

JOINT MEETING OF THE AUDIT AND FINANCE AND GENERAL PURPOSES COMMITTEES



GATESHEAD COLLEGE

TUESDAY 9 APRIL 2013

Report: Minutes of the joint meeting of Finance and General Purposes Committee and Audit Committee held on Wednesday 5 December 2012

Author: Clerk

Action: Approve

Status: Open

Present:

Audit Committee
Chris Macklin (Chair)
Anthony Garnett
Alex Rutherford
Allan Steele

F & GP Committee
Keith Cann Evans (Chair)
Ivan Jepson
John McElroy
Robin Mackie
Ian Renwick
Richard Thorold

In attendance:

Peter Gray (Baker Tilly)
Claire Leece (Baker Tilly)
Katie Reeves (PWC)
Judith Doyle
John Holt
Clare Sample (Clerk)
Gwyneth Jones

JFA/65 Welcome/Apologies

Keith Cann Evans and Chris Macklin welcomed everyone to the meeting. Apologies for absence were received from Mick Brophy, Karen Finlayson (PWC) and David Mitchell but, at this point of the meeting due to the weather, the following people were not in attendance, Anthony Garnett and John McElroy.

Members were invited to declare any interests on any item on the agenda. No interests were declared at this stage in the meeting; however, members noted that should the direction of debate on any item result in a potential conflict of interest, this should be indicated during the meeting. Members were also reminded to advise the Clerk of any changes to be made to declaration of interests.

Chris Macklin in the Chair

JFA/66 Minutes of the meeting held on 1 December 2011

The minutes of the meeting held on 1 December 2011 were accepted as a correct record.

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JFA/67 Matters Arising

There were no matters arising

JFA/68 External Audit Letter of Engagement

Claire Leece drew the members attention to one amendment on the first page which updated the terminology. She explained that this was Baker Tilly's standard letter.

Audit Committee RESOLVED to approve the External Audit Letter of Engagement

JFA/69 Internal Audit Letter of Engagement

Katie Reeves explained that the letter was identical to last year's letter except that the date and the fee had been updated. This is PWC's standard engagement letter.

Audit Committee RESOLVED to approve the Internal Audit Letter of Engagement

JFA/70 Financial Management and Control Evaluation

The Director of Finance, John Holt, presented this document. He explained that at the last meeting it had been agreed to continue with the same FMCE document despite the fact that the SFA had removed the requirement for one. He explained that he had updated the report taking into account the new systems and the result was a fuller report than in previous years. The Chair of Audit Committee explained that the document is a self-assessment and its aim is to be open and honest.

The members agreed that it was a good idea to continue with an FMCE report. There was a discussion about how many other colleges also did this. Claire Leece explained that Baker Tilly recommend this as good practice to the other colleges that they advise. The members suggested that it would be a good idea for someone independent to review it. One of the members suggested the Gazelle Group in the first instant and if they were not able to do this then another member of the Board would look at it. The Chair of the Audit Committee agreed to take this forward.

Audit Committee RESOLVED to approve the Financial Management and Control Evaluation Report.

John McElroy and Anthony Garnett joined the meeting

JFA/71 Audit Findings and Financial Statements Management Letter for the year ended 31 July 2012

Claire Leece (CL) presented this letter and emphasised that the document was confidential and for college use only.

CL reviewed the document section by section:

Income recognition - CL explained that everything was fine in this area but she was still waiting for the final funding reconciliation to come through. There has been a short delay and no other colleges had received this either but it should be expected any day now.

FRS 17 - There has been a significant increase in this figure due to the change in pension discount rates (up to 20%). This is all outside of the College's control but

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has a significant impact on the figure. CL explained that the College needs to benchmark the figures and process through the accounts but that generally the figures are fine.

Regularity Review - This area looks at compliance with policies. CL advised that the travel policy sets the limits of accommodation costs too low. This policy should be revisited in relation to financial limits and also on who signs off travel expenses. She also pointed out that there are loans made to subsidiary companies. These are all approved by the Board but the College should check if this is the best use of funds and make sure that the payback of loans is monitored efficiently.

Financial Health and Going Concern - CL explained that there are no issues or breaches of covenants. There are also no issues forecast. She just required the latest Management Accounts before signing off.

Fixed Assets – Capital Developments - CL drew attention to the fact that the Construction Centre has now been finished and that there is another purchase on the cards, namely Barmston Court. No issues were noted in relation to the accounting treatment.

Accounting group structure and subsidiaries - CL pointed out that there had been further developments since June 2012 and these have been included in an updated document. Recent acquisitions include Equality North East, investment in Gazelle Global Limited and Charge Your Car. These have all been included in the accounts. The only area that has been debated was in relation to Charge Your Car (North) and this resulted in an audit reconciliation of £143,000. A lot of the money involved is grant funded and CL had challenged how the College could make a surplus on this. In income recognition terms this cannot be called a surplus until completion. The Director of Finance, John Holt (JH) agreed with this.

The other unusual transaction was the aggregate cost associated to Charge Your Car (North) Limited of £425,000. This had been offset in the financial statements by a 50% contribution from legacy One North East funding, resulting in a reported investment cost of £212,500.

