

**SPARSHOLT COLLEGE HAMPSHIRE**  
**MINUTES OF THE MEETING OF THE**  
**AUDIT COMMITTEE**  
**held on 19 November 2019 at 9.30 am**

**<sup>1</sup>PRESENT** W Fullbrook (C); M Lauder (E) (minutes 164 and 180 - 211); SJ Radford (C);  
C Wilson (E).

In attendance: J Brown, KPMG (present to minute 206)  
M Cheetham, RSM (present to minutes 194)  
S Evans, Finance Manager (from minutes 181)  
S Grant, Deputy Principal – Corporate (from minute 181)  
T Jackson, Principal (from minute minutes 130)  
D Laird, KMPG (present to minute 206)  
A Whitworth, Director of Finance (from minute 130)  
S Willson, Clerk to the Corporation

**APOLOGIES**

142. Apologies were received from Z Carter.

**DECLARATION OF INTERESTS**

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

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

144. The Committee sought feedback from RSM and KPMG as to their interactions with College management.

145. Providing feedback for RSM, M Cheetham confirmed that there were no issues to report from the 2018-19 internal audit programme and that progress with 2019-20 to date was good.

146. Providing feedback for KPMG, J Brown confirmed that the audit of the 2018-19 financial statements had been straightforward and supported by the College's Finance team.

147. The Committee welcomed the feedback.

**MINUTES**

148. **Resolved** - that the minutes of the meetings held on 6 June and 18 September 2019 be confirmed and signed as a correct record.

Internal Audit (Minutes 52)

149. It was confirmed that the Board of Governors had approved the change to the 2018-19 internal audit programme.

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

### IT Internal Controls (Minutes 73 & 74)

150. It was agreed that the report on the College's policies and practices for the use of USB devices would be presented to the Spring term meeting of the Committee.
151. In the absence of the Deputy Principal – Corporate, the Director of Finance explained that management was investigating use of the FE colleges Jisc organisation to undertake a cyber-security assessment and/or penetration tests on the College's cyber security, rather than recommending a specific cyber security internal audit during 2019-20.

### Payroll Internal Controls (Minute 79)

152. Further to matters in relation to payroll reported at the previous meeting, the Director of Finance confirmed that one of the outstanding amounts had been fully repaid and that the College was continuing to pursue the other amount through its lawyers.

### Risk Management (Minute 84)

153. The Principal noted that the outcomes of the Augur review were summarised in RSM's Emerging Issues report which the Committee had received and reported separate announcements during the summer by the government in relation to funding increases for FE, which would result in an increase in FE base rate from 2020-21. The Principal noted the positive financial impact of this on the College's income for that year, based on current recruitment projections.

### External Auditors (Minute 140)

154. The Committee Chair reported that the Board had approved the appointment of Buzzacott LLP to provide external audit services to the College and thanked the College officers who had supported the procurement process.
155. There were no other matters arising not covered on the agenda.

## **INTERNAL AUDIT REPORTS**

### Cash Flow Forecasting

156. The Committee had received the report of RSM (28 October 2019) following a review of the College's cash flow forecasting which provided substantial assurance that the controls upon which the College relied to manage cash flow forecasts were suitable designed, consistently applied and operated effectively.
157. There were three 'low priority' actions identified for the College to improve its associated finance policies and procedures, but these had not resulted in any significant errors in the cash flow forecasts. The actions had been agreed by the Director of Finance for completion between December 2019 and July 2020.
158. The Committee welcomed the assurance provided by the audit.

### Annual Report

159. The Committee had received the internal audit annual report for the year ended 31 July 2019, 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.
160. M Cheetham for RSM commented that it was unusual in the sector not to have any issues outstanding for action.

161. The Committee welcomed the positive overall audit opinion and noted the good progress maintained during the year in completing implementation of actions arising from internal audits.
162. A Member highlighted that the summary of the auditor's performance against key indicators which was largely very positive but showed only a 50% rate for issuing draft reports within 10 days of debrief meetings, pointing out the importance of having sufficient time for the College to review draft findings and discuss these with auditors prior to final reports being issued to the Committee.
163. The Committee Chair noted discussions at previous meetings about the management of internal audit activity and draft reports by the auditors and College officers and agreed that it should continue to be the aim to meet this target all the time.
164. A Member questioned RSM as to whether it was possible for a college to achieve a 'substantial assurance' opinion given the scope and limitations of the audit work as defined in the report. M Cheetham explained that RSM did occasionally issue a 'substantial assurance' annual opinion in the FE sector but this tended to be for smaller, less complex sixth form colleges and was rarer for other colleges.

#### Internal Audit Progress Report

165. The Committee had received RSM's progress report on the delivery of the Internal Audit Plan 2019-20, together with RSM's FE Emerging Issues report (Autumn 2019) for background information.
166. The Director of Finance reported that the audit of payroll had now taken place and that the initial feedback, prior to receipt of the draft report, was positive. All other audits were due to take place in either the Spring or Summer terms.
167. Noting matters covered by RSM's FE Emerging Issues report and via other updates to Board Members, the Committee Chair reported his attendance at the AOC Governance Conference and key messages in relation to good governance practices.

#### **EXTERNAL AUDIT REPORT ON THE FINANCIAL STATEMENTS AND REGULARITY AUDIT**

168. The Committee had received the management report prepared by KPMG LLP.
169. J Brown noted that there was as small amount of information to be finalised by management in the annual report and financial statements but that KPMG expected to give an unqualified audit opinion.
170. J Brown summarised the key findings noting that there were no significant findings or unadjusted audit differences and no issues arising from testing of College risks. The auditors had not identified any indications that the College Group was unable to continue as a going concern and J Brown noted that the College was in a better position than many in the sector in terms of prioritising cash flow management and maintaining cash reserves. No issues had been raised in relation to regularity and there had been no significant issues identified or material risks arising from the audits of the accounts of the College's subsidiary companies.
171. Asked by a Member about the progress on completing the review of pension liabilities relating to the Local Government Pension Scheme (LGPS), D Laird confirmed that the work on pension assets would be finalised in time for the Board to approve the accounts and that KPMG did not expect any issues.

172. Members also discussed LGPS pension assumptions adopted by the College and noted that all had been confirmed as being within acceptable ranges.
173. Asked about the remuneration disclosures required by the ESFA Accounts Director, D Laird explained that College officers were in the process of calculating staff median pay which was required to be disclosed alongside the Principal's salary and that this would be completed and audited prior to the accounts being approved and signed.
174. In relation to the recommendation raised in the report, D Laird explained, and the Director of Finance confirmed, that it had been agreed with the Finance team that the College would implement a termly reconciliation process for HE fees via the Student Loan Company and that this had been an improvement point and not a control weakness.
175. The Committee Chair noted that this was the final meeting with KPMG and expressed appreciation on behalf of the College for the audit services provided by the auditors. In turn, J Brown recognised the positive approach taken by the College in working with KPMG.

### **REGULARITY AUDIT**

176. 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 2018-19 (ACOP) and used as evidence for the Regularity Audit opinion contained within the auditor's report.
177. J Brown confirmed that no issues had arisen as regards the regularity of income and expenditure.
178. It was noted that a small amount of text in the questionnaire had been duplicated and the Clerk undertook to correct this before the questionnaire was submitted to the Board for signature.
179. **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 2018-19 had been received.

### **ESFA AND ESF ASSURANCE**

180. The Committee had received the report of the Deputy Principal Corporate on the outcome of ESF project audits, together with a letter from the ESFA Chief Executive of 3 October 2019 about future developments to subcontracting rules and requiring confirmation from colleges that their subcontracting arrangements for education and training complied with ESFA requirements.
181. The Deputy Principal – Corporate summarised the key points of the report, noting that the European Social Fund Article 125 Desk Based Audits had been completed by the ESFA on two out of the three ESF projects (accounting for c90% of the funding) with no recommendations, subsequent actions or financial clawback.
182. The Deputy Principal – Corporate also explained that reporting in the FE Week (June 2019) about all training providers in receipt of ESF funding having funding claim 'discrepancies' was inaccurate and that it has been confirmed with the ESFA that there was no issue in relation to the College and ESF funds.
183. In relation to the ESFA letter regarding subcontracting, the Principal confirmed that he had responded on behalf of the College by the ESFA's deadline to confirm that he had formally read and understood the communication and that current subcontracting activity was in line with ESFA requirements.

184. It was noted that the College's subcontracting activity planned so far for this academic year was under £10k and would finish the year significantly below the £100k minimum level at which the ESFA required audit assurance.

### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

185. The Committee had received the draft report and accounts for the year ended 31 July 2019, together with the report of the Director of Finance and the draft combined letter of representation for the financial statements and regularity audits.
186. The Director of Finance introduced the annual report and financial statements, explaining the adjustments made subsequent to the management accounts (to 31 July 2019) issued previously. The Director of Finance also highlighted the year end surplus before FRS102 adjustments and the year-end cash reserves, noting that internal testing by the College indicated that the bank covenants would be met and that the ESFA financial health rating for 2018-19 would be confirmed as 'Good' or better.
187. It was noted that the financial statements would be reviewed by the Resources Committee for recommendation to the Board.
188. The Committee reviewed the annual report and financial statements 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.
189. The Committee reviewed the draft letter of representation which had been drafted by KPMG on behalf of the College and the Director of Finance confirmed that College officers had been open and transparent and provided KPMG with access to all relevant information and records.
190. In response to a Member's challenge about the necessity of including a statement in relation to the immateriality of uncorrected misstatements, given that there were no uncorrected misstatements, J Brown for KPMG agreed that this statement was unnecessary and should be removed from the final letter.
191. **Resolved** - that the Board of Governors be recommended to approve the annual report and financial statements, subject to the agreement of the Resources Committee, and the revised letter of representation for the year ended 31 July 2019.

### **RISK MANAGEMENT**

192. The Committee had received from the Principal the first risk register assurance monitoring report of 2019-20, together with the risk register dashboard and the Risk Management Plan for 2019-20 approved by the Board of Governors.
193. The Principal explained that the risk register approved by the Board included a small number of updates to the risks since the register was last presented to the Audit Committee in June. It was acknowledged that the Co-opted Members had been unsighted as to the reasons for the changes and the Committee requested that, going forward, any changes to the list of risks, including at the point that the annual Risk Management Plan had been agreed by the Board, were reported and explained in a cover report to the Committee.
194. Members discussed a number of points in relation to the risk register, including the upgrading of sub risk 6.7 in relation to governance/regulatory compliance to 'significant' to reflect the Office for Students regulatory framework and associated financial risks. It was recognised that the College was doing a great deal to ensure compliance with

requirements but that a new and developing regulatory framework resulted in some uncertainties.

195. Members noted the inclusion of a sub risk relating to Brexit and the AOC guidance on college readiness for Brexit and the Principal confirmed that the possible operational impacts of Brexit, such as to student travel and catering were reviewed regularly by the SLT and with suppliers.
196. The Principal also highlighted a number of updates in the assurance report under each of the risk categories.
197. A Member reflected on the rating and review of the College's risks and, in particular, queried how to ensure that risks which were categorised as 'contingent' (on the basis of being controlled despite having high financial and/or reputational impact in the event that they did occur) were kept under review to ensure that they were as well mitigated as possible. In discussion, the Principal and Director of Finance suggested a number of approaches to enhancing the monitoring of risks, including focussing in the assurance report on 'contingent risks' and/or risk levels that had changed or undertaking an in-depth review of a small number of different risks at each meeting. It was also noted that the other committees of the Board had a role in keeping under review and reporting developments in risks related to the remit of the committees.
198. **Resolved** – that the risk assurance report be reformatted to include a focus on risks categorised as 'contingent', together with any significant changes to other risks.

#### **COUNTER FRAUD STRATEGY**

199. The Committee had received the proposed Counter Fraud Strategy which the Director of Finance explained had been developed in response to the requirements of the ESFA Audit Code of Practice and drew together the policies and procedures in place in the College which promoted and supported the prevent of fraud.
200. The Director of Finance explained that the strategy document also included an action plan which prioritised development of staff communication and training and the introduction of a fraud risk register.
201. Members queried the proposed role for the Committee in relation to an annual review of the new risk register, agreeing that this should be undertaken at management level to avoid a blurring of responsibilities, with any significant issues being reported to the Committee.
202. Asked by a Member about whether reporting requirements to the police and/or ESFA should be included in the strategy document, the Director of Finance explained that these were already set out in existing College policies and procedures and agreed to clarify this by adding a reference to 'Reporting' to the policies and procedures table.
203. The Committee Chair reported a point about countering fraud raised at the AOC Governance Conference in relation to ensuring that college finance directors were able to have sufficient distance from day-to-day operations for some time during the year to allow others to scrutinise the accounting process. The Committee was assured that this was the case for the College.
204. The Committee welcomed the introduction of the Counter Fraud Strategy and noted that the draft strategy would be considered by the Resources Committee for recommendation to the Board of Governors.

## **AUDIT COMMITTEE ANNUAL REPORT**

205. The Committee had received the draft annual report of the Committee prepared by the Clerk to the Corporation for discussion and agreement. The report was a requirement of the ACOP and summarised for the Board the work under taken 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.
206. **Resolved** - that the report be signed by the Committee Chair and submitted to the Board of Governors.

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

207. The Director of Finance and Finance Manager reported that the external audit process had been constructive and relatively smooth, although there was some later sampling in relation the subsidiary companies which would be covered in preparatory briefing of the new auditors for the following year’s accounts.
208. The Committee Chair expressed the appreciation of the Committee for the work of the Finance team in producing the annual report and financial statements, with very few adjustments and an anticipated clear audit opinion.
209. In relation to most recent internal audits under the 2018-19 audit plan, the Director of Finance and Finance Manager reflected that there had been a number of iterations to ensure the wording of the report accurately described the outcomes of the audit activity. However, the access to RSM’s secure online portal for reports was commended. The Deputy Principal – Corporate also noted that the Learner Numbers audit had provided useful and expert scrutiny, helping to inform operational improvements.
210. There were no matters for the Committee to raise with the auditors at this time.
211. The meeting closed at 11.40 am.