

SPARSHOLT COLLEGE HAMPSHIRE
MINUTES OF THE MEETING OF THE
AUDIT COMMITTEE
held on 9 June 2016 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: Mr J Brown, KPMG (present to minutes 110-113)
Mr M Cheetham, RSM (present to minute 110-113)
Mr S Horrobin, Director of Finance (absent for minutes 107-109)
Mr T Jackson, Principal (absent for minutes 107-109)
Mr A Plevin, IT Manager (present for minutes 65-74)
Mrs S Willson, Clerk to the Corporation

DECLARATION OF INTERESTS

53. Mr Fullbrook declared an interest via Test Valley Borough Council in agenda items 7 and 10.

MINUTES

54. **Resolved** - that the minutes of the meeting held on 4 February 2016 be confirmed and signed as a correct record.

Insurance (ref minutes 4/16 & 38/16)

55. *Action* – following verbal advice from the insurers that photographic evidence of the current state of buildings would not be necessary to support any claims against the policy, and was not kept by other colleges, the Director of Finance to email the insurers to acknowledge the advice.

56. The Director of Finance confirmed that he asked for a quote for insuring against acts of terrorism.

Internal Audit (ref minutes 7/16, 28/16 & 48/16)

57. The Director of Finance confirmed that the handling of cash at Andover Town Football Club would be covered by the financial controls internal audit in 2016/17.

58. M Cheetham noted that the Skills Funding Agency (SFA) had not yet confirmed whether colleges would be required to repeat the subcontracting assurance requirement undertaken in 2015/16.

59. M Cheetham explained that RSM provided an annual review of all outstanding action points/recommendations from the internal audits and a summary report will follow to the Autumn meeting of the Committee.

INTERNAL AUDIT REPORTS

60. The Committee had received the latest Internal Audit reports dated 24 May 2016 following the reviews of Key Financial Controls and Learner Number Systems. The

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

Committee had also received a draft report on IT General Controls and an Internal Audit Progress Report.

Financial Controls

61. The audit of Key Financial Controls had produced an Amber/Green rating and provided reasonable assurance that the controls were consistently applied. Two “medium” priority recommendations in relation to reconciliations in the general ledger and to processing invoices had been identified by RSM and actions confirmed by College management.
62. In relation to a “low” priority recommendation about insurance cover for cash received into the College, the Director of Finance explained that the issue would be resolved by purchasing two new safes which would comply with the insurer’s requirements.

Learner Number Systems

63. The audit of Learner Number Systems had resulted in a Green rating and provided substantial assurance that the College is complying with the EFA/SFA funding guidance. A number of examples of sound compliance with the funding guidance for the learners within the sample had been identified and there were two “low” priority actions which were being follow up by College management.
64. The Chair of the Committee welcome the assurance provided and asked the Principal to feedback to the teams involved the Committee’s appreciation for their commitment and the work that they had undertaken to ensure ongoing compliance with the funding rules.

IT General Controls

65. M Cheetham introduced the draft report on IT General Controls and apologised for some internal process issues affecting the finalising of the report and noting that some of the detail of the findings and management responses was still being agreed.
66. The overall rating of Amber/Green reflected a number of risks which RSM had identified in relation to IT policies and practices and which College management were considering in the context of alternative controls in place and cost/benefit factors.
67. Members discussed the report in detail, seeking clarification about the IT controls currently in place and the extent to which College management agreed with the level of risks identified by RSM, the practicality of alternative arrangements and the affordability of the recommendations RSM had proposed.
68. Although acknowledging that the report was in draft, members were concerned that the management responses, as currently worded, did not address the points of observation and needed more explanation. The potential risks identified in relation to disaster recovery and data backup processes were of particular concern. Whilst the likelihood of some risks was low, the potential impact was significant.
69. Members also suggested that the draft report had not delivered a scoping exercise in the way the Committee had expected but had taken the form of a standard assurance report. It was explained that the report was intended to be a high level overview, based on briefings and information provided by College management, and had identified areas where testing and more detailed audit work could be considered.
70. *Action* - In response to further information provided by the IT Manager about use of a private internet connection supplier, the Committee asked that RSM include in the further work confirmation as to whether the supplier’s data protection processes were separately tested and audited.

71. The audit plan for 2016/17 featured an IT audit within it and the Committee agreed the necessity of this and that the details and scope of that work should be approved once the report on IT Controls had been finalised.
72. There were some concerns raised about the timing of the further work, which was provisionally scheduled for November 2016, reporting in February 2017, and whether this needed to be brought forward given the concerns expressed about potential risks. It was also noted that 4 days had been allocated to the audit in November and members questioned whether this would be sufficient, although it was recognised that any further days were unbudgeted and it would be for the Board of Governors to agree whether associated additional costs were justified based on the level of risks and other financial priorities.
73. **Resolved** – that College management consider whether there were any interim actions which were necessary and affordable that could be implemented before the further audit work was completed.
74. **Resolved** – that RSM issue a final IT Controls report, with revised and costed management actions, and propose to the next Audit Committee meeting the timing and focus of further audit work.

Internal Audit Progress Report

75. The Committee noted progress in the delivery of the Internal Audit Plan 2015/16 and the summary of key issues affecting the sector.

RISK MANAGEMENT

76. The Committee had received the report of the Principal providing the third and final risk management plan monitoring report of 2015/16, including an updated summary Risk Dashboard indicating whether the risks had increased or decreased since the last risk monitoring update.
77. Two risks (1 and 16), relating to Government funding, remained “Significant” although there had been more short term certainty about funding. Risk 7, relating to the College estate and particularly Equine facilities, had been increased to “Contingent” and would require monitoring through the Property Strategy.
78. The Principal confirmed that Risk 23 relating to IT systems would be reviewed following the discussion of the IT General Controls audit and would be increased to “Contingent”.
79. Following discussions about the format and content of the Risk Register at the previous meeting of the Audit Committee, the Principal had proposed a reconfigured approach to the Risk Register, grouping the risks under around nine generic headings and providing a summative risk for each grouping. In developing the 2016/17 Risk Management Plan, he would also review whether the 52 current risks were still relevant, should be merged/rewritten or others added.
80. The Audit Committee endorsed reconfiguring the Risk Register and rolling forward the 2015/16 risks into the 2016/17 Risk Management Plan, subject to any other risks which emerged from the strategic planning activity to inform the Strategic Plan.

INTERNAL AUDIT PLAN 2016/17

81. The Committee had received the Internal Audit Strategy 2016-19, with the Audit Plan for 2016/17.

82. M Cheetham introduced the report, explaining that the 2016/17 plan could be reviewed again at the November meeting of the Audit Committee in light of the Area Reviews and any other external developments. The plan totalled 30 days, consistent with the agreed budget and the number of days in the previous year. If the SFA required assurance regarding subcontracting funding, this would be in addition to the proposed plan.
83. The Committee discussed whether the plan would deliver sufficient assurances, covered the College's key risks and whether the areas selected for coverage in the coming year were appropriate. It was noted that the plan should be kept under review should there be any significant developments to the College's Risk Register.
84. *Action* – RSM to check whether there had been a change to the number of days allocated to Learner Number Systems year on year.
85. **Resolved** – that the Internal Audit Strategy 2016-19 be recommended to the Board of Governors for approval, subject to review of the timing and scope of the proposed IT audit and clarification from RSM about the number of days allocated to Learner Number Systems year on year.

EXTERNAL AUDIT STRATEGY

86. The Committee had received KPMG's External Audit Plan and Strategy, which included review of the conversion of the financial statement under new UK GAAP (FRS 102).
87. J Brown highlighted key points, noting that the basis of setting materiality had remained consistent with the prior year, and confirming that there would be continuity year on year in the audit team (partner, manager and lead staff).
88. Members queried whether there was a role for the external audit in supporting the Committee to provide assurance to the Board in relation to value for money. The auditors clarified that value for money was not part of external audit, other than where there were relevant links to the audit opinions on regularity audit and going concern. It was noted that sources of evidence of value for money included internal audit reports and reports from management on activities such as procurement.
89. *Action* – J Brown to revise the Executive Summary to include reference to consideration of relevant risks identified by the College in the Risk Register and to reword a reference to FRS 102 to avoid any perception of a conflict of interest with the auditing of the final financial statements.
90. **Resolved** – that the Board of Governors be recommended to approve the External Audit Plan and Strategy for the year ended 31 July 2016, with the revisions agreed.

REGULARITY AUDIT

91. The Committee had received the draft regularity audit self-assessment questionnaire for the year ending 31 July 2016 ahead of submission to the auditors as part of the Regularity Audit.
92. The Clerk noted that evidence gathering for the regularity audit would be undertaken in September and the self-assessment questionnaire then finalised. If there were any significant changes emerging from this work or if revised requirements for the questionnaire were published after the meeting, the Chair of the Audit Committee would be consulted. The Regularity Audit opinion would be reported to the Committee in November.

93. The Committee noted the Regularity Audit process and agreed some minor changes to the draft self-assessment questionnaire.

PROCUREMENT

94. The Committee had received the annual report on procurement, which followed the launch of a new Procurement Policy in February 2016 and summarised procurement controls and tenders carried out during the past twelve months.
95. The Director of Finance believed that the introduction of the new Procurement Policy had materially improved the procurement process throughout the College and, in particular, the need to raise purchase orders, and noted that this would be reviewed during the 2016/17 internal audit work. He also highlighted cheaper deals obtained by the College for gas and electricity, although it was expected that market prices would be higher when the deals came to an end.
96. The Committee welcomed the continued progress being made by the College to improve its procurement systems and secure value for money.

ACCOUNTING POLICIES

97. The Committee had received the report of the Director of Finance on the College's preparation for the conversion of the 2015/16 and 2014/15 accounts in accordance with FRS 102 and a briefing produced by KPMG for education institutions which explained the overall impact and key changes under FRS 102 ("new UK GAAP").
98. The financial statements would be audited after year end by KPMG and presented in November for the Audit Committee to review with regard to governance and internal control. In the meantime, KPMG had been engaged to undertake audit work on the conversion of the accounts.
99. Members discussed the explanation of transitions to FRS 102 from old UK GAAP and the examples provided of how the accounts were being restated, particularly in relation to capital grants. The Committee was satisfied by the explanation of the Director of Finance and auditors that all major lease contracts had been included in the audit work and all relevant grants had been included in the restatement of the accounts.
100. The Director of Finance reported that the majority of the work was now complete and summarised the major transaction changes to date and the outstanding actions identified by KPMG as being necessary to prepare the accounts.
101. The Committee noted the update on the College's preparation of the accounts in accordance with FRS 102 and that the Resources Committee would be asked to recommend to the Board of Governors that the College adopts the accruals method for capital grants.
102. The Committee agreed that the reports and briefings to both the Audit Committee and Resources Committee met the training need previously identified in relation to FRS 102.

TERMS OF REFERENCE

103. The Committee had received the report from the Clerk on a review of the Committee's terms of reference in relation to risk management, which confirmed that the terms of reference were consistent with the College's Risk Management Plan and complied with the Code of Good Governance for English Colleges and the Joint Audit Code of Practice.

104. The Clerk recommended two changes to the terms of reference to add a responsibility for reviewing the risk register termly and advising the Board annually (as already set out in the Risk Management Plan) and to reflect the current practice of recommending the annual internal audit plan to the Board. A member proposed a further change to clarify that the annual report of the Audit Committee was required to be produced for the Accounting Officer, as well as the Board.
105. The procedures currently in place for the Audit Committee and, where relevant, the Board to carry out their risk management responsibilities had also been reviewed by the Clerk and no gaps had been identified.
106. **Resolved** – that the Board of Governors be recommended to approve the three revisions to the Audit Committee’s terms of reference.

MEETING WITH AUDITORS IN THE ABSENCE OF COLLEGE OFFICERS

107. M Cheetham reported that, other than the IT audit which had already been discussed, there were no issues with the internal audit activity.
108. The Chairman recorded the Committee’s gratitude to RSM for volunteering that it may be necessary to be flexible about internal audit activity in 2016/17 depending on external sector developments, including the Area Reviews.
109. J Brown confirmed that KPMG was satisfied that the College’s Finance team was managing the conversion to FRS 102 and noted that the Finance Director and he retained an open dialogue.

MEETING WITH COLLEGE OFFICERS IN THE ABSENCE OF AUDITORS

110. The Committee discussed the issues which has arisen during the internal audit of IT, with disappointment reiterated that the draft report had not reflected the brief for a general scoping review. The Chairman noted that it was important to ensure clarity of scope and purpose for the further audit work planned in the Autumn term.
111. The Director of Finance welcomed confirmation from the auditors that the lead managers for each of RSM and KPMG would continue to work with the College in 2016/17.

APPOINTMENT OF COMMITTEE CHAIRMAN FOR 2016/17

112. **Resolved** – that Mr Wilson be reappointed as Chairman of the Committee for the academic year 2016/17.
113. The meeting closed at 12.00 pm.