

SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 13 June 2024 at 09:30
at Sparsholt College

¹PRESENT A Fagg (C); G Davies (E) (Chair); C McCormack (E) (to min 120); R Sharpe (C);
C Wilson (E).

In attendance: S Blakemore, Buzzacott (via online videoconference to minute 156)
E Gipson, RSM (to minute 156)
S Grant, Deputy Principal (from minute 84)
N Heslop, Director of Finance (from minute 84)
R Lynn, IT Manager (minutes 107 to 118)
J Milburn, Principal (from minute 84)
B Stokes, Vice Principal Curriculum (Andover) (minutes 119 to 120)
N Wall, Governor
S Willson, Head of Corporate Governance

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

79. The Chair invited E Gipson for RSM and S Blakemore for Buzzacott to provide feedback on the auditors' experience of working with college management since the last meeting.
80. E Gipson confirmed that the relationship between RSM and college management remained positive and constructive, with management co-operating with the audit requirements. RSM welcomed having returned to conducting audit activity on site for at least one day of each audit.
81. S Blakemore reported that the planning meetings for year-end audit had gone well and commended management for always being prepared and proactive. S Blakemore also noted that Buzzacott was in the processes of finalising the Annex G Local Skills Improvement Fund (LSIF) grant funding audit and that management had also supported this process.
82. Asked by a committee member for assurance about the composition of the audit teams in relation to the balance of continuity and 'fresh pair of eyes', both S Blakemore and E Gipson confirmed that they were satisfied that the audit teams delivered this balance.
83. The Committee Chair welcomed the assurance provided by RSM and Buzzacott, noting the value of this regular health check on the audit services.

APOLOGIES & MEMBERSHIP

84. There were no apologies received from committee members.
85. The Committee Chair welcomed R Sharpe, who had joined the committee as a co-opted member, and N Wall who was attending in advance of joining the committee in July.
86. The Committee Chair recorded the thanks of the committee to C Wilson, who was stepping down as a governor in July and had been a long-standing member and former chair of the

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

committee, and to A Fagg who completed his term of office as a co-opted member of the committee before the next meeting and whose expertise and support of the committee's work had been valued by the committee.

DECLARATION OF INTERESTS

87. There were no interests to declare.

MINUTES

88. **Resolved** - that the minutes of the meeting held on 6 March 2024 (Parts 1 and 2) be confirmed as a correct record.
89. Public Finance Audit (minute 6/24): Following the college's challenge of a finding from the ESFA Funding Assurance Review (Public Finance Audit) in relation to the Adult Education Budget, the ESFA had agreed that the minor data error identified had not been a funding error and had confirmed that the c£44k funding clawback would be cancelled. The audit had confirmed a satisfactory use of funds overall and resulted in a total clawback of c£15k.
90. Risk management – business disruption (23/24): Following the major water leakage incident in February, the Principal confirmed that funding for improving the water pipe infrastructure had been included in the proposed 2024-25 capital expenditure budget. It was also confirmed that the Hampshire Chief Fire Officer had confirmed that current access to the college's existing mains supply infrastructure was sufficient should fire appliances require additional water.
91. Risk management – stakeholder relationships (24/24): The Deputy Principal reported that the Surrey County Council Level 2 devolution framework had been agreed and that there were already indications that the resulting funding changes were shifting the focus of the Surrey colleges away from the Surrey/north-central Hampshire colleges alliance.
92. Risk management – property strategy (31/24): The Deputy Principal provided an update on the risk of lack of supply for student residential accommodation due to increased demand and public sector constraints on borrowing restricting the ability to build new accommodation. The positive FE and HE student recruitment numbers meant that accommodation bookings on campus had reached capacity for 2024-25. The allocation of FE and HE residential halls on the Sparsholt campus was being reconfigured and discussions were taking place with the University of Winchester over the potential use of another university residential block for HE students, with consideration being given to prioritising accommodation for first years and to the support needs of students living offsite. The college was also lobbying the DfE to include student residential accommodation in future capital grant investment programmes.
93. Insurance (38/24): The Director of Finance updated the committee on the insurance tender process, confirming that the process would be completed and an insurer in place from 01 August 2024. As previously reported, an increase in insurance costs was anticipated given market conditions and consideration would be given to whether adjusting the excess levels would provide more value for money.
94. Banking (44/24): The Director of Finance confirmed that the Chair of Governors was being added as a signatory to the college's principal bank accounts. Adding the Vice Chair had been deferred until a new Vice Chair was appointed.
95. Counter fraud (48/24): The Director of Finance and Head of Corporate Governance confirmed the new obligations for the college and its subsidiary companies being introduced in stages under the Economic Crime and Corporate Transparency Act 2023 had been reviewed and no

immediate actions were required. There were several new Companies House requirements which, when rolled out, would apply to the subsidiary companies, including in relation to submission of accounts and verification of directors' identities, and would be implemented accordingly. The Act also introduced a new failure to prevent fraud offence which was expected to apply to the college. The college had counter fraud measures in place, and these would be further reviewed once the new government guidance was published. An update would follow in the annual counter fraud report to the committee.

