

**SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 7 March 2019 at 9.30 am**

¹PRESENT Z Carter (E); SJ Radford (C); C Wilson (E).

In attendance: M Cheetham, RSM (present to minutes 36)
Mr S Horrobin, Director of Finance & Finance
Mr T Jackson, Principal
Mrs S Willson, Clerk to the Corporation

APOLOGIES AND ATTENDANCE

1. Apologies were received from W Fullbrook and M Lauder.
2. The Committee Chair noted that this was the last meeting that the Director of Finance & Facilities would attend before his leaving date of 31 March 2019 and expressed gratitude on behalf of the Committee for his leadership of the College's finance function and his role in managing relationships with the auditors. The Principal updated the Committee on the progress of Sparsholt College Services Limited recruiting a new Finance Director for the College Group, noting that an Interim Director of Finance had been appointed from April to at least June 2019.

MINUTES

3. **Resolved** - that the minutes of the meeting held on 13 November 2018 be confirmed and signed as a correct record.

Regularity Audit (84/18)

4. The Clerk confirmed that the Regularity Audit questionnaire submitted to the Board of Governors and signed by the Chairman and Principal had been updated in relation to insurance claims as reported at the previous meeting.

Internal Audit (118/18)

5. The Committee Chair reported that he had met with the Principal and Internal Audit Partner, to follow up discussions of the Principal and Internal Audit partner about ways of working, and that the meeting had been positive and constructive. Further discussion of the internal audit function would follow under later agenda items.
6. There were no matters arising not covered on the agenda.

INTERNAL AUDIT REPORTS

Financial Controls

7. The Committee had received the report of RSM (14 February 2019) following a review of the College's Sales to Cash controls in three areas of commercial services offered by the College (hiring of dog kennels, horse stabling and sales of firewood).

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

8. The internal audit opinion was that the Board could take “Reasonable Assurance” (Amber/Green) that the controls in place to manage this area were suitably designed and consistently applied. Four “Low” priority management actions had been identified in relation to clarity of pricing, raising of invoices, payment tracking and contract paperwork and the report confirmed that management would implement all the actions by 30 June 2019.
9. The Committee welcome the scrutiny of this area and was assured that the low risk issues identified by the audit were being addressed by management.

Internal Audit Progress Report

10. The Committee had received and noted RSM’s progress report on the delivery of the Internal Audit Plan 2018-19.
11. M Cheetham provided an update to the written report, noting that the Capital Project review (of the equine redevelopment project) had been confirmed as commencing on 11 March and that the Review of IT and the Staff Utilisation audit were now both due to commence on 6 May. The timing would allow for the audit work to be completed by the end of the academic year and would inform the auditor’s annual opinion.
12. The Deputy Principal – Corporate reported that the external audit required by the ESFA in relation to subcontracting would be undertaken by RSM in July. It was noted that the Board was aware that this mandatory audit was in addition to the Internal Audit Plan and at an additional cost.

PAYROLL

13. The Committee had received the report of the Director of Finance & Facilities on a review by management into payroll matters following two overpayments to current/former members of staff having been identified.
14. The report detailed the amounts overpaid, the details which the review had established and the actions being taken as a result. The Director of Finance & Facilities emphasised that College management took seriously any failure of controls and was seeking both to recoup the sums overpaid and to improve processes going forward to mitigate the risk of overpayments being made in the future. The review had not identified any suggestion of deliberate fraud or wrongdoing by any member of staff.
15. The Committee discussed the findings of the review, seeking additional clarification in relation to the reasons for the overpayments, the management control systems and the likelihood of recovering the sums overpaid.
16. The Committee was assured that the failure of controls was understood by management and that actions were being progressed to address these going forward and would be reported to the next meeting of the Committee. It was agreed that consideration be given to auditing this area during 2019-20 as part of the next internal audit plan in order to confirm the actions had been implemented and that ongoing controls were satisfactory.

RISK MANAGEMENT

17. The Committee had received the report of the Principal providing the second risk register assurance monitoring report of 2018-19, together with the risk register dashboard.
18. The Committee noted that the three risks judged as “significant” after controls had been applied remained those associated with enrolments and funding policy.

