

**SPARSHOLT COLLEGE HAMPSHIRE**  
**MINUTES OF THE MEETING OF THE**  
**AUDIT COMMITTEE**  
**held on 15 November 2016 at 9.00 am**

**<sup>1</sup>PRESENT** Mr N Beck (C) (to minute 164; Mrs Z Carter (E); Mrs J Venables (E); Mr C Wilson (E).

In attendance: Mr J Brown, KPMG (present to minute 158)  
Ms L Raynes, RSM (present to minute 167)  
Ms G Rustell, KPMG (present to minute 167)  
Mr S Horrobin, Director of Finance (absent for minutes 165-167)  
Mr T Jackson, Principal (absent for minutes 165-167)  
Mr S Hermiston, Director of Information & Funding (present for minutes 125-134)  
Mr A Plevin, IT Manager (present for minutes 125-134)  
Mrs S Willson, Clerk to the Corporation

**APOLOGIES**

114. Apologies were received from Mr W Fullbrook.

**DECLARATION OF INTERESTS**

115. N Beck provided an update to his declared interests, reporting that his grandchild had completed her enrolment at Andover College.

**MINUTES**

116. **Resolved** - that the minutes of the meeting held on 9 June 2016 be confirmed and signed as a correct record.

Insurance (minute 56/16)

117. The Director of Finance confirmed that he had received a quote for insuring against acts of terrorism and that the Resources Committee had agreed that the cost was prohibitive and therefore the insurance had not been taken out.

Subcontracting assurance (minute 58/16)

118. L Raynes reported that the Skills Funding Agency (SFA) had confirmed that colleges would be required to commission an external assurance audit of subcontracting in 2016/17, to be reported to the SFA by the end of January 2017. RSM proposed to quote on the same basis as the previous year and to confirm costs with the Director of Finance.

119. **Resolved** – that the Board of Governors be recommended to approve the selection of RSM to undertake the assurance audit required by the SFA on the basis of terms to be agreed by College management.

Financial controls (minute 60/16)

120. The Director of Finance confirmed that two new safes had been purchased which satisfied the insurer's requirements for cash received into the College.

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

### IT General Controls (minute 70/16)

121. The scoping of the second IT audit would include consideration as to whether to include confirmation of the data protection processes of the College's private internet connection supplier.

### Learner Number Systems (minute 84/16)

122. L Rayne confirmed that the same number of days had been allocated to the Learner Number Systems audit in 2016/17, as in 2015/16.

### Value for Money (minute 88/16)

123. The Committee discussed its role in providing assurance to the Board on matters relating to value for money. A summary of current activities undertaken by the Committee was included in the draft Audit Committee Annual Report to the Board. It was also acknowledged that the Resources Committee assessed value for money in areas such as capital spend and that consideration of value for money was a key area of scrutiny in the full Board's work.

### Procurement (minute 95/16)

124. The Director of Finance confirmed that the current electricity and gas supply deals ended on 31 July 2017 and it was expected that costs would rise. This risk was included in the risk register and would be considered during the setting of the budget for 2017/18.

## **INTERNAL AUDIT REPORTS**

### IT General Controls

125. The Committee had received the revised final report of RSM dated 9 November 2016 following a review of the College's framework to support the provision of secure and effective business services and communications. This followed consideration of a draft report at the meeting of the Audit Committee in June 2016.
126. RSM confirmed that the Committee could take reasonable assurance that the controls in place to manage this risks associated with the IT security controls were suitably designed and consistently applied. Five Medium and one Low priority management actions had been recommended to ensure that the control framework was effective.
127. The Chair reminded the Committee of the discussion of the draft report which had recognised that the College's approach to IT security controls needed to balance the probability of the risk identified, and the likely impacts, with the resources required to mitigate those risks. Management also needed to have adequate processes in place to restore systems and data and ensure business continuity if necessary.
128. In discussion, Members emphasised that the College's IT systems should be expected to be as robust as those in other colleges or comparative sectors, rather than being benchmarked against, for example, financial corporations, and that they expected the audit opinion resulting from the next IT audit to take this into account.
129. Asked about whether there were risks associated with learners' linking their own devices to College systems, the IT Manager explained that the access for learners was routed externally in order to maximise the security and the IT team were also able to monitor access to servers.
130. Responding to a question about backup data and disaster recovery, the Director of Information & Funding summarised the approach to backup data for each of the College's

key IT systems, explaining that the systems were tested either in-house or by the relevant supplier, but that the College did not have a full discrete secondary system, in common with similar organisations.

