

## CANTERBURY COLLEGE

### Minutes of the MEETING OF THE AUDIT COMMITTEE held on Tuesday, 6 November 2012 at 5.30pm in Room J221

- MEMBERSHIP:** Hugo Fenwick (Chair), Anne-Marie Nelson, Vacancy, Steve Solly and Nigel Beavor,
- In Attendance:** Sharon Hollingsworth (Clerk to the Corporation)
- By Invitation:** Alison Clarke (Principal and Executive Director)  
Hugh Summerfield (Partner, Wilkins Kennedy FKC)  
Adrian Cottrell (Vice Principal - Finance & Corporate Services)  
Andrew Griggs (Reeves)  
Emma Haggerty (Reeves)  
Rakesh Shaunak (MacIntyre Hudson)  
*Mark Eagle (MacIntyre Hudson)*

*Italics denotes absence*

**688 APOLOGIES  
NOTED**

- i. There were apologies received from Mark Eagle.

**689 DECLARATION OF INTEREST**

- i. There were none declared.

**690 MINUTES OF THE MEETING OF 5 SEPTEMBER 2012  
NOTED**

- i. The minutes of the meeting of 5 September 2012 were approved and signed by the Chair.

**691 MATTERS ARISING  
NOTED**

- i. All matters arising were taken into the Agenda.

**692 INTERNAL AUDIT CATERING UPDATE REPORT – OCTOBER 2012  
NOTED**

- i. The Internal Auditors confirmed that the Catering department had successfully implemented their recommendations; stock costing and valuation data is now available for use by management.
- ii. The Internal Auditors proposed that the department should be revisited in 2012/13 or 2013/14 to ensure procedures and controls are being maintained.
- iii. The Principal advised that the Senior Management Team will continue to review the area as part of the College Senior Management Team meetings.

**693 INTERNAL AUDIT: ANNUAL REPORT 2011/12 & ANNUAL PLAN 2012/13  
NOTED**

- i. The Annual Report focused on priority two items.
- ii. Committee members noted that there had been no priority one items.
- iii. The summary of visits and follow up visits was noted.
- iv. Key areas of concerns were noted in the areas of Personnel, Payroll and Pensions, Risk Assessment and centralisation and Catering.
- v. The Principal advised that since the last meeting the HR Manager had left the College and the new HR Director is due to commence on 12<sup>th</sup> November 2012.
- vi. Members asked the Vice Principal, Finance and Corporate Services for an update on the tendering process for a new Payroll system. The Vice Principal advised that work had not yet commenced, although a person had been identified to look at new systems.
- vii. Members were assured that the back checking in regard to Pensions opt-out was almost complete and adequate progress continued to be made in regard to Payroll, in particular overpayments to staff.
- viii. Members noted that the Internal Auditors were satisfied that adequate progress had been made in implementing the recommendations within their report, arising from the two visits in January 2012 and April 2013.
- ix. Committee members noted that the annual plan for 2012/13 differs from the one proposed a year ago. The proposed plan for 2012/13 now allows for more time to be spent on payroll and personnel following the outcomes from the 2011/12 internal audit, with 33.5 days being planned overall for the year.

- x. Members raised concerns over the number of days proposed for the internal audit for 2012/13 and were assured that it was in line with the standard number of days allocated in previous years and it was a realistic figure.
- xi. Members questioned why Payroll and Pensions is planned for review in January 2012. The Internal Auditors advised that they need to ensure that the data is correct and the rigour of documented procedures are in place before a new system is introduced.

**RESOLVED**

- i. The Internal Audit report was approved
- ii. The Internal Audit plan for 2012/13 was approved

**694 FMCE**

**NOTED**

- i. There is no longer a requirement that Colleges complete and submit the FMCE
- ii. The College has incorporated the Provider Financial Assurance grades awarded following their audit in January 2012. The College improvement plan submitted in response to the audit has also been incorporated.
- iii. Members agreed that it was good to practice to continue to complete the FMCE; it was a way of ensuring that there is continuous scrutiny, rigorous review and monitoring of the College's financial management and control arrangements.
- iv. The Committee noted that College has proposed an overall self-assessment grade of "Good".
- v. Members raised concern that monthly management reports had not always been forthcoming to Committee members.