96. 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.

INTERNAL AUDIT

Capital Projects

97. The committee had received and reviewed the internal audit report on capital projects (5.23/24) which focused on the HE building currently having commenced construction on the Sparsholt campus.
98. The internal audit found that the Board could take 'substantial assurance' that the controls on which the college relied to manage this area were suitably designed, consistently applied and effective. The reported that highlighted management had a clear understanding of the project process and governance and that evidence of due diligence processes by the college and its outsourced project management company. Two areas for improvement in controls were raised as low priority management actions to add capital project monitoring requirements to the Financial Regulations and to add review and approval information to the procurement procedures.
99. The committee welcomed the assurance provided by the review.

FE Funding Rule Compliance

100. The committee had received and reviewed the advisory internal audit report on FE Funding Rule Compliance (6.23/24), which sampled Individualised Learner Record (ILR) data for the three main ESFA funding streams and identified only a small number of exceptions and a minimal funding overclaim of c£270. Two medium and three low management actions were recommended and had been accepted by management.
101. The Committee Chair emphasised the critical importance of the learner numbers and funding data systems given the responsibility of the college to comply with the ESFA funding rules and that ESFA funding provided the majority of the college's income.
102. E Gipson noted that this was why a learner numbers audit was required by the RSM audit partner in order to provide an annual audit opinion and the Deputy Principal emphasised the assurance that the annual audit of learner systems also provided to college management, particularly considering the financial risk to colleges of substantial income clawback if funding claim errors were identified through Public Finance Audits.
103. E Gipson confirmed that the audit outcome was very positive given the volume of data and complexity of the funding rules and comparative audits undertaken by RSM in the FE sector. In relation to one of the medium actions, it was explained that the funding rules about learner support assessment costs had been unclear at the time and that the college had now changed its processes in response to the ESFA clarifying the rules.

104. Responding to members' questions, the process for funding reclaims was confirmed and it was noted that the internal audit report was not submitted to the ESFA but that the external auditors would draw on the internal audit work in their year-end audit activity and the external auditors report was submitted to the ESFA.

Follow Up

105. The committee had received and reviewed the internal audit follow up report (4.23/24) which reviewed progress made to implement the previously agreed management actions and confirmed that all actions had been fully implemented or superseded.
106. Committee member commended management on the responsiveness to the audits and the completion of the actions.

Cybersecurity & IT

107. The committee has received and reviewed the internal audit report risk deep dive on Risk 10 'Hacking or cybersecurity breach or other IT/systems failure', including testing of high-risk mitigatory controls in the risk register.
108. The internal audit found that the Board could take 'reasonable assurance' that the controls on which the college relied to manage this area were suitably designed, consistently applied and effective, with some opportunities for improvement of documenting processes identified in five low priority management actions. The Deputy Principal provided additional context and assurance in relation to the action points.
109. The committee discussed the recognised high risk in relation to cybersecurity in FE and other sectors, endorsing the continued alertness and commitment of management to IT security systems and practices.
110. Responding to members' questions, the IT Manager provided further information about social engineering penetration testing and staff awareness training and about management's access to lessons learnt from cyber-attacks in other organisations and sharing of best practice in the FE sector. S Blakemore highlighted a recent cyber incident review made available by the British Library.
111. Members supported enhanced scrutiny the committee given the level of risk and discussed whether this merited an annual internal audit activity or other additional assurance activities. It was agreed that the termly review of the risk register in relation to cybersecurity should be supplemented by an annual deep dive. Whether an internal audit was required would be considered on an annual basis.
112. **Resolved** – that an annual in-depth review of cybersecurity be included in the committee's annual business plan and management requested to recommend the format and timing of the next review.

RISK MANAGEMENT

Risk Register

113. The committee had received and reviewed the report of the Principal on risk management, together with the strategic risk register assurance report and heat map.
114. The Principal summarised the developments, noting that of the 14 risks, there were two risks which were still graded as 'very high' after controls had been applied (3 English & Maths, 10

cybersecurity), one risk where the residual risk rating had increased (10 cybersecurity), and two risks where the risk ratings had decreased (4 funding income, 8 student recruitment) since the previous meeting, explaining the key reasons for the assessment.

