JOINT MEETING OF THE AUDIT AND FINANCE AND GENERAL PURPOSES COMMITTEES

GATESHEAD COLLEGE

WEDNESDAY 5 MARCH 2014

Report: **Minutes of the joint meeting of Finance and General Purposes Committee and Audit Committee held on Wednesday 4 December 2013**
Author: **Clerk**
Action: **Approve**
Status: **Open**

Present:

Audit Committee
Chris Macklin (Chair)
Darren Heathcote
Neil Weddle (Co-optee)
F & GP Committee
Keith Cann Evans (Chair)
Ivan Jepson
John McElroy
Ian Renwick

In attendance:

Mick Brophy
Peter Gray (Baker Tilly)
John Holt
David Keetley
Emma Moody (Clerk)
Gwyneth Jones (Minutes)

JFA/75 Welcome/Apologies

Chris Macklin took the Chair and welcomed everyone to the meeting in particular David Keetley, Finance Controller who was attending the meeting on a one-off basis. Apologies for absence were received from Judith Doyle, Robin Mackie, David Mitchell, Robert Auty (PWC), Karen Finlayson (PWC) and Claire Leece (Baker Tilly).

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.

JFA/76 Minutes of the meeting held on 5 December 2012

It was noted that the minutes of the meeting held on 5 December 2012 had already been approved at the Audit Committee meeting on 9 April 2013.

JFA/77 Matters Arising

There were no matters arising.

Agenda No: 4

JFA/78 Subsidiary Companies

The Chair said that with one or two exceptions, Governors at the meeting were also Directors of the Companies and he indicated that he was comfortable to remain in the Chair for this item. The Clerk confirmed that because the meeting would still be considered quorate despite counting those Governors who were also directors of subsidiaries, that she was comfortable that there was sufficient 'independent' governors to objectively review the papers and receive them on behalf of the College.

Peter Gray (PG), Baker Tilly introduced the Subsidiary Companies External Audit Findings Report and the Financial Statements for the year ended 31 July 2013. He advised that the majority of the findings had been included in the Group report which would feature later on the agenda.

PG reviewed the document section by section:

Audit and accounting issues identified at planning stage

He referred to the Going Concern section on page 3 and highlighted that for the purposes of the financial statements audit, they were required to consider a period of at least 12 months from the anticipated date of signature of the report which would be December 2014.

The North East Apprenticeship Company Limited (NEAC) financial position as at the balance sheet date (a small net assets figure) was such that whilst the going concern basis of preparation had been adopted, this remained subject to continued financial support from the College. Baker Tilly would request a letter of support from the College to confirm that this support would remain in place throughout the period under review.

Zero Carbon Futures (UK) Limited reported net current liabilities at the balance sheet date, and as a result, the College would need to provide a letter of support to underpin the going concern basis of accounts preparation.

He explained that for Charge Your Car (North) Limited, because of the complexities inherent in the 'Plugged in Places' project (including both the novation from One North East and the subsequent operation of the project from a financial perspective), the main focus for their audit work related to considerations surrounding revenue recognition. The company had made donations to the College during the year under 'Gift Aid' arrangements, corresponding to the profit that was expected as a result of commercial and sundry income.

Audit and accounting issues identified during the audit

During the year Zero Carbon Futures (UK) Limited had entered into the 'UK Quick Charger Network Business Incubator' agreement with Nissan, under which it received in the region of £3m grant funding in advance to commence the management of the project. The funding was received in Euros, and as a result of strengthening in the Euro relative to Sterling, retranslation of the balance held at 31 July 2013 resulted in a significant currency gain. This had been held as deferred project income at the end of the year, on the basis that had a currency loss been reported, this would have also been allocated to project funds.

Unadjusted/Adjusted Items

A number of late adjustments had been processed subsequent to the initial draft financial statements presented for audit, largely due to the required information not being available at the time of their initial preparation. An audit adjustment had been made for NEAC due to bad debt provision.

Internal control recommendations

No significant internal control matters had come to their attention during the course of their audit work.

PG explained that draft letters of representation for each of the audited subsidiary companies were included in the report for signature. The Gateshead College Foundation letter included references to charities and the letter for Charge Your Car (North) Limited mentioned revenue recognition.

A Governor queried the capacity of the attendees' involvement and the Clerk replied that they were attending the meeting in the capacity as Governors of the College rather than Directors of the subsidiary companies. As stated above, there were sufficient governors in attendance who were not directors of the subsidiaries to ensure that any potential conflicts of interest could be managed. The Chair advised that a meeting of the subsidiary companies had taken place just prior to today's Joint Committee meeting where the findings had already been approved by the Directors of the Companies. Therefore, the report was simply to be noted by the Governors on behalf of the College as the sole member of those companies.

A Governor commented that it was a great audit outcome and the review had shown how all the companies fit into the overall College strategy.

The Director of Finance advised that two subsidiary companies, Tyneside Training Services Limited and Equality North East Limited, had been hived up to the College on 1 December 2013.

The Chair asked if opportunities for incorporating the other subsidiary companies into the College were being looked at and Mick Brophy, Managing Director, Business, Innovation and Development, replied that personnel in NEAC saw themselves as being part of an Apprenticeship Company rather than part of the College.

The Clerk queried the letters of support from the College in respect of subsidiary companies – how was this documented from a legal perspective. The Director of Finance confirmed that all financial support from the College to commercial subsidiaries was on an arms length basis, treated as a loan. PG replied that they were letters of intent covering the subsidiaries finances on a mere short-term basis.

The joint meeting RESOLVED to note the Subsidiary Companies audit findings and financial statements for the year ended 31 July 2013

JFA/79 Financial Management & Control Evaluation

The Director of Finance presented the Financial Management & Control Evaluation (FMCE) report. He explained that the SFA had removed the mandatory requirement for the FMCE; however, in removing it, if the College had an audit it would be expected to be up-to-date and available. Therefore, it had been agreed to continue to maintain the document and report on the FMCE to the Audit Committee and the Board once a year. It was good practice to make sure everything was done and had not slipped.

The Chair commented that this had been picked up at the Audit Committee and it was not the nature of Gateshead College not to bother. The document provided an understanding of where the College was; it would only receive 48 hours' notice of an Ofsted visit so the document would allow the College to do itself justice.

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

JFA/80 External Audit Findings Report for the year to 31 July 2013

Peter Gray (PG) presented the External Audit Findings Report and reviewed the document section by section.

Audit and accounting issues identified at planning stage

Income Recognition - PG advised that the SFA's final year reconciliation was awaited in order to reach their final conclusion in this regard. The Chair enquired when this information would be available and PG replied that it was expected on 6 December 2013. It was noted that the accounts would have to be approved subject to any issues arising. The Chair commented that this happened every year.

The FRS 17 pension liability was a significant balance sheet item and represented the College's share of the Local Government Pension Scheme (LGPS). They had reviewed the treatment applied by the College in respect of the pension liability and concluded that the accounting treatment and related disclosure were appropriate.

Regularity Review - They had reviewed the College's regularity self-assessment and the underlying procedures and controls. They also met with and reviewed the work of the College's internal auditors to ensure it remained appropriate. They had found no issues in the course of their regularity audit work.

Financial Health and Going Concern – PG explained that they had reviewed the latest available forecasts, taking into consideration a period of at least 12 months from the anticipated date of signature of the audit report. They were satisfied that there was no indication of risk to the going concern assumption, with no covenant breaches in the year under review or anticipated in future periods. The College had been able to discuss bank covenants with Barclays and they had confirmed that their covenant assessments should exclude the impact of accounting for the LGPS in line with applicable reporting standards, as this was outside the control of the College and did not reflect its underlying operations.

Fixed Assets – Capital Developments – PG advised that no issues were noted in relation to the accounting treatment applied regarding the acquisition of Barmston Court, or the related grant funding.

Accounting group structure and subsidiaries – PG indicated that subsequent to the presentation of the document further changes were noted in the group structure. Equality North East Limited and Tyneside Training Services Limited had not been hived up to the College as at the balance sheet date. An updated group structure diagram was contained on page 11 of the document reflecting all the changes.

The College's investment in the 'Gazelle group' increased by £80,000 from £126,000 to £206,000. This amount represented the total cost up to the balance sheet date of the holding in Enterprise Through Innovation Limited. They understood that the value would be recovered in future periods from the operations of the 'Gazelle group'. They proposed to seek written representation that this was consistent with the understanding of the Board.

Charge Your Car Limited - Required disclosure had been included in the consolidated financial statements in relation to Charge Your Car (North) Limited's joint venture investment in Charge Your Car Limited and the Group's share of results for the year and net assets.

Charge Your Car (North) Limited – The basis of recognition of revenue was consistent with that in relation to the prior year, in that the costs of the project had been matched by the recognition of grant income. They again proposed to seek written representation that this was consistent with the understanding of the Board.

Recoverability of loans to subsidiaries – PG indicated that following a review of intragroup balances, including consideration of post year end activity, they were in agreement with the late adjustment proposed by the College to recognise a provision of £100,000 against the balance owed by Equality North East Limited. Whilst this reduced the College's individual reserves, there was no impact of this adjustment on the consolidated results reported for the Group.

Consolidation process – PG advised that following their review of consolidation adjustments and financial statements disclosure, these were considered to be appropriate.

College support for subsidiaries – The financial statements of Zero Carbon Futures (UK) Limited and North East Apprenticeship Company Limited at 31 July 2013 had been prepared on the going concern basis, on the assumption that the College would continue to provide such financial support as may be required in order that the companies are able to meet their liabilities as they fall due for a minimum of 12 months from the expected date of signature of their audit reports. The College will be requested to confirm this support in writing prior to the signature of the companies' respective audit reports. Again, it was confirmed that such support was on an arm's length basis.

Audit and accounting issues identified during the audit

Recoverability of debtor balances – It was noted that included in year-end debtors was a balance of £50,000 against which a partial provision had been recognised. Their initial understanding was that it was hoped that the balance could be settled 'in-kind'. However, upon further investigation, it was noted that management had negotiated an arrangement whereby the company in question would provide goods that were of use to the College of at least the equivalent value. Following this arrangement, it was agreed with the management that the provision against the amount owed to the College at the year-end would be reversed.

Unadjusted/adjusted items

There had been an audit adjustment made in relation to NEAC bad debt provision.

Internal control recommendations

In the course of their work they had found no significant deficiencies in internal controls.

Draft letters of representation

PG referred to the draft letters of representation which confirmed that the College had told Baker Tilly everything they needed to know. Appendix A related to the College Financial Statements and Appendix B related to Regularity. They needed to be informed immediately about any actual or suspected fraud. Appendix C related to Outstanding work/information and they were still awaiting several items including the SFA's Final year end reconciliation statement; one or two members' declarations of interests; and the final post balance sheet review including the latest management accounts and transaction review.

The Chair said he acknowledged a Governor's point about the complexities of the College's Group structure. Given the complexity of the structure, it highlighted the expertise of the Director of Finance, the Finance Controller and the Finance Department.

Another Governor referred to the partial provision of the £50,000 debt being settled 'in-kind' and PG replied that this related to approximately half of the debt. A Governor observed that the accounts still reflected a £50,000 income and PG replied that they could write off debtors in the balance sheet as this could be offset against an asset coming in.

A Governor commented that he was intrigued with the transaction with Equality North East Limited listed on page 15 of the document. He questioned how the financial liability for £100,000 had been subsumed into the College. The Director of Finance replied that Gateshead College had provided an inter-company loan to the Company. The College had given additional loans to the company but was now in the process of consolidating/incorporating the company into the College; the £100,000 was thought not to be recoverable. The original loan had been £80,000 but then increased to £170,000. The Governor wanted to clarify when the Finance and General Purposes Committee had approved the hiving up of Tyneside Training Services Limited and Equality North East Limited to the College and the Director of Finance replied that this had been approved along with NEAC in April 2013.

The Chair referred to the two draft letters of representation and asked if the Committee were happy to recommend to the Board that the Chair of the Corporation signed the letters on their behalf. He commended the Director of Finance and his team on their hard work. The Director of Finance highlighted that a special mention should been given to David Keetley, Finance Controller, and it was good that he was attending today's meeting.

Audit Committee RESOLVED

i) to approve the audit findings and financial statements management letter for the year ended 31 July 2013

ii) to recommend that the Chair of the Corporation and the Principal sign the draft letter of representation (College Financial Statements)

iii) to recommend that the Chair of the Corporation sign the draft letter of representation (Regularity)

Agenda No: 4

JFA/81 Annual Report of Audit Committee 2012/2013

The Chair introduced the Annual Report of Audit Committee 2012/2013 and highlighted that sections 8 and 9 of the report were in draft because those items featured on today's agenda.

It had been a year of transition in terms of membership with new members coming in; Neil Weddle had joined in April 2013 and the temporary appointment of Darren Heathcote had ensured the quoracy of the Committee was maintained.

The Committee had received a review of the College's Quality Procedures at its meeting in April 2013. This Quality Report had also been shared with the Academic Standards Committee.

The Committee had received a report of a review on Strategic Planning at its meeting in July 2013. The auditors had acknowledged the work being done by the College and resolutions had already been actioned before they got to the Audit Committee.

The Internal Audit Report 2012/2013 had concluded that the College's policies, procedures and operations were all adequate.

Section 8 (Financial Statements Audit) and Section 9 (Regularity Audit) had been drafted in italics as they were pertinent to the recommended accounts for approval.

It was noted that Claire Leece, Baker Tilly, had met with Judith Doyle and she was fully aware of her responsibilities as Principal.

The report was a year in the life of the Audit Committee and it would be going to next week's Board meeting for information.

A Governor said he thought it was a good document and the Chair replied that it was comprehensive and those Governors who were not members of the Committee would be able to read it and get a good understanding of the business which had taken place.

Audit Committee RESOLVED to approve the Annual Report of the Audit Committee

JFA/82 Report and Financial Statements for the year ended 31 July 2013

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

He highlighted the financial objectives for 2012/2013 which included generating a turnover of £44.4 million and this had been exceeded at £48 million. The College had generated a surplus of £66,000, after deduction of FRS 17 interest and service charges, and before the share in the operating profit of the Joint Venture of £32,000. The surplus on continuing operations of Group and Joint Venture after depreciation of assets and tax retained within general reserves was £94,000. He advised that the cost of the voluntary severance had been carried forward to the new academic year.

The Balance Sheet on page 22 showed that net assets had increased from £48.5 million (2011/2012) to £50 million in 2012/2013. This included £10.2 million pension liability (£11.2 million in 2011/2012) which reflected improvements in the Stock Market. Pensions for future years will be £380,000 instead of £200,000 from April 2014.

Fixed assets had been affected by the acquisition of Barmston Court and the initial development work.

Current assets had been strengthened by the Business Incubator Project with Nissan; Net current assets had increased from 4.2 million to £4.8 million.

Creditors had decreased by £0.5 million this year.

Regarding unfunded pensions the College had given people who took early retirement in the 1990s, life expectancy had increased. This was an adding and growing provision, for example, £400,000 had been set aside for 10 years and the Director of Finance advised that since his appointment seven years ago this had increased to £800,000.

Cash flow from operating activities decreased by £257,000 to £1.4 million.

Net Debt had dropped from £3 million to £2.8 million

Neil Weddle queried the increase from £4.6 million to £5.3 million for Debtors. The Director of Finance replied that the Skills Support for the Unemployed Programme was paid in arrears and there was £600,000 of debt on that plus £325,000 additional debt.

The Chair referred to page 29 of the document which related to Funding Body Grants and commented on the increase from £35.7 million to £38.4 million. The Director of Finance said there had been £4.5 million from other EFA/SFA grants which had affected the total.

The Chair commented that there was a thread running through about the pension's liability issue for the sector and asked how confident Gateshead College was that it was on top of it. The Director of Finance replied that there was a bit of a lag with pension's information coming through and actuaries took a considerable amount of time too. Every month £50,000 put aside for FRS 17 (previously it had been £20,000) and the additional £30,000 was financially painful. The Clerk said that the issue had been picked up by the Finance and General Purposes Committee in October 2013 and they would be guided by the advice of actuaries. The Director of Finance said they had gone on this advice the year before but it had 'doubled'.

The Chair mentioned that there was a small typo on page 12 of the document as under the Members section it read that 'Mr N Tweddle was co-opted onto the Audit Committee'; this should be 'Mr N Weddle'.

The joint meeting RESOLVED

i) to approve the report and financial statements for the year ending 31 July 2013

ii) to recommend to the Board that the Chair of the Corporation formally adopts the financial statements

Agenda No: 4

JFA/83 Presentation of the Impact of the new UK GAAP

Peter Gray, Baker Tilly, introduced a presentation on the Impact of the new UK GAAP. It was noted that accounting standards in the UK were being changed for accounting periods beginning on or after 1 January 2015.

- Standard time line: The date of transition would begin on 1 August 2014 with a comparative period year-end of 31 July 2015. The date of the first set of FRS 102 accounts would be 31 July 2016.

- Impact of FRS 102: Increases in volatility and Income and Expenditure changes.

- Investments: will be held at cost (stocks and shares); investments of less than 20% in another company (small holdings) ups and downs will add to volatility.

- Deferred Tax: Previously revaluation on property would not recognise tax. The new system would recognise tax whether you were selling property or not.

- Income recognition – capital grants: Capital grants are held on the balance sheet and released over the life of the property. In future Capital grants will have to be released; expense will still come through as depreciation. The new standards have been out for consultation but it is expected that they will go ahead regardless of this.

- Goodwill: Currently interest in another business is recognised as goodwill, intangible assets will be identified separately from goodwill.

- Holiday pay accruals: Sometimes this was accounted for but under FRS 102 this must be accounted for. Different holiday year end to financial year end. Accruals will have to be included to the cover cost of holiday.

- The Impact of FRS 102: Bank covenants may be breached due to volatility and changes in the Income and Expenditure account. Barclays have agreed revised covenants to take this into account so the College will not be in a better or worse situation than before.

The Clerk wondered if it would be better to get funding in instalments and a Governor replied that there would be risks of continuity; it would place the cash 'at risk'.

The Director of Finance referred to Holiday pay and indicated this would have an effect on Gateshead College as the leave year ended on 31 August but the academic year ended on 31 July. It may be necessary to move the year end to the end of July or December. A Governor suggested challenging the proportionality of leave taken earlier in the year. The Director of Finance replied that he did not think it was practical to renegotiate 700 staff contracts.

The Chair concluded that the presentation had been useful and it was important to be aware of the impending changes. The first set of FRS 102 accounts was a few years away but the comparative period would begin in August 2014. He would rely on the Director of Finance and David Keetley, Financial Controller to look at this information.

The joint meeting RESOLVED to note the presentation on the Impact of FRS 102 and draft SORP

JFA/84 Date of next Audit Committee Meeting

The next scheduled meeting of Audit Committee is on Wednesday 5 March 2014. The next scheduled meeting of Finance and General Purposes Committee is on Thursday 30 January 2014. [This meeting had to be postponed so the next Finance and General Purposes Committee will be held on Thursday 27 February 2014 at 12.30pm]