

CANTERBURY COLLEGE

Minutes of the MEETING OF THE AUDIT COMMITTEE
held on Monday, 18 October 2010 at 6.00pm in Room J221

MEMBERSHIP: Hugo Fenwick (Chair), Anne-Marie Nelson, Dominic Nichol, Grahame Ward

In Attendance: Fiona Gardiner (Clerk to the Corporation)

By Invitation: Alison Clarke (Principal and Executive Director)
Adrian Cottrell (Director of Finance & Corporate Services)
Andrew Griggs (Reeves)
Scott Miles (Reeves)
Rakesh Shaunak (MacIntyre Hudson)
Tanya Alleway (MacIntyre Hudson)
Ian Bird, Davis Langdon LLP

Steve Moore – Faculty Head, Sciences, Landbased & Humanities
Dominic Bowlt, Section Manager, Catering & Hospitality

Italics denotes absence

**577 APOLOGIES
NOTED**

- i Apologies were noted from Grahame Ward and Tanya Alleway.

578 DECLARATION OF INTEREST

- i. No declarations were declared.

**579 MINUTES OF THE MEETING 8 JUNE 2010
NOTED**

- i. The minutes were approved and signed by the Chair as an accurate record.

**580 MATTERS ARISING
NOTED**

- i. Outstanding Prudential AVCs. All instructions are now filed on a central file and personnel files and they are now in order.
- ii. Report on Floristry. Steve Moore responded to the previous Audit Committee's concern over financial transactions, the delay in banking of cash and stock control and wastage. He advised that:
- Since the last Audit meeting in June, there has been one incident in the delay of a cash payment to Finance. The member of staff received a verbal warning.
 - As a result of the above, all staff have been given finance regulation training.
 - A receipt form is now completed for all transactions and a good supply of receipt books is kept
 - 8 further transactions have taken place over the past two weeks and all cash payments have been made the same day except one which was made the next day.
 - He is checking the procedure once a month
 - There are now 3 units within the Floristry course which cover business and commerce
 - Students on some courses purchase their own materials and take the end product home, for those students whose stock is supplied, their products are sold through the shop to re-coup costs
 - Stock control system is a manual system.
- The Committee expressed their satisfaction with the report and progress made.
- iii. Report on Catering. The Committee had asked at the last meeting for an update on the Kitman system, Internal auditors actions and stock control. Dominic Bowlt advised:
- The Kitman system gives more transparency but is time consuming for staff to collate information.
 - The change to the curriculum requires more innovation in food provision and will take time to settle in and this is being monitored.
 - The Committee asked the Internal Auditors to keep the area under review and they advised that this area has a day scheduled in the 2010/11 plan.
 - The Committee suggested that other systems should be looked into as the contract with kitman ends in June 2012 and it will take at least a year to imbed a new system.
 - Dominic confirmed that Canterbury College is a member of TUCO to achieve economies of scale on purchasing.
- iv. Current Leases
Abbotts. The Principal and Alan Carver met with Abbotts representative to seek a way forward following Abbotts issuing of a Section 25 notice to quit. A revised offer of total rental value for both properties of £126,000 if both properties are leased and a purchase price of £1.8m, was received from Abbotts. The lease cost to the College over 5 years including dilapidations is £925,000. The cost of purchase and resale after 5 years is estimated at £144,000. It was noted that this had been discussed at Estates Working Party prior to the Audit Committee and it was agreed that a ten year cash flow be presented to the Special Corporation meeting taking place on 19th October.

Blockbuster. The current roof is leaking as repairs to date have been inadequate. The College is looking to vacate this site next year once block 16 is complete. The College is in dispute over its obligation to pay 44% of repairs to common parts (44% being approximately £90,000) and the College's solicitors have advised that the College should not incur these costs and Blockbusters have been made aware of the College's position. Blockbuster are currently not pursuing the payment. The College does not want to be liable for 44% of the cost of a new roof if it is vacating the property next year.

Rutland House The College is still waiting to hear from the Solicitors regarding the exact costs they believe Canterbury College are required to pay for dilapidations.

- v. The Committee asked for a Schedule of the College's investments and interest rates to be sent out with the minutes to clarify investment income planning.

**581 COLLEGE ACCOUNTS FOR THE YEAR ENDED 31 JULY 2010
NOTED**

- i. The Committee noted a retained surplus of £1,554m and an operating surplus of £3,812m at year end. The difference between these 2 figures being exceptional items: loss on demolition £2,552,000, loss from movements in repairs and dilapidations provision of £531,000 and a gain on FRS 17 pension adjustments of £825,000. The external auditors stated that they are happy with the provisions stated.
- ii. Total income was 4% above budget and expenditure 5% below budget
- iii. Main income variations were noted with HE tuition fees showing a gain of £745,000, other fees £303,000, catering £176,000 and SFA grants as 218,000. Total income variances were noted as £1,428,000
- iv. The main expenditure variances were noted as Staffing costs £1,319,000 and premises costs – electricity £357,000. The total expenditure variances were noted as £1,568,000.
- v. Additional grant totalling £394,061 was received in May for the phase 2 development
- vi. Balance sheet shows a strong financial position, 89 cash days and 2.51 quick asset ratio and £8,176,000 in cash and short-term investments
- vii. The current surplus has been generated for two reasons, to cover future cuts in funding where required and the future capital build programme
- viii. The External auditors recommended a designated capital reserve be set up to show the intention of the purpose of the surplus
- ix. SMT meet with all course tutors whose course are not meeting student and funding targets to advise them of possible course closure and steps that can be taken to prevent such.
- x. The Skills Funding Agency have confirmed a financial health grade of Outstanding under the Framework for Excellence

RESOLVED

- i. The Committee agreed to recommend approval of the College accounts to the Corporation meeting on 2nd December.

**582 STUDENT UNION ACCOUNTS AND BUDGET
NOTED**

- i. A surplus of £710 was noted against a deficit last year of £3,137.
- ii. Cash reserves of £19,296 have been built up to enable the Student Union to relocate
- iii. The Student Union won the best Student Union of the Country award
- iv. The Committee asked for the Accounts to be laid out as per the Colleges other accounts with debtors, creditors and cash laid out more fully and circulated with the minutes.
- v. A proposal of 1% increase on last year's budget to £35,219

RESOLVED

- i. Approval of Student Accounts was given
- ii. Approval of the 2010/11 budget of £35,219

**583 COLLEGE ACCOUNTS FOR THE PERIOD ENDED 30 SEPTEMBER 2010
NOTED**

- i. An operating surplus of £502,000 was noted against a budgeted operating surplus of £426,000
- ii. Learner responsive numbers are down on last year and this gives cause for concern. Schools are retaining more students into 6th form by commencing their year 12 courses in year 11 to link them in.
- iii. Recruitment of more numbers are being sought and in-year start courses are being brought forward to October
- iv. Train to Gain's future is uncertain and numbers are being limited.
- v. HE is under pressure and the Univeristy of Greenwich advised late of the cap on numbers so some courses have closed
- vi. More full-cost provision is being investigated
- vii. Staffing is favourable against the budget as staffing is restructured to fit student numbers and the built in cost of pension increases has not taken place yet.

- viii. The balance sheet shows a strong position of £8,292,000
- ix. The outcome of the Comprehensive Spending Review is awaited with expected cuts of up to 25% in some areas of funding.
- x. The Skills Funding Agency have confirmed a financial health grade of outstanding under the Framework for Excellence and also in respect of the College's financial management and controls for 2009. The financial forecast submitted in July 2010 claims a financial health category of outstanding and this will be confirmed in December 2010.

RESOLVED

- i. The Committee agreed to recommend approval of the accounts to 30 September 2010, to the Corporation meeting on 2nd December.

584 EXTERNAL AUDIT REPORT, ANNUAL ACCOUNTS AND MANAGEMENT LETTER NOTED

- i. The College has generated an operating surplus of £3,812,000 (2009 £1,215,000) and a retained surplus for the year of £1,554,000 (2008 retained deficit of £131,000)
- ii. All funding allocation targets were met for the year.
- iii. A recommendation of introducing a Designated reserves policy and to transfer approximately £2m into the account.
- iv. The SFA has yet to sign off the income but no changes are anticipated.
- v. FRS 17 pension fund monies of £825,000 are an exceptional item. It may be moved from the headline retained surplus pending a meeting of the SFA, but the overall reserves wont change.
- vi. The College has had a good year financially and the External Auditors are issuing an unqualified opinion in respect of financial statement audit and regularity audit.
- vii. There are no material mis-statements
- viii. The key audit issues and their resolutions were noted
- ix. Overall, internal controls are operating effectively
- x. Cashdays in hand are currently 97 which is well above the sector average
- xi. Dependency on funding body income is as per sector average
- xii. Surplus is significantly larger than sector average
- xiii. Staffing pay as a % of income is 57.9% compared to a sector average of 66%
- xiv. The reserves position is very strong
- xv. In year increase in cash of £1.5m
- xvi. Deficit in pension scheme is (£4,150,000) against 2009 position of (£5,379,000)
- xvii. The External Auditors confirmed their opinion that the financial statements give a true and fair view of the state of affairs of the College as at 30.7.10 and that the financial statements have been properly prepared in accordance with the SFA's requirements.
- xviii. The Committee thanked the Auditors for their efforts in meeting the deadline which had been brought forward due to the new meeting date.
- xix. The Committee asked the Auditors if they thought the financial accounting year would change since Colleges are now to be included within the accounts of BIS. The Auditors stated it was too early to say as lots of changes are taking place.

