

**SPARSHOLT COLLEGE HAMPSHIRE**  
**MINUTES OF THE MEETING OF THE**  
**AUDIT COMMITTEE**  
**held on 4 June 2020 at 9.30 am**  
**via videoconference**

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

In attendance: S Blakemore, Buzzacott  
M Cheetham, RSM  
S Grant, Deputy Principal – Corporate  
T Jackson, Principal  
J Milburn, Deputy Principal – Curriculum & Principal Designate  
A Whitworth, Director of Finance  
S Willson, Clerk to the Corporation

#### **ATTENDANCE AND MEMBERSHIP**

65. The Committee Chair welcomed S Blakemore, Partner at Buzzacott LLP, to her first meeting of the Audit Committee since Buzzacott were appointed external auditors to the College Group.
66. The Committee Chair noted that it was the last meeting which would be attended by co-opted member, W Fullbrook, prior to him completing his final term of office and by the College Principal, T Jackson, prior to his retirement and thanked them both sincerely for their significant contribution to the work of the committee over many years.

#### **DECLARATION OF INTERESTS**

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

#### **MINUTES**

68. **Resolved** - that the minutes of the meetings held 5 March 2020 be confirmed and signed as a correct record.

#### Internal Audit Plan (minutes 22-23)

69. The Committee Chair confirmed that the SLT and RSM had proposed curriculum planning replace staff utilisation in the 2019-20 internal audit plan and that he had agreed that this was conducive to the Committee in undertaking its duties in relation to advising the Board of Governors on risk management. The revision to the plan was agreed by the Board.

#### Risk Management (minutes 36, 39, 43, 46)

70. The Principal noted that sub-risk 4.6 in relation to apprenticeship associates had not been revised to Contingent in the most recent update to the Risk Register, although the involvement with associates was now insignificant and therefore carried very low risk. The

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

resolutions at the previous meeting in relating to updates to the risk register had been undertaken.

71. The Committee Chair reported that the Chair of Governors had raised with him, as an area of potential risk for assurance, the impact of changes to working practices and procedures due to the Covid-19 lockdown and functions being undertaken from staff working remotely.
72. The Director of Finance confirmed to the Committee that systems and processes had been put in place for the finance function (of Sparsholt College Services Ltd) to control potential risks (such as use of password controls and College email addresses for working from home and adaptations to key systems, such as payroll) and that she was relatively comfortable that normal levels of control were able to be maintained.
73. In terms of the wider college, the Deputy Principal Corporate referenced the investment in its IT infrastructure which the College had made in recent times, supported by funding from the EM3 LEP, which had assisted the College Group in transitioning rapidly to more digital, remote working in order to maintain activities and services during lockdown. The Deputy Principal Corporate also assured the Committee that key software which potentially presented higher risks had more stringent remote working access controls via internal servers (through Meraki VPN technology).

#### Insurance (minute 53)

74. The Director of Finance noted that the remaining insurance information had been circulated to the Committee via email and confirmed that professional indemnity (PI) in relation to the kennels activities was covered by the College Group's main Zurich policy and was therefore not required to be included in the Cliverton kennels insurance cover.
75. There were no other matters arising not covered on the agenda.

#### **INTERNAL AUDIT REPORTS**

##### Learner Number Systems

76. The Committee had received the report of RSM (4. 19/20) following a review of the College's Learner Number systems which assessed compliance with the ESFA Funding Rules. The original scope of the audit had been adjusted to respond to the restrictions on some types of work during the Covid-19 lockdown.
77. The Committee noted that the audit had identified some exceptions where the College had not complied with the full detail of all aspects of the Funding Rules but confirmed that the exceptions had not resulted in errors to the funding being claimed and as a result were insignificant. Three low priority actions had been raised by RSM and resulting management actions for each had been agreed to be completed by June 2020.
78. M Cheetham reported additional work had been able to be completed and that the report would be reissued but that this would not have a material impact on the overall findings of the audit.
79. The Committee welcomed the overall assurance provided by the findings and commended the tenacity and responsiveness of RSM and College officers in completing the audit during the lockdown period.

### Office for Students – CMA Compliance

80. The Committee had received the report of RSM (5.19/20) following a review of the College's compliance with the requirements of the Office for Student (OfS) in relation to consumer protection law (Competition and market Authority (CMA) guidance).
81. The Committee noted that the audit found that the Board could take substantial assurance that the controls upon which the College relied to comply with the guidance from the CMA were suitably designed, consistently applied and operating effectively. There were two minor weaknesses in controls identified which were being addressed by College management by June 2020.
82. The Committee Chair noted the significance of the OfS regulatory regime and welcomed the evidence of compliance with the CMA and support provided by the College and University Centre Sparsholt for HE students.

### Internal Audit Progress Report

83. The Committee had received RSM's latest progress report on the delivery of the Internal Audit Plan 2019-20, together with a briefing from RSM for its clients on how the auditors would continue to support its clients and delivery of planned audit reviews and annual opinions.
84. It was noted that the progress table (page 3) incorrectly labelled the priority of the actions listed and that the correct data was a total of five low priority actions and one medium priority actions.
85. M Cheetham for RSM noted that the scope of the audit of curriculum planning was in the process of being finalised and was expected to be completed in time to report to the next meeting of the Committee. Asked by a Member if the lockdown restrictions would compromise the audit activity, M Cheetham and Deputy Principal – Curriculum asserted that they were anticipating that remote access for the auditors to the relevant information would be achievable.

### Benchmarking

86. The Committee had received RSM's report benchmarking the College's internal audit findings from 2018-19 and the preceding two years with those of other clients in the FE sector.
87. The Committee noted that the College had performed increasingly positively in terms of audits providing high levels of assurance over the three-year period, with 75% of the College's audits providing substantial assurance in 2018-19 compared to a sector average of 43.7% (44.4% for land based colleges).
88. *Action:* Responding to queries as to the accuracy of two of the graphs and data in the report and how many land-based colleges were included in the data, M Cheetham undertook to follow this up and to confirm to the Committee.

### **RISK MANAGEMENT**

89. The Committee had received from the Principal the third risk register assurance monitoring report of 2019-20, together with a cover report providing assessment of the 'significant' and 'contingent' risks' and the risk register dashboard.
90. The Principal highlighted the increased assessment of three risks to 'significant', two as a result of the financial impact of Covid-19 (1.3 and 1.7) and one related to regulatory compliance and accredited standards (6.7). The Principal noted that the financial impact

of Covid-19 was more severe for land-based colleges (because of factors such as residential halls, commercial activities and extensive student travel provision) and that the land-based sector was actively lobbying the DfE to seek support in light of this.

91. In relation to risk 6.7, the Principal explained the increase reflected a reassessment by the SLT of the financial and reputational damage in the event of failure to comply satisfactorily with the Office for Students (OfS) HE regulatory framework; although the Principal assured the Committee that effective management systems were in place as far as possible.
92. There followed a discussion of the rest of the risk register and assurance report, with a number of questions raised by members.
93. Asked by a member whether there were new reputational risks arising in relation to risk 7.5 ('reputational damage arising from inability to operate during or after a disaster/crisis') as a result of the qualifications assessment processes which had to be implemented by the college due to lock down and the cancelling of exams this term, the Principal acknowledged that there was some disquiet amongst school and college parents generally about the changes, particularly in relation to GCSEs and A'Level predicted grades.
94. The Deputy Principal Curriculum explained, however, that the majority of FE students at the college had completed their assessments prior to lockdown and that there was a strong evidential base on which to decide end grades. Management had developed robust frameworks with internal verification, including in relation to GCSEs and A'Levels. The Deputy Principal Curriculum explained that there was a risk that the way in which grades would then be moderated and adjusted by awarding bodies based on national data and comparison with previous years could disadvantage areas which had been improving and expecting improved results this year. The College would therefore take this into account when enrolling new students and progressing students to the next level, looking favourably on students who might, for example, in normal circumstances have achieved GCSE English/maths.
95. The Deputy Principal Corporate summarised the assessment and grading processes being undertaken for HE, which followed the University of Portsmouth policy of 'no detriment' through a three stage process of evaluation. Nonetheless, it was possible that a number of appeals would be received.
96. The Committee noted the considered and rigorous approaches being taken by the College to awarding grades, in line with awarding body guidance, and that therefore, with these controls in place, reputational risk was not increased.
97. With reference to the risk management assurance report, a member noted that the controls listed for each summative risk were not updated alongside the narrative updates. The member suggested that new controls implemented as a result of developments under each summative risk areas be identified and articulated in the report. An example given was controls implemented to ensure that teaching and learning standards and performance monitoring were being maintained with the move to remote learning during lockdown.
98. The Principal welcomed the observations, noting that the controls listed were set at the time of approval of the annual risk management plan and agreeing that it would be beneficial to review and update the controls in the report on a rolling basis.
99. **Resolved** – that going forward the risk management assurance report include the latest updated controls under each summative risk area.

100. The Deputy Principal Curriculum also highlighted the developments to financial reporting to the Board which had been introduced by the Director of Finance to reflect the impact and financial management controls as a result of Covid-19.
101. *Action:* that the College’s headline Covid-19 risk assessment report be annexed to the risk register dashboard for the Board at the July meeting.
102. A member agreed that up-to-date reporting of controls would be a positive development, referencing the risk and control self-assessment model used elsewhere which also assessed whether controls were effective or further actions required to increase their effectiveness.
103. The Committee endorsed the development of dynamic reporting of controls in the risk assurance report, both as a useful risk management activity for management and to assist oversight by the Committee. The Committee also recognised improvements which had been made to risk management reporting over the previous few years.

#### **INTERNAL AUDIT PLAN**

104. The Committee had received the draft Internal Audit Plan for 2020-21, including the Internal Audit Strategy 2016-2022.
105. M Cheetham noted that the Internal Audit priorities for 2020-21 took into account the College’s strategic objectives, risk profile and assurance framework, as well as other ‘business as normal’ factors relevant to the year ahead. As in previous years, the plan was based on provision of an annual audit opinion by RSM.
106. Given the uncertainties about the longer-term impact of the Covid-19 situation on the FE sector and the College specifically, M Cheetham reported that he expected governing bodies might decide to review and amend internal audit plans during the year. The Committee welcomed this flexible approach, noting that there was no contingency currently built into the plan for additional audits to respond to in-year developments.
107. Members also queried the impact of changes to working practices on the time needed to complete audits and the extent to which audit work could be effectively undertaken remotely. M Cheetham confirmed that he still expected the audit plan to be deliverable within the 30 days set out and acknowledged that audits would be more challenging if records could not be easily accessed digitally, although there was usually a solution.
108. The Committee Chair noted his discussion with the Chair of Governors in relation to an action which had arisen from previous meetings of the Resources Committee and of the SCS Board of Directors to consider an audit of the College’s internal controls for deciding market supplements given their role within the staff remuneration framework of both the College and SCS. The Committee Chair reported that the Chair of Governors was content that an audit of market supplements not be included in the internal audit plan in the light of other priorities and that current arrangements be kept under review by the new Principal and reported to the Resources Committee. The Deputy Principal Corporate suggested that analysis of the EM3 LEP’s data on the local skills labour market could provide an additional means of the College testing the relevance of market supplements to certain posts.
109. A Member questioned M Cheetham as to whether there were potential subject areas for audits where RSM lacked the necessary skills and experience and areas which had therefore had not been included in the College’s internal audit plan in recent years or could be informed by looking at the approach taken by other colleges.

110. M Cheetham explained that the only audit area which RSM did not offer was quality of teaching and education as this was inspected by Ofsted. M Cheetham further explained that, in other audit areas, RSM colleagues from outside of the core college audit team could be brought in (eg Equality & Diversity) and RSM's experiences at other colleges informed the development of the proposed Internal Audit Plan with College management. M Cheetham also noted that the budget set for the total number of days provided a constraint on the variety of audits which could be included but that the College also benefited from external third-party scrutiny through a number of routes.
111. **Resolved** – that the Board of Governors be recommended to approve the Internal Audit Plan for 2020-21, noting that this may require review and revision in-year to responding to changing circumstances.

