PAPER A

STAFF MATTERS

A Note by the Rector

PROFESSORS

Professor James Barlow, currently Professorial Fellow and Deputy Director of Programme on Innovation in the Built Environment at the University of Sussex has been appointed to the Chair in Technology and Innovation Management (Medicine) in the Department of Civil and Environmental Engineering, Faculty of Engineering, and the Management School with effect from 1 January 2003.

Professor David Gann, currently Professor of Technology and Innovation Management and Leader of Programme on Innovation in the Built Environment at the University of Sussex, has been appointed to the Chair in Technology and Innovation Management (Built Environment) in the Department of Civil and Environmental Engineering, Faculty of Engineering, and the Management School with effect from 1 January 2003.

Professor Philippe Froguel, currently Professor of Molecular Genetics and Experimental Diabetes at Queen Mary and Westfield College and Director of the Barts & The London Genome Centre, has been appointed to the Chair in Genomic Medicine in the Division of Medicine, Faculty of Medicine, based at the Hammersmith Campus with effect from 1 February 2003.

READER

Dr Alan Christopher Spivey, currently Reader in Organic Chemistry, Department of Chemistry at the University of Sheffield has been appointed as Reader in Synthetic Organic Chemistry in the Department of Chemistry, Faculty of Physical Sciences, with effect from 1 January 2003.

SENIOR RESEARCH INVESTIGATORS

The following have been appointed Senior Research Investigators subsequent to retirement:

Professor David Caplin, Professor of Physics in the Department of Physics, Faculty of Physical Sciences with effect from 1 October 2002 for a period of one year.

Emeritus Professor Malcolm Haines, Emeritus Professor of Physics in the Department of Physics, Faculty of Physical Sciences with effect from 1 October 2002 for a period of three years.
VISITING PROFESSORS

The following have been offered association with the College as Visiting Professors:

Professor Peter Hudson, Professor in Animal Ecology and Deputy Head of the Department of Biological Sciences at the University of Stirling, as Visiting Professor in the Department of Biological Sciences, Faculty of Life Sciences with effect from 1 October 2002 for a period of three years.

Dr Rod Kimber, Director of Science and Engineering at the Transport Research Laboratory, as Visiting Professor in the Department of Civil and Environmental Engineering, Faculty of Engineering, with effect from 1 October 2002 for a period of three years.

Dr Ian McCarthy, Head of Biomechanics and Biomaterials Laboratory and Associate Professor in the Department of Orthopaedics at the Lund University Hospital, as Visiting Professor in the Division of Surgery, Anaesthetics and Intensive Care, Faculty of Medicine with effect from 1 March 2002 for a period of three years.

Professor Richard Satava, Professor of Surgery at Yale University School of Medicine, USA, as Visiting Professor in the Division of Surgery, Anaesthetics and Intensive Care, Faculty of Medicine with effect from 1 October 2002 for a period of one year.

Dr Chris Scruby, Technology Chief, Non-destructive Evaluation at QinetiQ Ltd, Farnborough, Hants and Director and Scientific and Technical Consultant at Sound Consultancy Ltd, Oxford, as Visiting Professor in the Department of Mechanical Engineering, Faculty of Engineering with effect from 4 November 2002 for a period of two years.

Dr Scott Shane, Professor of Entrepreneurship at the University of Maryland, USA, as Visiting Professor in the Management School, with effect from 1 October 2002 for a period of two years.

Professor Irwin Schatz, Professor of Medicine at the John A Burns School of Medicine, University of Hawaii, as Visiting Professor in the Division of Neuroscience and Psychological Medicine, Faculty of Medicine with effect from 14 September 2002 until 25 October 2002.

Professor Michael Williams, Professor Emeritus of Nuclear Engineering at University of London, as Visiting Professor in the Department of Earth, Science and Engineering, Faculty of Engineering with effect from 1 October 2002 for a period of three years.

Professor Eugene Wong, Emeritus Professor in the Department of Electrical Engineering and Computer Science at the University of California, USA and Vice Chairman at Asia Internet Holding Ltd, Japan (previously Visiting Professor in the Department of Electrical and Electronic Engineering at Imperial College), as Visiting Professor in the Department of Electrical and Electronic Engineering, Faculty of Engineering with effect from 1 October 2002 for a period of three years.
SENIOR RESEARCH FELLOWS

Dr Hugh Jones, following retirement as Senior Lecturer in the Department of Physics, Faculty of Physical Sciences as Senior Research Fellow in the same Department with effect from 1 October 2002 for a period of one year.

Emeritus Professor Michael King, Emeritus Professor of Petroleum Engineering, Imperial College London, as Senior Research Fellow in the Department of Earth Science and Engineering, Faculty of Engineering, with effect from 1 October 2002 for a period of three years.

Dr Lisbet Koerner, formerly Senior Research Investigator in the Centre for History of Science, Technology and Medicine (CHOSTM), as Senior Research Fellow in CHOSTM with effect from 1 October 2002 for a period of one year.
1. The Fellowships Committee met on 18th October 2002 to consider, in the light of Regulation A9 (attached at Annex A), nominations for the conferment of the Fellowship and Associateship of the College, and for the awarding of honorary degrees of the University of London.

FELLOWSHIPS

2. The Committee agreed to make the following recommendations to the Council for the conferment of Fellowships:

a. **CONWAY, Professor Gordon R. BSc, DipAgSc, DTA, PhD**

   President of the Rockerfeller Foundation, since 1998.

   (Former Imperial College positions: Professor of Environmental Technology 1980-88; Chairman for the Centre for Environmental Technology 1980-86, & Director 1977-80; Visiting Professor since 1989).

   **Educated**

   University of Wales, BSc
   University of Cambridge, DipAgSc
   University of West Indies, DTA
   University of California Davis, PhD.

   **Citation:**

   The Committee recommends the conferment of Fellowship on Professor Conway in recognition of his major global contribution to ecologically sound farming and sustainable agriculture.

b. **DOLLERY, Sir Colin T. Kt, BSc, MB, ChB, FRCP, FMedSci, FICSM**

   Senior Consultant in Research and Development, Glaxo SmithKline.

   (Formerly Dean, Royal Postgraduate Medical School (RPMS)).
Educated:
Birmingham University, BSc, MB, ChB.

Citation:
The Committee recommends the conferment of Fellowship on Sir Colin Dollery in recognition of his major contribution to Clinical Pharmacology, and during the merger of the RPMS with the College.

c. **EDWARDS Professor Christopher R.W. MD, FRCP, FRCPE, FMedSci, FRSE**

Vice-Chancellor, University of Newcastle upon Tyne.
(Formerly Principal, Imperial College School of Medicine).

Educated:
Christ’s College, Cambridge, BA, MB, BChir, MA, MD.

Citation:
The Committee recommends the conferment of Fellowship on Professor Edwards in recognition of his achievements in the field of endocrinology, and his significant contribution to Imperial College in bringing together the former St. Mary’s Hospital Medical School, the Charing Cross and Westminster Medical School, The Royal Postgraduate Medical School and the National Heart and Lung Institute to form the Imperial College School of Medicine.

d. **The Lord OXBURGH KBE FRS**

Chairman, House of Lords Select Committee on Science and Technology.
(Immediate Past Rector, Imperial College).

Educated:
Liverpool Institute
University College, Oxford, BA, MA
University of Princeton, PhD.
Citation:

The Committee recommends the conferment of Fellowship on Lord Oxburgh in recognition of his outstanding contribution to the development of Imperial College during his tenure as Rector.

e. PATTISON, Professor Sir John, BA, MA, BSc, BM, BCH, DM (Oxon), FRCPath, F.Med.Sci, Hon. FFPHM

Director of Research, Analysis and Information and Head of Genetics at the Department of Health.

(Previously Vice-Provost, University College London, and Professor of Medical Microbiology, University College London Medical School).

Educated:

University College, Oxford, BA, BSc, MA, BM, BCh, DM
Middlesex Hospital Medical School.