**RESOLVED**

- i. The Committee reviewed and recommended to the Corporation, approval of the FMCE.
- ii. The Clerk and Vice Principal – Finance and Corporate Services to ensure that monthly management reports are received by the Audit Committee on a timely basis.

**695 RISK MANAGEMENT**

**NOTED**

Termly report

- i. Members were assured that following the Provider Financial Assurance (PFA) visit in January 2012 the risk register had been reviewed by the Risk Management Group and the quality of teaching and learning had been re-evaluated and the score had increased.
- ii. Long qualifications refer to main programmes of study for example A Level's.
- iii. Members raised concerns over the change in 16-18 funding and the risk implications for the College. The Principal advised that at the next Corporation Meeting on 6<sup>th</sup> December, Governors will receive a briefing in regard to this matter. Co-opted members of the Audit Committee will receive a briefing note following the meeting.
- iv. Members noted the minutes from the Risk Management Group and the risk registers.

Annual report

- v. Members commented on the sound system of internal control in place throughout the year.
- vi. Members agreed that there had been more comprehensive Risk Management reports received by the Audit Committee.
- vii. Members agreed with the risk management group's opinion that it is compliant with its full risk management monitoring responsibilities in 2011/12. This opinion is supported by the Provider Financial Assurance team, the Internal and External auditors.

**RESOLVED**

- i. The Committee noted and recommended the reports to the Corporation.

**696 ANNUAL REPORT TO THE CORPORATION AND ACCOUNTING OFFICER**

**NOTED**

- i. The Audit committee met 3 times during the past year and the business undertaken was noted.
- ii. The College received an unqualified audit report from the External Auditors.
- iii. The Internal Auditors confirmed in their Annual report that the College has made adequate progress in implementing their recommendations arising from their Audit reports. All recommendations have either been implemented or are in the progress of detailed consideration by the College.
- iv. The External Auditors in their report confirmed that the Principal has a plan to address weaknesses that ensures continuous improvement of the system of internal control in place.
- v. Committee members questioned the amendments to the Treasury report. Members noted the Treasury Management is with Barclays and asked that the report is reworded to state that the College's Treasury Loan sits in the same place as the College's cash.
- vi. The Audit Committee's opinion on Risk Management and Governance was agreed.

**RESOLVED**

- i. Members approved the Annual report and recommended it be submitted to the Corporation meeting on 6<sup>th</sup> December 2012, subject to the amendment outlined under v. above.

**697 COLLEGE MANAGEMENT ACCOUNTS FOR THE PERIOD ENDED 30 SEPTEMBER 2012 NOTED**

- i. An operating surplus of £557k on the College's management accounts against a budgeted surplus of £478k was noted.
- ii. Total income was 2% below budget.
- iii. The main income variances were noted as; Other fees (85k), Adult apprenticeships (31k), Release of deferred capital grant (19k), Adult Classroom based provision 40k and Other variances (12k).
- iv. The College is yet to attain its enrolment target for 16-18 classroom based learner; however, courses set to start in self-directed study week should close the shortfall gap significantly.
- v. Committee members noted in particular the variation in other fees which is due to the College's decision to the discontinuance of pupil referral unit provision (pre-16s). Member agreed that it was the right decision for the College due to the contract not being cost effective.
- vi. Total expenditure is 4% below budget.
- vii. The total expenditure variances (favourable) is noted as £184k; staffing costs 53k, collaborative partners 31k, financing charges 26k, gas 20k, furniture and equipment 18k, electricity 18k and other variances 18K.
- viii. The balance sheet reported at the year-end shows a strong financial position.
- ix. The Vice Principal advised that the high current assets figure of £11,840 for 2012 compared to £2,814 in 2011 was mainly due to the Higher Education direct delivery.
- x. September debtors are up, the majority relate to enrolment debts that will be mostly repaid by direct debit instalments.
- xi. Committee members noted the favourable cash flow balance.
- xii. The College has a Financial Health rating of 'Outstanding' as set out within the 2012 Financial Forecast submitted to the Skills Funding Agency. This will need to be confirmed following the submission of the year-end accounts and financial record.
- xiii. The College's Bank Covenant was tabled by the Vice Principal Finance and Corporate Services.
- xiv. Committee members agreed that it was prudent that the Audit Committee is aware of the Bank Covenant's in place to ensure continuous rigorous review and compliance.
- xv. Members questioned whether the bank covenant should be included in the Risk Register due to the significant financial risk to the College.
- xvi. Members asked the Vice Principal to provide a report that provides a summary of each bank loan within the Bank Covenant.

**RESOLVED**

- i. The Committee recommends the accounts to the Corporation for approval on 6<sup>th</sup> December 2012.

**698 COLLEGE MANAGEMENT ACCOUNTS FOR THE YEAR ENDED 31 JULY 2012 NOTED**

- i. The Vice Principal Finance and Corporate Services reported that it had been a reasonably successful year.
- ii. Members noted that the results for the year ended 31<sup>st</sup> July 2012 show an operating surplus of £2,311k against a budgeted surplus of £1,311k.
- iii. The financial statements show a retained surplus of £1,136k.
- iv. Members asked for clarification in regard to the demolition costs of Herring block. The Vice Principal advised that it was shown within the movements in repairs and dilapidation provision under 3.2 of the report.
- v. Total income was 3.1% above the budget. The main income variances were noted as;
  - Additional Learner Support funds 809k
  - Tuition fees – HE 304k
  - 16-18 apprenticeships 265k
  - Adult Skills Budget 173k
  - Non-recurrent grant funding (232)k
  - European & foreign (213)k
  - Other income (109)k
  - Other variances 3k
- vi. Members noted that the College exceeded its funding allocation for 16-18 classroom provision in term of learners.
- vii. The year end estimate (penultimate) return to the Skills Funding Agency in regard to the Adult Skills budget had shown an improved level of activity.
- viii. Members noted that the College's 16-18 Apprenticeships had done extremely well and it is likely that an additional £260,000 of funding will be received.

- ix. Total expenditure was 0.2% below budget, the main expenditure variances were noted as;
- Collaborative partners 977k
  - Miscellaneous staff salary costs 204k
  - Gas 64k
  - Examination fees 55k
  - Teaching and support salary costs (723)k
  - Depreciation (183)k
  - Financing charges (138)k
  - Teaching materials (84)k
  - Other variances (113)k
- x. Favourable variances in staffing costs were partially due to student recruitment targets not being met, managers combining groups and support staff vacant posts.
- xi. Finance charges reduced during the year as the Skills Funding Agency paid their capital grant of £2million in regard to Block 17.
- xii. The balance sheet reported at the year-end shows a strong financial position.
- xiii. The External Auditors clarified the position of the deferred capital grants on the balance sheet.
- xiv. Committee members noted that the College has calculated a Financial Health rating of 'Outstanding' following the submission of the 2012 Financial forecast; it was noted that this will need to be confirmed on the submission of the year-end accounts and Financial Record.

#### RESOLVED

- i. The Committee noted the College Management Accounts for the ended 31<sup>st</sup> July 2012 and agreed to recommend the accounts to the Corporation for approval on 6<sup>th</sup> December 2012.

#### 699 STUDENT UNION FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2012

##### NOTED

- i. The Student Union's accounts show a deficit of £6,784, against a surplus in the previous year of £3,050.
- ii. The Student Union is operating in a satisfactory way, however Committee members agreed that the Student Union should be encouraged to use their reserves.
- iii. The 1% increase on last years budget for 2012/13 was noted.
- iv. The Committee approved the accounts of the Student Union for the year ended 31<sup>st</sup> July 2012.

#### 700 EXTERNAL AUDIT REPORT, ANNUAL ACCOUNTS AND MANAGEMENT LETTER

##### NOTED

- i. The College recorded an operating surplus of £2,311k compared with an operating surplus of £4,135k in 2011.
- ii. There was a exceptional item of £227k relating to the release of dilapidation provision for Blockbusters and loss on disposal of assets of £1,02k which related to Block 17. After adjusting these items, there was a retained surplus of £1,136k.
- iii. Total income has decreased from £33,935k to £33,301k compared to 2011.
- iv. Total expenditure increased to £30,990k compared to £29,800k in 2011.
- v. Total reserves for 2012 were £49,294k compared to £49,737k in 2011.
- vi. The External Auditors will be issuing an unqualified opinion in respect of financial statements audit and regularity audit.
- vii. The External Auditors state that there are no material weaknesses in the accounting or internal control systems of the College.
- viii. The key audit issues and their resolutions were noted.
- ix. Fixed assets increased by £2,352k as a result of construction work on the capital project, Block 16, which came into service this year.
- x. Overall debtors are down by £105k
- xi. Amounts owed by the Skills Funding Agency has decreased by £42k, as a result of there being no accrued income for Get Ready to Work and Routes into Work this year, compared to £71k last year.
- xii. The Cash at Bank has increased which is mainly due to the Barclays loan draw-down for capital project Block 17.
- xiii. Trade creditors have increased by £409k which is mainly down to the timing of invoices.
- xiv. Bank loans of £461k are repayable by the College within one year.
- xv. Member noted that accruals and deferred income have increased by £539K this year.
- xvi. The College has bank loans of £22,345k repayable over one year.
- xvii. Total income from funding body is down by £569k this year.
- xviii. Tuition fees and education contracts have decreased by £147k, when compared with 2011.
- xix. Total staff costs have fallen by 1% this year which is in line with expectations.
- xx. Teaching department expenses have increased by £358k which is mainly down to the increase in student travel.
- xxi. Premises running costs have increased which is due to the increase in light and heat, water, rates and cleaning; as Block 16 came into service in January 2012.
- xxii. The loss on disposal of assets mainly related to Block 17.

- xxiii. Committee members noted that the External Auditors observed that the College capitalises fixed assets with a cost over £500. Committee members agreed that this was low when compared to other colleges' of a similar size. The Vice Principal agreed with the External Auditors recommendation that this figure was low.
- xxiv. Committee members noted the Key Sector Ratios and Performance Indicators.
- xxv. The Committee asked the Vice Principal Finance and Corporate Services to finalise the Report and Financial Statements for the year ended 31 July 2012.
- xxvi. The External Auditors advised that they would review the report and financial statements once completed; however stated the College would receive an unqualified audit opinion for 2011/12.
- xxvii. Committee members agreed that it had been an encouraging year.
- xxviii. It was noted that the Corporation may wish to consider the positive staff costs figure in regard to improving its teaching and learning. The Principal advised that investment in current staffing is important and that the College is considering 'grow your own' talent programmes.

#### **RESOLVED**

- i. The External Auditors Management letter was approved
- ii. The Committee noted the draft members' report and financial statements for 2011/12 and agreed to recommend their approval to the Corporation meeting on 6th December 2012.
- iii. The £500 capitalisation limit is to be increased to £1,000.

#### **701 UPDATE ON BLOCK 17**

##### **NOTED**

- i. The update report on Block 17 was noted.
- ii. Members noted that good progress is being made and the programme is at least two weeks ahead of schedule. It was noted that the contractor continues to build up a buffer against potential adverse weather conditions.
- iii. The project is on budget.
- iv. There has been one change to the design of the heating system which has generated savings for the College.
- v. Block 17 was given Corporation approval to proceed with £2 million of grant funding from the Skills Funding Agency.
- vi. Members noted that the Education Funding Agency (EFA) had created a new capital programme; the Demographical Growth Capital Fund (DDGCF). The College had worked with the Kent County Council to produce a joint application for a grant of £1m. The College was successful in obtaining the grant in full.
- vii. Members noted the grant was being applied against Block 17 Supported Learning kitchen and assistive equipment for Learners with Learning Difficulties and Disabilities.

#### **RESOLVED**

- i. The Education funding grant and the progress of the Block 17 project was noted.
- ii. Committee members to be invited to a site visit of Block 17 prior to the next Audit Committee meeting.

#### **702 REVIEW OF THE PERFORMANCE OF THE INTERNAL AUDIT SERVICE (RESTRICTED)**

##### **NOTED**

- i. Members noted and approved the report on the performance of the Internal Auditors
- ii. It was noted that all performance indicators have been reviewed and overall, all been met to a high standard.

#### **703 DATE OF THE NEXT MEETING**

##### **NOTED**

- i. The next meeting is scheduled for Tuesday, 5 March 2013 at 5.30 pm in room J221.

#### **704 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.