#### **EXTERNAL AUDIT PLAN**

112. The Committee had received the External Audit Strategy for the year ending 31 July 2020 from Buzzacott.
113. S Blakemore introduced the strategy which summarised key requirements of the ESFA 2019/20 Accounts Direction (including in relation to the OfS regulatory framework) and noted that the ESFA Audit Code of Practice for 2019-20, which included the regularity assurance framework, had not yet been released.
114. In terms of areas of audit significant, S Blakemore highlighted the likely potential adverse impact of Covid-19 on the College's finances and that this would need to be assessed in detail, including in relation to the College's going concern status. Other key areas to be tested included bank covenants and regularity, with the recommendation that the Audit Committee in conjunction with management reviews the guidance on regularity in the new Audit Code of Practice once released.
115. As this was Buzzacott's first year as the College Group's auditors, S Blakemore explained that there would be work undertaken early in the process to understand the College's processes, risks and controls, noting that Buzzacott would review with the Director of Finance and Finance Manager ways in which to conduct the audit activity if social distancing and other restrictions remained in place and were prepared to be reasonably flexible about the audit timetable and use remote working where possible.
116. Asked by a Member about the handover from the College's previous external auditors (KPMG), S Blakemore confirmed that it was normal practice to seek relevant information from former auditors and that audit firms were generally co-operative.
117. The Committee Chair noted the approach to materiality taken by the former auditors and S Blakemore confirmed that Buzzacott would set separate levels for the Group and the subsidiary companies.
118. A Member asked about what testing and sensitivity analysis had been carried out in relation to the current financial situation, including regarding bad debts and swaps. Responding, the Director of Finance reported the scope of the financial report and budget papers which were due to be presented to the Resources Committee the following week.
119. The Director of Finance further explained that management's assessment was that bank covenants would not be breached in 2019-20 but were at risk in 2020-21 based on the draft deficit budget and that it was the intention to follow up conversations with the banks which had taken place just prior to lockdown with more detailed discussions about the impact of Covid-19 on the sector and the handling of the College's bank covenants. The Director of

Finance noted that, despite the deficit draft budget, the forecast cash position for 2020-21 remained positive and it was not anticipated that the College would require an overdraft. The only swaps were in relation to the College's NatWest loan and linked to Libor and the College had been informed by NatWest that any changes would not affect the College.

120. The Committee Chair noted that the detail of the financial management discussions was a matter for the Resources Committee but that the Committee was assured by the confirmation of the planning and reporting processes.
121. **Resolved** – that the External Audit Strategy for the year ending 31 July 2020 be recommended for approval to the Board of Governors.

#### **PROCUREMENT AND VALUE FOR MONEY**

122. The Committee had received the report of the Director of Finance and Head of Procurement on how the College's procurement arrangements over the previous 12 months had sought to secure value for money.
123. The report include reference to the impact of Covid-19 and the resulting liaison with current and future bus service providers to confirm that services will be deliverable in the new academic year. The report noted that the contracts for catering and cleaning services were managed directly by the Deputy Principal Corporate and that arrangements over the closure period and associated payments terms had been agreed with those contractors.
124. The Committee commended the clarity of the report and the value for money being achieved for the College by the Procurement function, in conjunction with other College staff, as illustrated in the examples given in the report.

#### **MEETING WITH AUDITORS AND COLLEGE OFFICERS**

125. Given the meeting was taking place by videoconference, the Committee Chair asked M Cheetham for RSM and S Blakemore for Buzzacott if there were any matters arising from the interactions of the internal auditors and external auditor with College management to discuss with the committee in the absence of College Officers. Both M Cheetham and S Blakemore confirmed there were no matters to raise.
126. The Committee Chair then asked the member of the Strategic Leadership Team present if there were any matters to raise in the absence of RSM and Buzzacott. The College Officers confirmed that there were no matters to discuss.
127. It was therefore agreed that it was not necessary for either the auditors or College Officers to leave the meeting prior to its close.
128. The meeting closed at 11.20.