RESOLVED

- i. The Committee approved the External Auditors' Management Letter and College's response
- ii. The Committee recommended for approval to the Corporation meeting of 2nd December, the draft members' report and financial statements for 2009/10.

585 INTERNAL AUDIT: END OF YEAR ANNUAL REPORT, NEEDS ASSESSMENT & PLAN NOTED

- i. The team have visited twice in the year
- ii. The summary of visits and follow up visits was noted
- iii. All recommendations have been satisfactorily implemented or are adequately being considered by the College.
- iv. Detailed recommendations on income, expenditure, financial systems, core systems and other key areas were noted
- v. The Auditors opinion that Canterbury College has adequate and effective risk management, control and governance processes to manage its achievement of its objectives.
- vi. The 2010/11 internal audit plan timetable, drawn up in conjunction with the Principal, Finance Director and Clerk, was noted, with 33.5 days of visits being planned

RESOLVED

- i. The Internal Audit report was approved
- ii. The Internal Audit plan for 2010/11 was approved

**586 ANNUAL REPORT TO THE CORPORATION
NOTED**

- i. The Audit committee met 3 times during the year and the business undertaken was noted.
- ii. The Committee concluded that it is satisfied with the College's systems of internal controls. It noted the importance of the redevelopment project to financial issues and agreed that the level of borrowings required for Block 16 have been approved by the Audit Committee and Corporation and that risk is regularly reviewed.
- iii. The Committee is confident that the Corporation's responsibilities concerning risk management have been sufficiently met and continue to improve.
- iv. The Committee asked for the External Auditors opinion on the fact that the Audit and Finance committees are combined. They advised that only Search and Audit are mandatory although many Colleges still run separate audit and finance committees.
- v. The Committee agreed that there is greater transparency as discussion on Audit is shared by Finance and vice-versa, there is a more holistic approach and outlook. The EWP focuses on the Capital project with a member of the EWP sitting on the Audit Committee to ensure good communication. The Committee agreed it preferred the current structure although the meetings are long. They felt that the whole Corporation takes more responsibility for finance rather than just a finance committee. There is also more of an awareness of risk.

RESOLVED

- i. The Annual Report of the Audit Committee was recommended for approval to the Corporation meeting of 2nd December.

**587 REVIEW OF THE PERFORMANCE OF THE INTERNAL AUDIT SERVICE
NOTED**

- i. The performance indicators for the internal audit service were reviewed and it was noted that they have all been met to a high standard
- ii. The Committee questioned whether the Internal Auditors provided sufficient challenge. The Finance Director advised that the challenge takes place at Section Manager level and managers also have to appear at and answer directly to Audit Committee
- iii. The report was noted and approved.

**588 CAPITAL PROJECT FINANCE
NOTED**

RESTRICTED

**589 FMCE
NOTED**

- i. The completed FMCE questionnaire was noted and the evidence file was presented at the meeting.
- ii. A long version of the report is being submitted as required of any College expecting an inspection.
- iii. The Committee noted that College has graded itself Outstanding for each of the four areas namely, accountability arrangements, financial planning arrangements, internal control arrangements and financial monitoring arrangements, giving an overall grade of Outstanding.

RESOLVED

- i. The Committee reviewed and recommended to the Corporation, approval of the FMCE and its submission to the SFA.

**590 RISK MANAGEMENT REPORT
NOTED**

- i. There has been no College Risk Management Group meeting since the June Audit meeting and therefore there is no update
- ii. The Capital Risk Register has been updated by Davis Langdon and the Committee noted risk items closed, risk movement on existing risks and table of the 10 most significant risks.
- iii. The major risks and their content was discussed under item 588.
- iv. The Committee commented positively on the clarity of the risk register.

**591 TENDER PROCESS FOR INTERNAL AUDIT
NOTED**

- i. The 3 year appointment of the current Internal Auditors, Reeves, ceases at the end of the academic year 2010/11.
- ii. The criteria for selection was noted
- iii. The firms proposed to be approached were noted as Reeves, Burgess Hodgeson, Grant Thornton and Tenon, both Grant Thornton and Tenon being recommended by other FE Colleges.
- iv. The Committee asked if the current term of office could be extended from 3 years to 5 years. It was agreed this will be clarified at the next audit committee.

RESOLVED

- i. Clerk to provide a report to the next Audit committee on the possibility of extending the current term of office of Reeves, from 3 to 5 years.

**592 PFA AUDIT: GET READY FOR WORK
NOTED**

RESTRICTED

**593 DATE OF THE NEXT MEETING
NOTED**

- i. The meeting is scheduled for Tuesday, 8 March 2011 at 6pm in room J221.

**594 EVALUATION OF THE MEETING
NOTED**

- i. The evaluation form from the last meeting was noted.
- ii. All members completed the evaluation of meeting forms and returned them to the Clerk who will take forward any matters raised.