

Minutes of the Audit Committee of the Governing Body of Carmel College held on Tuesday, 24 November, 2009 at 10.00 am



Present: Fr Paul Glover
Mr Donal McCormack (Vice Chair)
Mr Mike Nencini
Mrs Carole Williams

College Personnel: Mrs Michelle Williams, Director of Resources

In attendance: Dr Mike Benson, Finance Auditor, Murray Smith
Mr John Perry, Clerk
Mrs Alison Fishwick, Minuting Clerk

Mr McCormack took the chair in the absence of Mr Coxhead

Prior to the formal start of the meeting, the Committee met with the Finance Auditor without senior post holders present. The Finance Auditor confirmed his view that routines were good and that confidential and other matters are dealt with appropriately. He also noted that the reports of the Internal Auditor are good. He felt that the Finance Department is a good team, with responsibilities allocated well and with strong collaborative and cooperative approach.

The Finance Auditor commented that any risks faced by the College were generated externally, potentially arising from the implementation of the measures to replace the LSC and uncertainties over future funding of public services.

In response to discussion, the Finance Auditor confirmed that should he have a concern that was not being addressed through management, he would raise it with the Chair of the Audit Committee. Elsewhere serious problems had arisen in colleges where the Board had approved inappropriate actions.

The Finance Auditor confirmed that he sees all committee papers, including the reports of the Internal Auditor as well as all the appropriate information needed to inform the Management Letter.

The Finance Auditor suggested that an annual meeting between committee members and him is good practice.

Senior Staff Post Holders and other members of staff then joined the meeting.

The Vice Chair welcomed both Mr Mike Nencini, appointed by the Search Committee to membership of the Audit Committee to the Committee and Dr Mike Benson of Murray Smith.

1. Declarations of Interest

None.

2. Apologies

Apologies were received from Mr Brian Coxhead, Miss Kath Boullen and Miss Suzanne Dewhurst, (Baker Tilly), Internal Auditor.

3. Minutes of the Meeting of 29th September 2009

The Minutes were agreed as a correct record and signed by the Chair.

4. Matters Arising

Item 5 Audit Committee Annual Report 2008-09

The Search Committee has appointed Mr M Nencini to membership of the Audit Committee.

Item 5 Audit Committee Annual Report 20089-09

The Clerk agreed to contact Miss Kath Boullen on her return regarding progress on the suggestion to contact a number of external accountancy firms who may wish to nominate an employee to serve on the Committee as a training opportunity.

5. Management Letter Arising form the Audit of the Financial Statements for Year Ended 31 July 2009

The Finance Auditor explained that it was his responsibility to audit the College's financial statements and its regularity compliance in respect of the governance and management of the College. In other words, the External Auditor checks that the College is spending money on the right things. The Finance Auditor referred Governors to Page 2 of the Management Letter which states *"We are pleased to note that the internal auditors assessed the level of assurance provided by all the systems that they tested as "good" (the highest level)."*

The Finance Auditor also explained that Internal Auditors also look at non-financial areas, for example IT, and may as a result make numerous recommendations. These recommendations, he added, are not to be taken as a 'criticism' but rather a tool for making effective improvements.

Governors noted that there are no changes to the format of the audit report suggested by the LSC, there are no misstatements and no weaknesses identified - it is a 'clean' Management Letter.

The Finance Auditor referred to Page 21 of the Financial Statements and suggested ignoring the *loss on disposal of assets* of (376) as this figure refers to the old buildings. The real cost is *surplus on continuing operations after depreciation of assets at valuation but before taxation* of £283k (after depreciation) compared to £258k the previous year. This, he explained, has generated a cash flow of £500k (the same as the previous year) and is a good position to be placed if considering capital projects. The Auditor added that in view of the risk of decreased funding in the future this £500k does act as a little bit of cushioning.

Governors were referred to Page 23 which shows that net assets excluding pension has increased but the Auditor reminded Governors that the College is only part way through the financial year. Governors also noted *Note 14* on the Balance Sheet which shows the overdraft status as a result of the non-provision of LSC funding until April 2010. The Director of Resources explained that the LSC has profiled differently and the College is only able to draw down the third tranche of funding in April (*the LSC financial year operates April to March*) and this is why the College has had to use the overdraft facility; this will make the financial budget 'tight' over the next three months. The College will need to monitor the cash flow carefully as the LSC will not provide any accelerated payments. The drop in interest rates on the overdraft facility has allowed the College to invest the surplus.