Citation:

The Committee recommends the conferment of Fellowship on Sir John Pattison in recognition of his eminent research in the field of virology and his current role at the heart of clinical research, as well as his support for, and understanding of the challenges of funding transitional medical research.

f. WAKEHAM, Professor William A. PhD, DSc, FINSTP, CPHYS, FIChemE, FIIE, FCGI, CEng, FREng

Vice-Chancellor, University of Southampton, since 2001

Former Imperial College positions: Lecturer in Transport Processes 1971-79; Reader in Chemical Physics 1979-85; Professor in Chemical Physics 1985-2001; Head of the Department of Chemical Engineering and Chemical Technology 1988-96; Pro-Rector (Research) 1996-2001; Deputy Rector, 1997-2001; Pro-Rector (Resources) 1999-2001.

Educated:

University of Exeter, BSc, PhD, DSc.

Citation:

The Committee recommends the conferment of Fellowship on Professor Wakeham in recognition of his long-standing contribution to Imperial
College and particularly as Deputy Rector, whilst the holder of multiple executive positions during a period of significant growth and development within the College.

HONORARY DEGREES

3. The University Council has previously approved the Ordinance, together with the associated procedural arrangements, under which Colleges are empowered to confer honorary degrees of the University of London. The University has determined that the College may confer up to five honorary degrees each year, and on this occasion the Fellowships Committee have three recommendations for the conferment of honorary degrees during 2003. College proposals are subject to prior approval by the University Honorary Degrees Committee, which was granted at their October 2002 meeting.

4. The Committee therefore makes the following recommendations to the Council for the award of Honorary Degrees:

a. **CARO, Professor Colin G. BSc, MB, BCh, MRCP(Edin), MD, FRCP(Edin), FRCP (Lon).**

   Emeritus Professor of Physiological Mechanics and Senior Research Fellow, Department of Biological and Medical Systems, Imperial College, since 1991.

   **Educated:**

   University of Witwatersrand, BSc, MB, BCh, MD.

   **Citation:**

   *The Committee recommends the conferment of an Honorary Degree of Doctor of Science (Engineering) on Professor Caro in recognition of his outstanding contribution to the advancement of Physiological Fluid Mechanics on an international scale.*

b. **GATES, Mr William (Bill)**

   Chairman and Chief Software Architect for Microsoft Corporation. Founder, the Bill & Melinda Gates Foundation.

   **Educated:**

   Lakeside High School, Seattle
   Harvard University.
Citation:

The Committee recommends the conferment of an Honorary Degree of Doctor of Science (Medicine) on Mr Gates in recognition of his major contribution to global health and learning opportunities.

c. **REES, Professor Charles CBE, BSc, PhD, DSc, FRSC, FKC, FRS**

Emeritus Professor and Senior Research Fellow, Imperial College, Department of Chemistry.

Educated:

University College Southampton, BSc, PhD.

Citation:

The Committee recommends the conferment of an Honorary Degree of Doctor of Science on Professor Rees in recognition of his international reputation and work as a leading authority on the subject of heterocyclic chemistry.

**ASSOCIATESHIP**

5. The Committee makes the following recommendation to the Council for the conferment of Associateship:

a. **KERR, MR COLIN J. BSc**

Departmental Administrator, Department of Civil and Environmental Engineering

Educated:

Bedford College, University of London, BSc(Hons).

Citation:

The Committee recommends the conferment of Associateship upon Mr Kerr for his contribution and commitment to the Department of Civil and Environmental Engineering, and the wider arena of Imperial College.

R.B.S.
REGULATION A9

PROCEDURES FOR THE AWARD OF FELLOWSHIPS, HONORARY DEGREES AND ASSOCIATESHIPS

This Regulation is made by the Council of the College pursuant to Statute 12

1. Fellowships and Honorary Degrees.

(1) Fellowships of the Imperial College or Honorary Degrees may be awarded:

(a) to members or former members of the Governing Body, to former members of staff or to former students of the Imperial College of Science, Technology and Medicine, who may be deemed eligible by reason of their outstanding achievements or of exceptional services rendered to the College;

(b) to other persons not members of the College who are of outstanding distinction in appropriate fields and whom the College wishes to honour.

(2) In the criteria for Fellowship or an Honorary Degree:

(a) "Achievement" should mean truly outstanding and "services" to the College truly exceptional;

(b) Former staff (who are not former students) should be selected mainly from those who have retired as Professors of eminence in their fields and especially those who have rendered special service to the College as Deans, Heads of Departments, etc.

(3) A person who on his retirement was a member of the staff of the College should not be considered for election to Fellowship or an Honorary Degree until one calendar year has elapsed since his retirement or since his appointment as Senior Research Fellow of the College.

2. Associateships.

Associateships of the Imperial College of Science, Technology and Medicine may be awarded:

To such persons who have been members of the staff for a substantial period or who have retired from membership of the staff in any grade or category, to such former students or to such other persons not members of the College, as may be deemed eligible by reason of their having rendered exceptional service to the College or having otherwise done something outstanding to enhance the reputation of the College.
ANNUAL FINANCIAL STATEMENTS 2001-02

A Note by the Director of Finance

1. Attached are the Financial Statements of the College and its subsidiary companies for the year ended 31 July 2002. The financial highlights are summarised in the Honorary Treasurer’s Report on pages 2 and 3.

2. The Financial Statements were discussed at the Finance Committee and at the Audit Committee on 27 November. The Audit Committee will make its own report to Council in accordance with the Audit Code of Practice issued by the Higher Education Funding Council for England.

3. The Council is invited to consider, and if it sees fit, approve the Financial Statements for the year ended 31 July 2002.

A.S.D. Cannon

(1) Not included with these Minutes
Imperial College of Science, Technology and Medicine

Audit of the 2001/02 financial statements

Management letter to the Members of the Council
1.1 Introduction
We have pleasure in presenting our management letter on the results of our external audit of the College's 2001/02 financial statements.

1.2 Purpose of this report
As auditors, we are required under the HEFCE Audit Code of Practice (“the Code”) to present a management letter to the Council setting out the results of our audit.

It is the Council’s responsibility to consider the issues raised in this management letter before approving the financial statements. The Council is also required under the Code to submit this report to the HEFCE Audit Service before the 28th February in the year following the period end.

We presented this report to the Audit Committee on 27 November 2002. We have also issued an Internal Control Report to management, which sets out all of the detailed findings arising from our work. This report has been agreed with management and is presented to the Audit Committee for information.

1.3 Scope of our service
The principal objective of our audit procedures is to enable us to express our opinion, in line with the requirements of the Code, on the financial statements as a whole. Our audit opinion does not guarantee that the financial statements are free of misstatement. We explain our audit responsibilities, and their limitations, in our letter of engagement dated 20 May 2002. In addition to providing an audit opinion on these statements, we also provide separate audit opinions on five subsidiary company accounts, listed below.

The full scope of our service, including our audit approach, is set out in Annex B to this report. We also consider it an important part of our audit service to share our experiences of good management practice in those areas that we naturally need to consider for our audit. Our objective is to help the Council and senior management, over and above our statutory duties.

In seeking to achieve a cost-effective audit we take account of management’s overall approach to controls in the business, and particularly the main information systems used by senior management for decision making. In our experience these are key to effective control. Naturally, our emphasis is on financial information.

1.4 Scope of consolidation
As in previous years, the College has consolidated all of its subsidiaries and quasi-subsidiaries in compliance with the Education SORP and UK GAAP, namely:

Subsidiaries
- Imperial College Innovations Ltd;
- IFFPGH Limited Liability Partnership (new entity created 31 July 2002);
• Imperial College Consultants Ltd (not audited by PricewaterhouseCoopers);
• Imperial Activities (IMPACT) Ltd;
• Imperial College (S) Pte Ltd;
• Extracalm Co Ltd;
• Universal Safety Consultants Ltd (not audited by PricewaterhouseCoopers);
• Private Patient Healthcare Limited (not audited by PricewaterhouseCoopers).

Quasi-subsidaries

• Kempe Library Foundation

Imperial College Company Maker Ltd, Imperial College Ltd, Imperial MBA Ltd, IC4Life Limited, RPMS Technology Ltd, Westway Graphics Ltd and Kempe Environmental Limited are all subsidiaries of the College but are now dormant.

We have audited the consolidation of the subsidiaries within the College and are satisfied that in accounting for the subsidiaries, the College has not departed materially from the requirements of the SORP and the Companies Act 1985.

