

REASEHEATH COLLEGE BOARD
AUDIT COMMITTEE

Minutes of the meeting held on Wednesday 4 December 2019 at 11am
Committee Room, Reaseheath Hall
AGENDA

- Present: Karol Bailey (independent) KB
Colin Baxter (independent) CB (chair)
Evelyn Davies-Jones (external co-opted) EDJ
Mike Gorton (independent) MG
Fran Johnson (external co-opted) FJ
Peter Green (independent) PG
Francesca Francis (independent) FF
- In attendance: Malcolm Burns (independent) MB (*joint meeting items 1 - 4 inclusive*)
Marcus Clinton (principal) MC
Prof Gary Crowe (independent) GC (*joint meeting items 1- 7 inclusive*)
Elizabeth Harrison (independent, joint meeting chair) EH (*joint meeting items 1- 7 inclusive*)
Andrew Fletcher (independent) AF (*joint meeting items 1- 7 inclusive*)
Angela Potter (independent) AP (*joint meeting items 1- 7 inclusive*)
Richard Ratcliffe (independent) RR (*joint meeting items 1- 7 inclusive*)
Liz Watts (Staff) LW (*joint meeting items 1- 6 inclusive*)
Graeme Lavery, CFO and director of resources GL
David Hoose, Mazars LLP, DH (*items 1-5 inclusive*)
Louise Tweedie, RSM, LT (*items 1-10 inclusive*)
Alex Hire, RSM, AH (*items 1-10 inclusive*)
Jackie Schillinger, clerk JS

PART A (unless stated)

Item	Content
1.	WELCOME AND APOLOGIES FOR ABSENCE
1.1	The joint meeting chair welcomed all to the meeting. There were no apologies for absence from audit committee members. The meeting was declared quorate.
2.	DECLARATIONS OF INTEREST
2.1	The declaration of interest 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.

<p>3.</p> <p>3.1</p> <p>3.2</p> <p>3.3</p>	<p>GROUP AUDIT COMPLETION REPORT (EXTERNAL AUDIT)</p> <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 smooth audit process and a clean bill of health on the year-end financial reporting, with nothing to concern him as the external auditor. He went through the detail of the local government pension scheme (LGPS) deficit assumptions (and differing actuarial and audit firm opinions on the impact of recent court cases) to explain the adjustment made and why this was not considered material. He also explained the context of the other non-material adjustments, including the adjustment made in the DART accounts. He confirmed that this had been considered and the DART statements approved by the DART Limited Board. He provided assurance on regularity and propriety and that the ongoing management accounts reporting to governors is sound and reliable.</p> <p>Members raised a number of points on the audit report and discussion followed:</p> <ul style="list-style-type: none"> -CB highlighted a couple of typographical errors that would need correcting in the final version. -GC congratulated the team for a smooth audit and a clean audit report, providing assurance to the governors that things are working well. -AF queried the position on VAT and GL updated the meeting on the latest position, with legal opinion awaited which should resolve the position in relation to the current provision in the accounts, that would then be released in year. -FF queried the position going forwards in relation to the requirements of the Office for Students (OFS). DH confirmed that there will be a different burden on auditors going forwards, under the “use of funds” opinion required and that he will keep members updated on how this will impact the external audit next year. -CB requested some detail on the student debt balances treatment. GL confirmed that there has been proactive work on recovering student debt and he could give assurance that good progress has been made. -EH requested assurance on the evidence obtained to justify the pension deficit assumption. DH confirmed that this point is the same across the sector, with the issue being incredibly complex with different assumptions, all valid. GL confirmed that the LGPS appointed actuaries’ assumptions provide the evidence base. He added that the college has very good coverage (at 99%) and has capped the ill health variance aspect with an insurance policy. DH and GL gave assurance that they did not consider this issue to be a risk to the college. <p>The group audit completion report was received for information and assurance.</p>
<p>4.</p> <p>4.1</p> <p>4.2</p>	<p>FINANCIAL MONITORING</p> <p>DH and GL presented the year-end group financial reporting, including the Financial Statements, Finance Record and Bridge Report, for review and discussion. DH provided assurance to governors that the year-end statements are essentially the period 12 management accounts, which evidences good financial governance and management in the college.</p> <p>Members had considered the year end reporting in advance of the meeting and the following key points were made and discussed in the meeting:</p> <ul style="list-style-type: none"> -CB requested clarification of the reference to goodwill. GL confirmed that this was the last element of the goodwill relating to the purchase of the subsidiary company. -EDJ noted an update needed to the reference to the completion of the student accommodation.

