

**SPARSHOLT COLLEGE HAMPSHIRE**  
**MINUTES OF THE MEETING OF THE**  
**AUDIT COMMITTEE**  
**held on 6 June 2019 at 9.30 am**

**<sup>1</sup>PRESENT** Z Carter (E) (present to minute 119); W Fullbrook (C); M Lauder (E); SJ Radford (C); C Wilson (E).

In attendance: E Gipson, RSM (present to minute 119)  
S Grant, Vice Principal, Corporate (absent for minutes 72-72)  
S Hermiston, Director of Information & Funding (minutes 46-77)  
T Jackson, Principal (absent for minutes 72-74)  
D Laird, KPMG (present to minute 119)  
A Whitworth, Director of Finance (absent for minutes 72-74)  
S Willson, Clerk to the Corporation

#### **DECLARATION OF INTERESTS**

46. W Fullbrook noted his registered interest in any matters relating to the College's lease from Test Valley Borough Council (TVBC) of the Portway Stadium and that, as Head of Finance of TVBC, he also had an interest in any discussions relating to the proposed development of a new Cultural Quarter in Andover

#### **MINUTES & MATTERS ARISING**

47. **Resolved** - that the minutes of the meeting held on 7 March 2019 be confirmed and signed as a correct record.

48. There were no matters arising not covered elsewhere on the agenda.

#### **INTERNAL AUDIT REPORTS**

##### Internal Audit Progress Report

49. The Committee had received the report of RSM dated 6 June 2019 on progress of the delivery of the Internal Audit Plan 2018-19. Subsequent to issue of the report, it was noted that the Review of IT had now been completed.

50. E Gipson explained that College management had proposed that the staff utilisation audit planned for 2018-19 be deferred to take place during 2019-20 in order that it could provide more value to the College by assessing staff utilisation once the review and improvements planned by management had been implemented. In its place, it was proposed to audit cash flow management, which was key to the financial management of the College, and RSM had confirmed that an overall annual internal audit opinion could still be provided on this basis. In addition to the internal audit activity, RSM would also undertake the review of apprenticeships subcontractor controls required by the ESFA in the summer term.

51. The Committee Chair noted that he had been consulted on the planned change but it was for the Committee to recommend the revised internal audit plan to the Board for approval.

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<sup>1</sup> (E) = External; (C) = Co-opted Committee Member

52. **Resolved** – that the revised internal audit plan for 2018-19, replacing staff utilisation with cash flow management, be recommended to be approved by the Board of Governors.

#### Capital Project Planning

53. The Committee had received the report of RSM dated 22 May 2019 following a review of the College's Capital Project Planning, covering the Equine Rider Performance Studio at Sparsholt College.
54. The internal audit concluded that the Board could take substantial assurance that the controls upon which the College relied on to manage this capital project were suitably designed, consistently applied and operating effectively.
55. It was noted that the single 'Low' priority action was in relation to the assessment of the impact of the project which was yet to take place as student enrolment and retention data would not be known until the following academic year. The Principal explained that the investment was intended to support development of HE equine research activities, as well as supporting growth in HE and FE enrolments.
56. Members welcomed the confirmation of the effectiveness of the project management, particularly given the strategic importance of deriving value for money from capital investment by the College.
57. Responding to a Member's request for more information about post-project evaluation, the Principal confirmed that the action points identified in all audit reports were reviewed by RSM in follow-up audit activity. Additionally, the Director of Finance confirmed that the post-implementation assessment of the Equine Centre capital project would be led by the Deputy Principal – Corporate and herself, and not by the Premises Manager as stated in the report. E Gipson confirmed that RSM would update this action point.

#### Learner Number Systems

58. The Committee had received the report of RSM dated 24 May 2019 following a review of the College's Learner Number Systems, covering Adult Education Budget (AEB) funded provision and Apprenticeship funding provision.
59. The review had identified a number of examples of sound compliance with the funding guidance, as well as a number of exceptions to the funding rules. In the case of the exceptions, the review confirmed that these had not resulted in any significant errors in the funding being claimed. One 'Medium' and three 'Low' priority actions had been raised.
60. E Gipson reported, for context, that changes to funding and policies for apprenticeships, together with in-year changes to funding rules, had proved challenging across the sector and that, by comparison with audits undertaken by RSM elsewhere, the review had identified fewer issues.
61. The Medium priority action resulted from the College having been unable to provide a breakdown of the total negotiated price, which was a requirement of the ESFA in order to evidence that only eligible costs had been included. Although RSM recognised that there were other records in place to evidence that the charges were explained to employers, it was categorised as a Medium risk because not meeting an ESFA funding requirement could risk making all provision ineligible.

62. The Deputy Principal – Corporate explained that it had been College practice to provide a universal statement of costs but that the audit point was accepted and individual price breakdowns would now be produced.

#### Review of IT

63. The Committee had received the report of RSM dated 31 May 2019 following a review of the maintenance of the College's software and hardware and the IT controls in place to reduce the risk of system and data loss.
64. The audit provided substantial assurance that the controls on which the College relied to manage the identified risk are suitably designed, consistently applied and operating effectively. Five 'Low' priority issues had been identified for management action, together with number of examples of good practice.
65. E Gipson confirmed that the date given in the report for the implementation by management of the test environment for patches was incorrect and should be August 2019.
66. The Committee Chair noted the improvement in IT matters audited over the last two years and that there was evidence that management were aware of IT related risks and had worked hard to address them.
67. The Director of Information and Funding explained that the audit had also been a useful experience for the IT team in ratifying the actions taken following previous audits and in providing expert feedback about sector practices, such use of cyber security kitemarks.
68. Members discussed the findings, in particular the assessment that the use of unencrypted USBs on College laptops and desktops was low risk, pointing out that the use of USBs was prohibited completely in some organisations.
69. It was noted that the use of personal removable media devices would be banned except where required for exams and for film students and that staff were not permitted to save sensitive data on USBs. The Deputy Principal – Corporate also explained that USBs were also useful for staff giving presentations in rooms which did not have facilities to doc their Surfaces.
70. In discussion, Members sought additional information about the mitigation of risks, noting that organisations had to consider that individual members of staff could accidentally or deliberately not comply with policy requirements. It was also noted that risk management in relation to potential data breaches also extended to printed documents and the mailing of information.
71. The Director of Information and Funding explained that staff members who had a work requirement to transport sensitive data were issued with a double-encrypted portable device, and emphasised that College management took seriously risks about misuse of USBs and kept current policies and practices under review to minimise risks as far as possible.
72. In response to the additional assurance sought by the Committee, the Deputy Principal – Corporate proposed that management bring a report to the Committee summarising the College's policies and practices in relation to the use of USBs. Members asked that the report also include management's considerations in relation to monitoring downloads from devices.

73. **Resolved** – that a report on the College’s policies and practices for the use of USBs be presented to the November 2019 meeting of the Committee.
74. The Committee noted that cyber security (other than some penetration testing undertaken internally using Level 3 students) had not been in scope of the IT audit and that a report by RSM for the sector on colleges’ risk registers, which had been provided to Members for information, stated that cyber security was the most common IT risk identified in the registers reviewed. It was agreed that consideration be given to whether a specific cyber security audit was required under the discussion of the internal audit plan for 2019-20.

#### Management Actions Follow Up

75. The Committee had received the report of RSM dated 24 May 2019 on a review to follow up progress made by the College to implement the previously agreed management actions.
76. The previous audits covered were Risk Management & Governance, Key Financial Controls and Learner Number Systems and the report confirmed that ‘Good’ progress had been demonstrated, with no actions outstanding.
77. Asked by a Member how the implementation of actions were reviewed, E Gipson explained that ‘Low’ grade actions were confirmed by management and ‘Medium’/‘High’ grade actions tested by the auditors, sometimes as part of other audit work.

#### **PAYROLL**

78. The Committee had received the report of the Director of Finance providing an update on actions arising from the review by management into payroll matters considered at the previous meeting of the committee.
79. The Committee noted that management would continue to seek full repayment of the overpayments and that the additional controls reported would become routine to mitigate the risk of reoccurrence.
80. Questioned about the reported additional controls, the Director of Finance confirmed that managers already received payroll reports monthly to check and that the additional controls sought to mitigate the risks which had been identified when an individual performs two roles, reporting to separate managers.
81. Asked about the judgement as to whether it represented value for money for the College to pursue legal claims, should this be necessary, the Director of Finance explained that management would normally only seek repayments where the value was greater than the costs of legal action incurred.

#### **RISK MANAGEMENT**

82. The Committee had received the report of the Principal providing the third and final risk register assurance monitoring report of 2018-19, together with the risk register dashboard.
83. The Principal summarised key points in the risk register and assurance report, noting that there was no change in the overall assessments of significant risks. Other points highlighted included an update to take account of the increase in Teacher Pension Scheme costs (covered by the government until September 2020) and the permanent appointment of the Director of Finance and a Health & Safety Officer.

84. The Principal also highlighted the Augur review and possible resulting changes to policy and funding for HE and FE, although he noted that the review had recognised the underfunding of FE. The Committee agreed that this area of potential risk be kept under review.
85. The Committee Chair welcomed the reference in the assurance report to the development of a Management and Leadership Plan which particularly focused on middle managers and those more recently taking on supervisory and leadership roles.
86. In response to the discussion at the previous meeting to whether potential risks in relation to effective governance, including potential ‘mission drift’, were captured, the Principal proposed a new risk at 1.12 and sought feedback from the Committee. Members agreed that this was an important area of potential risk to manage, citing as an example the recent FE Commissioner’s report into Hadlow College and the criticisms contained in the report regarding governance.
87. Members proposed that the wording be revised to “Distracting or damaging activities by College officers result from ineffective governance or management of the College or its subsidiaries which does not ensure focus on the core mission”. This risk would be owned by the SLT and the Board of Governors.
88. **Resolved** – that risk 1.12 be re-worded and retained in the Risk Register and that this new risk be highlighted to the Board of Governors.
89. Asked whether risks 4.7 and 4.8 with regard to the Area Reviews of FE were still relevant, the Principal agreed to review the risks for the 2019-20 Risk Register, noting that, although the Area Review process itself had completed, structural change in the sector and interventions by the ESFA continued.
90. A Member noted that both the KPMG audit plan and the RSM report on college risk registers referenced Brexit and questioned whether this was the time to address Brexit within the risk register in relation to matters such as procurement. The Principal suggested that the main concerns to the College regarding Brexit resulted from possible associated delays to the Comprehensive Spending Review and the follow up to the Augur report. The Deputy Principal – Corporate highlighted that the delay to Brexit had also resulted in an opportunity to identify additional match-funding, as explained in the assurance report.
91. **Resolved** – that a risk in relation to Brexit be added to the Risk Register for 2019-20.

#### **ANNUAL REPORT ON PROCUREMENT**

92. The Committee had received the report of the Director of Finance and the Head of Procurement on how the College’s procurement activity over the previous 12 months had sought to secure value for money.
93. The Committee welcomed the evidence in the report of the continuing focus by the College to achieve value for money and commended the clarity and transparency of the information provided.
94. Asked about the extent to which staff were motivated to identify cost reductions, the Director of Finance explained that the College did not directly incentivise staff but that working with staff to achieve value for money and set targets for costs savings continued to be a focus for management. The Principal provided some examples of inventive cost saving projects and confirmed that staff were aware of the tight financial climate in which the College operated.

## INTERNAL AUDIT PLAN

95. The Committee had received the draft internal audit plan for 2019-20 and the indicative plan for 2020-21 and 2021-22, noting that the planning had taken into account the College's strategic objectives, risk profile and assurance framework, as well as changes in the sector. As in previous years, the plan was based on provision of an annual audit opinion by RSM.
96. E Gipson explained that the draft plan represented an increase in days from 30-35 and that RSM understood that management wished to reduce the overall number of days.
97. The Committee Chair reported that he had consulted Chairs of the Curriculum, Employers and Market Requirements Committee (CEMR), Quality & Standards Committee and Resources Committee about any risks relevant to the committees' terms of reference. There are no recommendations for specific areas of audit activity.
98. Members discussed the draft plan with the members of the SLT present and a number of potential changes were agreed with RSM: curriculum planning was not a priority area for audit given the oversight provided by CEMR; management were open to the suggestion of external cyber security penetration testing but would explore the kite mark assurance first; a wider cyber security audit could be relevant; the proposed governance audit (skills mix and register of interests) could be reviewed internally and governance included as part of another audit activity; pay controls could be tested following the new processes implemented by management.
99. **Resolved** – that RSM and management be asked to agree revisions to the plan to reflect the Committee's discussion and that the Committee Chair be delegated authority to review and recommended the revised plan for approval to the Board.
100. It was requested that the revised plan be circulated to the co-opted members for information.
101. A Member suggested that, separate to the internal audit process, it would be beneficial to Board Members to develop a map of the college governance landscape and it was noted that this could also be useful for a new Principal. The Committee Chair suggested that this be highlighted to the Board and the Clerk follow up with the Member in due course.

## EXTERNAL AUDIT

### External Audit Plan

102. The Committee had received the audit plan and strategy for the year ending 31 July 2019 from KPMG.
103. D Laird drew the Committee's attention to key points, including the significant risk areas and the other areas of focus and the materiality levels for the College and the College Group.
104. Asked by the Committee Chair about KPMG's plan to consider the implications of Brexit on the College's going concern forecasts, D Laird explained that one of the biggest risks for the education sector was considered to be the impact on international student income. It was noted that this was likely to be a less significant risk for the College given the profile of its HE students.
105. A Member questioned why the 2018-19 audit fees for Sparsholt College Services Limited (SCS) were significantly higher than for the College's other subsidiary companies and the

Director of Finance explained that KPMG had previously justified these by the fact it was a new company and required more detailed testing.

106. **Resolved** – that the audit plan and strategy for the year ending 31 July 2019 be recommended for approval to the Board of Governors, with a correction on page 14 to remove a reference to accounting standards which was no longer relevant.

#### External Audit Retender

107. The Committee had received the report of the Director of Finance setting out the proposed process for the agreed retendering of external audit services.
108. Given that KPMG had effectively ruled themselves out of continuing as external auditors beyond the 2018-19 statutory accounts activities, the Committee agreed that there was no conflict of interest in D Laird continuing to be present for the consideration of the report.
109. Members queried the relatively low rating given to ‘FE experience and expertise’ in the proposed tender criteria. The Director of Finance explained that this had been based on the fact that all firms participation in the Crescent Purchasing Consortium (CPC) external audit services framework had FE sector knowledge but agreed to adjust the weighting.
110. The Committee Chair invited Members to take part in the panel considering the shortlisted firms’ presentations and noted that the invitation would also be opened up to other Members of the Board. It was noted that a special meeting of the Audit Committee (ideally on the same day as the panel presentations) would be required to recommend the preferred external audit provider to the Board for appointment.
111. Asked about whether RSM would be eligible to bid, given that RSM were the College’s internal auditors, E Gipson reported that audit firms could supply both internal and external audit services but would not then be able to give an internal audit opinion.
112. **Resolved** – that the tender for external audit services be undertaken using the Crescent Purchasing Consortium (CPC) framework with the timetable set out in the report to culminate in a recommendation to the 3 October meeting of the Board of Governors.

#### **REGULARITY AUDIT**

113. The Committee had received the report of the Clerk to the Corporation which summarised the requirements for the regularity audit and provided for information the self-assessment questionnaire template issued with the Post 16 Audit Code of Practice (ACOP) 2018-19, noting developments since the previous year.
114. It was noted that the new ACOP set out new and more detailed requirements in relation to irregularities and fraud and related matters, and a requirement for a counter-fraud strategy, and that the Director of Finance and Clerk would review current policies and procedures and report to the next meeting of the Committee.
115. The Clerk recommended that the terms of reference of the Audit Committee be revised to reflect slight changes to the requirements for audit committees set out in the ACOP in relation and the Committee agreed that updated terms of reference be presented to the Board of Governors for approval.
116. The Committee noted the report and that the completed regularity audit questionnaire, audited by KPMG, would be presented to the November meeting of the Committee.

### **MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS**

117. The Committee Chair welcomed D Laird as the new KPMG audit manager for the College.
118. Asked about the current working relationship between RSM and the College, E Gipson reported that management had been robust but constructive and professional in their responses to the outcomes of internal audit reviews.
119. Asked about the change of Director of Finance at the College Group, E Gipson noted the new Director of Finance's range of experience in the sector and that there were no current concerns from RSM.

### **MEETING WITH MANAGEMENT IN THE ABSENCE OF THE AUDITORS**

120. The Committee sought the views of College management present as to internal and external audit work.
121. The Director of Finance and Deputy Principal – Corporate confirmed that communications with RSM were constructive.
122. The Director of Finance reported that the KPMG Audit Partner was the only consistent member of the audit team from the previous year, although D Laird had experience working with other colleges.
123. The meeting closed at 12.00 pm.