The College’s quasi-subsidiary Kempe Library Foundation (a charitable company providing Library services to Wye College for Imperial College) has also been consolidated into the financial statements but is now dormant having ceased to trade during 2001/02.

Companies in which the College’s investment represents an associate undertaking (as defined by Financial Reporting Standard 9) have also been included in the Financial Statements. The relevant companies and the College’s interest in their share capital are as follows:

• Imperial College Press Ltd 49%
• Natural Resources International Ltd 50%

1.5 Format of this report

We have set out in the following sections our comments on areas that we have considered as part of our audit of the financial statements:

• Commentary on financial results;
• Accounting issues;
• Regulatory issues; and
• Internal control and risk management.
Where appropriate, we have made recommendations for improvement. These are summarised in Annex A with management’s responses.

We have prepared this report to assist the Council in their consideration of the 2001/02 financial statements and to share our recommendations for areas of improvement.

We understand that the Council will make this report available to the HEFCE Audit Service, but emphasise that our duty of care is solely to the Council of the College. PricewaterhouseCoopers accepts no responsibility for any reliance that any third party might place on our report.

As you know, this report forms part of a continuing dialogue between it and, therefore, us is not intended to include every matter that came to our attention.

Please tell us if we can amplify the report in any way.

Yours faithfully

PricewaterhouseCoopers
2 Commentary on financial results

2.1 Audit opinion

The financial statements have been prepared in accordance with the SORP – Accounting for Further and Higher Education Institutions.

We plan to issue an unqualified opinion on the truth and fairness of the financial statements for the group and all of the subsidiary, quasi-subsidiary and associated companies where we act as auditors.

2.2 Outturn for the year

In order to put our work into context we have provided below a commentary on the College’s financial outturn for the year ended 31 July 2002.

2.2.1 Income and expenditure account

<table>
<thead>
<tr>
<th>Abstract of the draft consolidated Income and Expenditure account</th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£000</td>
<td>£000</td>
</tr>
<tr>
<td>Income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Funding council grants</td>
<td>112,966</td>
<td>111,754</td>
</tr>
<tr>
<td>Academic fees and support grants</td>
<td>44,185</td>
<td>40,290</td>
</tr>
<tr>
<td>Research grants and contracts</td>
<td>152,984</td>
<td>146,428</td>
</tr>
<tr>
<td>Other operating income</td>
<td>67,473</td>
<td>71,099</td>
</tr>
<tr>
<td>Endowment income and interest receivable</td>
<td>3,440</td>
<td>2,130</td>
</tr>
<tr>
<td>Share of associates’ operating results</td>
<td>182</td>
<td>452</td>
</tr>
<tr>
<td></td>
<td><strong>381,230</strong></td>
<td><strong>372,153</strong></td>
</tr>
<tr>
<td>Expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>220,671</td>
<td>208,654</td>
</tr>
<tr>
<td>Depreciation</td>
<td>17,854</td>
<td>15,496</td>
</tr>
<tr>
<td>Other operating expenses</td>
<td>140,723</td>
<td>148,555</td>
</tr>
<tr>
<td>Interest payable</td>
<td>771</td>
<td>1,152</td>
</tr>
<tr>
<td></td>
<td><strong>380,019</strong></td>
<td><strong>373,857</strong></td>
</tr>
<tr>
<td>Surplus on continuing operations</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1,211</td>
<td>(1,704)</td>
</tr>
<tr>
<td>Exceptional income from sale of fixed assets</td>
<td>9,732</td>
<td>18,110</td>
</tr>
<tr>
<td></td>
<td><strong>10,943</strong></td>
<td><strong>16,406</strong></td>
</tr>
<tr>
<td>Surplus after historical cost adjustments and tax and minority interest</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.2.2 Financial Outturn

As a minimum, HEFCE recommend a target surplus of around 3% of income – this equates to approximately £11,437k for the College. The College narrowly missed this target in 2001/02, achieving a surplus of £10,943k (£16,406k in 2000/01).

It should be noted however that in common with other HE institutions the College was only able to achieve this surplus through non-recurring profits on the sale of fixed assets. This included disposals of tangible fixed assets at a profit of £2,023k and the disposal of an interest in the Limited Liability Partnership created on 31 July 2002 with Fleming Family Partners and Gordonhouse Asset Management for £7,709k (relating to investments in spin-out companies which exploit the College’s intellectual property managed through IC Innovations).

The College’s total income for 2001/02 was £381,230k (£372,153k for 2000/01). This increase has been due to a number of factors:

- Income in relation to research grants has increased as contracts and projects agreed with research sponsors have become live;

- Income from academic fees. Student fee income continues to grow within the College, particularly from overseas students where fee income has increased by £2,287k (10.4%); and

- Increases in Funding Council Grants primarily from additional recurrent grants and specific grants received during 2001/02.

The College’s total expenditure for 2001/02 was £380,019k (£373,857k for 2000/01). This increase is primarily in relation to staff costs, outweighing the decrease in other operating expenditure during 2001/02.

2.3 Balance sheet

<table>
<thead>
<tr>
<th>Abstract of the draft consolidated balance sheet</th>
<th>2002 College £000s</th>
<th>2001 College £000s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Fixed assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tangible assets</td>
<td>319,827</td>
<td>300,414</td>
</tr>
<tr>
<td>Investments</td>
<td>6,431</td>
<td>28,584</td>
</tr>
<tr>
<td><strong>326,258</strong></td>
<td><strong>328,998</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Endowment Asset Investments</strong></td>
<td><strong>40,270</strong></td>
<td><strong>48,771</strong></td>
</tr>
<tr>
<td><strong>Current assets</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Stock</td>
<td>405</td>
<td>381</td>
</tr>
<tr>
<td>Debtors</td>
<td>105,428</td>
<td>101,532</td>
</tr>
</tbody>
</table>
### Abstract of the draft consolidated balance sheet

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2001</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>College £000s</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td>2,827</td>
<td>-</td>
</tr>
<tr>
<td>Cash at bank</td>
<td>4,619</td>
<td>12,317</td>
</tr>
<tr>
<td>Creditors within one year</td>
<td>(107,652)</td>
<td>(105,257)</td>
</tr>
<tr>
<td><strong>Net current assets</strong></td>
<td>5,627</td>
<td>8,973</td>
</tr>
<tr>
<td>Creditors over one year</td>
<td>(3,660)</td>
<td>(1,095)</td>
</tr>
<tr>
<td>Provisions</td>
<td>(1,532)</td>
<td>(2,067)</td>
</tr>
<tr>
<td><strong>Net assets</strong></td>
<td>366,963</td>
<td>383,580</td>
</tr>
<tr>
<td>Deferred capital grants</td>
<td>210,934</td>
<td>206,593</td>
</tr>
<tr>
<td>Endowments</td>
<td>40,270</td>
<td>48,771</td>
</tr>
<tr>
<td>Reserves</td>
<td>115,547</td>
<td>128,216</td>
</tr>
<tr>
<td>Minority Interest</td>
<td>212</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total funds</strong></td>
<td>366,963</td>
<td>383,580</td>
</tr>
</tbody>
</table>

### Net Current assets/liabilities

The College’s net current assets for 2001/02 were £5,627k. The College’s working capital position has declined during 2002 with the following notable changes:

- Increase in debtors of £3,896k, mainly in relation to research grants and contracts debtors as during the year other debtors and provisions for bad debts have decreased significantly;

- Decrease in cash and short-term deposits of £4,871k; and

- Increase in creditors of £2,395k. This overall increase is as a result of the significant increase in accruals held within the College accounts offset by the repayment of £7,000k of the unsecured loan during 2001/02. Research payments received on accounts has increased significantly, mirroring the increased activity discussed in section 2.2.2.

Although the College has taken significant steps in addressing its underlying working capital position we note that some areas still require detailed review:

- During 2002 Research Grant debtors increased by 27.3%. Although partly related to larger levels of awarded projects the increase in debtors highlights the need for the College to review the processes surrounding the raising and chasing of invoices for research grants; and
• The College’s bank and cash holdings have decreased by 39.1% since 2001, in addition to still holding a £6,000k unsecured loan. The College is currently reviewing its overall working capital and cash requirements through a cash flow forecasting exercise, which considers possible sources of medium-term financing.

**Endowment Investments**
Endowment assets have decreased during the year primarily from the repayment of £2,917k back to the British Heart Foundation at the donor’s request. The valuation of the College’s endowment assets have suffered this year as a direct result of the poor stock market performance, experienced by many other Colleges. The impact of investment performance on endowments has been considered in further detail in section 3.1.3.

**Reserves**
The College is carrying forward reserves of £115,547k compared to those brought forward at the beginning of the year of £128,216k. The revaluation reserve held by the College in relation to the trade investment in TurboGenset has decreased significantly since 2001 as a direct result of general stock market volatility. This is the principal reason for the significant decline in the value of Fixed Asset Investments in the balance sheet.

The College holds a number of specific reserves as well as a general reserve. The most significant of the specific reserves are those in relation to capital that are held to match future depreciation charges on certain categories of assets (mainly non-residential assets). During the year we reviewed the disclosure of these reserves with the College and the College have now included within the financial statements comments detailing the fact that many of the specific reserves are discretionary. The three non-discretionary reserves held by the College relate to funds that the College is legally bound to hold. These consist of the Subsidiary and Associated companies’ reserves, the Students’ Union funds and the Harlington student fund.

### 2.4 Financial outlook for the University

The most significant financial pressure faced by the College will be to maintain an annual surplus on recurring funds. In the past two years the surpluses achieved have been primarily from the non-recurring profits from fixed asset disposals.

In addition the College has a significant capital programme planned for the next few years, which will put increasing pressure on the College’s financial resources. The most significant area relates to the capital project for the Tanaka Business School. The College are expecting a donation of £27m in respect of this project although to date only £1.2m of funds have been received. The expected income less money already received has, prudently, not been recognised within the financial statements.

We are aware that the College is actively pursuing longer term solutions to address recurring funding issues, including reviewing student fee levels. The College has also sought to take account of these financial pressures by examining the possible need for medium-term financing to fund the capital programme.

In addition to these reviews the College will need to review closely the pensions position of its four schemes and assess the likelihood/potential for increased contributions over future
years should any of these schemes report deficits within the funds. We have commented further on the College’s pension schemes in section 3.2.2.
3 Accounting issues

3.1 Significant Accounting and Auditing issues
We have set out below a summary of accounting and auditing issues identified during the audit and their resolution.

We have been pleased to note that the College has taken significant steps during 2001/02 to address concerns and recommendations raised during previous audits. Significant audit issues raised in 2000/01 have been re-examined during the year and we have noted particular improvements in the following areas:

- Main bank account reconciliation;
- Main Accounts Receivable and Accounts Payable reconciliation’s; and
- Review of trade aged debt and related bad debt provision.

Whilst the College has addressed the major areas satisfactorily, allowing us to issue an unqualified audit opinion on the financial statements, there are a number of other issues that have been considered in finalising the financial statements or will need to be addressed by the College in the forthcoming year.

3.1.1 Specialist engineering facility
The College identified a potential decommissioning cost arising in relation to its specialist engineering facility in 1999/2000. A contingent liability note was included within the financial statements as the cost and timing were uncertain.

The College reviewed the treatment during 2002. Upon review we agreed that the decommissioning costs involved required inclusion as a provision within the financial statements and the note was altered to reflect this position. This disclosure was in accordance with Financial Reporting Standard 12. The other side to the entry to create the provision (calculated as the Net Present Value of the expected future cost) was capitalised as a Fixed Asset.

The College has indicated that in 2004 the Executive Committee will review the options available to the College, namely, decommissioning of the facility in 2009/10 or refuelling the facility and then decommissioning the facility in 2028. The provision has been created assuming that the latter option is chosen and hence the provision is being unwound over a longer period of time. The discounted value of the liability is estimated to be £1,348k.

The accounting treatment does not consider the likelihood of the future recovery of costs from government sources as the amounts and timing of receipt are uncertain.

We recommend that the College continue to review the costs and timescales involved with decommissioning and ensure that any change in the option taken by the College is reflected in the provision within the financial statements.
3.1.2 Research Grant monitoring

The College’s financial position depends in part upon the successful financial management of the many research projects in progress. We have previously raised in management letters our concern that research accounts and research suspense accounts were not being adequately monitored and that income due was not being collected quickly or efficiently.

Upon our review of research grants, again in 2002 we noted that limited monitoring was conducted during the year. The controls expected would be as follows:

- Review of overspent research grants during the year, seeking explanations where necessary;
- Review of static research grants to ensure that grants were achieving objectives originally agreed in the contract;
- Monitoring of income to individual grants to ensure that invoicing had been completed and/or profiled payments had been received; and
- Review and clearance of research suspense accounts.

The College has however taken active steps towards resolving these issues and the establishment of the Research Administration Management Programme (RAMP) will greatly enhance the monitoring of research within the College.

The College should ensure as part of the RAMP review that adequate monitoring procedures are put in place promptly to maintain financial stability and a robust control environment.

3.1.3 Endowment Fund monitoring

The College has implemented during the year a number of our recommendations raised in 2001 in relation to endowment fund monitoring. However, a number of issues still remain:

- Endowment fund supporting papers (e.g. original endowment and objects of the fund) could not be located in all cases. A central filing system is not held for the endowment funds administered within the College, with some held by finance and others by departments;
- There were a minor number of funds that had no known administrator; and
- Capital spend – As previously noted in section 2.3, due to the poor performance of the stock market during the year insufficient investment income was generated to cover expenditure during the financial year. Consequently at the year end a number of funds had utilised capital amounts from the original endowment to fund the year’s expenditure. As with all charitable endowments this requires the consent of the original donor (unless stated in the original donation). We have been unable to obtain evidence that this approval has been sought and received in all cases.
We recommend the following:

The College should review individual funds’ terms of original donation and ensure that they are able to spend the capital endowment part of the fund. Where this has not been obtained the original donor should be contacted to confirm that the College is allowed to spend these funds;

All endowment fund administrators should be identified; and

All supporting documentation for endowments should be maintained centrally. A review of the objectives of each fund should be completed to ensure that all funds are operating within specified objects.

3.1.4 Fraud in Estates
During the year the College, in conjunction with the HM Customs & Excise, identified a fraud that had been occurring within estates over the past eight years. The Audit Committee has considered the details of this case and the College is reviewing the recoverability of the monies.

Whilst not material to the financial statements, the fraud does potentially impact upon the regularity part of our opinion where we confirm that all monies have been spent on the purposes intended. Given the estimated value of the fraud, and that this matter has been actively discussed and disclosed by the College, we have not qualified our regularity opinion in respect of this matter. We do not therefore raise recommendations in relation to this matter but merely comment upon the regularity issues for the College.

3.1.5 Donated Assets and departure from the SORP
The College has previously departed from the SORP in its accounting for donated assets as it creates a deferred capital grant upon inclusion of assets in the accounts. No significant donated assets remain, and hence this treatment does not lead to any misstatement compared to the SORP’s requirements. However, the College should ensure that future assets are treated in accordance with the SORP, as the financial statements should be true and fair and reflect the full disclosure requirements of the Education SORP and Companies Act 1985.

We recommend that the College review its treatment of donated assets for future periods to ensure that all future donations are treated in accordance with the Education SORP.

3.1.6 Debtors position and associated bad debt provision
During 2001/02 the College has undertaken extensive work reviewing its overall debtor position and associated bad debt provision. As a result significant collection of debts occurred along with the write-off of approximately £2,000k of irrecoverable debts (most of which were fully provided for).

We concur with this review and are pleased with the positive steps taken by the College during the year.
However, the research debtors held within the College system remain at high levels, as noted in section 2.3. The College will need continually to review these debts and ensure that it assesses the recoverability of debts in a prudent manner. As at present, where recoverability is uncertain provisions should be created in respect of debts. This recommendation should be considered in conjunction with our comments on research monitoring in section 3.1.2.

3.2 Other Accounting and Auditing issues identified during the audit

3.2.1 Payroll / Pension control accounts

As part of our systems work we review the fundamental reconciliation’s that are completed by the College to control the sub-ledgers. We noted that, whilst progress has been made in reconciling the payroll and pension control account differences, there were still significant issues surrounding the timely production and reconciliation of the accounts and the overall understanding of the process involved in resolving, clearing and improving the efficiency and effectiveness of the reconciliation.

The payroll control accounts are produced and reconciled to a degree but differences identified in any given month are rolled forward and remain uncleared. These differences may indicate staff being paid incorrect amounts or discrepancies occurring on the payroll system that are not being cleared on a regular basis. Whilst not material to the financial statements this represents a control weakness within the system. In addition to the payroll control accounts, a number of pension control accounts are reconciled during the year. At the time of the audit we noted that no year-end reconciliation had been completed for the USS and SAUL schemes.

The College should ensure that it reviews the processes involved in reconciling all payroll and pension control accounts and identify and document the procedures behind which all accounts should be reconciled and cleared. The College should review the overall timeliness of clearing reconciling differences.

In addition, the College should review the processes between HR/Departments and Payroll to ensure that adequate information is communicated between the groups regarding changes in personnel data to ensure that differences on the payroll are limited. There should be regular review and follow-up of over/under payments from the system.

3.2.2 FRS 17 – Retirement Benefits

Financial Reporting Standard 17 (FRS17) – Retirement Benefits was issued in November 2000 and replaces SSAP24 which has been the UK standard on pension costs since 1988. The full requirements for FRS17 have been deferred pending discussions on International Accounting Standard 19, although there are transitional requirements for accounting periods ending on or after 22 June 2001. For HE institutions this means FRS17 will still be applicable for the year ending 31 July 2002.

The principle behind FRS 17 is that assets and liabilities relating to an organisation’s share of a pension scheme should be accounted for within the financial statements of that organisation.
The College operates four pension schemes. Three of these schemes (Universities Superannuation Scheme (USS), Superannuation arrangements of the University of London (SAUL) and the NHS Pension scheme) are defined benefit, multi-employer schemes where it is not possible to identify the College’s share of the underlying assets and liabilities. Disclosure of these schemes within the financial statements has been in accordance with the Education SORP, BUFDG guidance and FRS17.

The NHS scheme, however, does not detail any of the assumptions and actuarial valuation assumptions as required by SSAP24.

We recommend that the College review disclosure of this scheme with the NHS during 2002/03 to ensure that sufficient disclosure is obtained for the financial statements.

The College also operates a defined benefit scheme (the Federated Pension Scheme) where it is possible for the College to identify its share of the underlying assets and liabilities and therefore disclose details in accordance with FRS17. However, the College did not request the details from the scheme actuaries during 2001/02 as it believed that the associated actuarial costs to provide the information outweighed the benefit from obtaining FRS17 information on a scheme that only had a few current members (others being pensioners).

Whilst we recognise the College’s need to balance costs and benefits of providing this information, we recommend the College review how best it can provide adequate information to support this disclosure in 2002/03, ensuring that suitable FRS17 information be obtained from FPS and its actuaries for disclosure in the financial statements.

3.2.3 Statement of Auditing Standard (SAS) 240 ‘Quality control of audit work’

In accordance with SAS 240, PricewaterhouseCoopers have put in place separate teams to ensure that, where we undertake advisory, consultancy or specialist work which could be perceived as creating a threat to our independence and objectivity, the audit team do not take immediate reliance upon this work but rather review all work utilising independent experts to ensure that we can place reliance upon the recommendations and conclusions.

3.2.4 Statement of Auditing Standard (SAS) 610 ‘Unadjusted differences’

The auditing standard SAS 610 came into effect for accounting periods beginning on or after 23 December 2001. It is good practice to adopt its requirements early.

Under this standard auditors are required to report to those charged with governance all unadjusted differences other than those considered “trifling”. All audit adjustments were posted within the financial statements during the audit process and therefore we have raised no issues with the Audit Committee.
3.3 Future accounting developments

3.3.1 Revised SORP

The Statement of Recommended Practice (SORP) “Accounting for Further and Higher Education Institutions” is currently being reviewed by the SORP Board. It is planned that a revised version will be issued in August 2003. The main focus of the proposed changes is to update the SORP for accounting developments.

We would encourage the College to contact HEFCE to discuss its current accounting treatment of donated assets where it currently departs from the SORP.

3.3.2 International Accounting Standards

In June 2002 the European Union took the historic decision to adopt International Accounting Standards (IAS) from 2005 for the 7,000 listed companies in the EU. This will make the EU the first major territory in the world to adopt a consistent basis of accounting. The DTi is currently consulting on whether IAS should be extended to other bodies, which could include the higher education sector.

3.3.3 New Financial Reporting Exposure Drafts (FREDs)

In preparation for the introduction of IAS in 2005 the Accounting Standards Board (ASB) has issued seven FREDs, the aim of which is to bring UK financial reporting in line with IASs. It is unlikely that these will be applicable until the 2004 year-end, and the most significant of the proposed changes are:

- FRED 29 proposes that fixed asset residual values should be based on prices current at the balance sheet date rather than historic cost, and this may impact on the depreciation charge;

- FRED 27 sets out a stricter definition of post balance sheet events; and

- FRED 25 changes the definitions of related parties.
4 Regulatory issues

4.1 Financial memorandum
As external auditors, we are required under the Code to report on whether, in all material respects, income has been applied in accordance with the financial memorandum between the University and HEFCE.

We have issued an unqualified report in this matter.

4.2 Use of funds
We are also required under the Code to report on whether, in all material respects, income has been applied for the purposes that it was intended.

We have issued an unqualified report in this matter.
5 Internal control and risk management

In this section we set out our comments on:

- Internal audit;
- Risk management; and
- Internal control at the college.

5.1 Internal audit

HEFCE have placed great emphasis on Internal Audit moving towards a risk-based approach to planning their internal audit services and this is further reinforced by the requirements of the Code.

Internal audit at the College is provided by Imperial College Internal Audit Services.

We reviewed the College’s internal audit service as part of assessing the system of internal financial controls. Our review of the 2001/2002 internal audit work relating to the College has identified no areas where the work was not performed and completed to a satisfactory standard. A systems based risk approach has been adopted with a good level of planning. Where the work by internal audit has identified weaknesses in the controls, we have carried out sufficient tests at the year end to consider whether this has resulted in a material misstatement in the annual accounts. Any weaknesses identified by internal audit have been reported separately by the internal auditors and are not repeated in this letter.

We have relied upon as many of the internal audit reviews as possible during the year.

5.2 Risk management

It is a requirement of HEFCE, and reflects good management practice, that the principles of Turnbull be applied to the operational and strategic management of the College. HEFCE have set a target for all higher education institutions to have fully implemented risk management for 2002/03. The College is required to include in its financial statements a Statement of Internal Control that sets out its current position against the HEFCE requirements. We have reviewed this statement against our understanding of the College’s current processes and have set out below our comments on this matter.

5.2.1 Risk assessment process

The Executive Committee conducted a review of its risks during the year. A prioritised risk register was established from this review and an action plan was approved by the Committee. In addition, a risk management policy was approved by the Council in July 2002.

The College continues to be proactive in embedding a risk culture within the organisation and is extending the risk framework and review of risk to lower levels of the College. We would support this initiative and encourage the embedding of good risk management practice throughout the College.
5.3 Internal control

Our audit is not designed to identify all significant weaknesses in the College's system of internal financial controls. Our review of internal financial control systems is only performed to the extent required to express an opinion on the College's financial statements and therefore our comments on these systems will not necessarily address all possible improvements that might be suggested as a result of a more extensive special examination.

Overall, we concluded that the operation of the College’s systems was sufficient to support our planned audit approach.
6 Subsidiary Entities

Given the issues surrounding subsidiary and associated companies of the College during 1999/00 and 2000/01 we conducted significant planning work for the audit of the 2001/02 financial statements. This extensive planning and preparation, working alongside the Group Accounting section of the College, allowed us to finalise the accounts for all of the companies, which we audit prior to finalisation of the group audit. We have had confirmation from the other audited bodies that likewise these have been completed within the group timetable.