131. Members also noted RSM's assessment of the IT Disaster Recovery Plan and that the follow up audit should confirm that the owner and responsibilities for business continuity were clearly defined, as well as covering all critical systems and disaster recovery.
132. Reflecting on the report and the next steps, the Principal stressed that he would welcome a more comprehensive dialogue between the auditors and College management to ensure that the scope of the next audit was clear and that the process included sufficient opportunities to clarify the recommendations and produce full management responses.
133. The Chair summed up the discussions, noting that the report had provided reasonable assurance and that there had been detailed consideration by the Committee and management of the points raised by the auditors, with further work to be undertaken by the next IT audit.
134. **Resolved** – that College management and RSM define the scope of the next IT audit, taking into account the Committee's discussion, to be undertaken early in 2017.

#### Financial Controls

135. The Committee had received the report of RSM dated 17 October 2016 following a review to follow up management's progress implementing the previously agreed Key Financial Control actions raised in 2015/16 and prior years.
136. RSM confirmed that the College had demonstrated good progress by clearing six out of seven management actions. However, as a result of a request by management to extend testing to look at tenders and quotations, a new Medium action had been raised in relation to compliance with the Procurement Policy.
137. The Committee welcomed the confirmation that the procedures set out in the Procurement Policy were satisfactory and the actions agreed to address areas of non-compliance.
138. Members noted that monitoring compliance was a challenging task for management given the high variety and volume of purchases, particularly in land-based. The Principal explained that management procurement resources were focused on large contracts and areas of spend and that cost centre managers were entrusted to use their expertise to make value for money purchases, within agreed budget and procurement limits. The Director of Finance confirmed that he would be carrying out sporadic checks.

#### Internal Audit Follow Up Report

139. The Committee had received the report of RSM following a review to follow up progress made by the College to implement previously agreed internal audit management actions.
140. RSM confirmed the College had demonstrated reasonable progress in implementing management actions and that there were no high or medium recommendations which RSM considered to be receiving inadequate management attention.
141. The Committee commended the progress and noted the updated management actions.

#### Internal Audit Progress Report

142. The Committee noted progress in the delivery of the Internal Audit Plan 2016/17 and the summary of key issues affecting the sector.

143. L Raynes confirmed that all audits, other than the IT audit, had been scheduled and that RSM would revisit the plans for the subcontracting audit in light of the SFA requirements. There had been initial discussions around the scope of the IT audit but the final scope and timings were still to be confirmed.
144. The Committee noted that it was able to confirm to the Board of Governors that there were no changes required to the Internal Audit Plan as no new significant risks had arisen from the recommendations of the Hampshire Area Review.
145. *Action* – that College management consider a Member’s suggestion as to correlating the development of the 2017/18 Internal Audit Plan with areas of significant change (with or without controls) in the Risk Register, for discussion at a future Committee meeting.

#### **INTERNAL AUDIT ANNUAL REPORT**

146. The Committee had received the internal audit annual report for the year ended 31 July 2015, which had confirmed that the College had an adequate and effective framework for risk management, governance and internal control, with further enhancements identified through the audit work.
147. The Committee noted that note 4 on p6 of the report could be updated to confirm receipt of the most recent Follow-Up Report.

#### **REGULARITY AUDIT**

148. The Committee had received the report of the Clerk on the Regularity Self-Assessment Questionnaire used as evidence for the Regularity Audit opinion contained within the auditor’s management letter considered later on the agenda.
149. **Resolved** – that the Committee recommend to the Board of Governors that the self-assessment questionnaire had been reviewed and that an unqualified audit opinion for the Regularity Audit for 2015/16 had been received.