19. The Principal noted that the Risk Register had been updated to take into account the risk to the College of the proposed increases in contributions to the Teachers' Pension Scheme (TPS) of c£345k pa from 2020/21 (covered by the DfE at least until September 2020). Members discussed the significant financial burden and damage to colleges and schools should this increase not be funded or compensated by other increased funding from government going forward.
20. The Committee noted that the assurance report made reference to the new insolvency regime for FE colleges and that the College already provided regular and transparent financial reporting to the Board and its committees.
21. Members discussed the insolvency regime with M Cheetham, the Principal and the Director of Finance & Facilities. M Cheetham commented that under the new regime, as currently, it was important for Board Members individually and collectively performed their duties reasonably and without being negligent. Members noted the seriousness with which the Board took oversight of the College's financial position and risk management and that professional advice was sought where relevant. While Board Members should act to prevent a deteriorating financial position, M Cheetham explained that it was reasonable, for example, for a college to approve a deficit budget if this was part of a robust and deliverable financial plan to return to surplus.
22. A Member questioned whether the Risk Register adequately captured the potential risk that a college could undertake decisions or actions which were misaligned with its strategic plan or educational mission. Members discussed this in some detail, noting that there were various checks and balances already in place through the approval of and reporting against the College's Strategic Plan and processes for investment decisions, as well as governance of the activities of the College's subsidiary companies. It was recognised, however, that these were only effective if the Board Members and management adequately performed their duties.
23. The Committee asked the Principal and Clerk to review the Risk Management Plan and Risk Register to consider whether the question of strategic misalignment could be more distinctly addressed.
24. Discussing the assurance report in relation to Summative Risk 6 (legislative compliance), the Committee noted that recruitment was underway for a new Health & Safety Officer and was re-assured by the Principal and Deputy Principal – Corporate that the College continued to maintain a strong health and safety culture.

ANNUAL REPORT ON INSURANCE LIABILITIES

25. 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. The report also provided information about the College Group's current insurance policies.
26. The Committee noted that the College's good record of very low numbers of insurance claims had continued in 2018 and the pro-active management of potential issues by the teams involved. There were currently no substantial claims against the College.
27. The Director of Finance & Facilities confirmed that the level of claims was broadly in line with the insurers' expectations and therefore not problematic. The College was currently retendering for the main insurance policy and evaluating whether it would be value for

money to consolidate two of the specialist policies (livestock and dog kennels and grooming) with the main policy.

28. The Committee noted that insurance for the College's subsidiary companies was included within the current main College insurance policy.

ANNUAL PERFORMANCE REVIEW OF THE COMMITTEE

29. 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.
30. The report responded to a question raised at the previous meeting of the Committee in relation to oversight of data protection, providing further information about best practice in data protection governance, including the remit of the Audit Committee, and noting the introduction last October of an annual report to the Board and the role of the Resources Committee in reviewing policies.
31. The Committee agreed that there were no issues arising from the performance review in relation to the operation of the Audit Committee and that there were no changes required to the Committee's terms of reference.

AUDITORS

32. The Committee usually held a discussion with the auditors at each Committee meeting without management present to assure itself that there were no matters of concern identified by the auditors and that management continued to be supportive of the co-operate with the College's audit arrangements.
33. Given the discussions and meetings about the internal audit function which had taken place prior to the Committee meeting and had been reported under Matters Arising, M Cheetham confirmed that he was content to discuss arrangements with management present on this occasion.
34. The Committee Chair summarised his meeting with M Cheetham and the Principal, noting that he was re-assured by RSM's openness to discussing and reviewing performance. As well as discussing the staffing of specific audit activity, the meeting had covered options for internal audit in future years, including the question of whether to maintain a full audit programme with an annual opinion or to focus only on high priority areas. The Committee Chair confirmed that he was minded to retain a full internal audit programme at least for 2019-20 until a new Director of Finance was established and to consider options again at that point. The Principal concurred with this approach.
35. The Deputy Principal – Corporate suggested that additional value could be derived from internal audit, beyond the compliance activity linked to areas such as learner numbers, by an increased focus on auditors bringing best practice insights to the College's operations, including comparisons with other colleges.
36. The Committee Chair noted that any consideration of fundamental changes to the current internal audit arrangements would require a full options assessment to be considered by both the Committee and the full Board.

ANNUAL PERFORMANCE REVIEW OF THE AUDITORS

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

38. The Committee noted that the performance of RSM as internal auditors had been discussed under earlier agenda items and that the questionnaire completed by the Director of Finance & Facilities was in line with these discussions.
39. **Resolved** – that the Board of Governors be recommended to extend RSM’s contract for a future year from 1 August 2019, subject to the agreement of satisfactory fees by the Director of Finance on behalf of the College.
40. The Committee noted that KMPG had maintained a high standard of service and had been helpful with matters such as the set-up of Sparsholt College Services Ltd (SCS). The audit fee for the accounts to 31 July 2019 (the second year of the current two-year contract) had risen £4,500 to £25,300 to include SCS and KMPG had indicated an increase in the following year of the total fee to £30k.
41. The Committee discussed, given the increase of fees indicated, whether to retender for external auditors for the accounts for the year to 31 July 2020. The Director of Finance & Facilities explained that a tender process would take c2-3 months to complete and that the auditors would need to be appointed by February/March latest. This would require a decision to tender in the Autumn term and an appointment in the Spring term.
42. The Committee noted that the external auditors were one of the key third-party relationships for the College and that any tender process would need to carefully consider the auditor’s approach and capability and to confirm that the staff on the ground would be sufficiently experience and skilled.
43. **Resolved** – that the Board be recommended to confirm the revised audit fee of £25,300 by KPMG for the College Group’s accounts to 31 July 2019.
44. **Resolved** – that the Board be recommended to agree that the College re-tender for external audit services to commence for the 2019-20 financial year.
45. The meeting closed at 11.15 am.