At the time of writing this letter all Annual General Meetings (AGM’s) had been set or held with all financial statements of subsidiaries, quasi-subsidiaries and associates due to be signed prior to the College group accounts.

All issues raised during the audit have been discussed with relevant personnel within the company. Significant issues raised have been considered below.

6.1.1 IC Innovations

Agreement of parent organisation loan
IC Innovations as at 31 July 2002 held an intercompany creditor of £11,258k. Whilst this is somewhat offset by the parent organisation loan of £7,995k, this balance has significantly increased since 2001.

The College as a charitable body faces legal constraints over the extent and manner in which it supports commercial subsidiaries. The College is aware of this issue and is reviewing the nature of its financing of the subsidiary. It has agreed to establish a loan arrangement with the subsidiary.

We recommend that the College finalise this agreement as soon as practicable.

6.1.2 Intercompany balances
The Financial Accounting section of the College performs individual company intercompany reconciliation’s. The College reviews intercompany balances on consolidation with all balances on the College general ledger being compared to those being reported in the subsidiary financial statements. This process has improved significantly since 2000/01 and we raise no additional issues here.
### Annex A – Summary of recommendations contained in this report

<table>
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<tr>
<th>Ref</th>
<th>Issue and recommendation</th>
<th>Management response</th>
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| Page11 | Specialist engineering facility  
*We recommend that the College continue to review the costs and timescales involved with decommissioning and ensure that any changes in the option being taken by the College is reflected in the provision within the financial statements.* | Agreed |
| Page12 | Research grant monitoring  
*The College should ensure as part of the RAMP review that adequate monitoring procedures are put in place promptly to maintain financial stability and a robust control environment.* | Agreed - Although we recognise the need for improving the monitoring of research within the College, hence the establishment of RAMP it should be noted that much progress has been made towards this aim during the year. Monthly reports are run to identify accounts with large cash balances and exceptions, which are investigated on a regular basis. |
| Page12-13 | Endowment fund monitoring  
*We recommend the following:*  
*The College should review individual funds’ terms of original donation and ensure that they are able to spend the capital endowment part of the fund. Where this has not been obtained the original donor should be contacted to confirm that the College is allowed to spend these funds;*  
*All endowment fund administrators should be identified; and*  
*All supporting documentation for endowments should be maintained centrally. A review of the objectives of each fund should be completed to ensure that all funds are operating within specified.* | Agreed – An internal review of all the endowment funds will be undertaken. Local administrators will be identified where the accounts are still active, and action will be taken to close down or consolidate accounts that have become dormant.  
Documentation will be maintained centrally, although in the case of academic prizes the core set of documents will be retained in Registry, with details of the key data maintained on a Finance owned database. |
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<th>Issue</th>
<th>Recommendation</th>
<th>Management response</th>
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<tr>
<td>13</td>
<td>Donated Assets</td>
<td>We recommend that the College review its treatment of donated assets for future periods to ensure that all future donations are treated in accordance with the Education SORP.</td>
<td>Agreed we intend to ensure compliance with the Education SORP</td>
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<td>15</td>
<td>Payroll/Pension control accounts</td>
<td>The College should ensure that it reviews the processes involved in reconciling all payroll and pension control accounts and identify and document the procedures behind which all accounts should be reconciled and cleared. The College should review the overall timeliness of clearing reconciling differences.</td>
<td>Agreed – although much progress has been made in this area, with a number of accounts now reconciled, we recognise the need for further focus in this area. Experienced and more competent resources are being dedicated towards improving the processes to ensure timely reconciliation and monitoring of these very important accounts. Procedures are now in place to ensure adequate communication of information between Payroll and HR and follow-up procedures for over/under payments These have been agreed and communicated to all concerned</td>
</tr>
<tr>
<td>15-16</td>
<td>FRS17</td>
<td>We recommend that the College review disclosure of this scheme with the NHS during 2002/03 to ensure that sufficient disclosure is obtained for the financial statements. Whilst we recognise the College’s need to</td>
<td>Agreed – we shall continue to seek information from the pension funds for the necessary disclosures for the financial statements.</td>
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### balance cost and benefits of providing this information, we recommend the College review how best it can provide adequate information to support this disclosure in 2002/03, ensuring that suitable FRS17 information be obtained from FPS and its actuaries for disclosure in the financial statements.

### Agreement of parent organisation loan

**We recommend that the College finalise this agreement as soon as practicable.**

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<th>Agreement of parent organisation loan</th>
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<td>We recommend that the College finalise this agreement as soon as practicable.</td>
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<th>Agreed – we are working with the subsidiary to establish the appropriate size of the loan and expect to finalise the agreement shortly</th>
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Annex B – Our audit approach

We have already referred to the principal objectives of our service in the introduction to this report. Our audit procedures are tailored to our assessment of risk of material misstatement taking into account the inherent risks of error or fraud and our assessment of the effectiveness of controls in eliminating or reducing those risks.

We consider controls primarily in overall terms and place reliance on the work of Internal Audit as appropriate. We cannot in practice examine every operating activity or accounting procedure in the College nor can we be a substitute for management’s responsibility to maintain adequate controls at all levels of the College. Our work cannot, therefore, be expected to identify all weaknesses in your systems and procedures that a special investigation directed at those systems and procedures might reveal.

As to the possibility of fraud, we plan our audit to have a reasonable expectation of its disclosure if the potential effects of the fraud would be material to the financial statements. However, there are many kinds of fraudulent activity, particularly those involving forgery, collusion and management override of control systems, which it would be unreasonable to expect the normal statutory audit to uncover.

We reach our overall assessment by drawing on the results of our audit work on the financial statements themselves. This is a combination of closer consideration of certain of the systems and accounting controls and confirming the material items in the accounts with relevant evidence depending on our judgement of the risk of misstatement.

We shall be pleased to discuss with you an extension of our audit to probe more deeply into any activities of the College, which may potentially concern you.

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INTRODUCTION

1. This Report covers the Audit Committee’s work for the financial year 2001-02 and is set out in the format recommended by the Higher Education Funding Council for England (HEFCE) in its Audit Code of Practice.

MEMBERSHIP

2. In February 2002, Professor D. Griffiths, the Deputy Director of the Management School, was appointed to the vacancy on the Committee for a member “appointed from among the elected staff representatives on the Court”. The Committee now has a full complement of members.

MEETINGS OF THE AUDIT COMMITTEE IN 2002

3. Since its last Report to the Council, the Audit Committee has held meetings on 30 January, 12 June and 27 November 2002. A meeting had been scheduled for 11 September 2002 but was cancelled due to a lack of urgent business for consideration.

TERMS OF REFERENCE

4. Revised terms of reference for the Committee were approved by the Council in May 2001. These are as shown at Annex A.

INTERNAL AUDIT

5. Internal Audit services are provided in-house by the College’s Management Audit and Review Section within the context of the 2001/2005 Strategic Audit Plan approved by the Committee and prepared in accordance with the Audit Code of Practice. The objective of this Strategic Plan - which was further revised for the 2002/2006 period to take account of major academic and administrative changes, such as the introduction of the Faculty structure and the College’s Risk Register - is to cover all identified auditable areas within a four-year cycle on the basis of the constituent Annual Operational Audit Plans. These are subject to change to take account of any minor variations in the organisational structure or changing needs and priorities. Contract internal audit services are also provided to the Royal College
of Art, and the Royal College of Music as immediate neighbours with whom the College shares joint academic initiatives.

6. The staffing consisted of the Head of Management Audit and Review, a Manager and two and a half FTE Auditor posts. PricewaterhouseCoopers (PwC) and a Computer Audit Consultant provide an additional internal audit resource of up to 90 days per annum. Total audit resource (excluding all leave, administration and professional training) amounted to 903 days, compared with 848 days in the previous year. A copy of each report issued is passed to the College Secretary for information and discussion as appropriate at monthly management meetings in respect of significant findings and recommendations arising from the reviews. A further copy is issued to the Director of Finance so that he is aware of any control issues and/or recommendations impacting upon the central finance function. Performance evaluation of Internal Audit by clients is reassuring with an average score of 39 achieved against a possible top score of 44 points.