	<p>-EDJ requested an update on how the college will deal with the five-year review of its borrowing agreement, with the risk of increased borrowing costs in the sector. GL confirmed that he is meeting shortly with the bank to discuss the next five-year rate and he agreed that it is important to clarify and confirm this in the early part of next year. EDJ queried whether an issue such as this could become an audit issue in terms of the going concern opinion. DH gave his view that it could become an issue if it was not resolved, but he was confident that the college will address and resolve it in good time.</p> <p>-AF asked whether there is an option of a longer-term rate in the bank agreement, such as twenty years to provide more certainty, but AP replied that this does not really exist in the commercial banking sector. She added that the insolvency regime, with two colleges currently in insolvency, has adversely impacted on the banking sector's appetite for risk. DH noted that the college is with a provider that remains positively engaged and GL confirmed that he is also looking into other options so that the college has a range of options to consider.</p> <p>-PG requested and received confirmation that the ESFA benchmarking data on 18-19 will be available in the spring term.</p> <p>-DH noted that the current ratio indicator may be impacted by the renegotiation of the next five-year borrowing rate, discussed earlier, which emphasises the need to agree this sooner rather than later.</p> <p>-GC queried the downward 100k variance in surplus following the audit process. DH and GL confirmed that the majority of this variance was as a result of the VAT provision issue in DART, as discussed earlier in the meeting.</p> <p>-Following discussion, members were content to recommend the group financial statements to the board for approval.</p>
4.3	<p><u>Confidential Part B item</u></p>
4.4	<p>RESOLVED:</p> <ul style="list-style-type: none"> i. To recommend the group financial statements for the year ending 31 July 2019 to the Board for approval. ii. To receive the report for assurance in relation to the financial objectives for the 2018-19 financial year and to confirm the financial objectives for the 2019-20 financial year.
4.5	<p>ESFA Financial Health Letter and reporting: The committee received the ESFA financial report dated October 2019 including the position of the college on the three ratios that the ESFA uses to assess financial health and benchmarking against other colleges.</p>
4.6	<p>Period 3 management accounts: GL presented the period 3 management accounts. Questions and discussion followed:</p> <p>-PG asked for more context on the income variances from budget in relation to HE and Food commercial. GL explained the review that has taken place by the executive team on 8 November and the further detail that would come through in the period 4 accounts.</p> <p>-GC noted that the HE income variance was a concern and he raised the issue of budgeting for pay costs and consideration of a lower vacancy fill rate in terms of ensuring a more accurate budget going forwards. GL acknowledged the need to continue the work already commenced on the establishment and pay costs.</p>
5.	<p>CONFIDENTIAL PART B ITEM</p>

