

## CANTERBURY COLLEGE

### Minutes of the MEETING OF THE AUDIT COMMITTEE held on Tuesday, 22 September 2015 at 5.30pm in Room J221

**MEMBERSHIP:** Hugo Fenwick (Chair), Anne-Marie Nelson, Steve Solly, Hugh Summerfield, Julian Kirkness

**By Invitation:** Alison Clarke, (Principal)  
Sharon Hollingsworth (Clerk to the Corporation)

Adrian Cottrell (Vice Principal - Finance & Corporate Services)  
Omer Tauqir (Grant Thornton)  
Anna Lancefield (Grant Thornton)  
Rakesh Shaunak (MacIntyre Hudson)

*Italics denotes absence*

The Chair welcomed Julian Kirkness the newly appointed Co-opted member of the Audit Committee to the meeting.

**872 APOLOGIES  
NOTED**

- i. There were no apologies received.

**873 DECLARATION OF INTEREST**

- i. There were none declared.

**874 MINUTES OF THE MEETING OF 16 JUNE 2015  
NOTED**

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

**875 MATTERS ARISING  
NOTED**

- i. The question of whether the College could benefit from a VAT review to establish whether benefits could be achieved was raised with particular reference to the capital build project.
- ii. The External Audit Partner explained that most VAT schemes are based on producing a cashflow advantage. The climate for such schemes is becoming more unfavourable and the appetite for this is diminishing in the FE sector.
- iii. It was reported that a firm of accounts had been instructed to review the potential to claim back VAT at the time of the previous capital build work. The College at the time was advised that although there are existing elements of commercial use it would be prudent to maintain with its zero-rated status.
- iv. Members asked whether there might be a VAT advantage in setting up a subsidiary company. This was not considered to be so. However, a subsidiary company might be required for enterprise activities. This is being considered.

**Minute 860 resolved i) & ii)**

- i. The Committee received an update report in respect of the College Payroll Function.
- ii. It was reported that the Payroll Function has become more stable and resilience over the past few months.
- iii. Payroll training has been commissioned for the two senior staff in the Finance Team in September 2015 to provide cover and continuity in the absence of one or both payroll team members.
- iv. Midland HR had reported an underlying global system issue whereby opt in and opt out information is not reliable. As an interim measure, the September auto-enrolment report will be reconciled back to the pensions' file to "physically" verify that the data.
- v. It was reported that Midland HR does inherently produce a very high volume of unstructured data that is very difficult to interpret and check. Consultancy had been commissioned to filter the data to produce a report of standing and variable payroll data changes that can then be checked and reviewed.
- vi. Members questioned what the practical implications are for the College in terms of the reporting issues with the Midland HR service. The lack of control and the associated unknown risk factor was reported as the biggest implications to the College.
- vii. Midland HR have until the end of October to produce working reports. Members questioned whether the College would be charged to produce the reports. The Vice Principal explained that a charge is expected. Members expressed their dissatisfaction that Midland HR had been producing unreliable reports and that the cost of producing working reports should reflect this.
- viii. Members questioned whether the Payroll function had been included in the internal audit plan for 2015-16. The Internal Audit Director reported that although the plan did not include the review of the Payroll function, it could be incorporated into the follow-up work with the Committees permission.
- ix. The Committee discussed the risk management of college data and the responsibility of the Corporation in respect of ensuring data was secured effectively. The Committee were keen to understand how they might receive assurance with regard to the College's increasing use of "cloud" technologies.

**RESOLVED**

- i. The Committee agreed to include a review of the adequacy of the payroll function in their follow-up work during 2015-16.
- ii. The VP Finance was asked to provide a short report in respect of the risk management of college data at the next meeting, with an annual update report being presented to the Committee thereafter

**Minute 861 resolved ii)**

**RESOLVED**

- i. Item taken into the Agenda at 6.1 – Financial Statements Audit Strategy

**CLERK'S REPORTS**

**PART A**

**876 ANNUAL INTERNAL AUDIT REPORT**

**NOTED**

- i. The work of the Internal Audit Service in the academic year to 31<sup>st</sup> July 2015 was reviewed by the Committee.
- ii. The Internal Auditors (IA) are satisfied that the College has taken, or is taking, the appropriate actions to address the issues and control weaknesses that were raised in the individual reviews during 2014-15.
- i. Arising from the 2014-15 review the Internal Auditors (IAs) had made four high priority, eight medium priority and three low priority improvements recommendations. The IAs assured the Committee that the number of recommendations is a function of the improvement-focused nature of their audit approach.
- ii. It was reported that good progress had been made in respect of budget setting and control. SMT track income generation, expenditure and control as part of their regular meetings and a monthly whole management team meeting is now in place to monitor income and expenditure more closely.
- iii. It was reported that the Marketing function has been re-structured and a positive shift to running a campaign based operation is evident. Engagement with curriculums areas to better understand projects is working well. 16-17 recruitment target is at 102% which reflects a positive recruitment campaign was in place.
- iii. Overall themes coming out from the 2014-15 reviews in comparison to 2013-14 were discussed. Lack of ownership and accountability were the two key themes noted from the 2014-15 reviews. The IA reported that the College has driven significant change to address areas of accountability and ownership following recommendations made by the IAs.
- iv. Members acknowledged that some areas of the college had embraced the challenge of rationalisation, while some areas had needed more persuasion. The IA agreed that it was much more effective to have the right people in the right roles and that restructures provide an opportunity for change. The Committee recognised that the College's approach is consistent with other colleges in the sector.
- v. The Committee agreed that the outcomes from the IA annual report reflected a positive approach to the audit function and the development of the system of control.
- vi. Members recognised that the College had quite rightly during the planning of the 2014-15 Annual Audit Plan had focused on significant areas where changes and improvements were needed. Members described the audit reviews as a learning process to bring about organisational improvements.
- vii. Members were satisfied that the work of the Internal Audit service during 2014-15 had met their assurance requirements, and will consequently assist the Committee in providing an overall opinion on the adequacy and effectiveness of the college's audit arrangements, framework of governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets.
- viii. The Committee described the work of Grant Thornton as agents for change during 2014-15 and appreciated the positive learning outcomes from the audit reviews.

**RESOLVED**

- i. The Internal Audit report for 2014/15 was approved.

**877 REVIEW OF PERFORMANCE OF THE INTERNAL AUDIT SERVICE (RESTRICTED)**

**NOTED**

- i. The Committee reviewed the work of the Internal Audit Service during 2014-15 against agreed key performance indicators.
- ii. The Committee agreed that all performance indicators had been met to a good standard.
- iii. Members were impressed with the content of the 2015-15 IA Annual report for 2014-15. The report had been open and honest.
- iv. Members were complimentary in respect of the work of the IA Service describing the service as good value. In particular, the IA Director brought an insightful viewpoint of the external environment and a broader sense of the FE sector.
- v. It was reported that audit scoping meetings with the Principal and Clerk had been of good value and aimed at a more strategic level.
- vi. The College will continue to maximise the use of the Internal Audit service against the risks identified on the college risk register.

**RESOLVED**

- i. The Committee approved the outcomes from the annual review in respect of the performance of the Internal Audit Service.

## VICE PRINCIPAL'S REPORTS

### PART A

#### 878 PROVISIONAL COLLEGE ACCOUNTS TO JULY 2015

##### NOTED

- i. The VP Finance reminded the Committee that the reported set of accounts were provisional. The External Audit visit was underway at the College and one or two minor adjustments to the accounts are possible.
- ii. At the time of the meeting the College was reporting an operating deficit for the year of £480k on its management accounts. This compares to the comparable budgeted operating deficit for the year of £576k.
- iii. The retained surplus is currently reported as £760k.
- iv. The reconciliation of the operating results for the year was examined by the Committee. Members questioned the way in which the Capitalisation of Newingate House rent was being reported and queried whether the accounting treatment was appropriate. The VP Finance assured the Committee that the accounting treatment was correct and was consistent with accounting practices within the FE sector. The External Audit Director further assured the Committee that a check would be carried as part of the External Audit visit to ensure the correct accounting treatment is in place.
- v. Total income was 1.8% below budget and expenditure 0.5% below budget.
- vi. The major income and expenditure variances were studied by the Committee.
- vii. Members recognised that it had been a difficult year. Higher Education had not met their numbers and apprenticeships had not met their stretched target.
- viii. Agency costs had also been high, however Members recognised the College had benefited from positive improvements in Teaching and Learning as a result and a much faster pace of improvement is evident.
- ix. Teaching staff costs included a number of long term sickness, maternity and adoption leave cases.
- x. Management of sickness at the College is rigorous and the number of stress related illness cases had reduced.
- xi. A daily Cash flow and Forecast schedule is an additional document within the reported detailed management account analyses.
- xii. Members questioned the current cash at bank position. A negative cash at bank position was reported by the VP Finance, however the sale of Abbots in September will settle the account. It was reported that March 2016 will be a crunch point for the College and the full amount of the overdraft with Barclays will be drawn down.
- xiii. The summary balance sheet reported at year-end showed a weakened financial position largely as a result of the construction of Block 18.
- xiv. Members noted that within current liabilities, other creditors reported as £3,448,000 included £1,450,000 of outstanding commitments and accruals and £1,760,000 of bank loans due within one year. Of which £258k relates to retention on Block 18 costs, and £633,000 relating to the Discretionary Learner Support Funds.
- xv. The College has a Financial Health rating of Satisfactory as set out within the 2014-15 Financial Forecast as submitted to the Skills Funding Agency.

##### RESOLVED

- i. To recommend the approval by the Corporation of the provisional financial results of the College as at 31 July 2015.

#### 879 FINANCIAL STATEMENTS AUDIT STRATEGY

##### NOTED

- i. The Committee received MacIntyre Hudson Audit Strategy in respect of their audit of the Financial Statements for the year ending 31<sup>st</sup> July 2015.
- ii. The audit will be conducted in accordance with the International Standards on Auditing, and the Joint Audit code of Practice issued by the Skills Funding Agency.
- iii. The External Audit Partner had met with the Principal and VP Finance during the planning process and have identified a number of key risks which may occur and which the external auditors have planned to address.
- iv. The scope of the external audit had been broken down into manageable components and the expected approach against each component was studied by the Committee.
- v. MacIntyre Hudson had been asked to clarify their reliance on and strategy regarding the internal audit function. The Partner suggested that the context of the internal audit function/plan would need to be looked at in relation to the overall Board assurance framework. It was further reported that the external audit will include review of the internal audit service work and their recommendations in respect of the key financial controls used in recording transactions for financial statements.
- vi. The reported external audit approach will be to seek reliance on internal audit and budgetary control and, to conduct detailed tests of transactions and balances. Analytical procedures will be performed to look at the key relationships of a number of components against previous year and budget, the information will also be benchmarked against the sector.

##### RESOLVED

- i. The Audit Committee approved the Financial Statements Audit Strategy.
- ii. The Vice Principal to present the Board Assurance Framework at the next meeting of the Audit Committee.

**880 MODEL OF INCOME GENERATION BREAKDOWN (RESTRICTED)**

**PART B**

**881 CAPITAL PROJECT UPDATE (RESTRICTED)**

**882 DATE OF THE NEXT MEETING  
NOTED**

- i. The next meeting is scheduled for Tuesday 3 November 2015 at 5.30 pm in J221.

**883 EVALUATION OF THE MEETING  
NOTED**

- i. The evaluation form from the last meeting was noted.
- ii. Members were asked to complete the evaluation of meeting form and to return to the Clerk who will take forward any matters raised.