CL confirmed that there were two adjustments on page 9, one for goodwill and the other being the £143,000 adjustment already referred to. She acknowledged that JH had more statutory accounts to prepare taking into account the subsidiary companies and that only two adjustments was a good result. CL said that she would like a management response to the content of this as she needed to report to the SFA.

CL drew the members' attention to the changes in the rules regarding severance payments on page 11.

CL also drew the members' attention to the loan to Tyneside Training Services Limited. There is no cash to repay this (the main asset is a property). The College needs to have security in place and look at whether keeping the property in the company is the most appropriate.

The Chair of Audit Committee said that in terms of management response he has already agreed with the Chair of the Corporation that the travel policy needs updating. The Chair of the Corporation agreed that this would need to be considered in light of overseas travel and the associated costs.

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The Chair of the Corporation asked for an explanation regarding the changes with severance payments. CL explained that following compromise agreements being misused in other FE colleges a recommendation had come out that colleges should follow a disciplinary procedure in the first instance rather than going straight to a compromise agreement. In any situation involving a severance package colleges were recommended to always seek legal advice first.

The Chair of Audit Committee Chair thanked the Director of Finance and his team and also Baker Tilly for all of the hard work that had been put in. It was acknowledged by the members that it was important to revise the group structure to reduce the amount of work for the Director of Finance and his team.

CL pointed out the fees on page 12 and that Baker Tilly proposed an additional fee of £1,000 for work surrounding Charge Your Car. She asked the committee to approve this.

CL drew the members' attention to page 15 which was a draft letter of representation. CL drew the members' attention to point i) on page 16. She said that the wording on the One North East Agreement is particularly vague but that the auditors concur with the College's interpretation of this wording. She stressed that these are very unusual circumstances.

One of the members asked if the Charge Your Car arrangements operate within the terms of the funding arrangements. CL explained that the auditors' challenge had been whether the College had been too aggressive regarding income recognition. She felt that this was more of a timing issue rather than the company acting outside of the restrictions. The auditors had also reviewed the expenses claimed against the funding as the wording here was also very broad. One of the members enquired whether legal opinion would be helpful on this wording. The members generally did not agree with this proposal and many were comfortable with the wording as it stood.

CL then pointed out that points c) and d) on page 16 talk about fraud. She confirmed that the auditors have not identified nor have they been notified of any fraud. If anything fraudulent comes to light between now and the Board Meeting then Baker Tilly should be informed immediately.

Audit Committee RESOLVED to recommend that the Chair of the Corporation and the Principal sign the draft letter of representation

Claire Leece then introduced the second letter regarding irregularity. The wording of this is exactly the same as last year.

Audit Committee RESOLVED to recommend that the Chair of the Corporation and the Principal sign this letter

Audit Committee RESOLVED

- i) to approve the audit findings and financial statements management letter for the year ended 31 July 2012**
- ii) to approve the additional fees of £1,000**

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JFA/72 Annual Report of Audit Committee 2011/2012

The Director of Finance, John Holt (JH) summarised the report listing the section headings. In conclusion the College has been confirmed as outstanding by the SFA. JH also proposed to continue the work with Baker Tilly and PWC.

One of the members asked on what basis he was giving a value for money opinion. JH replied that this information came from the auditor's reports and as they hadn't raised any concerns, the conclusion was drawn that VFM was good. The members suggested carrying out a VFM study and also directing the auditors into this area for the following year. The Chair of Audit Committee and JH agreed to add some wording into the report.

Audit Committee RESOLVED to approve the Annual Report of the Audit Committee, subject to the added wording

JFA/73 Report and Financial Statements for the year ended 31 July 2012

The Director of Finance, John Holt (JH) presented the report and financial statements.

On page 18 - Consolidated Income and Expenditure Account, the surplus on continuing operations is less than last year but the reason for this is the significant investment and also the write off of student laptops.

The Balance Sheet is on page 20 and it shows the value of fixed assets has gone up since last year. Overall the net assets have dropped due to issues in the wider economy. There has been a reduction in cash mirrored by an increase in fixed assets. Overall there continues to be a strong Balance Sheet. Cash flow has dropped from just over £6,000 to £2,644.

The Chair of the Corporation asked whether the Lennartz VAT arrangements still applied and whether this could be extended to any new builds. JH confirmed that HMRC were happy for them to continue with this arrangement and it applied to the Baltic and the Construction Centre and involved a rolling ten year programme.

In response to a member's question, JH confirmed that £400,000 had been triggered into Gateshead College Foundation.

JH drew members' attention to the notes on Acquisitions on pages 46 and 47 in particular the North East Apprenticeship Company, Tyneside Training Services Limited and Equality North East Limited.

The Chair of the Audit Committee recommended that the Committees approve the accounts in order for them to go to the December Board meeting. Baker Tilly confirmed that the final funding reconciliation should come through in time to be able to do this.

The joint meeting RESOLVED

- i) to approve the report and financial statements for the year ending 31 July 2012**
- ii) to recommend to the Board that the Chair of the Corporation formally adopts the financial statements**

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The Chair of Audit Committee and the Chair of the Corporation thanked the Director of Finance, John Holt and his team for their work and also for the support from the auditors. It was recognised that there was a professional relationship between JH, his team and the auditors and this was recognised in the work that was produced.

JFA/74 Date of next Audit Committee Meeting

The next scheduled meeting of Audit Committee is on Wednesday 6 March 2013.