



REASEHEATH COLLEGE BOARD
AUDIT COMMITTEE

Minutes of the meeting held on Thursday 29 November 2018 at 9.30am
Committee Room, Reaseheath Hall

- Present: Karol Bailey (independent) KB
Colin Baxter, chair (independent) CB
Evelyn Davies-Jones (external co-opted) EDJ
Mike Gorton (independent) MG
Fran Johnson (external co-opted) FJ
- In attendance: David Hoose, Mazars LLP DH *(items 1-9 incl)*
Louise Tweedie, RSM LT
Alex Hire, RSM AH
Graeme Lavery, CFO and director of resources GL
Louise Woodman, director of HR LW *(items 1-10 incl)*
Charlotte Clifford-Taylor, head of finance *(items 1-9 incl)*
Wendy Watson, Quality Manager, WW *(item 12)*
Jackie Schillinger, Clerk JS
Malcolm Burns (independent) MB *(items 1-11 incl)*
Marcus Clinton (principal) MC
Elizabeth Harrison (independent) EH *(items 1-11 incl)*
Vicky Murfin (external co-opted) VM
David Pearson (independent) DP *(items 1-11 incl)*
Angela Potter (independent) AP *(items 1-9 incl)*
Louise Young (independent, associate) LY *(items 1-11 incl)*

PART A (unless stated)

Item	Content
1.	APPOINTMENT OF CHAIR
1.1	RESOLVED: Colin Baxter is appointed chair of the committee for the 2018-19 academic year.
2.	WELCOME AND APOLOGIES FOR ABSENCE The Chair welcomed all to the meeting. The meeting was declared quorate.
3.	APPOINTMENT OF MEMBERS
3.1	RESOLVED: Mike Gorton is appointed as a member of the committee.
3.2	The committee supported the appointment of two further committee members at its next meeting, should they confirm their agreement to the committee role. These were Francesca Francis and governor designate Peter Green. The committee agreed that this would strengthen HE, FE and apprenticeship expertise on the committee.

4.	APPOINTMENT OF VICE CHAIR
4.1	RESOLVED: Karol Bailey is appointed as vice chair of the committee for the 2018-19 academic year.
5.	DECLARATIONS OF INTEREST
5.1	The declaration of interests form was circulated. There were no interests declared as giving rise to a conflict of interest in relation to the agenda items for the meeting.
6.	MINUTES AND MATTERS ARISING
6.1	The minutes of the meeting held on 5 July 2018 were approved as a correct record.
<i>Members of the Finance and General Purposes joined the meeting for the end of year financial reporting joint meeting. It was agreed that the joint meeting be chaired by EH, Chair of the Finance and General Purposes Committee.</i>	
7.	GROUP AUDIT COMPLETION REPORT (EXTERNAL AUDIT)
7.1	<p>External auditor, DH of Mazars LLP took the meeting through the audit completion process and headlines in the report. He confirmed strong assurance on a clean bill of health on the year-end financial reporting, with nothing to concern him as the external auditor. He went through the changes that had been made as a result of the audit, including explaining the context to the adjustment to the cattle stock valuation, agreed and updated in the financial statements. He added that the findings provide assurance that the ongoing management accounts reporting to governors is sound and reliable. A number of questions were put forward on the audit report and discussion followed. These included:</p> <ul style="list-style-type: none"> • DP queried the wording in the report that referred to issues in the process with communication and provision of information between management and the audit team and information left outstanding. DH and GL clarified that this referred to some teething problems in that a new audit team was in place this year. DH emphasised that these teething problems were not down to anything that the college had done incorrectly or differently and that the wording in the report should be changed to avoid this interpretation. DP and the committee welcomed this assurance and that the report wording be amended. EH, CB and FJ asked if there was any increased cost as a result of the process this year. DH and GL assured the committee that there was not. They also confirmed that a meeting for January 2019 is planned to work through the process and plan for next time; • EH requested clarity on outstanding matters set out in the audit report. GL and DH provided assurance that the only outstanding matters in the audit completion report were the finalisation of the financial statements and post balance sheet review, which remain outstanding until signature of the accounts and the evidence of the VAT position in DART, which is awaiting HMRC confirmation. GL confirmed the wording of the report as submitted will be amended to reflect this; • GL and DH highlighted the reason for the prior year adjustment made to the 2016-17 financial year. They explained that the prior year adjustment had come about in relation to the Kingsley Fields sale where an error had been recognised by the college team in January 2018, in relation to the treatment of professional costs, and brought to the attention of auditors, who had also missed the issue in the prior year audit and it was agreed to restate the prior year figures. GL assured committee members that the impact of this error was minimal and has a minor impact on the current ratio and no impact on cash flow.

7.2	<p>The committee received the Audit Completion Report for assurance. Members noted in particular in relation to the discussion on report wording, the assurance from the auditor that no items remained outstanding that ought not to be at this stage and that he had no concerns over the college's engagement and involvement in the audit process this year. The committee welcomed this clarification and trusted that the wording of the report be amended accordingly.</p> <p><i>ACTION: Amend audit completion report regarding process/outstanding items.</i></p>
8.1	<p>8. FINANCIAL MONITORING</p> <p>The CFO and Director of Resources presented the year-end group financial reporting. Within this reporting, the committee considered the year-end financial statements, the finance record, bridge report and the review of the college financial objectives. The financial statements had been updated to include the updated cattle stock valuation. They showed the adjusted operating surplus at £815k, compared to budget of £650k. GL explained that this was due to some late income, an issue that had been resolved and addressed going forwards so that it will not reoccur. The prior year adjustment was noted, as explained in the discussion on the audit completion report. Following scrutiny in the meeting, the committee recommended that the financial statements be presented to the full board for approval. The detailed questions and discussion following the presentation of the financial reporting included:</p> <ul style="list-style-type: none"> • DP questioned the potential impact of the local government pension scheme liability (LGPS). GL explained that the college has 101% coverage (as at last valuation) and so the college is covered appropriately in terms of current requirements. He explained that the cash impact on the college is coming from the teachers' pension scheme (TPS) as the employer contributions for the scheme are increasing significantly, which will hit the college for a part year in 2018-19 and a full year from then onwards. DH commented that the LGPS is a public sector issue as it is not affordable in the long term and will need to be remodelled at some point; • AP welcomed the summary box setting out the real underlying financial position of the college as very helpful. AP and DH commented that more colleges are using this presentation to provide clarity; • GL informed the meeting that committee member Jon Furber will meet with himself and the Principal MC outside of the meeting to discuss the financial reporting and provide further independent governor scrutiny, as he was unable to make the current meeting; • GL noted that the college will need to follow the HE Audit Code of Practice next year as a result of its Office for Students Registration (OfS), which has a four month not five month accounts filing deadline. This would require the audit and approval of accounts to be brought forwards in the cycle of business. However, he noted that there is work ongoing to confirm that the Education and Skills Funding Agency (ESFA) current timelines for colleges will suffice for OfS purposes; • FJ questioned the financial health score of the college, if it was not for the limiting factor of the gearing. GL confirmed that it would qualify as good even on the current point score, but for the limiting factor that means the college is satisfactory for this year. This is against the college target objective of 'good.' GL reminded members of the historical context and reasons for this high gearing as part of the financial strategy for the £31m capital investment and the staged Kingsley Fields sale payments. EDJ requested an idea of the cost of this facility and GL explained the structure and cost of the bank facility with Santander. GL confirmed that all the other bank covenants had been met, with discussion on the usefulness of including a specific objective on EBITDA going forwards; • EH questioned the difference between the surplus figures in the statutory accounts and 10 year plan and CCT explained that this was in relation to the late income that had been recognised in the accounts.

