

**SPARSHOLT COLLEGE HAMPSHIRE**  
**MINUTES OF THE MEETING OF THE**  
**AUDIT COMMITTEE**  
**held on 5 March 2020 at 9.30 am**

**<sup>1</sup>PRESENT**      W Fullbrook (C); M Lauder (E); C Wilson (E).

In attendance: M Cheetham, RSM (present to minute 57)  
S Grant, Deputy Principal – Corporate (present to minute 36)  
S Hermiston, Director of Information & Funding (present for minutes 26 to 31)  
T Jackson, Principal (absent for minute 57)  
A Whitworth, Director of Finance (absent for minutes 57)  
S Willson, Clerk to the Corporation

#### **APOLOGIES**

1. Apologies were received from Z Carter and SJ Radford.

#### **DECLARATION OF INTERESTS**

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

#### **MINUTES**

3. **Resolved** - that the minutes of the meetings held 19 November 2019 be confirmed and signed as a correct record.

#### IT Internal Controls (Minutes 151)

4. The Deputy Principal – Corporate confirmed that a company had been commissioned to test the College's cyber security staff awareness and that further staff training would follow, informed by the outcome of the testing.
5. There were no other matters arising not covered on the agenda.

#### **INTERNAL AUDIT REPORTS**

##### Payroll

6. The Committee had received the report of RSM (1.19/20) following a review of the College's end-to-end process for payroll which confirmed that the Board could take substantial assurance that the controls upon which the College relied to manage payroll were suitably designed, consistently applied and operating effectively.
7. RSM had identified as a medium priority the lack of a payroll procedures manual which would support the effective operation of payroll in the event of combined absences or departures of key staff. Management had agreed to put this in place by 30 June 2020.
8. The Committee welcomed the assurance provided by the audit, particularly given the financial significance of payroll to the College.

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

### Financial Forecasting

9. The Committee had received the report of RSM (2.19/20) following a review of the College's financial forecasting which found that the Board could take substantial assurance that the controls upon which the College relied to manage financial forecasting were suitably designed, consistently applied and operating effectively. There were no formal actions proposed by RSM but a small number of areas for improvement were suggested, some of which were already in hand.
10. M Cheetham, for RSM, noted that the auditors had discussed the increase in high needs students funding with management and understood that this was as a result of high needs funding having being under-claimed in the past with the costs of supporting these students previously subsidised from other College funds. This was not therefore a funding compliance issue.
11. The Director of Finance confirmed that the changes in high needs funding had been reported in the management accounts and that management was able to demonstrate that the high needs funding was spent on supporting high needs students.
12. Members discussed the feedback reported from some budget holders and asked whether sufficient induction and training was provided for new budget holders. The Director of Finance acknowledged that there was potentially more that could be done to train new budget holders in specific areas, to enhance the support already provided by the Finance Manager.
13. Responding to a member's question about the accuracy of the financial forecasting given the substantial variance between the year to date surplus and budgeted surplus at 31 December 2019 highlighted in the report, M Cheetham confirmed that RSM had been satisfied that management understood the reasons for the variance and had not therefore identified this as an area of risk.
14. The Director of Finance explained that she generally took a prudent approach, only making incremental improvements to the forecast at the point that she was confident that they could be delivered. In-year financial forecasting was undertaken on a rolling basis, looking at certain budget areas each month, and the forecast adjusted accordingly. For example, a review of staffing costs was just starting with budget holders which would inform decisions as to whether staff cost underspend year-to-date was a temporary timing issue or a longer-term saving.
15. A member cautioned that over-prudent budgeting and forecasting in organisations had the potential to impact decision-making, potentially unnecessarily. The Director of Finance confirmed that she advocated taking a prudent, but balanced, approach and noted that, as in the previous year, the College would be prepared to take actions such as bringing forward future spend before the end of the financial year if appropriate.

### Follow Up

16. The Committee had received the report of RSM (3.19/20) on the review of progress made to implement the previously agreed management actions from 2018-19 audits: Sales to Cash; Capital Project Planning; IT Audit; Cash Flow Forecasting; and Learner Number Systems. The report confirmed 'good progress' with nine out of 14 actions raised by RSM confirmed as fully implemented and two further actions categorised as superseded/no further action to be taken.

17. The Director of Finance reported updates on two outstanding actions: the revised budget sensitivity analysis had been completed in the financial plans presented to the Board of Governors on 24 February; and that Financial Regulations had been fully reviewed and were being presented to the Resources Committee and then to the Board for approval on 2 April.
18. The Committee commended the continued management focus on completing actions arising from internal audits.

#### Internal Audit Progress Report

19. The Committee had received RSM's progress report on the delivery of the Internal Audit Plan 2019-20.
20. M Cheetham reported that, subsequent to the report being written, College management had raised the possibility of rescheduling the staff utilisation audit to 2020-21 to enable more work to be done to put in place new staff utilisation planning, reporting and oversight practices, given that other management priorities during the course of the year to date had meant that these were not yet fully in place. M Cheetham confirmed that RSM were content to revise the 2019-20 plan if a suitable replacement risk-based audit could be identified or to continue with the staff utilisation audit if management decided after further consideration that this would still be of benefit.
21. The Committee discussed the possible variation of the plan with the members of the SLT present, noting that the Deputy Principal – Curriculum would also need to be consulted, and noted that one option would be to bring forward from the following year's provisional plan an audit of curriculum planning.
22. *Action:* that College management further review the necessity to revise the plan and, if relevant, propose an alternative risk-based audit, with the agreement of RSM, to the Committee Chair.
23. **Resolved** – that authority be delegated to the Committee Chair to recommend to the Board of Governors a variation to the internal audit plan, provided that he was satisfied this was in line with the Audit Committee's duties in relation to assurance and risk management.
24. Members discussed with M Cheetham the question raised by RSM in the report as to how frequently the College would prefer to receive feedback requests from RSM. Members and College management agreed that providing feedback after each review enabled any issues to be identified and corresponding actions put in place in a timely manner.
25. **Resolved** – that RSM continue to issue feedback after each review.

#### **PORTABLE DEVICES**

26. The Committee had received the report of the Director of Information and Funding providing an overview of College policies and practices in relation to the use of USB sticks and other removable electronic devices with the College's ICT network. The report had been requested by the Committee following the previous internal audit 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.
27. Asked by a member about the measures in place to mitigate against staff using USB memory sticks to store personal information and what sanctions existed, the Director of Information and Funding highlighted the IT Accessible Use Policy and training provided at induction and CPD days.

28. The Principal also noted that staff's Statement of Particulars (employment contract) required all staff to comply with College policies. The Staff Charter and Code of Conduct also required staff to adhere to policies, procedures, systems and processes. Serious breaches of policy could be investigated as misconduct and actions taken in line with the Staff Disciplinary Policy and Procedures.
29. A member questioned what assurance could be given and evidenced that all possible risk mitigations had been put in place. The Director of Information & Funding confirmed that Jisc, the FE and HE sectors' internet supplier and technology advisers, had reviewed the College's systems and given some advice. Additionally, preparations were under way to meet the Cyber Essentials (assurance certificate) requirements by 2020-21 and the Cyber Essentials Plus requirements from 2021-2022, in line with ESFA funding requirements. This included the commissioning an external company to review part of the Cyber Essentials requirements.
30. The Committee was satisfied that the College's approach of allowing the use of removable media devices within the College network, given training provided and the strict enforcement of electronic rules as to how such devices could be used, was reasonable and necessary in order to support delivery of parts of the curriculum, learner assessments/examinations (under current Joint Council for Qualifications requirements) and some commercial operations. It was noted that the College strongly recommends that staff do not use USB memory sticks at all and prohibits staff from using USB memory sticks to store personal information.

#### **ESFA AND ESF ASSURANCE**

31. The Committee had received and noted the second and final report of the Deputy Principal Corporate on the outcome of ESF project audits confirming that the European Social Fund Article 125 Desk Based Audits had been completed by the ESFA on the final of three ESF projects with no recommendations, subsequent actions or financial clawback.

#### **RISK MANAGEMENT**

32. The Committee had received from the Principal the second risk register assurance monitoring report of 2019-20, together with a cover report providing assessment of the 'contingent' risks' and the risk register dashboard.
33. In relation to the 'significant' risks, the Principal provided more information on FE and HE applications for 2020-21 (sub-risk 1.2). The Director of Finance confirmed that the financial plan for 2020-21 had been adjusted to take into account the expected downturn in first year HE enrolments year on year. The Deputy Principal – Corporate provided an update on AEB and apprenticeships funding (sub-risk 3.1) and reported that the related staff roles were being reconfigured to support the College in seeking to maintain market share.
34. The Principal noted that the summary assessment of 'contingent' risks responded to the discussion at the previous meeting of the committee and provided a means of scrutinising in more depth the extent to which these potentially significant risks continued to be effectively mitigated.
35. The Principal highlighted sub-risk 4.6 in relation to apprenticeship associates (subcontractors) and noted that, with no new subcontracted apprenticeship starts in 2019-20, the risk assessment could be revised to 'contingent'/'low' or the risk removed from the risk register.

36. *Action*: the Principal undertook to revise sub-risk 4.6 with the SLT and update the risk dashboard presented to the next meeting of the Audit Committee.
37. The Principal also summarised additional information in relating to a number of the ‘contingency risks’ and key points from the assurance report.
38. Responding to a Member’s question about the level of risk relating to future increases in pension costs now that the outcome of the Local Government Pension Scheme (LGPS) triennial review was known, the Director of Finance highlighted the continuing uncertainty over the future funding of the additional Teacher Pension Scheme (TPS) costs.
39. **Resolved** – that sub-risk 1.9 be reworded to review the reference to ‘beyond April 2019’: ‘Pension cost increases could adversely impact on the financial health of the College’.
40. In terms of risks related to legislative compliance, M Cheetham noted that some clients were giving consideration to the operational and financial risk implications of the Government’s ‘zero carbon’ policy. The Principal agreed that colleges needed to keep this in mind in their strategic planning, noting that, while the College already had active environmental management processes in place, more actions would be likely to be needed in the future.
41. The Committee discussed emerging risks in relation to the developing CoVID-19 situation, noting a number of potential issues including loss of commercial income to the College from language schools and the impact of this and possible campus closures on the catering subcontractors, provision of FE and HE education and related funding matters, and other potential impacts if students were no longer able to come on to campus (transport, residential fees).
42. The Principal reported that the College continued to follow Department for Education (DfE) guidance and other government policy and to brief staff and students accordingly. The SLT reviewed the situation regularly and had taken specific actions such as setting up an isolation area on each campus where individuals with suspected symptoms could wait until leaving campus. Preparations were under way for a virtual learning environment, should this be needed and guidance was awaited from exam boards about assessments.
43. It was agreed that the College had a responsibility to consider the worst case scenarios and the Director of Finance confirmed that business support functions were being prepared to function from off-site, including ensuring that payments to staff and key suppliers could continue to be made.
44. The Director of Finance reported that she has spoken to the College Group’s insurers, Zurich, and that, currently there appeared to be few related financial impacts which would be covered by the insurance. This could change depending on Government decisions in relation to travel advice and notifiable diseases.
45. Members discussed how best to capture CoVID-19 related risk management in the risk register, given the range of possible impacts and that the potential risks related to how the College responded to these.
46. **Resolved** - that sub-risk 7.5 be amended to “Inability to operate during or after a disaster/crisis” and that the scoring be kept under close review in light of the developing CoVID-19 situation.
47. The Principal confirmed that he would report to the forthcoming meetings of the Resources Committee and Board of Governors on the developing CoVID-19 situation and related risk management.

## **ANNUAL REPORT ON INSURANCE LIABILITIES**

48. The Committee had received the report of the Director of Finance 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, the main policy having been renewed with Zurich following a retender exercise in summer 2019.
49. 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.
50. The Director of Finance provided more information about two further potential claims and the actions which the College was taking in relation to these. One claim related to a court case, which had been notified as a reporting event to the Office for Students in line with HE regulatory requirements.
51. The Director of Finance also reported her meeting with Zurich, which had taken place subsequent to the report being written, to further explore 'uninsurable' and 'uninsured' categories, as well as levels of excess.
52. Responding to a member's question about having a 'no claims' rebate clause and related behaviour drivers, the Director of Finance was not able to confirm if there was a 'no claims' clause in place but noted that the College had been able to reduce the cost of insurance through the retender process which had taken into account the College's claim history.
53. *Action:* Responding to other points raised by members, the Director of Finance undertook to circulate the current insurance schedules where these were not annexed to the report and to confirm whether the Zurich policy covered the College's kennels as it was noted that professional indemnity was not included in the Cliverton kennels confirmation of cover.

## **AUDIT COMMITTEE PERFORMANCE REVIEW**

54. The Committee had received the report of the Clerk to the Corporation setting on the process for the annual review of performance of the Audit Committee and providing an assessment of performance against good practice for audit committees.
55. The Clerk noted that no issues had been raised about the performance of the Committee during the past year by the two members who were not present, during the Board of Governors' annual performance review in September/October 2019 or from the annual report of the committee to the Board. The 2019-20 Audit Code of Practice had not yet been published by the ESFA and the Clerk would therefore report at the next meeting if there were any new or revised requirements relevant to the terms of reference or operation of the committee.
56. The Committee confirmed that it was satisfied that the assessment was accurate and that the committee was operating effectively and in line with its terms of reference.

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

57. The Committee sought feedback from RSM as to the internal auditor's interactions with College management and M Cheetham confirmed that there were no issues to report.

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

58. The Director of Finance confirmed that the recent audit reviews had been undertaken smoothly and commended RSM for finalising reports on a shorter than normal timeframe to ensure they were available to the committee in good time.

## **ANNUAL PERFORMANCE REVIEW OF THE AUDITORS**

59. The Committee had received the report of the Director of Finance and Clerk with the Director of Finance’s assessment of the performance of RSM as internal auditors.
60. It was noted that it was too soon to review the performance of the new external auditors, Buzzacott, and that the first planning meeting with Buzzacott since their appointment was due to take place shortly.
61. The Director of Finance noted a number of positives in the audit service provided by RSM during the past year, with improvements on the previous year. However, she noted that the contract with RSM had been extended four times and recommended that RSM be reappointed for 2020-21 and internal audit services retendered for 2021-22 onwards. It was suggested that the retender process be undertaken in the Autumn term to enable an appointment by around February 2021 if possible.
62. **Resolved** – that the Board of Governors be recommended to approve that RSM’s contract as internal auditors be extended for one year from 1 August 2020, subject to the agreement of satisfactory fees by the Director of Finance, and that the internal audit service be retendered prior to 1 August 2021.
63. *Action* – responding to a Member’s question, the Director of Finance undertook to seek a response from RSM to confirm the auditor’s policy in relation to independence and objectivity and to report to the next meeting of the committee.
64. The meeting closed at 12.05 pm.