115. The committee reconfirmed that the format of the risk register assurance report was effective and provided clear information for the committee's scrutiny about the assessment and mitigation of the risks by college management.

Cyber Security Case Study

116. The committee received a presentation on risk 10 from the Deputy Principal and IT Manager on a recent cyber security incident, giving details of the form of the attack and the response by the college. It was emphasised that the attack had been successfully contained and had not accessed any of the main college systems, nonetheless, there had been lessons to learn from the specific nature of the hackers' actions and in relation to the roles and responsibilities of staff. This included boosting resources with the introduction of a new assistant IT manager post.
117. Members sought a number of clarifications and discussed further information provided by the IT Manager.
118. The Deputy Principal reported that, as part of the ongoing cybersecurity staff awareness programme, another phishing exercise was due to be undertaken shortly and that the results would be reported to the committee at its next meeting.

English & Maths Deep Dive

119. The committee received a presentation on risk 3 from the Vice Principal Curriculum which explained the current and planned key risk mitigation activities in relation to achievement of English and maths outcome targets.
120. The committee discussed the fact that the risk was still currently assessed as high despite the continued development and delivery of mitigating actions, noting that some of the risk factors, such as the funding requirements, were outside of the college's control. It was noted that while there were indications of improvement, some of the management actions would take longer to lead to improved results. The continued high risk was why English and maths performance, including the detailed operational action plan, were subject to termly reporting and scrutiny by the Quality & Standards Committee.

Risk Management Policy

121. The committee had received the report of the Principal on the annual review of the Risk Management Policy and risk register, ahead of the updated documents being presented to the Board of Governors in October.
122. The Principal confirmed that the SLT believed the changes made to risk management processes in 2021-22 had continued to be effective this academic year. A number of minor revisions to wording of the policy were proposed to align with the new College Financial Handbook.
123. The Principal highlighted that the cycle of deep dives into the strategic risks had been completed and sought feedback on the approach to deep dives going forward, noting suggestions which had been raised in the past and examples from other organisations.
124. The committee endorsed the continuation of deep dive reviews at meetings and having the flexibility to widen the areas of discussion beyond the risk register. It was agreed in discussion

that deep dives in 2024-25 include a post General Election review, an update on cyber security, and an update on AI building on discussions at the January Governors' Seminar.

125. The committee also endorsed planning for a review of risk appetite by the Board at a suitable point.
126. The Principal highlighted that the review of the risk register had been informed by RSM's Emerging Risk Radar report and a summary of actions arising was reported for the committee's information.
127. Members endorsed the proposed changes to the risk register:
 - Reword Risk 4 (learner enrolment fails to generate the appropriate funding) to focus on financial plan outputs and avoid confusion with Risk 8 (failure to meet recruitment and/or growth targets)
 - The addition of a new standalone risk on the impact of AI
 - The addition of a risk relating to change of government, subject to the outcome of the General Election
 - Streamlining/removing references to ONS classification in the risk definitions where meeting public sector requirements was now business as usual
128. **Resolved** – that the Board of Governors be recommended to approve the updated Risk Management Policy and the strategic risk register for 2024-25, subject to review of the Strategic Plan at the July Board meeting and finalisation of the risk register for presentation at the October Board meeting.

EXTERNAL AUDIT STRATEGY

129. The committee had received the External Audit Strategy for the year ending 31 July 2024 from Buzzacott which covered the financial statements audit, regularity assurance and Teachers' Pension Scheme (TPS) audit and set out an indicative timetable. The report also included the audit fees and a summary of the changes to the ESFA College Accounts Direction and Post-16 Audit Code of Practice (ACOP) 2023-24.
130. S Blakemore highlighted issues of audit significance which had been identified at the pre-audit planning meeting and noted the section on risks of fraud which Buzzacott was required by auditing standards to communicate to the Board, inviting any comments from the committee.
131. The committee had no comments or concerns to raise.
132. S Blakemore also highlighted the best practice of having a reserves policy which was a requirement in the charity sector and included as a 'should' in the new College Financial Handbook, noting that AOC guidance for colleges was anticipated during 2024-25. The amount of reserves it was optimal to hold would depend on the type and size of the college and its strategic context and the SLT would be expected to make a recommendation to the Board.
133. The Director of Finance confirmed that it was planned to develop a reserves policy during 2024-25 for approval by the Board as an action emerging from the review of the College Financial Handbook (reported under a separate agenda item).
134. **Resolved** – that the External Audit Strategy for the year ending 31 July 2024 be recommended for approval to the Board of Governors.

INTERNAL AUDIT PLAN

135. The committee had received and reviewed the proposed Internal Audit Plan 2024-2025, including the audit fees and a provisional timetable.
136. E Gipson introduced the plan, explaining the planning process which had included a meeting of RSM with members of the SLT, the Committee Chair and Head of Corporate Governance. It was noted that there was flexibility to adjust the plan in light of any emerging risks during the year.
137. The Committee Chair drew the committee's attention to the overview of audit coverage from audits conducted in 2021/22 up to provisionally planned auditors for 2025/26, noting that most of the areas proposed for 2024/25 had not been audited in the previous three years.
138. **Resolved** – that the Board of Governors be recommended to approve the Internal Audit Plan for 2024-25.

PROCUREMENT AND VALUE FOR MONEY

139. The committee had received and reviewed the annual report of the Director of Finance and Procurement & Insurance Officer on procurement activities.
140. The Director of Finance highlighted the forthcoming introduction of new public sector requirements under the new Procurement Act 2023. It was anticipated the new regulations would take effect from October 2024 and work was underway to review and revise the college's procurement processes where necessary to fulfil new requirements, taking into account advice for the FE sector.
141. The Director of Finance explained the main drivers for procurement activities during the year, including larger areas of spend such as energy, capital projects and insurance, and the approach to future key tenders including student bus transport.
142. It was noted that achieving cost reduction in an inflationary economic climate was challenging and the focus had been on inflation mitigation and improved service levels, with the recent tender for Laundry Services discussed as an example.
143. Asked by a member about tender waivers, the Director of Finance confirmed the delegated authority limits defined in the Financial Regulations and noted that the Resources Committee reviewed an annual report of tender waivers for assurance that the waivers were justified and value for money had been achieved.
144. A member commended the Director of Finance for the risk mitigation achieved through the introduction of a flexible procurement model for electricity and noted that the same model has been adopted for mainstream gas from April 2024.
145. The committee welcomed the clarity of the report and was content to advise the Board of the continued commitment of management to securing value for money, minimising cost inflation and managing service levels through appropriate procurement management strategies and controls.

ESFA FINANCIAL ASSURANCE

146. The committee had received and noted for assurance confirmation of the outcome of the ESFA review of the 16-19 Tuition Fund for 2022/23 which confirmed that no funding errors had been identified.

147. The Deputy Principal reported that the Annex G audit by Buzzacott on behalf of the ESFA of the Local Skills Improvement Fund had been completed and no compliance issues were identified. The report had been awaiting payment by the ESFA of outstanding LSIF monies. These had now been paid and S Blakemore confirmed that the auditors could now sign off the report.
148. The committee had received and noted for assurance the letter from the ESFA to the Principal of 22 April 2024, confirming the College's financial health grade for 2022-23 as Outstanding following a review of the College's audited financial statements.
149. The Principal advised that the college has been requested by the DfE to contribute to a good practice guide on maintaining outstanding college financial health.

COLLEGE FINANCIAL HANDBOOK

150. The committee had received and reviewed the report of the Director of Finance and Head of Corporate Governance on compliance with the new ESFA College Financial Handbook, effective from 1 August 2024, together with Annex C of the Post-15 Audit Code of Practice which provided a summary for information on sector regulatory concerns.
151. The committee noted that the internal review of the handbook had not identified any concerns in relation to compliance and that a number of planned actions had been identified to further enhance the college's framework of controls to provide confidence that the requirements will continue to be met.
152. Members welcomed the receipt of the full review findings for assurance and noted that the review would also be reported to the Resources Committee and compliance with the handbook confirmed to the Board in July.
153. A number of minor updates were proposed to the committee's terms of reference which reflected existing practice but were designed to align the wording with the description of the role and responsibilities of the committee in the handbook.
154. **Resolved** – to recommend for approval the updated Audit Committee terms of reference to the Board.
155. The committee noted that there were no changes to the ESFA's summary of regulatory concerns for the section from the previous year and no related matters of concern identified in the work of the committee, auditors, or wider college governance activities.

COUNTER FRAUD

156. At the invitation of the Committee Chair, members of the SLT present and the Head of Corporate Governance confirmed that they were not aware of any matters of potential/actual fraud or irregularity which had not previously been reported to the committee.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

157. The Committee Chair sought feedback from members of the SLT on the auditors' activities.
158. The Principal and Deputy Principal reported that the focus by management and RSM on the clarity of the scope of internal audits had improved the audit process this year and that there had been constructive dialogue over any areas of initial disagreement.
159. The committee was assured by the evidence of an effective working relationships and willingness of management and RSM to seek to understand differences in points of view.
160. There were no concerns to raise in relation to the external auditors.

161. Confidential matters are minuted separately.

162. The meeting closed at 12.40.

Approved: Audit Committee Meeting 19 November 2024