7. In all, 33 internal audit reports were issued during the year. Exceptional items reported to the Committee included a review of the Car Parking Contract at the South Kensington Campus. This concentrated on the contract awarding process and control monitoring systems. It resulted in serious concerns being expressed over the tendering process and the awarding of the contract to the operating company. The contract has since been terminated with the contractor, and is now managed in-house by the College’s Security Department.

8. Following a routine Customs and Excise inspection of one of the College’s suppliers a fraud within the College was uncovered. This is still to an extent sub judice, but was reported to the designated parties under the College’s Fraud Response Policy, including the HEFCE. The College employee concerned was subject to disciplinary procedures and resigned forthwith. Appropriate steps have been taken to ensure similar problems do not occur elsewhere in the College. Internal Audit have been working closely with the Metropolitan Police and Customs and Excise on this case. Prosecution statements and case papers have now been submitted to the Crown Prosecution Service, and it is anticipated that charges will be laid against the individuals involved. Initial Court proceedings will be unlikely before the middle of 2003.

9. Both the College’s Management Audit and Review’s Terms of Reference and the HEFCE’s Audit Code of Practice require the head of the internal audit service to provide “an opinion on the whole framework of internal control, including risk management and governance at the institution, and on the arrangements for securing economy, efficiency and effectiveness.” The four-year Strategic Plan cycle, and more specifically the Operational Plan for the period from August 2001 to July 2002, provides the basis on which such an annual audit opinion can be given. This does not, of course, imply that these systems are sufficiently secure to eliminate all possibility of error or fraud, but in the opinion of the Head of Management Audit and Review the overall provision of management monitoring and control arrangements are such as to minimise such risks.

10. Subject to the scope and objectives of individual reviews, and the fact that

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1. PwC’s support for the internal audit function is separate from its responsibilities for external audit and is managed by a different PwC Partner. The Audit Committee has reviewed these arrangements and is satisfied that there is no conflict of interest.
examinations are necessarily conducted on a sampling basis, the Head of Management Audit and Review concluded that, notwithstanding the fraud reported to the Committee, the College has in place satisfactory arrangements for internal control, including risk management and governance, and arrangements for securing value for money.

EXTERNAL AUDIT

11. External audit services are provided by PwC. At its meeting in June 2002, the Committee was advised that the External Audit Partners at PwC were normally required to rotate after 6 to 7 years. Furthermore, other internal changes at PwC meant that Mr Clive Everest would now be taking responsibility for PwC’s Higher Education portfolio and would therefore succeed Mr Simon Sharp as the PwC External Audit Partner for the College.

12. At its meeting in June 2001 the Committee considered the External Audit Strategy for the preparation of the Financial Statements for 2001-02, noting in particular the application of FRS17, relating to Pension Funding and Liabilities, and the changes brought about as a result of the Statement of Auditing Standards 610, which means that an adjustment would have to be made to the Financial Statements if an error is found.

13. The formal opinion of the auditors is given in the Financial Statements 2001-02 and the Management Letter to the Council from PwC.

VALUE FOR MONEY (VFM)

14. Responsibility for delivering initiatives to secure economy, efficiency and effectiveness rests with the College’s senior management. The Committee has previously agreed that the responsibility for considering VFM initiatives lies with the College’s Executive Committee and that an opinion, based on their review during the year, should be included in the Internal Audit annual report to the Audit Committee. A report on VFM Initiatives was presented to the Executive Committee in November 2002. A copy of this comprehensive report was then provided for the Audit Committee at its meeting in November and, on that basis, the Committee can confirm that appropriate management systems are in place for the evaluation and monitoring of a VFM strategy within the College.

RISK MANAGEMENT

15. The HEFCE’s current Accounts Direction requires higher education institutions to move to full implementation of the Turnbull and Combined Code Recommendations on Corporate Governance by 2003, with partial implementation before that date. This means that the College must include a statement in its Financial Statements, covering the financial year 2002-03 at the latest, to confirm that ‘the effectiveness of the internal control system has been reviewed’. Consequently, in November 2001, the College’s Executive Committee, with guidance from PwC, undertook a risk management workshop with the aim of identifying and recording the key risks facing the College as a whole. Based on the results of this exercise, a Risk Register containing 46 key risks together with an Action Plan for mitigating these risks was approved by the Executive Committee in May 2002.
16. To accompany the Register, a Risk Management Policy was approved by the Council at its meeting in July 2002. This Policy formalises well-entrenched practices of managing risks when making decisions. The draft Risk Management Policy, together with the Risk Register and Action Plan, had been reviewed by the Audit Committee at its meeting in June 2002 so that it could satisfy itself that the College’s Risk Management processes were operational. The Committee welcomed the Policy, Register and Action Plan and commended the College on its serious response to the introduction of risk management.

OTHER WORK UNDERTAKEN

17. ICIS

a. During the year the Committee received a number of reports on the Finance and Personnel Administration System, ICIS. The implementation of version 11.i of ICIS had originally been scheduled for the Christmas vacation. However, a practice run had identified a number of outstanding issues which it would have been difficult to resolve before the scheduled implementation. The upgrade was consequently deferred until Easter.

b. At its meeting in June, the Committee was advised that, before going live, the upgrade had been extensively tested and a number of practice runs had been completed. Although a series of errors had been identified since going live, all of the significant issues had been resolved. It was also confirmed that bank reconciliation using the new system was under control and a number of improvements had been made to the Accounts Receivable section.

c. Finally, the Committee was informed of the College’s intention to install new releases on a more regular basis as part of a controlled upgrade plan. This would be essential if the Student System was to go live in March 2003 as planned. The Committee was pleased to hear that the Project Steering Committee was continuing and that it included representatives from the system’s main users.

18. Research Monitoring.

a. This is an area which has been a matter of concern for the Committee for some time as the monitoring of research grants has been raised as an issue by the External Auditors on more than one occasion. At its meeting in June 2002, the Committee received a Report on the College’s Research Administration Management Programme (RAMP). This was an important review of the administration of research programmes within the College and, as such, would address some of the Auditors’ key recommendations.

b. The Committee welcomed the Report but noted that this would be a complex project that would seek fundamental solutions to the problems experienced in this particular area and, as such, it would take some time to report. However, in the meantime, immediate improvements to the processing of research accounts were being made with the support of the Faculties.
19. **Financial Regulations.** At its meeting in June the Committee considered proposed revisions to the Financial Regulations. The main reason for the proposed changes was the introduction of the Faculties and the need to define the Faculty Principals’ financial responsibilities. The opportunity was also taken to make a number of other editorial changes. Subject to a small number of amendments, the Committee commended the revised Financial Regulations to the Council for approval.

**OPINION**

20. In its terms of reference attached to this Report at Annex A, the Council has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the College's financial procedures, in order that it can assure the Council that funds from the HEFCE have been used only for the purposes for which they have been given, that public funds and those received from other sources have been safeguarded, and that the management of the College's resources and expenditure has been such as to secure their use in an economic, efficient and effective way.

21. Given the assurances contained in the reports made to the Audit Committee during the year by the Internal and External Auditors, and in the summaries of their annual reports to the Audit Committee contained in this Report, together with those received from the College management, the Audit Committee is now able to give the Council the necessary assurances that the Council's responsibilities have been satisfactorily discharged.

D.P. Hearn
AUDIT COMMITTEE

TERMS OF REFERENCE

(i) To keep under review the effectiveness of internal control systems, and in particular to review the external auditors’ management letter, the internal auditors' annual report, and management responses.

(ii) To consider the Annual Financial Statements in the presence of the external auditor, including the auditor’s formal opinion, the statement of members’ responsibilities and any corporate governance statement.

(iii) To monitor the implementation of agreed recommendations arising from internal and external audit reports.

(iv) To advise the Council on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors and any questions of resignation or dismissal of the external auditors.

(v) To review the internal auditors’ audit needs assessment and the audit plan; to consider major findings of internal audit investigations and management's response; and promote co-ordination between the internal and external auditors. The Committee will ensure that the resources made available for internal audit are sufficient to meet the College’s needs.

(vi) To satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.

(vii) To receive any relevant reports from the National Audit Office, the HEFCE and other organisations.

