

**SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 10 June 2021 at 9.30 am
via videoconference**

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

In attendance: S Blakemore, Buzzacott (from min 125 to 182)
S Evans, Finance Manager (from min 97)
E Gipson, RSM (to min 182)
S Grant, Deputy Principal (from min 97)
J Milburn, Principal (from min 97)
B Stokes, Vice Principal Curriculum, Andover (from min 97)
A Whitworth, Director of Finance (from min 97)
S Willson, Clerk to the Corporation

DECLARATION OF INTERESTS

88. There were no interests to declare.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

89. The Committee Chair invited E Gipson for RSM to provide feedback on the internal auditors' interactions with College management.
90. E Gipson reported that there were no issues to highlight from the way College management supported the internal audits or from the change of College Principal from August 2020.
91. E Gipson confirmed that the Learner Numbers audit report was being finalised and would be presented to the November meeting of the committee, alongside the Follow Up report. RSM were therefore expecting to be able to give the annual audit opinion in November.
92. The Committee Chair noted the reappointment of RSM as the internal auditors, following the retender process, and that members of the Board had sought reassurance that there had been and would continue to be no diminution of the independence of the auditors.
93. E Gipson confirmed that RSM conformed with internal auditing standards, which included external quality assessment, and its own internal audit charter, which included ensuring the independence of internal audit. The details of this charter were set out in the internal audit plan for 2021/22. In addition, E Gipson gave examples of RSM's internal quality assurance processes and noted that, although M Cheetham remained the head of internal audit, the audit manager had changed during the course of RSM's previous appointment period and different members of the audit team undertook the audit work.

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

94. E Gipson added her personal assurance that she had always felt able to give an independent view and to disagree with College management where she deemed this necessary.
95. The Committee Chair thanked E Gipson and noted that she would highlight the assurance from RSM to the Board of Governors.
96. S Blakemore for Buzzacott was not present for this item but had confirmed in advance of the meeting that Buzzacott had no issues to raise with the committee about the auditor's dealings with college management.

MINUTES

97. **Resolved** - that the minutes of the meetings held on 4 and 12 March 2021 be confirmed and signed as a correct record.
98. The actions and resolutions were confirmed to have been enacted.

Work placements (minute 5)

99. Further to the report at the last meeting that the ESFA had confirmed funding would not be withdrawn given the progress made with arranging industry work placements despite the impact of the pandemic, the Deputy Principal reported that the College had continued to seek to arrange and start work placements, some of which would be rolled over to the next year. Two hundred and eighty-four learners had commenced placement in year with a further 47 learners due to commence placement before the end of the academic year.
100. The Committee Chair commended this as a significant achievement by the teams involved on behalf of the students and good progress in meeting the work placement target despite the restrictions caused by the pandemic.

Cyber security (minutes 8&9):

101. The Deputy Principal reported that all staff had been required to undertake a further, enhanced cyber security training course following the December phishing exercise. Around 50% of staff had completed the course to date. This would be followed by a further phishing exercise.
102. **Action:** The Committee Chair asked that the outcome of the next phishing exercise be reported to the committee via email between meetings and noted that the committee would expect to alert the Board of Governors if significant concerns were raised by the exercise.
103. The Deputy Principal also reported that measures were being taken by the College as preparation for the Cyber Essential accreditation, including introducing MFA (Multi-Factor Authentication). The ESFA required colleges to meet the requirements for the Cyber Essentials for the 2020/21 funding year and Cyber Essentials Plus from the 2021/22 funding year.
104. The committee discussed the risk management of cyber security, with the Deputy Principal highlighting information about cyber attacks at FE colleges and the committee also noting RSM's Emerging Issues report on cyber security attacks. A member gave examples from the commercial sector of the need for ongoing cyber awareness training and testing, emphasising the need to continue to budget and plan for this.

Risk Management (minutes 38 & 40)

105. The Committee Chair had highlighted to the Board of Governors the discussion at the last meeting relating to the increasing prevalence of safeguarding cases and student mental health concerns. This continued to be kept under review by management and reported to relevant committees and the Board.
106. The Deputy Principal reported that the RCVS (Royal College of Veterinary Surgeons) accreditation event for Veterinary Nursing had taken place and the College was expecting from the positive feedback to receive confirmation of accreditation, recording her thanks to the teams involved.
107. The Committee Chair commended the expected outcome and noted the benefits to the student's experience and the College's reputation.