<p>6.</p> <p>6.1</p> <p>6.2</p> <p>6.3</p> <p>6.4</p>	<p>COLLEGE STRATEGIC RISK REGISTER AND KPIS</p> <p>Regularity requirements: Financial Regulations Review and Anti-Fraud and Corruption Policy Review: GL referred members to the Post 16 Audit Code of Practice requirement for Corporations to publish a statement of regularity, propriety and compliance within their annual accounts. He added that the ESFA uses a regularity self-assessment questionnaire to provide clarity of the accountability framework, key requirements and the type of evidence that provides assurance and so supports the Corporation in drafting the statement of regularity, propriety and compliance. It is provided to the external auditor and signed by the accounting officer and chair of governors at the July board meeting each year. He noted that the ESFA recommends that this regularity self-assessment questionnaire be used as a live document to regularly test and challenge the evidence of the controls in place. GL explained that the College Financial Regulations and the College Anti-Fraud and Corruption Policy are both central to this regularity evidence within the self-assessment questionnaire and members had been requested to review the controls currently in place, as set out in these documents.</p> <p>Members had reviewed the documents, provided in advance of the meeting. They confirmed that they were content with the level of controls and delegations contained in the documents. They suggested that it would also be helpful to highlight the link to the senior post holder disciplinary policy in the control framework and to consider the impact of the OFS regime on the control framework.</p> <p>RESOLVED: The committee has reviewed and approves the current delegations and controls to ensure financial regularity and propriety contained in the College Financial Regulations and the College Anti-Fraud and Corruption Policy and ratifies the College Financial Regulations and the College Anti-Fraud and Corruption Policy.</p> <p>Strategic Risk Register and Risk Appetite Review: MC presented the executive summary of the key strategic risks and risk movements following the executive in depth review of the risks in the autumn term. Members received the report for information and assurance and commented as follows:</p> <ul style="list-style-type: none"> -MG queried whether there was an action plan to reduce the subsidiary company’s reliance on sub-contracted income and GL confirmed that this is going to the next subsidiary company board meeting for consideration. -GC thought that the risk reporting could be developed in order to show risks that are staying high over a period of time and looking at what is happening to the risks over a couple of years. -GC commented on the current gaps in the target risk columns whilst acknowledging that the document is a work in progress following the internal audit report recommendations. JS noted that support from the auditors in the early part of next year would be helpful to move this forward. -EH noted that it would be helpful to include the Brexit risk in the external environment strategic risks. -PG queried the KPIs, noting that he found it difficult to understand how they fitted with the risk register. He wondered if an overarching flow chart may be useful and the consideration of a small number of KPIs only. -PG also noted the risks of poor governance and sub-contracting risks (in relation to the subsidiary) that may be useful to include. -MC thanked members for their input and noted that the risk reporting continued to develop, with the support of internal auditors. He noted that the risk appetite and target risk part of the reporting could be considered in more depth in the next meeting.
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6.5	<p>ESFA Letter and Bournville College Report: Members received the report and recommendations for governing bodies for information, having received it by email at the time of its publication. GL explained that, following the ESFA report and letter, the AOC published a checklist of fifteen areas that the governing body should consider in order to satisfy itself that it is assured in relation to the recommendations in the report. He presented this completed checklist to the meeting for assurance. Members had considered the report and checklist and confirmed that they felt assured that the current governance processes enable the governing body to meet the ESFA recommendations. Discussion followed around board oversight of the Principal and CFO conduct in a college:</p> <p>-MC noted that the governance culture at Reaseheath is very healthy with open and honest reporting and supportive challenge by governors and good opportunities for governors to triangulate evidence, with access to other managers and staff outside of meetings, as well as in meetings.</p> <p>-KB added that strong leadership and sufficient challenge from the Chair is important and works well at Reaseheath.</p> <p>-EDJ noted that a qualified and independent clerk with appropriate senior status is important, as is the case at Reaseheath, as this person is on the ground and in college as the eyes and ears of the governors and can take appropriate action if needed.</p> <p>-EDJ also noted that the audit committee directs internal audit and that the chair of audit and herself attended the audit planning meeting with senior managers to ensure that audit planning is robust and appropriate.</p> <p>-PG considered that the governance processes at Reaseheath are working well and the committees and the board see appropriate approval reporting coming through, such as the Financial Regulations at this meeting.</p> <p>-CB noted that retrospective permissions are to be avoided and this is not an issue at Reaseheath.</p>
7.	<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 sector benchmarking risk register analysis, new counter fraud requirements in the post 16 audit code of practice and the ESFA’s new information security management requirements in its contracts relating to ISO standards. The meeting received the update with thanks.</p>
8.	<p>APPOINTMENT OF CHAIR AND VICE CHAIR</p> <p>8.1 RESOLVED: Colin Baxter is appointed as chair of the committee for the 2019-20 academic year.</p> <p>8.2 RESOLVED: Karol Bailey is appointed as vice chair of the committee for the 2019-20 academic year.</p>
9.	<p>MINUTES AND MATTERS ARISING</p> <p>9.1 The minutes of the meeting held on the 4 July 2019 were confirmed as a correct record and signed by the chair.</p> <p>9.2 The rolling action log was considered and the following matters arising noted:</p>

