

**SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 17 November at 9.30 am
via videoconference**

¹PRESENT Z Carter (E) (to min 174); A Fagg (C); M Lauder (E) (Chair); SJ Radford (C);
C Wilson (E).

In attendance: J Baker, Vice Principal Curriculum (Sparsholt) (mins 141 to 152)
S Blakemore, Buzzacott (to min 208)
M Cheetham, RSM (to min 208)
S Evans, Finance Manager (from min 141)
S Grant, Deputy Principal – Corporate (from min 141)
J Lander, Governor
J Milburn, Principal (from min 141)
B Stokes, Vice Principal Curriculum (Andover) (mins 141 to 152)
A Whitworth, Director of Finance (from min 141)
S Willson, Clerk to the Corporation

ATTENDANCE AND MEMBERSHIP

134. The Committee Chair welcomed A Fagg to his first meeting since his appointment as a co-opted member of the committee and J Lander who was attending the meeting as part of his governor induction programme.

DECLARATION OF INTERESTS

135. There were no interests to declare.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

136. The Committee Chair invited S Blakemore for Buzzacott and M Cheetham for RSM to provide feedback on the auditors' interactions with College management.

137. S Blakemore reported that the majority of Buzzacott's audit work had taken place off campus and that she had found the Finance Manager and team well prepared and responsive to enquiries. There were some technical elements of the accounts which Buzzacott had advised be done differently going forward.

138. S Blakemore also reported that queries were received from the Director of Finance and Finance Manager outside of the accounts audit work, which she welcomed as a constructive way of working, and noted that Buzzacott also sought to share relevant information where available.

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

139. M Cheetham confirmed that no issues had arisen in conducting the internal audit plan and that both RSM and College management had adapted to working remotely, although this could be more time-consuming.
140. The committee was reassured by confirmation of the effective working relationships and the transparency and openness of communications between management and the auditors.

MINUTES

141. **Resolved** - that the minutes of the meetings held 4 June 2020 (Parts 1 and 2) be confirmed and signed as a correct record.

Internal audit (minutes 78 and 88)

142. It was noted that the Learner Numbers Systems audit report (4. 19/20) had been re-issued on completion of the planned work. The overall findings remained the same. There had been one additional low priority management action which related to negotiated prices as a proportion of funding band maxima.
143. It was noted that RSM had reissued the 'FE benchmarking of internal audit findings 2018/19' report and requested that RSM confirm the number of Landex colleges included in the data to give additional context to the benchmarking data.
144. There were no other matters arising not covered on the agenda.

INTERNAL AUDIT REPORTS

Curriculum Planning

145. The committee had received the report of RSM (6. 19/20) following an advisory review of the College's curriculum planning.
146. The review noted that the curriculum planning process at the College differed significantly from that undertaken by many other colleges, using a more holistic approach informed by a contribution model at curriculum area rather than the standard 'line by line' approach at course level. The report concluded that the College's curriculum planning process was effective in the context of the breadth of its curriculum offer, evidenced by the College's financial health and student recruitment. There were no actions proposed by the auditors.
147. The Principal expanded on the findings, explaining that the contribution analysis enabled the College to make efficiency and quality judgements when planning the curriculum which took into account the multi-faceted nature of the College's offer and largely fixed cost base.
148. Responding to the Committee Chair's probe as to whether there were improvements that could be identified from the examples of curriculum planning models provided by RSM in the report's appendices, the Principal agreed it was useful to see other colleges' processes and explained that it had already been decided to bring forward the curriculum planning cycle to enable deeper engagement with the curriculum teams, test the plans in relation to the College's strategic priorities and earlier planning of capital expenditure and resources. A report on the curriculum plan would follow to the Curriculum, Employers & Market Requirements Committee in February.
149. The Vice Principal Curriculum (Andover) noted that the earlier cycle would build in experience from the sector and aim for greater clarity of pathways and offers, including in relation to the future delivery of T levels.

150. The Vice Principal Curriculum (Sparsholt) also welcomed the earlier planning cycle this year and more engagement with the Curriculum Leadership Group, particularly given the complexities of the land-based offer and the need to respond to changes implemented by the qualification awarding bodies. The planning was also informed by analysis and reporting of staff utilisation, which had added complexity in land-based courses where, for example, there were different minimum staff to student ratios for health & safety reasons.
151. The Deputy Principal Corporate added that, having given further consideration to the curriculum planning models, RSM's value for money matrix (Appendix 5) could be read across to the College's processes.
152. In conclusion, the Committee Chair welcomed the conclusions of the review that the College's bespoke curriculum planning and contribution analysis processes were seen to be appropriate for the College and the examples given at the meeting of enhancements to the College's curriculum planning processes.

Internal Audit Report and Opinion 2019-20

153. The committee had received the internal audit annual report for the year ended 31 July 2019/20, which confirmed that the College had an adequate and effective framework for risk management, governance and internal control.
154. M Cheetham highlighted that the College had achieved a 'substantial assurance' green rating, the highest annual opinion rating and one rating better than the previous year, and that very few colleges had achieved this. Responding to a member's question, M Cheetham confirmed that RSM would review whether the one medium and nine low priority actions arising from the audit work had been completed as part of the 2020/21 internal audit plan.
155. Asked about benchmarking of internal audit work, M Cheetham noted that RSM published reviews of risk registers across its FE sector clients, as previously seen by the committee, and that this exercise would be repeated in 2021. As part of its internal audit work, RSM built in benchmarking with other colleges where relevant. In addition, RSM were sometimes commissioned by groups of colleges to undertake thematic reviews with the reports shared with the colleges involved.
156. The committee welcomed the audit opinion as providing assurance to the Board of Governors about the College's framework for risk management, governance and internal control and commended the work of College teams in achieving this. The committee also recognised that the opinion reflected improvements implemented over recent years and noted that it was, nonetheless, important not to become complacent.

Progress Report & Briefings

157. The committee had received for information RSM's briefing on its Covid-19 business continuity planning and RSM's report on emerging issues in the FE sector.
158. M Cheetham provided a verbal report on the implementation of the 2020/21 internal plan, noting that there were no matters to report at this time.
159. Members confirmed that it was useful to receive the report on emerging issues and the Chair drew the committee's attention to the release of a good practice guide for audit committees by the ESFA, including the section on developing the internal audit programme.

EXTERNAL AUDIT REPORT ON THE FINANCIAL STATEMENTS AND REGULARITY AUDIT

160. The committee had received the post-audit management report prepared by Buzzacott LLP.
161. S Blakemore summed up key points in the report, noting that Buzzacott expected to give a clean audit opinion for both the financial statements and regularity assurance. There were a few outstanding standard actions set out in the report which required completion for the audit to be finalised.
162. S Blakemore explained that the financial and operational impact of the Covid-19 pandemic and the consideration of going concern had been leading issues for this year's audit work. Based on the audit work so far, Buzzacott expected to be able to support the judgement that the College remained a going concern, subject to the outstanding action set out.
163. The Director of Finance updated the committee on a recent meeting with Barclays, at which the bank had indicated it expected to make changes to the covenants for colleges in 2020/21 so that the negative financial impact of Covid-19 was taken into account and did not lead to a breach of covenants. A Whitworth had advised Barclays that the Board would be unlikely to agree to providing security of assets as part of the changes given the nature and use of the College's estate. Written confirmation had been requested from Barclays in time for the Board of Governors meeting on 11 December.
164. Responding to a question about an audit adjustment in the statement of comprehensive income relating to Gift Aid, the Finance Manager explained that this has resulted from a misinterpretation of updated FRS102 guidance regarding the treatment of Gift Aid and that the process would be corrected in the following year's accounts.
165. The Director of Finance provided an update on consideration of the accounting treatment of Adult Education Budget (AEB) income where further advice was being sought from Buzzacott to take into account a level of uncertainty about the final funding for 2019-20 and any potential clawback.
166. In response to the Committee Chair's enquiry about the proposed management recommendation regarding review of journals at Appendix 2, the Director of Finance and Finance Manager confirmed they were content to follow the recommendation.
167. The Committee Chair drew the committee's attention to the actions Buzzacott had set out as a requirement for governors to review, as a minimum, on a regular basis in order to be satisfied that the College is a going concern (page 7), and it was noted that governors received monthly management accounts and the Healthcheck report which covered these key performance indicators. The Director of Finance explained that the College rarely received significant correspondence from lenders but that, if such correspondence was received, it was reported to governors.
168. The committee noted that the report would be presented to the Board of Governors and the Committee Chair thanked Buzzacott and the Finance team for their efforts.

REGULARITY AUDIT

169. The committee had received the report of the Clerk to the Corporation on the Regularity Self-Assessment Questionnaire required by the ESFA's Post-16 Audit Code of Practice 2019-20 (ACOP) and used as evidence for the regularity audit opinion contained within the auditor's report.

170. The committee noted that this year's regularity audit included an additional section on regularity matters specific to the Covid-19 pandemic.
171. In response to a member's question about cyber insurance and cyber security testing, the Director of Finance confirmed that the College Group's main policy with Zurich included liability and cyber insurance. The Deputy Principal, Corporate confirmed that, through external specialists, the College had undertaken a cyber security penetration test involving all staff.
172. Asked about the reference in the questionnaire to a sizeable sum for food vouchers for students during lockdown having been purchased directly by an SLT member and reclaimed through expenses and whether this was reasonable on the individual involved, the Deputy Principal Corporate explained the reasons why the vouchers had been purchased in this way and why external pressures to secure sufficient vouchers from supermarkets to respond to students' needs in a timely fashion had made it difficult to use one of the College credit cards. The Director of Finance confirmed that the (then) Principal had agreed the process and that a full reconciliation of all payments had been undertaken.
173. The Deputy Principal Corporate went on to report that, following changes to Government policy regarding free school meals in holidays, she was in discussion with Hampshire County Council to plan distribution to students for the Christmas holiday and the February Reading Break.
174. **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 2019/20 had been received.

ANNUAL REPORT AND FINANCIAL STATEMENTS

175. The committee had received the draft report and accounts for the year ended 31 July 2020, together with a commentary from the Director of Finance and the draft combined letter of representation for the financial statements and regularity audits.
176. The Principal highlighted key points in the Report of the Governing Body, noting that 80% of strategic objectives had been fully achieved and that, through collaborative partnerships, the College had been able to continue to invest in its resources and estate despite the Covid-19 pandemic having had an impact in all four cornerstones of the College's vision.
177. The Director of Finance noted that there might be some upward adjustment to the 2019/20 outturn in the financial statements presented to the Board of Governors as the position regarding the Adult Education Budget (AEB) for the year was being finalised and would be agreed with the auditors. The outcome would inform whether an upward adjustment to the current 2020/21 budget would also be applicable.
178. In relation to going concern, the Director of Finance referenced the earlier discussion about bank covenants and noted that a report on going concern considerations would be presented to the Board prior to approval of the accounts. The 2020/21 budget had also been reviewed in light of Covid-19 related developments and a revised (improved) budget was due to be presented to the Resources Committee and the Board. Responding to a member's question about the impact of the pension liability on the income and expenditure account, the Director of Finance confirmed that she did not believe this would have an impact on going concern and explained the impact of pension discount rates on pension liabilities, noting that it was possible the position could improve the following year.

179. The Director of Finance provided additional background information to respond to a number of queries about the financial statements including in relation to investment income, donated assets, staff costs, auditor fees and the impact of McCloud/Sargeant cases on the Local Government Pension Scheme (LGPS) evaluation. It was noted that the financial information on the Access and Participation Plan, a new requirement for 2019/20, was being finalised and would be added as a note to the financial statements.
180. The Committee Chair drew the committee's attention to a new section of the Statement of Corporate Governance and Internal Control, the 'Statement from the Audit Committee', and confirmed that this had been drafted by the Clerk in consultation with the Committee Chair. There were no comments raised by members on the proposed statement.
181. **Resolved** - that the Board of Governors be recommended to approve the letter of representation for the year ended 31 July 2020 and the annual report and financial statements, subject to the agreement of the Resources Committee and to finalisation of the annual report and financial statements and confirmation of the college being a going concern.
182. The Committee Chair highlighted some key points in the proposed letter of representation which had been covered during earlier discussions. There were no other questions raised.
183. **Resolved** – that the Board of Governors be recommended to approve the letter of representation for the year ended 31 July 2020.

RISK MANAGEMENT

184. The committee had received the College Group's Risk Management Plan together with the Principal's first risk register assurance monitoring report of 2020-21 and the risk register dashboard. The committee had also received the College Group's Covid-19 risk assessment (19 October 2020).
185. The Principal summarised the key changes in the risk register since the register was presented to the committee in June, explaining how College management had sought to identify and mitigate the impact of Covid-19 on other areas of risk and had also added a new Covid-19 summative risk. The Principal gave examples of some of the continuing uncertainties for the College caused by the pandemic and assured the committee that these were kept under regular review by the SLT.
186. It was noted that the risk management internal audit would take the form of a 'deep dive' review of whether the risk register and plan adequately captured the Covid-19 risk and of the associated controls and management oversight.
187. As reported to the Board of Governors in October, the number of sub-risks considered 'significant' had increased from two to eleven [corrected to twelve at the subsequent meeting] from 2019/20 to 2020/21, primarily due to impact of the pandemic.
188. The committee reviewed the last risk register assurance report, noting that the controls had been substantially updated since the last meeting and requesting that the controls continue to be actively reviewed and updated through the year as assurance to the committee and the Board of the SLT's management of risk.
189. The Principal drew the committee's attention to several recent activities in relation to each of the summative risks, including highlighting the reduced catering demand caused by the impact of Covid-19 and the resulting impact on the College's outsourced caterer. The committee was reassured by the Deputy Principal Corporate's summary of the mitigating

- actions being taken by management, noting that a report was due to be presented to the Resources Committee and the Board.
190. The Principal provided an update to the information provided in the report in relation to Summative Risk 6, noting that there had been no matters defined as reportable events to the Office for Students.
 191. *Action:* A member proposed that the ‘governance oversight’ for Summative Risk 6 should include the addition of an Equality & Diversity meeting and report to the Governor Link Visit Programme. The Principal agreed to add this.
 192. The Deputy Principal – Corporate provided an update to the report of risks associated with non-compliance with ESFA funding requirements for the capacity and delivery fund (CDF) industry work placements minimum hours. The ability for colleges to deliver the full hours of industry work placements for students had been constrained by Covid-19 restrictions on employers and workplaces and no guidance had yet been issued in relation to the new ‘lockdown’ restrictions. The Government had acknowledged that there might be a justification for flexibility regarding colleges’ meeting their targets, but this would not be confirmed until after colleges had submitted their monitoring returns in December. The total related to income to the College was c£300k but only a part of that was considered at potential risk and management had been making a case for exceptions with both the ESFA direct and through Landex.
 193. The Principal explained that a similar risk did not apply to the achievement of FE study programmes and the qualification bodies had confirmed that the usual requirements for external work experience could be undertaken on campus instead.
 194. The Committee Chair thanked the SLT for the update and noted that the matter would be monitored by the Board.
 195. In response to a member seeking further assurance about the reported outcome of a cyber security staff testing exercise, the Deputy Principal Corporate explained that the mock email had been designed as a challenging test and that it had been helpful in identifying individual staff who would benefit from follow-up training and lessons for the organisations about the volume of emails staff handle, particularly when working remotely and at busy times.
 196. In addition to the cyber security training for staff, members welcomed the fraud awareness training for staff, noting the increase in fraud risks in all sectors during the pandemic. The Deputy Principal Corporate reported that the IT team were also engaged in learning from cyber-attacks on other educational establishments.
 197. The Principal explained that summative risk 8 had been updated to take into account ‘staff satisfaction’ as well as ‘staff performance’ and acknowledged the additional pressures on staff workload caused by the pandemic and the challenge of affording pay awards given the financial climate.
 198. The committee noted the update on Covid-19 risks and controls in the assurance report and the College Group risk register. There were no matters to raise not already covered at the meeting.
 199. The Committee Chair noted that the business cycle for approval of this year’s Risk Management Plan had not included an opportunity for the committee to review the plan and make recommendations to the Board. Members agreed that this should be reconsidered for 2021/22.