Insurance (minutes 45-52)

108. The Director of Finance reported that the College Group's main insurers, Zurich, was withdrawing cyber security insurance for colleges and that management had researched a new policy from 1 August 2021. This was likely to be with FE Protect Ltd (an insurer broker for the FE sector, with the policy underwritten by CFC Underwriting) with cover of £1m.
109. The Director of Finance confirmed that terrorism insurance was now in place through Pool Re (Pool Reinsurance Company Ltd, the government backed terrorism reinsurer). Although the cost was higher, the policy provided the best fit with the College's needs and the SLT had therefore confirmed it was in the College's best interests.
110. There were no other matters arising not covered on the agenda.

INTERNAL AUDIT REPORTS

HE Access & Participation

111. The committee had received the report of RSM (3. 20/21) following an internal audit to assess the adequacy of the controls regarding the College operating in line with OfS requirements in relation to the Access & Participation Plan (APP).
112. The auditors found the College's processes were appropriate to ensure the APP is line with the OfS's requirements, including in relation to preparation and monitoring, and the report provided 'substantial assurance' (green rating). The review had identified one low priority action to implement an overarching App workbook to aid the day-to-day management of progress towards the plan.
113. The Deputy Principal confirmed that the action would be implemented by October 2021, although she noted for context that, because the University Centre Sparsholt management team was significantly smaller than most HE providers, the team was already clear about their responsibilities, actions and monitoring processes.
114. The Committee Chair reported that the internal audit report had also been provided to the Chair of the Curriculum, Employers & Marketing Requirements Committee for information as the committee had a remit for oversight of APP monitoring reports on behalf of the Board.
115. Asked whether performance indicators relating to APP would be included in the new College Dashboard, the Deputy Principal confirmed that in-year performance against APP targets would included.
116. The committee welcomed the assurance provided by the audit and commended the work of the teams involved.

Procurement & Payments

117. The committee had received the report of RSM (4. 20/21) following an internal audit of the College's procurement of contracts and services and payments to suppliers.
118. The audit found that the College's procurement and payments processes were well designed and conducted with sufficient segregation of duties and that the Board could take 'substantial assurance' (green rating) in the controls in place. The auditors had recommended three low priority actions to improve compliance with key processes.
119. E Gipson noted for context that timely and consistent raising of purchase orders was an issue in all sectors and that the College performed positively compared to others. The auditors had recommended further methods of checking and verifying supplier amendments.
120. The Director of Finance confirmed that there had been good progress in recent years in ensuring that budget holders raised purchase orders and confirmed that management would implement the actions by the agreed dates. The Finance Manager also highlighted the achievement of making most payments within the required timeframe given the requirement to change working practices during the pandemic.
121. Asked by a committee member about the monitoring processes in place for purchase orders which were not used, or only partly used, and the related accounting practices, the Finance Manager explained the process by which purchase orders were receipted when goods/services were received and the process for accruing purchase orders which had not been receipted and reviewing purchase orders which were outstanding in the management accounts and towards year end.
122. Asked for examples of exceptions to the requirement to raise purchase orders, the Finance Manager cited utility charges and responding to urgent situations, such as flooding.
123. The committee acknowledged the risk of fraud associated with new suppliers and supplier amendments and welcomed the assurance of the controls currently in place and that these would be further reviewed and documented.
124. The committee welcomed the substantial assurance provided by the audit, commending the work of the Finance team, and emphasised the continuing importance of maintaining management attention on financial controls.

Briefings

125. The committee had received for information an RSM briefing on emerging issues in the sector over the last six months and discussed a number of the matters covered by the report.
126. With reference to the report on VAT reliefs for colleges and the Colchester Institute case, a member queried whether this might result in risk of VAT being owable on previous capital projects. The Director of Finance and Finance Manager explained that management were advised by specialist tax advisors and that this matter would be kept under review. The College continued to monitor and record student use of relevant buildings.
127. S Blakemore reported that the Buzzacott VAT team had confirmed the previous week that there would be no change for colleges, so the College was not at risk in this regard.
128. Responding to a member's question about the Kickstart Scheme and the Help to Grow Scheme for SMEs, the Principal confirmed that the College Group has signed up to the Kickstart Scheme, advertising 16 posts of which 3 appointments had been made. The

overall process had been slow and convoluted and there had unfortunately been very few suitable candidates put forward. The College was not in the target areas for the Help to Grow schemes.

129. The Committee Chair noted that the Board could take assurance from the fact that the SLT had reported and, where relevant, actioned the additional funding opportunities for the sector arising over the last six months which were summarised in RSM's briefing.
130. The committee noted the advice from RSM as to areas which governors might wish to consider as part of their assessment of going concern. It was now a requirement for external auditors to specifically conclude on whether the use of going concern assessment made by governors was appropriate. (The briefing had also been circulated to all governors by the Clerk and this advice highlighted.)
131. The Director of Finance agreed that it was a helpful list and noted that a report on going concern had been provided to the Board at its meeting in December 2020, prompted by the external auditors.
132. S Blakemore confirmed that Buzzacott would take a similar approach to going concern for the 2019-20 financial year audit as for the 2020-21 audit. This issue of going concern had been escalated in the sector by concerns about the impact of the pandemic on college finances and the new requirements were expected to remain in future years. Buzzacott's work would include a forward look at the compliance with the bank covenants in 2021/22.

RISK MANAGEMENT

133. The committee had received the Principal's termly risk register assurance monitoring report and the risk register dashboard, together with proposals to develop the risk management processes for 2021/22. The committee had also received the College Group's Covid-19 risk assessment (17 May 2021) and the ESFA financial health confirmation.

Risk register and assurance report

134. The Principal highlighted key updates in the assurance reported, giving examples of actions being taken by management to mitigate risks.
135. In relation to the update on summative risk 8 (Our People), a member provided feedback from his previous experience of job evaluation reviews and cautioned about the need for any review to be well led and clearly communicated to avoid have unintended negative consequences on staff morale. The Principal acknowledged this concern and reassured the committee that College management were exploring the options with an external specialist provider.
136. The Principal explained that the number of sub-risks categorised as 'significant' had decreased from 12 to 3 because of the increased certainty about the impact of the Covid-19 pandemic this academic year. The remaining three 'significant' risks related to loss of commercial income (such as the cancellation of language school business this summer), the impact of government funding changes and lack of external support for students with mental health concerns.
137. An additional two sub-risks had moved from 'high' to 'significant' as a consequence of the government's Levelling Up policy agenda which was likely to reduce the investment available to EM3 colleges compared to colleges in other locations and have an impact on competition in the market place.

138. The Deputy Principal explained the challenge of the Levelling Up related criteria in recent funding bids in relation to the College's Capital Transformation Fund and Skills Development Fund bids and reported that the College had written to the ESFA to explain the impact on colleges affected, given the history of underfunding and the impact on the college's ability to invest in its estate. Other colleges in the EM3 area had also contacted the ESFA.

Covid-19

139. The Principal confirmed that the SLT continued to review the Covid-19 related arrangements fortnightly and were keeping a careful watch on the latest developments. All internal controls would be kept in place until at least the end of the FE term (24 June).

140. The Principal summarised the updates to the Covid-19 College Group risk assessment. There were no issues raised by the committee.

141. A member highly commended the Principal and her teams on their response to the pandemic, noting the strength of collaboration and the timely investment in IT. The relatively low numbers of positive Covid cases amongst students and staff were a positive outcome.

142. The Principal agreed that thanks were due to all members of staff across the College Group and recognised the strong culture of team effort and responsiveness, and the legacy of the former Principal.

Financial health

143. The committee noted that the ESFA financial health rating and dashboard provided external assurance regarding the College's financial position. The financial health rating for 2019/20 had been confirmed as 'outstanding'. The provisional rating for 2020/21 was 'good' based on the deficit budget and there was a possibility the rating could improve depending on the year end outturn.

Risk Management Plan

144. The Principal summarised the review being undertaken by the SLT of the College Group's risk management plan processes and sought feedback from the committee to inform the development of the new processes to be presented to the Board of Governors in October.

145. The SLT had reviewed several models used within the sector with the aim of reducing the overall number of risks and providing a streamlined assurance report with sufficient detail for the committee and a visual risk management//heat map. It was also the intention to review the current risk scoring model and to introduce a 'deep dive' analysis for two of the risks on the register at each termly meeting. Each risk would be allocated an owner.

146. Members endorsed the aims of the review and provided feedback on the examples presented which the Principal undertook to consider in developing the final proposals. The committee favoured the model at appendix C.

147. E Gipson also provided input to the discussion, noting that RSM generally recommended a maximum of around 12 strategic risks to be monitored at board/committee level.

148. Points covered in the discussion included adding trend arrows to the risk heat map, maintaining the current role for other committees in relation to risk management, avoiding duplication, and how to ensure early warning of developing risks. The committee agreed the number of risks should be streamlined but noted that College management required a process to manage the operational risks.

149. The committee also discussed whether the risk map should show inherent as well as residual risks, deciding initially to show the residual risks, and how the effectiveness of the controls could be reviewed and the methodology for scoring the risks reduce the level of subjective judgement.
150. Responding to the Committee Chair's question about the oversight of the risk management policy by the committee, the Principal explained that the policy section of the current Risk Management Plan would be extracted to form a separate policy document. This could be shared with committee members for feedback before the October meeting of the Board.
151. The committee agreed the suggestion of 'deep dive' presentations by management of specific risks at each meeting, noting that the approach and format might need to be developed over time.
152. **Action:** to invite committee members to a meeting in September to review the draft risk management policy.

PROCUREMENT AND VALUE FOR MONEY

153. The committee had received the annual report of the Director of Finance on procurement so that the committee could advise the Board on the effectiveness of the College's arrangements for securing value for money.
154. The Director of Finance summarised key points from the review of procurement activity, noting that the College complied with the new Find a Tender Service public procurement tender requirements which had replaced OJEU after Brexit.
155. The Director of Finance also highlighted the increased use this year of Crown Commercial Services (Cabinet office executive agency) and Crescent Purchasing Consortium (FE sector) to comply with procurement regulations through a simplified process.
156. The Principal reported that additional costs for enhanced Covid-19 related cleaning would be allowed for in the College Group budget for 2021/22.
157. The Committee commended the clarity of the report and the effectiveness of the arrangements for securing value for money.

EXTERNAL AUDIT STRATEGY

158. The committee had received the External Audit Strategy for the year ending 31 July 2020 from Buzzacott which covered the financial statements audit, regularity assurance and Teachers' Pension Scheme audit, and set out an indicative timetable.
159. S Blakemore drew the committee's attention to three key changes in auditing standards and to the changes in the 2020/21 Accounts Direction and 2020/21 Audit Code of Practice (ACOP).
160. S Blakemore reported that Buzzacott had discussed with the ESFA the new requirement in the ACOP for external auditors to present their findings annually at a meeting of the board of governors and that it has been clarified that it was acceptable for board members to receive the auditors' report and comprehensive minutes of the Audit Committee meeting which the auditors had attended without the auditors attending the board meeting. S Blakemore further noted that she would always expect to attend the meeting of the board if any significant issues were identified by Buzzacott.
161. The committee agreed that it appeared unduly duplicative for the auditors to attend

the Board of Governors meeting if the audit opinion was satisfactory and the Board formally received and reviewed the auditors' findings. The committee agreed to review this once the outcome of the audit was known.

162. S Blakemore also explained the change in the ACOP which removed a statement that had previously enabled auditors to place reliance on the ESFA's funding reconciliation statements. The increased level of audit activity required would depend on the scope of the internal audit and would take a controls-based approach.
163. **Resolved** – that the External Audit Strategy for the year ending 31 July 2021 be recommended for approval to the Board of Governors.

