

SPARSHOLT COLLEGE HAMPSHIRE
(UNCONFIRMED) MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 2 March 2017 at 9.00 am

¹PRESENT Mr N Beck (C) Mrs Z Carter (E); Mr W Fullbrook (C); Mrs J Venables (E);
Mr C Wilson (E).

In attendance: Ms L Raynes, RSM (present to minute 52)
Mr S Snaith, RSM (present for minutes 1-22)
Mr S Horrobin, Director of Finance (absent for minutes 21-22 and 23-62)
Mr T Jackson, Principal (absent for minutes 21-22 and 23-62)
Mr S Hermiston, Director of Information & Funding (present for minutes
7-20)
Mr A Plevin, IT Manager (present for minutes 7-20)
Mr M Simmons, Deputy Principal (present for minutes 7-20)
Mrs S Willson, Clerk to the Corporation

DECLARATION OF INTERESTS

1. Mr Fullbrook declared an interest in relation to Test Valley Borough Council and the College's lease for the Portway Stadium in respect of insurance for players at Andover Town Football Club Limited.

MINUTES

2. **Resolved** - that the minutes of the meeting held on 15 November 2016 be confirmed and signed as a correct record.

Procurement (minute 124/16)

3. The Director of Finance provided more information in relation to the College's contracts with energy suppliers, reported that the electricity contract ends on 31 December 2017 and the gas contract on 31 October 2018.

Risk management (minute 145 & 161/16)

4. The Chair asked RSM and College management to ensure that the development of the internal audit plan for 2017/18 was informed by the College's Risk Register. L Raynes confirmed that this was RSM's intention and that the process would highlight and explain any significant risks identified in the Risk Register which were not covered by the internal audit plan.
5. Members asked that the development of the plan also take into account any risks in the Risk Register which had not previously or recently been examined through internal audit activity and risks which were indicated as being significant before controls had been applied.

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

6. With regard to the Risk Register, the Principal confirmed that the Dashboard had been converted to an Excel format in order to reduce the opportunities for inaccurate calculations.

INTERNAL AUDIT

IT General Controls

7. The Committee had received the report of RSM dated 28 February 2017 on the audit of IT General Controls, focused on the risks associated with ILT Strategy and/or IT infrastructure failing to meet the needs of learners or College staff and the risk of loss of service resulting from College IT systems and/or software malfunction. This built on the internal audit of IT General Controls undertaken in the Summer term 2015/16.
8. The Chair expressed disappointment that the report had been received late by the Committee.
9. RSM reported that the College had demonstrated reasonable progress in implementing the agreed management actions and that there were no high or medium recommendations which RSM considered were receiving inadequate management action. RSM confirmed that the summary table 1.4 in the report was incorrect and that there were no low recommendations.
10. S Snaith reported verbally that he had assessed the outcome of the audit with practices in five other similar organisations and that the College was above average when considering the numbers of recommendations and levels of findings. The recommendation of the report which related to documenting and evidencing disaster recovery systems was a common finding in the FE and other sectors.
11. The Committee welcome the context provided by the peer group assessment and asked that this be provided as a written summary.
12. **Action** – RSM to provide a summary report of the benchmarking information.
13. Members discussed the findings of the report in relation to the previous audit of IT General Controls and sought to understand and be confident in the reasons behind the more positive account now given by RSM.
14. Responding to the Committee's questions, College management reported that the initial audit had resulted in improvements being made, with further actions now also planned. Management also perceived that the second auditor had more technical expertise and had better understood the way in which the College systems worked and how these compared to other colleges.
15. S Snaith confirmed that College management had demonstrated good progress in terms of improving the control environment and had focused future planned actions in the right areas.
16. Members asked for further clarity from College management on a number of findings in the report, including disk-to-disk backups and risk of flooding, and management explained the approaches being taken.
17. Members noted that the management responses, as written in the report, did not in some cases provide a full enough explanation, or had not moved on sufficiently from the previous IT audit report, and that therefore more information was required in order to provide formal assurance to the Committee and the Board of Governors that the "medium risks"

identified in the previous audit had been adequately addressed or did not present serious risks to the College, specifically:

- a) an assessment of the potential risk of flooding in the data centre and back up room
 - b) evidence of actions in relation to the findings on disk-to-disk backups and testing backups to tapes
18. Referring to minute 121/16 of the previous meeting of the Audit Committee, a Member asked if the audit had included confirmation of the data processes of the College's internet connection supplier.
 19. The IT Manager explained that this had not been covered by the audit but that the supplier, the Janet network, supplied the UK university and college network and was highly reliable and secure. Mr S Snaith confirmed that the Janet network underwent an annual security test and was robust.
 20. **Action** – that College management provide a report to the Audit Committee to confirm the actions being undertaken by management in relating to data backup sampling, a risk assessment of flooding (including a "cloud burst") and confirmation of internet security.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

21. In the absence of College management attendees, the Committee sought further assurance from RSM that the audit activity had been undertaken effectively and with the support of the College and that the auditor was comfortable with the categorisation of the risks and the additional suggestion.
22. S Snaith confirmed that, in his view, the focus of the audit had been right, that the RSM team member who had carried out the audit activity had sufficient experience and technical knowledge and that he had not been aware of any issues arising in relation to management's co-operation with the audit activity. S Snaith also confirmed that the categorisation of the risks was appropriate.

INTERNAL AUDIT (CONTINUED)

Board Assurance

23. The Committee had received the report of RSM dated 23 January 2017 on Governance, including the approach to compliance with the Code of Good Governance, and Risk Management, including the newly formatted in 2016/17 Risk Register and Risk Dashboard.
24. The reported concluded that the Board could take substantial assurance that the controls upon which the organisation relies for governance and risk management were suitably designed, consistently applied and operating effectively. There were no outstanding actions from previous audits and there were no new recommendations in relation to either governance or risk management. RSM had provided additional feedback in the report that the titling of the College's risk management reports was not clear and the Clerk reported to the Committee that the documents had now been retitled.
25. L Raynes confirmed two corrections to the additional information provided at 1.4 in the report and noted that the report would be reissued.
26. **Action** – RSM agreed to include definitions of Low, Medium and High actions in all future internal audit reports.

Internal Audit Progress Report

27. The Committee had received the report of RSM of 21 February 2017 on progress with the Internal Audit plan for 2016/17, together with an analysis for information on further education (FE) high priority management actions agreed with RSM's internal audit FE clients in 2015/16.
28. The Committee noted that the subcontracting (associates) audit had been deferred while the audit of subcontracting on behalf of the SFA was undertaken. The dates for further subcontracting audit activity were to be confirmed by RSM with College management.
29. Members discussed the examples of audit activity in other colleges, noting that at the College curriculum planning and quality assurance were overseen by other committees of the Board and by external bodies, as well as by Ofsted and HEFCE. Members also discussed the payment of student fees, including through student loans, and how this was managed within the College, and the reference in RSM's report to future areas of risk linked to Brexit and access to European funding.

SUBCONTRACTING CONTROLS

30. The Committee had received the report of RSM dated 30 January 2017 on subcontracting controls, which covered procurement, contracting and monitoring and was undertaken in order to comply with the Skills Funding Agency (SFA) requirements.
31. The report confirmed the College complied with the SFA requirements over subcontracting arrangements, other than in one instance identified during the review where the College had not informed the SFA of a change of ownership of one of the subcontracts, although extensive due diligence had been conducted by the College. The SFA was immediately informed and there were no outstanding actions for management.
32. Responding to a Member's question about the status of the 3 subcontractors who were not limited companies, the Principal undertook to check and report outside the meeting and noted that all subcontractors underwent full due diligence and regular reviews of the financial status, including in relation to remaining going concerns.

RISK MANAGEMENT

33. The Committee had received the report of the Principal providing the second monitoring report of 2016/17, including the Risk Register assurance report and the Dashboard.
34. The Principal updated the scores in relation to application of controls for risks 5.2, 7.6 and 8.2 (Financial to 1, Risk to 8) which moved all three from Contingent to Housekeeping. In relation to the commentary on 8.2, the Principal confirmed his opinion that there was a heightened risk but that this did not yet justify raising the total score because the plans were not yet confirmed and potential risks would be mitigated through leadership and management.
35. Members discussed Summative Risk 7 and the sub-risks and controls relating to IT and whether these sufficiently captured the range of IT risks and those in relation to the wider digital environment.
36. **Resolved** – that College management revise Control 2 to include reference to back up of "software applications", as well as College records.
37. The Principal gave the example of the software system for student numbers where college data was backed up at the college but where the software supplier was able to re-create the software (in the event of a loss of the software at the college) and restore the backed-up college data to the restored system. This information could be added to the disaster

recovery plan as to the time and cost to recreate software and transfer data should this be required rather than go through an exercise of test-crashing the system and actually re-creating it which would be incredibly time consuming, costly and unnecessary.

38. Members questioned whether supplier contracts included any requirements in relation to disaster recovery and testing of the supplier's systems and whether there should be an additional control added to the Risk Register to cover suppliers. Members discussed whether there would be merit in management reviewing contracts and asking suppliers for confirmation of their procedures in terms of mitigating future risks to the College.
39. **Action** – College management to consider a review of the ability and costs of software suppliers to restore business critical systems and the extent of assurance in place, including identifying any smaller suppliers, and to report back to the Committee.
40. The Committee discussed potential risks around student wellbeing and safeguarding in the context of a general societal increase in mental health concerns and the reduction in support from external agencies. Although the Board and its committees received regular reports on safeguarding and PREVENT, Members agreed that the Risk Register provided useful additional oversight. Responding to a Member's question, the Principal clarified that the use of "burdensome" referred to the resource intensive nature of supporting situations involving mental health.
41. **Resolved** – that risk 6.1 be revised to include specific mention of Safeguarding and PREVENT, alongside other aspects of wellbeing.
42. The Principal noted that there was a potentially developing recruitment risk in relation to increased cost of living and property for staff in parts of Hampshire and that it might be relevant to add this to the Risk Register in the future.

INSURANCE LIABILITIES

43. The Committee had received the annual report on insurance liabilities providing assurance that the College had a good insurance claim record and that there were no substantial claims against the College at the date of the meeting.
44. Responding to a Member's question about a separate policy for football players personal accident cover, the Director of Finance confirmed that the premiums were low (£118.71) and were paid for by Andover Town Football Club Limited.
45. It was noted that the College had a good insurance claims history and a Member questioned whether the College could get better value for money by having fewer categories of insurance with nil Excess payments in the main insurance policy.
46. **Action** – the Director of Finance to look to review the contract and the approach to having nil Excess payments ahead of contract renewal negotiations.
47. It was noted that the Clerk had provided confirmation of governor and co-opted members liability insurance and personal accident cover to a Member ahead of the meeting and that this information was available to all Members on request.

COMMITTEE PERFORMANCE REVIEW

48. The Committee had received the report of the Clerk to inform the Committee's annual performance reviews, including a self-assessment checklist and a review against the provisions of the Code of Good Governance for English Colleges.

49. The checklist confirmed the Committee complied with good practice as set out in the CIPFA Handbook for Audit Committee Members in Further and Higher Education and the review of the Code of Good Governance provisions recommended that a statement on data assurance be included in the Committee's future annual reports to the Board.
50. Members were invited to comment on areas for development or recommendations for the Board of Governors on the current terms of reference.
51. **Resolved** – that future annual reports of the Audit Committee include a statement on data assurance, based on work overseen by the Committee and referencing where relevant related activities by the Board.
52. **Action** – the Clerk to seek clarity on the use of term “data quality” in the Code of Good Governance to inform the drafting the Audit Committee's annual report.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

53. The Chair noted the matters relating to the IT General Controls audits and the corrections to internal audit reports which had be necessary during the meeting, and agreed that these be considered in light of the overall performance of the auditors under the next agenda item.

PERFORMANCE REVIEW OF AUDITORS

54. The Committee had received the performance review reports for the internal auditors, RSM, and the external auditors, KPMG, prepared by the Director of Finance.
55. Overall, both reports were positive with no material issues identified which would undermine the adequacy or effectiveness of the College's audit arrangements and the Director of Finance had recommended that the contracts with both RSM and KPMG be extended for a further year.
56. The Committee discussed the performance of RSM, recognising the generally positive working relationship with the College and the knowledge and competency of the audit activity relating to subcontractors in particular. Nonetheless, the Committee identified some areas where performance had not met expectations. In particular, the Committee had not be content with the first audit of IT General Controls which had delivered an audit report, rather than a scoping report as expected, and had raised concerns which had not appeared to take into account the sector context. The Committee questioned whether the College had achieved value for money for this initial work. In addition, the Committee had received reports during the year containing typos and inaccuracies which had required correcting.
57. In deciding whether to recommend reappointment to the Board, the Committee also took into account RSM's experience in the sector, the continuing independence of the advice provided, and the benefit of continuity in the internal audit programme given the context of strategic considerations for the College over the next year.
58. **Resolved** – that the Chair write to RSM to summarise the Committee's assessment of the performance of the internal auditors during the past year and to seek assurances as to RSM's commitment to an improved level of service.
59. **Action** – that College management check the terms of engagement for internal audit activity with regard to levels of service.

60. The Committee agreed the assessment of the performance of KPMG and that there was no reason to seek to retender the contract for external auditors at the current time.
61. **Resolved** – that the Board of Governors be recommended to continue with the appointments of RSM as internal auditors for a further year from 1 August 2017, subject to the Chair being satisfied by the response to his letter, and KPMG as financial statements/regularity auditors for a further year to cover the completion of the 2017/18 statutory accounts, both subject to agreement of satisfactory fees.
62. The meeting closed at 12.45 pm.