

SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 13 November 2018 at 9.30 am

¹PRESENT Z Carter (E); W Fullbrook (C); M Lauder (E); SJ Radford (C); C Wilson (E).

In attendance: J Brown, KPMG (present to minute 113)
M Cheetham, RSM (present to minutes 113)
E Gipson, RSM (present to minute 113)
Mr S Horrobin, Director of Finance & Finance (absent for minutes 110-113)
Mr T Jackson, Principal (absent for minutes 110-113)
Mr S Hermiston, Director of Information & Funding (present for minutes 56-76)
Mrs S Willson, Clerk to the Corporation

MEMBERSHIP

56. The Chairman welcomed M Lauder to her first meeting.

DECLARATION OF INTERESTS

57. W Fullbrook noted his declared an interest in matters between Test Valley Borough Council and the College.

MINUTES

58. **Resolved** - that the minutes of the meeting held on 7 June 2018 be confirmed and signed as a correct record.

59. There were no matters arising not covered on the agenda.

INTERNAL AUDIT REPORTS

Data Protection

60. The Committee had received the report of RSM (8 November 2018) following a review of the College's General Data Protection Regulation (GDPR) Readiness during 2017-18.

61. The report evidenced good progress at the time of the review in preparing for GDPR and detailed 4 further actions for management (not 8 as stated elsewhere in the report).

62. Responding to a Member's question, M Cheetham explained that the actions had not been prioritised because all required completion in order to fully comply, in the context that the ICO expected that some organisations would still be working towards full compliance.

63. As well as the formal actions, the auditors had suggested that the College continued to monitor case law in relation to the appointment of the Data Protection Officer. The auditors recognised that the Director of Funding & Information had the knowledge and experience for the responsibilities of DPO but was also accountable for significant elements of personal data held by the College.

64. The Committee noted the advice and that, at the present time, the Board was content that the DPO role was being managed and discharged with integrity. With limited resources,

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

the choice of DPO needed to be proportionate and pragmatic, with appropriate processes to ensure independence and to monitor compliance.

Annual Report

65. The Committee had received the internal audit annual report for the year ended 31 July 2018, which had confirmed that the College had an adequate and effective framework for risk management, governance and internal control, with further enhancements identified through the audit work.
66. M Cheetham noted that the report would be updated to reflect the finalisation of the GDPR audit report but that this would not impact the overall audit opinion of “green-amber”.
67. The Committee welcomed the audit opinion, noting that the value of the internal audit process was to identify potential risks and actions to enhance controls. M Cheetham confirmed that actions recorded in 2017-18 would be followed up by the auditors during the 2018-19 programme.

Internal Audit Progress Report

68. The Committee had received and noted RSM’s progress report on the delivery of the Internal Audit Plan 2018-19.
69. E Gipson confirmed that all the audits, other than the IT review, had been scheduled and that a planning call on 16 November had been arranged to scope the IT review. The timing of the capital project review had been moved to later in the year in line with the timing of the project.

SUBCONTRACTING

70. The Committee had received RSM’s audit report of Subcontracting Controls of 11 September 2018 which complied with the ESFA’s requirement for external assurance on subcontracting and a copy of the subcontracting controls certificate issued by the College to the ESFA.
71. The audit had verified management processes and controls for its subcontractors with positive feedback overall and raised two examples where further action by management was required.
72. The Deputy Principal – Corporate explained the reasons why the normal subcontracting monitoring visits were not carried out in 2017-18, emphasising that this was a risk-based decision to reprioritise resources to support learners who were at risk of not completing due to two subcontractors going out of business. Monitoring and checks had continued for all learners to ensure safeguarding. From August 2018, the annual checks for all subcontractors had been reinstated. The Principal added that the actions taken to support apprentice learners’ achievement had been recognised by Ofsted during the inspection earlier in 2018.
73. Members recognised that this had been a reasonable risk-based course of action and welcomed the subsequent reinstatement of the required monitoring checks.
74. Asked to clarify a reference in the detailed findings to checking that subcontractors filed their accounts at Companies House, the Deputy Principal – Corporate reported that it had subsequently been evidenced the College’s Finance team had undertaken these checks.
75. The Committee had a detailed discussion of the format of audit reports, agreeing that the Committee expected the actions recommended by the auditor and the response from

management (with implementation dates, supporting context if needed and actions) to be agreed by the time the final report was issued and be presented fully and clearly in the document. M Cheetham explained that the report was produced with web-based software but that, within the fixed table format, RSM would be able to add italicised text providing additional information on management’s position under the “action for management” if required for clarity and completeness.

76. E Gipson reported that the ESFA had now confirmed that the external assurance audit would be an ongoing annual requirement. However, the Deputy Principal – Corporate explained that due to the decision not to start new learners with subcontractors, there would be fewer subcontractors to audit in 2018-19 and might not be required in future years. This would depend on the ESF (European Social Fund) EM3 colleges project but any audit work required related to subcontracting as part of this project would be funded via the project.

EXTERNAL AUDIT REPORT ON THE FINANCIAL STATEMENTS AND REGULARITY AUDIT

77. The Committee had received the management report prepared by KPMG LLP. The audit partner confirmed that KMPG expected to give an unqualified audit opinion.
78. The report confirmed that no issues of concern were noted in relation to the College’s overall financial position, revenue recognition, management controls, key accounting judgements, pension actuarial assumptions, regulatory and subsidiary companies’ accounts. The audit had concluded that the College remained a going concern, supported by its cash position, and J Brown explained was in a more positive position than many FE colleges.
79. J Brown reported an update to the “uncorrected misstatements” information (Appendix 2), noting that this had been updated in the final report to be circulated to the Board.
80. Asked by a Member for information about the uncorrected audit difference in relation to general account balance accruals, the Director of Finance & Facilities explained that the figure was based on this assessment of what late costs might emerge from invoices where purchase orders had not been raised.
81. In response to a Member’s question as to whether pension liabilities, revenue recognition and management override of controls were audited as “significant risks” every year, J Brown explained that professional audit standards required KPMG to audit revenue recognition and management override of controls. Pension liabilities were treated as a significant risk because of the size of the liabilities and the role of actuarial assumptions in defined benefit pension schemes.
82. The Committee noted the auditor’s report, welcoming the evidence of a tightly controlled financial environment and commending the work of the Finance team.

REGULARITY AUDIT

83. The Committee had received the report of the Clerk to the Corporation on the Regularity Self-Assessment Questionnaire required by the Post-16 Audit Code of Practice 2017-18 and used as evidence for the Regularity Audit opinion contained within the auditor’s management letter considered later on the agenda.
84. In response to a Member’s question, the Finance Manager undertook to update the questionnaire with the number of insurance claims still open with the insurers at 31 July 2018.

85. **Resolved** – that the Committee recommend to the Board of Governors that the completed self-assessment questionnaire had been reviewed by the auditors and that an unqualified audit opinion for the Regularity Audit for 2017-18 had been received.

ANNUAL REPORT AND FINANCIAL STATEMENTS

86. The Committee had received the draft report and accounts for the year ended 31 July 2018, together with the report of the Director of Finance & Facilities and the draft combined letter of representation for the financial statements and regularity audits.
87. The Director of Finance & Facilities explained that, since issuing the annual report and accounts, there were a number of small, non-material amendments to the wording which had been notified to KMPG and would be reflected in the final version for signature presented to the Board.
88. The Committee reviewed the annual report and accounts with regard to governance and internal control, noting the explanation in the annual accounts of the measures the College had taken to fulfil its statutory and regulatory responsibilities.
89. The Committee noted the summary of the year-end financial performance of the College and the Director of Finance & Facilities reasonably expected the College to achieve an ESFA rating of “Good” for 2017-18 when the statutory accounts were tested against the ESFA’s model.
90. The Director of Finance & Facilities reported that KPMG had now tested that the College’s bank loan covenants would be met for 2017-18 and that no issues had been raised.
91. A Member asked for clarification of the SWAPs arrangements reported in the accounts and the Finance Manager explained that the only SWAP element was embedded in fixed rate loans with RBS (now ended) and NatWest and that the SWAP movement was required to be reflected in the income and expenditure with the valuation provided by the banks.
92. Members also highlighted a number of small corrections to be made to the wording of the annual report and accounts which the Director of Finance & Facilities undertook to action.
93. A Member also proposed minor amendments to the wording of the letter of representation for clarity of reading which the Finance Manager undertook to follow up with KPMG.
94. **Resolved** - that the Board of Governors be recommended to approve the annual report and financial statements and the letter of representation for the year ended 31 July 2018.
95. The Committee Chair noted that he would report the recommendation of the Committee to the Chairman ahead of the meeting of the Resources Committee.

RISK MANAGEMENT

96. The Committee had received the report of the Principal providing the first risk register assurance monitoring report of 2018-19, together with the risk register dashboard, following the approval of the Risk Management Plan for 2018-19 by the Board of Governors.
97. The Principal highlighted a number of key points in the assurance report, including in relation to enrolments and income and to the quality of teaching and learning delivery.
98. The Committee Chair noted the action taken by College management to resolve difficulties over the summer with HCC Children’s Services and a school in Andover concerning ECHPs (Education, Health and Care Plans for learners).