The Director of Resources explained that the £500k is a result of cash generated from day to day income and all spare cash has gone into the new build. Indeed cash will need to be generated annually in order to pay back the loans on a quarterly basis. Governors were informed that the College has a legal agreement with the LSC that they will pay the third tranche in April 2010 but this will also be the same time as we change to local authority control.

A failure to pay will most likely be due to a system error around the time of such change rather than the agreement not being honoured.

Governors queried the 'flexibility' of the auditing criteria. The Auditor explained that funding should be spent primarily on education and capital funding should be spent on capital projects. Governors queried whether Auditors would comment if the College used operational money elsewhere. The Auditor responded that if it was a reasonable amount and had been approved by the Governing Body then no comment would be made but if it was considered to be an inappropriate transaction then the auditors would check to see whether the Board approved it and this would only happen if say day-to-day funding was decreasing.

The Director of Resources informed Governors that the Finance, Estates & Marketing Governing Body committee have asked the Corporate Management Team to look at ways of saving £500k a year. The team are spending an Away Day in December to look at this closely and will be reporting back to the full Governing Body at its December meeting. Alongside this there will be 'unknowns' in respect of the operation of the new build and the risk that revenue funding per head will be reduced resulting in increased class sizes, indeed Carmel is already 'low' against classroom size benchmarks.

The Vice Chair thanked the Director of Resources and her team for an excellent Management Letter, and particular note was taken of the final paragraph which refers to the team as a "highly professional and effective unit".

Governors noted the report of the Finance Auditor and commended it to the Governing Body.

6. Regularity Report 2008-09

The Vice Chair enquired as to how the process of regularity works. The Finance Auditor explained that the Director of Resources prepares a "File of Evidence". Other audit work carried out will highlight any conflicts discovered. All colleges seem used to the process now; it is altered to accommodate any changes in the Financial Regulations. The Director of Resources added that it does not change what the College does, but there may be changes to the evidence.

Governors approved the Report and commend it to the Governing Body for approval and signing.

7. Financial Management and Control Evaluation 2009

Governors noted that the completed evaluation is submitted to the LSC and informs the Framework for Excellence grading. The evaluation is akin to a self-assessment process of financial management and control, analysis of which has led to the College being assessed as "Outstanding" - *many outstanding areas of strength and a few minor weaknesses*.

Colleges can opt to submit a short FMCE if one was completed the previous year and there were no material changes. Carmel decided to submit a short report as there have been no changes made since the plan was submitted in June. However, should the College be inspected by Ofsted then the whole report will have to be prepared in a very short timescale, but it was thought that this would be feasible.

The Director of Resources commented that it was not known whether in the future Carmel would be asked to continue with a short or full report. Indeed the National Commissioning Framework has been issued and many answers to these questions are still unclear.

In respect of Part 4 of the *FMCE Improvement Plan*, the Director of Resources confirmed that staff development on financial control has taken place and that it did include the responsibility of

staff to adhere to the Financial Regulations. The sessions were well received by staff. The Co-opted Member of the Committee added that staff fears regarding the future financial stability had been allayed by the sessions and staff felt more reassured.

Governors approved the contents of the report and commend it to the Governing Body for approval.

8. Recommendations of the Internal Auditor: Progress Report

The Clerk reported that all the recommendations had either been implemented or are in hand and will be implemented at the appropriate time.

Governors noted the Report.

9. Audit Needs Assessment Update 2008-11 and Annual Plan for 2009-10

Governors noted Page 5 of the report (Annual Plan 2009/10) which itemises the systems to be audited and, as agreed at the previous meeting, included the following additions:

- "Review of risk management and reporting processes specifically in relation to the capital build"
- "Review of financial management and control processes in relation to the capital build."

The re-scheduling of review of IT Systems to June 2010 as agreed was also noted.

The amended Plan for 2009-10 was approved.

10. Audit Implications of the new Build

The Director of Resources reported that there were no particular implications other than the cash flow situation which is now being observed on a weekly rather than a monthly basis. The College is ensuring that in respect of invoices from builders and suppliers Terms of Payment conditions are being adhered to. Salaries and the Inland Revenue are also being paid. The Director of Resources believed that the College would be able to manage.

Governors referred to the maximum 30 days payment arrangements. The Director of Resources responded that the College do try and adhere to this - the College will not pay for the service/product in advance.

Governors noted the Report

11. Future Agenda Items

Governors agreed to add:

- a) Implications to changes in funding methodology and the impact on Carmel.
- b) Implications of not achieving Phase 2 - systems in place to manage.

12. Any Other Business

None.

13. Date of Next Meeting

Tuesday, 9 March, 2010

The meeting ended at 11.00 am.

Signed

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