	<p>-FF queried if there had been any further developments on the Data Protection Officer (DPO) service and GL confirmed that he remained the DPO for the present time.</p> <p>-GL reported an information security problem with the sector student record tool, which is a sector issue rather than one for the college but that this is currently being tested before it goes live to ensure it is working effectively. CB asked and GL confirmed that there are financial implications to the college.</p> <p>-KB requested an update on progress on the CRM system and GL updated the meeting, noting that the chosen provider will commence work on this, aiming for a start in March.</p> <p>PG queried the inclusion of risks noted on the action log within the risk register. GL confirmed that they had been considered and the aim is to keep the risks down to the minimum key strategic risks.</p>
<p>10.</p> <p>10.1</p> <p>10.2</p> <p>10.3</p> <p>10.4</p>	<p>INTERNAL AUDIT REPORTS</p> <p>LT and AH of RSM presented the Internal Audit Service Annual Report 2019-20 for assurance and the Internal Audit Progress Report for 2019-20 was received for information. The committee welcomed the clear opinion whilst also noting the need to ensure the close down of some recommendations in the audits over the year, particularly in relation to apprenticeship and confirmed that they would monitor this via the college’s audit tracking report and the internal audit follow up audit in 2019-20.</p> <p>The committee received the report and took assurance from it that the college has an adequate and effective framework for risk management, governance and internal control.</p> <p>The following internal audit reports were received, though, due to time, discussion of the reports in depth was deferred until the next audit committee meeting and it was agreed that they would appear again on the agenda for that meeting:</p> <ul style="list-style-type: none"> -Internal Audit Progress Report -Student Progress Framework – Phase One -Further Education Residential Accommodation – National Minimum Standards – Monitoring Framework. <p>In the meeting, FF asked that the timing of the Access and Participation Plan audit perhaps be considered with the Dean of HE as to the more useful time to the college for this to be carried out. PG queried the size of the sample used by RSM in the Student Progress Framework audit, which could be picked up with them at the next meeting.</p> <p>GL presented the Internal Audit Recommendations Tracking Report. Questions and discussion followed:</p> <ul style="list-style-type: none"> -EDJ noted some instances where the revised implementation date had passed, and she suggested this be reviewed and tidied up. -PG challenged on the number of recommendations on the tracker and GL confirmed that this is higher than usual but as a result of the audit reporting happening towards the end of the year last year. He confirmed work has been done and can be seen on the tracker in relation to the apprenticeships and data protection audits. -PG asked about the risk appetite side of the risk reporting as set out in the RSM recommendations and GL confirmed it could be considered at the next meeting. -CB requested and received an update on cybersecurity recommendations and progress on actions, which provided assurance.

11.	DART LIMITED SUBCONTRACTING AUDIT
11.1	The committee received the clear DART Limited subcontracting audit report and certificate for information and assurance.
12.	ANNUAL VALUE FOR MONEY REPORTING
12.1	The committee received the Value for Money Report for information and assurance.
13.	DRAFT AUDIT COMMITTEE ANNUAL REPORT
13.1	The committee received its draft annual report, for consideration and approval. On consideration of the report, the committee approved the report to be signed by the Chair of the committee and presented to the college board on 11 December 2019, before its decision on approval of the financial statements.
13.2	RESOLVED: The Audit Committee Annual Report is approved.
14.	IRREGULARITIES
14.1	GL provided a report to inform the committee of an investigation in relation to evidence relating to a staff member's qualification. Members received the report for information and assurance and requested and received assurance that the college's process had been reviewed and appropriate action taken as a result.
15.	ITEMS FOR INFORMATION
15.1	The committee received the Teachers' Pension Scheme Audit Certificate for information and assurance, with thanks to the Payroll Manager for her excellent work on this.
16.	ITEMS TO ESCALATE TO THE RISK REGISTER/REPORT
16.1	The committee minutes to be provided to the board for information.
17.	ANY OTHER BUSINESS
17.1	There was no other business reported to the meeting.
18.	DATE OF NEXT MEETING
18.1	The date of the next meeting was confirmed as Thursday 12 March at 10.00am.

The meeting closed at 3.10pm.

Signed:

Dated: