

SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 15 November 2022 at 09:30
at Sparsholt College

¹PRESENT G Davies (E); M Lauder (E) (Chair); SJ Radford (C); C Wilson (E).

In attendance: S Blakemore, Buzzacott (min 166-202 & 243-258)
S Evans, Finance Manager (except mins 166-168)
S Grant, Deputy Principal (except mins 166-168)
S Hermiston, Director of Information & Funding (mins 169-170 & 222-227)
N Heslop, Director of Finance (except mins 166-168)
J Milburn, Principal (except mins 166-168 & 222-242)
L Raynes, RSM (except mins 239-242)
S Willson, Head of Corporate Governance

APOLOGIES

160. Apologies were received from A Fagg. The Committee Chair noted that A Fagg had provided a number of comments and questions in relation to matters on the agenda which she would raise during the meeting.

DECLARATION OF INTERESTS

161. There were no interests to declare.

MINUTES

162. **Resolved** - that the minutes of the meeting held on 9 June 2022 be confirmed as a correct record.

163. ESFA Post -16 Audit Code of Practice (minute 134/22): The Committee Chair noted that Annex C of the code would be included in the papers for the next meeting.

164. Risk management (minute 107/22): The Principal provided an update on employer relations, noting the strike action undertaken by a small number of employees in September and the control measures which had been put in place to minimise disruption.

165. The committee noted that the resolutions of the committee had been implemented and that there were no matters arising not covered elsewhere on the agenda.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

166. The Committee Chair invited L Raynes for RSM and S Blakemore for Buzzacott to provide feedback on the auditors' experience of working with College management since the last meeting.

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

* attended remotely via online videoconference

167. S Blakemore praised the high levels of organisation and responsiveness from the Finance Manager and Finance team during the external audit processes. There were no matters of concern to the auditors.

168. L Raynes confirmed good progress in scheduling the internal audit activity for 2022-23 and explained that discussions were underway to finalise the final report from 2021-22.

INTERNAL AUDIT

Progressions & Destinations

169. The committee had received the report of RSM (6. 21/22) on the processes in place in relation to progression of FE and HE learners and destination data which provided substantial assurance about compliance with processes. There was one low level management action to document progress coach meetings.

170. The Principal reported that management had also since decided to introduce an extra mechanism to revisit with each student their progression route at the commencement of the summer term. This was intended to address any gaps in progression data and respond to changes in student choices.

Staff Wellbeing

171. L Raynes reported that RSM had agreed with the Deputy Principal's request to further review the draft report of the Staff Wellbeing audit before it was presented to the committee. The report was anticipated to provide at least adequate assurance and the delay to issuing the final report would not affect RSM's annual audit opinion for 2021-22.

172. The Deputy Principal explained that the further review was intended to ensure that the report properly reflected the wellbeing culture and processes in place at the time of the audit. College management would also review the way that audit work was supported within the College going forward to ensure that the process enabled earlier opportunities to identify any gaps in evidence or understanding.

173. The committee noted that RSM and College management were in agreement about the actions required to complete the report and that RSM had confirmed that there were no significant issues to bring to the committee's attention at this time.

Internal Audit Report and Opinion 2021-22

174. The committee had received the internal audit annual report for the year ended 31 July 2022, which confirmed that the College had an adequate and effective framework for risk management, governance and internal control, while also noting that the internal audit work had identified further enhancements.

175. Asked by members about the difference between a 'green' and a 'green/yellow' audit opinion and what would lift the opinion to the highest level, L Raynes explained that there were a range of factors involved and that RSM formed a judgement from the outcomes of the individual audits, as well as the auditors' overall knowledge of the College.

176. The committee was satisfied that the audit opinion provided positive assurance to the Board and noted that there was value to the College from internal audit activity identifying areas for improvement.

Progress Report

177. The committee had received for information RSM's progress report on the 2022-23 internal audit plan, together with RSM client briefings on Emerging Issues for FE and maintaining up to date information on income generated by learners.
178. The committee noted that, at RSM's request, the risk management audit would now focus on one risk, rather than two, risk 15 (climate change), given the number of days available.
179. Members welcomed the Emerging Issues report as consolidating members' knowledge and providing an external view on sector developments. A number of points were discussed, including the lack of information about the ESFA's methodology for learner number audits and implications of the Harper vs Brazel Supreme Court ruling.

EXTERNAL AUDIT REPORT ON THE FINANCIAL STATEMENTS AND REGULARITY AUDIT

180. The committee had received the post-audit management report prepared by Buzzacott LLP.
181. S Blakemore confirmed that Buzzacott expected to give an unqualified 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, including confirmation of the ESFA funding reconciliation.
182. It was noted that the expected risk focus for the FE sector had shifted from the pandemic to the economic uncertainties and that this was reflected in the annual report narrative.
183. S Blakemore explained key points from the audit work, including the audit adjustment in relation to Local Government Pension Scheme liability, the testing of bank loan covenants, the assurance regarding going concern, the assessment of the College's financial planning response to the Harper vs Brazel Supreme Court finding, and the auditor's approach to ILR data assurance.
184. S Blakemore thanked the Finance team for the high standard of preparation and confirmed the audit activity had gone smoothly.
185. Responding to questions raised, S Blakemore confirmed that the volume of journals was not unusual and that the guidance from the actuaries was that a note was not required on the volatility of gilt yields. S Blakemore also confirmed that there had been no unadjusted items of note, just some minor items below the thresholds.
186. *Action:* S Blakemore undertook to add the subsidiary company reporting thresholds to the report.
187. It was noted that there were no issues of concern which required the audit partner to attend the Board of Governors meeting and noted that Buzzacott's report would be considered by the Board at its meeting, alongside the Committee Chair's oral report and the minutes of the committee meeting.
188. The committee welcomed the auditors' findings and thanked Buzzacott and the Finance team for their efforts.

REGULARITY AUDIT

189. The committee had received the report of the Head of Corporate Governance on the Regularity Self-Assessment Questionnaire required by the ESFA's Post-16 Audit Code of Practice 2021-22 (ACOP) and used as evidence for the regularity audit opinion contained within the auditor's report.

190. The committee noted that this year's regularity audit had included some additional reporting requirements in relation to governance (annual performance review).
191. The Committee Chair commended the work and the comprehensiveness of the responses.
192. **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 2021-22 was expected.

ANNUAL REPORT AND FINANCIAL STATEMENTS

193. The committee had received the draft report and accounts for the year ended 31 July 2022, together with a commentary from the Director of Finance and the draft combined letter of representation for the financial statements and regularity audits.
194. The Director of Finance explained that the accounts were nearly final, with a number of small revisions to be made and the Access and Participation Plan data to be added. After review by the Resources Committee, the final accounts would be resubmitted to the auditors. The Director of Finance noted that the accounts had been revised this year to respond to a new requirement to eliminate intercompany transactions involving wholly owned subsidiary companies.
195. The Director of Finance noted that updated management accounts to 31 July had been issued to the Board and to committee members to reflect the revised Local Government Pension Scheme actuarial valuation which had been requested by the auditors.
196. The Director of Finance noted the bank loan covenants had been tested internally and by the auditors and that no issues had been identified for 2021-22. In addition, the ESFA had confirmed the College had a financial health rating of 'Outstanding'. A report of information relevant to 'going concern' considerations would follow to the Board.
197. Members raised a number of small editing points which the Finance Manager undertook to address in the final accounts.
198. The Committee Chair drew the committee's attention to the 'Statement from the Audit Committee' in the Statement of Corporate Governance and Internal Control and confirmed that this had been drafted by the Head of Corporate Governance in consultation with the Committee Chair. There were no comments raised by members on the statement.
199. **Resolved** - that the Board of Governors be recommended to approve the annual report and financial statements for the year ended 31 July 2022, subject to the agreement of the Resources Committee and to finalisation of the annual report and financial statements.
200. S Blakemore highlighted some key points in the proposed letter of representation and explained the purpose of the letter in confirming that there had been no matters withheld which would suggest a liability or disclosure had been omitted from the accounts.
201. Responding to a member's question about a historic insurance claim relating to asbestos, the Director of Finance summed up the outcome, which had been reported to the Board. There were no points raised by committee members.
202. **Resolved** – that the Board of Governors be recommended to approve the letter of representation for the year ended 31 July 2022.

RISK MANAGEMENT

Risk Register

203. The committee had received the report of the Principal on risk management, together with the strategic risk register assurance report and heat map.
204. The Principal summarised the developments, noting that of the 15 risks, there were five risks which were still graded as ‘very high’ after controls had been applied and where the residual risk rating had increased (3, 4, 5, 9, 10) and five risks where the residual risk rating had decreased (7, 8, 12, 13, 14), explaining some of the key developments.
205. Members questioned the evaluation of the residual risks and the effectiveness of the controls where there had been no decrease shown between the unmitigated and the mitigated risk. The Principal explained that the SLT considered that the right controls had been identified but that, in some cases, there was a timing issue as to when the controls would take effect. The evaluation presented to the committee was based on the current circumstances, and it was expected that the position would improve.
206. A member suggested that the wording of risk 3 (failure to deliver regulatory compliance... as a consequence of poor quality of delivery) be reviewed to reflect the fact that there may be other causal factors.
207. *Action:* the SLT to consider whether the full wording of risk 3 was appropriate.
208. *Action:* that, if triggered, the key risk indicators in the risk register be highlighted.
209. A member raised a question about the College’s approach to suicide prevention given recent reporting in the media of the risks relating to university students.
210. The Principal recognised that this was an important issue for colleges and universities and explained that the College had embedded support arrangements for both FE and HE students. The Principal gave examples of some of more recently introduced processes and initiatives and noted that the management were specifically looking at HE suicide prevention strategies, informed by external guidance, and at the approach to assessments and exams. Other actions included training for staff and reviewing disclosure and consent policies.
211. A committee member who was also the Safeguarding Lead Governor concurred that the College was committed to student wellbeing and continued to make further enhancements to support processes.

Risk 5 Deep Dive

212. The committee received a presentation on risk 5 (learner enrolments) from the Director of Finance, highlighting the current key enrolment challenges and the key risk mitigation activities currently in place and planned.
213. Points covered in discussion included the strategic review of Andover College and the potential for investment in and redevelopment of Andover town centre, apprenticeship provision, the expected reclassification of colleges as public sector by the ONS, and the challenges linked to the increase in utilities and other costs.
214. The committee drew comfort from the strategic approach being taken by the SLT to identify and address the risks.

Risk 14 Deep Dive

215. The committee received a presentation on risk 14 (strategic relationships) from the Deputy Principal. The presentation covered examples of collaborative projects with other colleges and examples of strategic relationships which had been established with a range of civic, education, community and employer organisations.
216. It was noted that Skills Act 2022 placed a duty on providers to co-operate with designated Employer Representative Bodies in developing and reviewing Local Skills Improvement Plans (LSIP) and that governing bodies also now had a legal duty to regularly review their provision in relation to local needs. There was good progress in developing the LSIP and an inaugural collaborative event for college governors in the LSIP region had been hosted at the College.
217. The Deputy Principal noted that the College had always offered to take a leading operational role in collaborative projects in the region in order to support colleges to access funds and had more recently sought a strategic lead in order to be able to influence the response to opportunities.
218. It was noted that a full report on stakeholder activities had been presented to the Curriculum, Employers & Market Requirements Committee and that the committee would be updated termly, reporting to the Board.
219. The Principal gave examples of how the National Land Based College and Landex (both bodies of which she was a board member) worked with land-based colleges, awarding bodies and government departments to enhance skills provision to the land-based sector.
220. Members acknowledged the significant range and level of stakeholder activity and reflected on the time demands for the Principal and others and ensuring efforts were prioritised where there was most value.
221. The committee was assured that the College was responding effectively to the developments in statutory duties, funding and policy in relation to strategic relationships and that this remained a priority for the SLT.

Cyber Security

222. The committee received a report from the Director of Information & Funding on cyber security arrangements in relation to the government guidance 'Cyber crime and cyber security: a guide for education providers' which was recently recirculated to colleges by the ESFA.
223. The Director of Information & Funding explained key areas of the College's approach.
224. The committee noted that the College had achieved the Cyber Essentials accreditation, although this was not yet a formal requirement of the ESFA funding agreement. A programme was in place to work towards the Cyber Essentials Plus requirements over the next one to years, with some actions prioritised where most relevant.
225. Asked about whether there was a relevant strategic question for the Board about prioritising additional resources to achieve Cyber Essentials Plus, the Director of Information & Funding explained that there was some uncertainty as to whether the Cyber Essentials scheme would remain in place or would be replaced in the future by a requirement to achieve ISO 270001 certification. It was noted that one of the biggest challenges would be moving students to MFA (Multi Factor Authentication).

226. Responding to a member's observation about the value of external testing to highlight any potential control weaknesses, the Director of Information & Funding confirmed that the College used Jisc (the UK digital, data and technology agency focused on tertiary education) for testing and advisory services. Penetration testing run in 2021-22 would be repeated again in the future and clean tests were a requirement of Cyber Essentials. The College also used its specialist IT staff to undertake information security work, seeking a proportionate balance between the resource requirements and the level of risk.
227. The Director of Information & Funding commended the work of the IT Manager and his team and noted that the challenge was to continue to build knowledge to respond to new developments in cyber-attack technology.

Salix Audit

228. The committee received a report from Salix Finance's (government non-departmental public body) audit of the effectiveness of the College's risk management and internal control arrangements in relation to the terms of the Salix grant for LED lighting upgrade works under the Public Sector Decarbonisation Scheme.
229. The committee noted that the auditor had confirmed Substantial Assurance could be placed on the system of controls. There were no exceptions identified.

Financial Risk

230. The committee had received the letter from the ESFA to the Principal of 25 October 2022 confirming the College's financial health grade for 2021-22 as Outstanding, following a review of the College's Financial Forecasting Return. The predicted grade for 2022-23 was also Outstanding (based on the 2022-23 budget).
231. The committee noted the assurance provided the ESFA financial health grade.

COUNTER FRAUD

232. The committee received confidential reports about claims of potential irregularity received via correspondence and the actions arising and agreed that these be recorded separately as they related to individuals. The committee was satisfied by the reports received that no further action was required.
233. At the invitation of the Committee Chair, members of the SLT and management present confirmed that they were not aware of any other matters of potential/actual fraud or irregularity.

GOVERNANCE

Audit Code of Practice & Regularity Audit

234. The committee had received from the Head of Corporate Governance the draft annual report of the committee to the Board, together with the committee's annual business plan.
235. It was noted that the report had been drafted to comply with the requirements of the ESFA Post-16 Audit Code of Practice.
236. The committee noted that the report would be finalised to include the latest position regarding the Staff Wellbeing audit and the discussion about fraud/irregularity.
237. There were no comments about the committee's annual business cycle for 2022-23.
238. **Resolved** - that the annual report of the committee be amended as agreed and submitted to the Board of Governors and that the committee's annual business plan be approved.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

239. The Committee Chair sought feedback from members of College management on the internal and external auditors' activities.
240. The Director of Finance and Finance Manager confirmed they had been satisfied by the external audit approach and the standard of the audit team.
241. The Deputy Principal noted the earlier discussions in relation to the Staff Wellbeing audit and that management teams needed to be able to respond to variations in approach when RSM brought in specialist auditors.
242. The meeting closed at 13.10.