8.2	The committee received the reporting for assurance and noted the recommendation to the board by the Finance and General Purposes Committee for approval of the Group Financial Statements for the year ending 31 July 2018.
8.3	<u>Confidential Part B item</u>
9.	<u>Confidential Part B item</u>
10.	<p>COLLEGE STRATEGIC RISK REGISTER AND KPIS</p> <p>10.1 MC presented the college strategic risk register, presented in the 8 November board meeting. He highlighted the income risk and the challenging staff recruitment and retention in STEM subjects, as discussed earlier in the meeting. He also highlighted the pressure on college resources to meet the increasing mental health and wellbeing needs of students and the leadership change on the farm with more work to do to move the farm forwards. He flagged some resignations in the projects team over the summer that had put extra pressure on the executive team but confirmed that this is now easing with temporary resource and recruitment plans in place. EH and DP welcomed the development of the risk register and key performance indicator tracking, as providing a good way of triangulating evidence and clearly flagging up emerging risk areas.</p>
11.	<p>RSM UPDATE ON EMERGING SECTOR ISSUES</p> <p>LT provided a presentation on RSM’s update on emerging sector issues, followed by discussion in the meeting. The issues covered included lessons from FE Commissioner recent reports as they impact on risk management practice; the audit committee’s overview of solvency and the usefulness of the joint meeting with the finance committee; the new insolvency regime; training for audit committee members; and the need to consider the cumulative risk as well as individual risks to the college. The meeting received the update with thanks.</p>
<p><i>The joint end of year financial reporting meeting ended and the audit committee meeting continued. CB chaired the meeting.</i></p>	
12.	<p>INTERNAL AUDIT REPORTS AND INTERNAL AUDIT RECOMMENDATIONS TRACKING</p> <p>12.1 LT of RSM presented the Internal Audit Service Annual Report 2017-18 for assurance and the Internal Audit Progress Report for 2018-19 for information. The committee noted that there have been no internal audits carried out yet this academic year. The audit plan for the year was confirmed. The committee spent time scrutinising the audit recommendations tracking report that showed progress on the implementation of previous audit recommendations. The committee considered the progress made on actions and received reporting in the meeting from college managers, with particular focus on the partial assurance reports received. The committee noted the requirement to consider the Data Protection Officer role (as the Head of Technical Services has resigned) and received confirmation from RSM that this role is suited to an ICT post or to sit within the Clerk’s remit. GL noted that there may be some delay to the work on full data protection compliance as a result of this resignation and the need for the management team to quantify this risk and take appropriate action to resource this area of work.</p> <p>12.2 The committee confirmed that it is able to take assurance from the actions implemented following the internal audit work in relation to the further enhancements identified to ensure that the framework for risk management, governance and internal control remains adequate and effective.</p>

13.	<u>Confidential Part B item</u>
14.	<p>ANNUAL VALUE FOR MONEY REPORTING</p> <p>14.1 The committee received the Value for Money Report for information and assurance.</p> <p>14.2 RESOLVED: The Value for Money Statement and the Procurement Strategy are approved.</p> <p>14.3 CB and MG highlighted the farm as a risk area in terms of procurement strategy and business planning going forwards and asked if the committee could receive a report on plans for the farm's business development. MG asked if the team had looked at other colleges and MC confirmed that he had visited Myerscough and Plumpton recently, which has been very helpful, with further discussion then in the meeting on how other colleges run their farms. <i>ACTION: Report on farm developments in Spring term</i></p>
15.	<p>DRAFT AUDIT COMMITTEE ANNUAL REPORT</p> <p>15.1 The committee received its draft annual report, for consideration and approval. On consideration of the report and slight wording amendments, the committee approved the report to be signed by the Chair of the committee and presented to the college board on 13 December 2018, before its decision on approval of the financial statements.</p> <p>15.2 RESOLVED: The Audit Committee Annual Report is approved.</p>
16.	<p>IRREGULARITIES</p> <p>16.1 There were no irregularities reported to the committee.</p>
17.	<p>ITEMS FOR INFORMATION</p> <p>17.1 The following items were received for information and assurance:</p> <ul style="list-style-type: none"> • Teachers' Pension Scheme Audit Certificate (note the need to confirm one box completion by Mazars LLP); • Confirmation on compliance with the college's local government pension scheme (LGPS) responsibilities via the FRS 102 reporting and external audit completion report.
18.	<p>MATTERS TO REPORT TO THE BOARD</p> <p>18.1 The following matters are brought to the attention of the board:</p> <ul style="list-style-type: none"> • Audit Committee Annual Report; • Request for further reporting on the farm business planning and strategy • The requirement to consider the Data Protection Officer role (as the Head of Technical Services has resigned) and confirmation that this role is suited to an ICT post or to sit within the Clerk's remit; • The risk of delay to the work on full data protection compliance as a result of the resignation and the need for the management team to quantify this risk and take appropriate action to resource this area of work.

19.	ANY OTHER BUSINESS
19.1	There were no items of any other business reported.
20.	DATE OF NEXT MEETING
20.1	The date of the next meeting was confirmed as Thursday 14 March 2019 at 10.00am

At the end of the meeting the Committee took the opportunity to meet with college internal auditors without the presence of senior managers and received assurance from them on matters of process, communication and working relationship.

The meeting closed at 1pm

Signed:

Dated: