balances and learner record archive obligations were fully tested in relation to this case and that the College operated enhanced procedures beyond its contractual compliance obligations with the ESFA.
195. The Vice Principal, Corporate reported that the College had ceased trading with the contactor concerned prior to the ESFA's instigation of the investigation.
196. Responding to a Member's challenge as to whether there were any issues identified through the ESFA's enquiries which could potentially apply to other subcontractors, the Vice Principal, Corporate explained that the irregularity identified at another college in this case was not a risk but that management were aware of the potential risks which could arise in subcontractors which were under financial pressure and had controls in place to identify and mitigate these.

INTERNAL AUDIT REPORTS

Financial Controls

197. The Committee had received the report of RSM dated 20 February 2018 following a review of the College's Financial Controls, covering general ledger, other income and debtors, payroll, and procurement and payments.
198. The internal audit opinion was that the Board could take "substantial assurance" that the controls upon which the College relies to manage the areas were consistently applied and operating effectively. There were four "Low" priority issues identified, which M Cheetham confirmed were not systemic, and management had agreed and implemented resulting actions.
199. Responding to a Member's question regarding the limits set by the College's insurance for holding cash on site, the Director of Finance & Facilities explained that an annual process was in place to check that the College's safes complied with its insurance policy and that additional insurance was taken out to cover the handling of cash related to the Countryside Day event.
200. The Committee noted that the report did not include a management action in relation to the audit point about the use and authorisation of tender waiver request forms for procurement where a payment for animal feed was found to have had two quotations but no waiver form in place. The Principal confirmed that this would be added as a waiver item as animal feed often required a quick purchasing decision in order to achieve the best prices and value for money for the College. It was less relevant to achieve value for money savings through transport cost variables as there was a limited number of appropriate suppliers.

Risk Management and Governance

201. The Committee had received the report of RSM dated 19 February 2018 following a review of the College's Risk Management and Governance, which included the mitigating controls in relation to non-IT disaster recovery and business continuity, as documented in the risk register.
202. The internal audit opinion was that the Board could take "substantial assurance" in the controls in place and there were no actions raised in relation to the risk management and governance. There were two "Low" priority actions identified in relation to the Crisis/Disaster Management Plan and both actions had been agreed by management to be implemented by 27 July 2018.

203. Noting RSM's suggestion in the report that the College might wish to formally discuss and document the College's risk appetite as a matter of best practice, the Chair explained that the Board regularly reached views on risk appetite in the process of collective discussions about strategic proposals and projects, and that this could vary over time in response to financial and other factors.
204. The Chair also noted RSM's suggestion that the College might wish to include in the risk register a column for planned actions to be taken in relation to each risk or a column noting known gaps in control and assurance, although the Committee did not perceive a need for amendment of the current format at this time.

Action Tracking

205. The Committee had received the report of RSM dated 19 February 2018 on the progress made by management in implementing previously agreed actions in relation to Financial Controls. RSM explained that the report did not cover previous actions from the last IT General Controls or Learner Number Systems audits as detailed reviews of these areas were scheduled later in the year.
206. The Committee noted the conclusion of the internal auditors that the College had demonstrated good progress in implementing agreed management actions.

Internal Audit Progress Report

207. The Committee had received the report of RSM dated 1 March 2018 on progress of the delivery of the Internal Audit Plan 2017/18.
208. It was noted that the audit of the College's processes in relation to GDPR was scheduled to begin on 6 June, after the new regulations came into place, and a Member sought assurance about the College's approach given the potential risks of non-compliance.
209. The Principal explained that the College's preparations for GDPR built on existing good practice regarding data protection and updates had been reported to the Board, via the Resources Committee. An updated Data Protection Policy had been approved by the Board in March. The scope of the internal audit was intended to support management in providing assurance about the work that had been completed and highlight any areas where additional actions were required.
210. In discussion with the RSM, it was noted that the Information Commissioner guidance had recognised that organisations might not be fully compliant on Day One but that organisations would be expected to demonstrate that they were taking the appropriate steps to reach full compliance with the regulations.
211. The Committee also discussed guidance relating to the position of Data Protection Officer, the requirements of the role and need to ensure that processes were in place to ensure compliance with the data protection reporting regime.

RISK MANAGEMENT

212. The Committee had received the report of the Principal providing the second risk register assurance monitoring report of 2017/18, together with the risk register dashboard.
213. The Principal noted that the three significant risks related to funding and the impact on financial targets, with changes to Government funding being the most challenging risk to control with mitigation being through evidence-based lobbying, such as via Landex.

214. The Principal explained that HE enrolments for 2018/19 were a concern and the College was targeting further marketing in this area.
215. In relation to risk 5.5 “reputational damage”, the Committee noted that the College had received a rating of “Good” from the recent Ofsted inspection and the College’s next inspection would be in five years (subject to performance indicators such as the outcome of the annual SAR and published student results data).

ANNUAL REPORT ON INSURANCE LIABILITIES

216. The Committee had received the report of the Director of Finance & Facilities and the Revenue & Insurance Officer on current and potential insurance claims against the College, and updates on claims previously reported to the Committee.
217. The Committee noted that the College continued to hold a good insurance claim record, and that there were currently no substantial claims against the College.
218. The Director of Finance & Facilities reported that he kept the insurance policies under review and was considering whether to continue with the kennel and cattery scheme. The main College insurance policies were procured through a tendering process.
219. Responding to the Chair’s request for clarification about a reference to “Data and Information” in the Additional Covers section of the main College insurance policy, the Director of Finance & Facilities explained this covered IT networks.

ANNUAL PERFORMANCE REVIEW OF THE COMMITTEE

220. The Committee had received the report of the Clerk to the Corporation providing background information for the Committee’s annual self-assessment of its performance and terms of reference.
221. The Clerk reported that the ESFA’s ACOP for 2017/18 had been published and that there were no changes in relation to the requirements of audit committees. The Committee’s terms of reference had been previously reviewed in relation to both the ACOP and the AOC’s Code of Good Governance for English Colleges.
222. The Committee was satisfied that it continued to operate in line with good practice for audit committees and with its terms of reference and that there were no changes required.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

223. The Committee sought feedback from M Cheetham as to RSM’s interactions with College management and staff.
224. Responding to the Chair’s reference to discussion at previous meeting of the audit of Learner Numbers Systems, M Cheetham explained that he was confident in the skills and knowledge of the auditors and that the auditors had appropriately applied the same rules as the ESFA.
225. More generally, M Cheetham reported that he and the Director of Finance & Facilities had had a constructive and positive discussion about the ongoing audit work.

ANNUAL PERFORMANCE REVIEW OF THE AUDITORS

226. The Committee had received the report of the Director of Finance & Facilities with his assessment of the performance of RSM as internal auditors and KPMG as external auditors over the previous year.

227. The Committee noted that the audit of the statutory accounts had run smoothly and that KMPG had also supported the College with consultancy work on both actuarial and corporation tax. Management had no issues to report and the contract with KPMG was in place until the filing of the Annual Report and Financial Statements for the period ending 31 July 2019.
228. The Committee considered the proposal to extend RSM's contract as internal auditors for a further year from 1 August 2018. The Director of Finance & Facilities reported that RSM had sought a 2% increase on fee which he considered reasonable in the current market conditions.
229. Members noted that the RSM senior partner and manager had been in place for three to four years and recognised that the benefits of the value of the work from auditors who understood the College well had to be balanced against the potential risk that the auditors became too familiar with the College and fail to deliver sufficient challenge. The Chair noted that differences of opinion between auditors and management expressed during some recent audits suggested that the auditors' opinion and advice remained independent and robust.
230. The Committee had previously reflected on options for alternative internal auditors, including appointing more than one specialist auditor, but the consensus remained that receiving an annual internal audit opinion was a valuable part of the Committee's advice to the Board on assurance and risk.
231. From a management perspective, the Director of Finance & Facilities explained that there were more pressing strategic priorities and projects than tendering for internal auditor at this time. This could be reviewed again in around nine months, depending on the ongoing performance of the auditors.
232. **Resolved** – that the Board of Governors be recommended to approve the extension of the contract with RSM as internal auditors, including providing an annual audit opinion, until 31 July 2019.
233. The meeting closed at 12.00 pm