200. *Action*: the Principal and Clerk undertook to review the Risk Management Plan approval process in consultation with the Committee Chair.

COUNTER FRAUD

201. The Committee Chair explained the intention of introducing a standing item at each meeting whereby College management would be asked to provide a verbal confirmation that no issues of fraud or irregularity had been identified, as an additional regular assurance that policies were being followed.
202. The members of the SLT and management present confirmed that they were not aware of any matters of fraud or irregularity.

AUDIT COMMITTEE ANNUAL REPORT

203. The committee had received from the Clerk to the Corporation the draft annual report of the committee to the Board, together with the committee's annual business plan and the ESFA's good practice guide for audit committees for information.
204. The committee discussed the Committee Chair's question as to whether there was merit in future reports also identifying where the committee considered key vulnerabilities might lie. In general, members were satisfied that the risk register and risk reporting, together with the internal audit process, provided a satisfactory framework for monitoring vulnerabilities and highlighting these to the Board during the year. There was an acknowledgement, however, of the importance as part of the committee's work of filtering out the 'routine' from the 'critical' risks and of not losing sight of risks which were not currently rated as 'significant'. A member gave the example of organisations which sought to assess the potential speed at which risks could develop to become high impact.
205. Members were content with the committee's annual business cycle, noting that this would be reviewed to include scrutiny of the risk management plan prior to its approval by the Board.
206. *Action*: the Clerk to include the ESFA's good practice guide for audit committees and Annex D of the Audit Code of Practice (anti-fraud checklist) in the papers for the committee's March meeting.
207. **Resolved** - that the report be approved and submitted to the Board of Governors.

ESF AUDIT

208. The committee noted the correspondence from the ESFA (6 November 2020) confirming that no issues were identified as part of an Article 125 desk-based verification by the European Social Fund (ESF) Managing Authority. This was part of the standard activity undertaken for programmes funded through the ESFA and related to the intermediate and high-level workforce skills project delivered in partnership with other colleges.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

209. The Committee Chair noted the extra challenges caused by the pandemic and lockdown and sought feedback from College management as to their perspective on the internal and external auditors' activities.
210. The Director of Finance confirmed that the external audit was being conducted smoothly and welcomed Buzzacott's use of data analysis technology which enabled the audit work to be thorough but also more time efficient for the Finance team. The Finance Manager concurred with this assessment, giving examples as to how the auditors had reviewed

transactions, including visiting relevant assets and talking directly to teams at the College, and checked income through examining the source data.

211. Members asked a number of questions about the approach taken by the external auditors and welcomed the assessment of the thoroughness of the audit work and the approachability of the auditors, particularly in Buzzacott's first year of appointment.
212. The Deputy Principal – Corporate reported that remote working had created additional work for both the auditors and College staff but commended the quality of the internal audit systems and service. The Director of Finance also noted that some minor issues with finalising the scope of audits had been dealt with swiftly when highlighted.
213. The Committee Chair thanked members and management for their contributions and the meeting closed at 12.20.