#### **EXTERNAL AUDIT REPORT ON THE FINANCIAL STATEMENTS AND REGULARITY AUDIT**

150. The Committee had received the management report prepared by KPMG LLP, giving an unqualified audit opinion.
151. The report confirmed that no issues of concern were noted in relation to the College’s overall financial position, income recognition and compliance with loan covenants. The report also noted that this was the first year that the College and subsidiary accounts had been reported under the new accounting standard, FRS 102, and that this had had a significant impact on the accounting treatment of certain balances/disclosures.
152. The Committee noted the summary of the underlying result for the year after items which had arisen as a result of the transition to FRS 102 and other exceptional items. This included an uncorrected audit adjustment of £144k which was anticipated by management in relation to the upgrading of the Bytes food outlet by the College’s catering contractor.
153. The Committee recorded thanks to the Director of Finance and the Finance team, and to the auditors, in recognition of the significant level of work involved.

#### **ANNUAL REPORT AND FINANCIAL STATEMENTS**

154. The Committee had received the draft report and accounts for the year ended 31 July 2016, together with the report of the Director of Finance and the draft combined letter of representation for the financial statements and regularity audits.

155. The Committee discussed the annual report and agreed a number of amendments which the Director of Finance undertook to revise in the annual report to be presented to the Board of Governors, with the agreement of the auditors.
156. Some Members expressed disappointment that the format and content of the annual report did not provide a stronger means of communicating the work of the College's achievements to interested stakeholders through, for example, presenting the information more creatively. The Chair acknowledged the point but reminded the Committee that this had been raised at the Board of Governors meeting in December 2015 and the Board had been content with the Principal's explanation that the College's limited resources were currently better directed on other communication activities.
157. The Director of Finance also tabled a summary of the consolidated statements of comprehensive income year-on-year to explain the differences in the way information was presented in the statutory accounts and the monthly management accounts, in particular the treatment of pension charges under FRS 102.
158. **Resolved** - that the Board of Governors be recommended to approve the annual report (as amended) and financial statements and the letter of representation for the year ended 31 July 2016.

#### **RISK MANAGEMENT**

159. The Committee had received the report of the Principal providing the first monitoring report of 2016/17, following the approval of the Risk Management Plan for 2016/17 by the Board of Governors.
160. The Principal explained that the report was in a new format, reflecting the grouping of risks under eight summative headings, and providing both a dashboard of the scores and status for all risks and an assurance report for each summative risk with more information about the controls and other updates.
161. The Principal highlighted risks which had increased and also noted corrections to the arithmetic of the scoring of three of the risks (4.10, 6.6 and 7.6).
162. The Committee discussed how the other committees of the Board identified and considered risks relating to areas within their terms of reference. The Principal confirmed that the management report template included relevant risks and that all members of the Board received the Risk Management dashboard termly for information. The Clerk confirmed that consideration of risks by committees was reported through each committees' minutes to the Board.

#### **AUDIT COMMITTEE ANNUAL REPORT**

163. The Committee had received the draft report prepared by the Clerk for discussion and completion. The report set out for the Board of Governors the adequacy and effectiveness of the College's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the College and the safeguarding of its asset, as required by the Joint Audit Code of Practice.
164. **Resolved** - that the report be updated to reflect the receipt of the latest internal and external audit reports and to add additional information regarding Committee members' professional development.

### **MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS**

165. The Committee asked the auditors about current relationships with College management. G Rustell confirmed that KPMG had no issues with the way in which the external audit process had been supported by the Finance team. L Raynes noted that it was early in the 2016/17 internal audit plan process but that no major issues had occurred to date.
166. The Chair emphasised that the problems around scoping the IT General Controls audit and delivering the finished report to the Committee had been discussed and acknowledged and the focus was now on taking forward the next IT audit.
167. Asked whether the auditors had any resourcing concerns in relation to College management, both KPMG and RSM confirmed that no issues had been identified and that requests for information had met deadlines and actions being implemented.

### **MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS**

168. Recognising the demanding financial climate, the Committee sought some assurance from the Principal and Director of Finance that there were sufficient resources in place for the effective financial management of the College, explaining that this question had also been put to the auditors. The Principal confirmed that he was satisfied with current arrangements, while acknowledging that the management of complex banking covenants over the past year had been time consuming.
169. Asked about the relationship with the auditors, the Director of Finance confirmed that there were constructive working relationships in place with both KPMG and RSM, although the IT General Controls audit had been acknowledged to have been a less than satisfactory process.
170. The meeting closed at 1.00 pm.