99. Asked about the level of risk by a change of staff in the MIS team given the team's critical role in the provision and analysis of funding and learner related data, the Deputy Principal – Corporate explained that the vacancy which has arisen had been successfully filled on this occasion but that the skills tended to be limited to the college sector and recruitment could be difficult. Management mitigated this risk through taking action to retain current staff and through getting to know of skilled individuals in the sector locally.
100. Following a sector update briefing circulated by RSM, the Committee Chair asked whether HMRC's requirements that organisations moved to a new digital tax return system would put strain on the College's resources. The Finance Manager explained that the College would need to put into place a new automated software solution compatible with current process by October 2019 and confirmed that the College had a suitable VAT advisor. The Committee was assured that the potential risks were understood and that planning was in place.
101. Asked about whether a recent HMRC legal case in relation to VAT treatment was relevant to the College, the Finance Manager explained that there was no change to the status quo for the College and this was confirmed by the KMPG audit partner.
102. In relation to the overall risk management process and the risk register, a Member questioned the approach to reviewing controls in the case of risks which occurred year after year, such as enrolments, seeking assurance that controls for "residual" risks continued to be reviewed.
103. The Principal explained that the risk register assurance report provided a summary of management's assessments of key risks and gave examples of the actions being taken. More detailed reporting of the management of these areas was presented to other committees of the Board, such as recruitment analysis and marketing plans and outcomes to the Curriculum, Employers & Market Requirements Committee or financial matters to the Resources Committee. The committees of the Board had a role in validating that the controls were effective by monitoring the outcomes and reporting to the Board through the Committee Chairs and the minutes.
104. The Committee agreed that the Board's committees had an important role in monitoring and highlighting risks relevant to the scope of their terms of reference, including challenging the controls and actions being taken.
105. The Clerk noted that in the future the College's risk management process would also need to incorporate currently proposed changes to structures and corresponding governance arrangements.

AUDIT COMMITTEE ANNUAL REPORT

106. The Committee had received the draft report prepared by the Clerk to the Corporation for discussion and completion. The report was a requirement of the Post-16 Audit Code of Practice 2017-18 and summarised for the Board the work undertaken by the Committee during the year and the Committee's opinion on the adequacy and effectiveness of the College's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the College and the safeguarding of its assets.
107. Responding to a Member's question about the oversight of data protection compliance, the Clerk explained that College policies in relation to Data Protection and Freedom of Information were reviewed and recommended to the Board by the Resources Committee.

A new annual report on Data Protection had been introduced to the Board in October 2018 and it was to be confirmed whether future annual reports would follow to the Resources Committee or the full Board.

108. **Action** – the Clerk to review the terms of reference of the Board’s committees in relation to data protection and to report to the Audit Committee as part of its annual review of its terms of reference.
109. **Resolved** - that the report be finalised, as agreed, by the Clerk and submitted to the Board of Governors.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

110. The Committee sought feedback from RSM and KPMG as to their interactions with College management.
111. Providing feedback for RSM, M Cheetham was satisfied that effective working relationships, with some robust dialogue, were in place to support the internal audit programme.
112. The Committee Chair noted the earlier discussion about the process for incorporating additional information in relation to management actions where this allowed a fuller account to the Committee of any significant context or difference of opinions.
113. Providing feedback for KPMG, J Brown confirmed that an open dialogue continued to exist with the Director of Finance & Facilities, who he described as being very commercial and supported by a very effective Finance Manager. The Committee welcomed this feedback.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

114. The Director of Finance & Facilities reported that KMPG continued to be responsive in providing advice and that no issues had arisen during the audit process.
115. In relation to RSM, the Director of Finance & Facilities noted that the new Manager had started and would be overseeing the first audit of 2018-19 in November.
116. The Members of the SLT present reflected that there had been mixed experiences of the audit and review process, with some having run smoothly from scoping to final report stage and others having involved prolonged exchanges to clarify and amend draft audit points. Although there was a mutually respectful relationship in place, the SLT felt that the processes could be improved for less frequently audited areas of work (outside of Financial Controls and Learner Numbers). The action to contextualise management actions in the audit reports was welcomed but there was also a need to look at the closure processes before the final report was agreed.
117. A Member stated that it was expected that RSM would provide an independent appraisal and opinion of the level of risk and that the audit process should enable the auditors and management to clarify any gaps in evidence or differences in understanding before the report followed to the Committee. However, it was recognised that where the scope of audits covered more subjective best practice and less rule-based compliance, there might reasonably be more areas where there was a difference of interpretation.
118. **Action** - The Committee agreed to the Principal’s proposal that he discuss College management’s concerns about the efficiency and effectiveness of some of the processes with the RSM Partner, with a view to seeking to ensure that there was a common understanding of the best approach and the necessary actions on both sides to improve the audit experience in future.

119. The Committee Chair summarised that there was a general preference to improve the overall experience of the internal audit programme before considering alternative approaches.
120. The meeting closed at 11.40 am.