INTERNAL AUDIT PLAN

164. The committee had received the Internal Audit Strategy 2021-2024, including the 2021/22 Internal Audit Plan which was for a total of 35 days.
165. The Committee Chair reported that she had joined a meeting of the Head of Internal Audit and Audit Manager and members of the SLT to consider matters to inform the development of the plan.
166. The Committee Chair has also written to the chairs of other committees to ask whether there were any specific areas of risk which the chairs would wish to propose for an internal audit. The chairs were content with the review and monitoring processes currently in place relevant to the remit of the committees.
167. E Gipson drew the attention of the committee to key points, noting that RSM would discuss further with the SLT and committee during 2021/22 which two specific risks to review for the Risk Management audit.
168. E Gipson also noted that the exact scope, and hence cost, of the Learner Number Systems audit might require review depending on the approach the external auditors took to the new requirements in the Post-16 Audit Code of Practice (ACOP) to funding income. This could require an agreement to be put in place between the two audit firms.
169. Asked whether the SLT were content to recommend the proposed timing of the Staff Wellbeing (2021/22) and Student Wellbeing (2022/23) audits, the Principal confirmed that this would support the increased emphasis on staff related objectives in the new strategic plan and that the College was anticipating an Ofsted Residential inspection in the next year which would provide some external assurance regarding student wellbeing.
170. **Resolved** – that the Board of Governors be recommended to approve the Internal Audit Plan for 2021/22.

AUDIT CODE OF PRACTICE

171. The committee had received the report of the Clerk to the Corporation providing information about the ESFA's Post-16 Audit Code of Practice 2020/21 (ACOP) in relation to the role of the audit committee and to regularity audit.
172. The Clerk proposed a number of updates to the committee's terms of reference in line with the updated ACOP.
173. A member suggested and the committee agreed that the new text at 2.7 be revised to include the full wording of the ACOP in relation to the resignation or removal of the external auditors.

174. The committee noted the process for completion, audit and agreement of the regularity self-assessment questionnaire.
175. **Resolved** – that the revised terms of reference be recommended to the Board of Governors for approval.

COUNTER FRAUD

176. Members of the SLT and management present confirmed that they were not aware of any matters of fraud or irregularity. This was a standing agenda item at each meeting.
177. The Director of Finance also reported that she asked colleagues to confirm that they were not aware of any matters of fraud or irregularity at an SLT meeting once a term and would expect other managers to report fraud or irregularity concerns.

DIRECTOR OF FINANCE

178. The Committee Chair thanked the outgoing Director of Finance for her knowledgeable and willing contributions to the committee and her clear communication style, noting that she had served the College well and would be missed.
179. The Director of Finance thanked the Committee Chair for her kind words.
180. Earlier in the meeting, responding to a member's point that a change of Director of Finance represented a potential risk to the management of the college, even with a strong Finance team and other SLT members in place, the Principal agreed and explained that careful consideration was being given to handover arrangements/briefings, particularly in relation to the regularity requirements of colleges.
181. The committee noted that there were three sub-risks in the risk register relevant to change of Director of Finance – 8.1 (the management team fails to deliver), 8.3 (staff do not have the necessary skills or understanding) and 8.4 (loss of specialist staff).
182. The Committee Chair suggested that it would be beneficial for the new Director of Finance to meet with the external and internal auditors at an early date after he had started at the College.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

183. The Committee Chair sought feedback from College management as to their perspective on the internal and external auditors' activities.
184. The Principal confirmed that she had been satisfied by RSM's approach developing the proposed internal audit plan and that, while there had been some administrative issues and delays in relation to internal audit reports, it was understood that the last year had been particularly challenging.
185. The Deputy Principal reported that she was able to have conversations with RSM prior to the final reports being issued if management disagreed that there was sufficient justification for a draft finding and that, where the evidence was clarified to RSM's satisfaction, the findings had been updated.
186. The Director of Finance agreed that RSM were receptive to amending draft reports but only if there was clear supporting evidence. RSM had also been flexible in the way the auditors worked during the pandemic which had been appreciated.
187. The Vice Principal (Andover) concurred that this had been his experience during the staff utilisation audit earlier in the year.

188. The Director of Finance and Finance Manager also noted that Buzzacott had been supportive to date and there were no concerns about the external audit planning.

189. The meeting closed at 1235.