(viii) To monitor annually the performance and effectiveness of external and internal auditors.

(ix) To report to the Council at least annually on its activity for the year and to give its opinion on the extent to which the Council may rely on the internal control system and the arrangements for securing economy, efficiency and effectiveness.

(x) The Committee shall have the authority to call for any information from College officers, external and internal auditors and others which it considers necessary to discharge its responsibilities effectively.

Constitution

A Chairman to be appointed by the Council from among the lay members of the Council.
Three members with appropriate expertise to be appointed by the Council from among the lay members of the Court and/or Council.

One member to be appointed by the Council from among the elected staff representatives on the Court

No member of the Audit Committee may also serve on the College’s Finance Committee.

In attendance:
The Rector
The Deputy Rector
The College Secretary
The Director of Finance
The Head of Management Audit and Review
A representative of the external auditors

Secretary
Head of Central Secretariat and Assistant Clerk to the Court and Council

Present Membership:

Mr D P Hearn (Chairman)
Mr G Bickerton
Mr D R L Duncan
Professor D Griffiths
Dr D J Wilbraham

Meetings and Reporting

The Committee shall meet not less than three times a year and shall report:

(a) to the Council in December.

(b) to the Court in March.

Quorum

The quorum shall be the Chairman or Deputy Chairman and two other members.
INTRODUCTION

1. The Investments Committee last reported to Council in December 2001. The membership of the Committee during the year comprised the following:

   Dr Martin Knight (Chairman)
   Sir Richard Sykes (Rector)
   Mr Tony Cannon (Director of Finance)
   Mr Simon Leathes
   Mr Paddy Linaker
   Mr Alistair Manson
   Mr Sen Ganesh (ICU President)

2. The Committee is required to meet a minimum of two times per year. During the last year they met four times on the following dates:

   8 November 2001
   5 February 2002
   30 April 2002
   24 July 2002

MANAGEMENT OF COLLEGE INVESTMENTS

3. The College funds were managed in two portfolios, by Dresdner RCM (DRCM) and Capital International (Capital), each adhering to the same Investment Benchmark as follows:

<table>
<thead>
<tr>
<th>Investment Category</th>
<th>Portfolio Benchmark</th>
<th>Permissible Range</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>UK Equities</strong></td>
<td>40%</td>
<td>30-50%</td>
</tr>
<tr>
<td><strong>Overseas Equities</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- US</td>
<td>40%</td>
<td>13.3%</td>
</tr>
<tr>
<td>- Europe</td>
<td>40%</td>
<td>13.3%</td>
</tr>
<tr>
<td>- Far East</td>
<td>40%</td>
<td>13.3%</td>
</tr>
<tr>
<td><strong>UK Bonds</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Government</td>
<td>20%</td>
<td>10%</td>
</tr>
<tr>
<td>- Non-Government</td>
<td>20%</td>
<td>10%</td>
</tr>
</tbody>
</table>

|                   |                     | 15-60%            |
|                   |                     | 5-20%             |
|                   |                     | 5-20%             |
|                   |                     | 10-30%            |
|                   |                     | 5-15%             |
|                   |                     | 5-15%             |
INVESTMENT PERFORMANCE

4. A summary of the investment performance by each fund manager has been provided at Annex A, with a more detailed breakdown at Annex B.

5. For a second consecutive year the College’s investment managers faced a challenging environment characterised by weak equity markets worldwide. The two fund managers faced up to this challenge with different tactics, DRCM electing to move into a heavily overweight position in bonds and cash to maintain a defensive position, whereas Capital backed themselves to use their stock-picking skills to out-perform the benchmark in equities. The result was that overall the College portfolio reduced by 14.3% against the benchmark decrease of 17.2%.

6. Despite the differing approaches, the overall result was above benchmark. This was especially gratifying this year given that the earlier performance of one manager was concerning enough that the Committee formally put them on notice that they would be replaced if performance did not improve. The resulting action saw a significant improvement in their performance so that the Committee were happy for the College’s relationship with them to continue at the year end.

7. The fund managers remain cautious about the future outlook, as they can see no clear indicators for a recovery in the equity markets. The Committee has therefore stressed the importance of yield as well as capital growth in order to deliver the best total return from the funds. Both fund managers confirmed that the current benchmark provided them with sufficient flexibility to take such considerations into account, without the need for any formal change in the benchmark.

M.P.K.
### Investment performance summary 2001/02

#### General Equity and Bond Portfolios

<table>
<thead>
<tr>
<th></th>
<th>2001/02</th>
<th>2000/01</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>Total £k</td>
</tr>
<tr>
<td>DRCM</td>
<td>Capital</td>
<td>Total</td>
</tr>
<tr>
<td><strong>Year End market value</strong></td>
<td>17,429</td>
<td>20,391</td>
</tr>
<tr>
<td><strong>Income amount</strong></td>
<td>369</td>
<td>569</td>
</tr>
<tr>
<td><strong>Yield (annualised)</strong></td>
<td>2.1%</td>
<td>2.8%</td>
</tr>
<tr>
<td><strong>Capital return</strong></td>
<td>-17.8%</td>
<td>-16.0%</td>
</tr>
<tr>
<td><strong>Total return</strong></td>
<td>-15.7%</td>
<td>-13.2%</td>
</tr>
<tr>
<td><strong>Benchmark return</strong></td>
<td>-17.0%</td>
<td>-17.4%</td>
</tr>
<tr>
<td><strong>FTSE All-share index</strong></td>
<td>-23.3%</td>
<td>-23.3%</td>
</tr>
</tbody>
</table>

#### Group Pension Scheme 1

<table>
<thead>
<tr>
<th></th>
<th>2001/02</th>
<th>2000/01</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>Total £k</td>
</tr>
<tr>
<td>DRCM</td>
<td>Capital</td>
<td>Total</td>
</tr>
<tr>
<td><strong>Year End market value</strong></td>
<td>219</td>
<td>219</td>
</tr>
<tr>
<td><strong>Income amount</strong></td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Yield (annualised)</strong></td>
<td>0.1%</td>
<td>0.1%</td>
</tr>
<tr>
<td><strong>Capital return</strong></td>
<td>-18.1%</td>
<td>-18.1%</td>
</tr>
<tr>
<td><strong>Total return</strong></td>
<td>-17.9%</td>
<td>-17.9%</td>
</tr>
</tbody>
</table>

#### Other Investments 2

<table>
<thead>
<tr>
<th></th>
<th>2001/02</th>
<th>2000/01</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£k</td>
<td>Total £k</td>
</tr>
<tr>
<td></td>
<td>CAF *</td>
<td>COIF **</td>
</tr>
<tr>
<td><strong>Year End market value</strong></td>
<td>0</td>
<td>68</td>
</tr>
<tr>
<td><strong>Income amount</strong></td>
<td>10</td>
<td>4</td>
</tr>
<tr>
<td><strong>Yield (annualised)</strong></td>
<td>3.0%</td>
<td>4.5%</td>
</tr>
</tbody>
</table>

**Notes**

1: The group pension scheme is an In-house pension scheme which is now closed; the fund is reducing as pensions are paid out.

2 * : CAF is the Charities Aid Foundation. The CAF Units were sold on 28 November 2001.

2 **: The COIF Charities Investment Fund is managed by CCLA Investment Management Ltd. The Frank Merrick Associates Trust and Hilary Bauerman Bequest are invested in COIF.
## Summary of investments at 31st July 2002

### General Equity and Bond Portfolios

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>%</td>
<td>£</td>
<td>%</td>
</tr>
<tr>
<td>Fixed Interest - UK</td>
<td>5,126,886</td>
<td>13.56%</td>
<td>8,760,688</td>
<td>19.27%</td>
</tr>
<tr>
<td></td>
<td>5,087,263</td>
<td>9.93%</td>
<td>8,336,439</td>
<td>16.25%</td>
</tr>
<tr>
<td>Fixed Interest - International</td>
<td>910,135</td>
<td>2.41%</td>
<td>1,513,119</td>
<td>3.33%</td>
</tr>
<tr>
<td></td>
<td>902,659</td>
<td>1.76%</td>
<td>1,691,039</td>
<td>3.30%</td>
</tr>
<tr>
<td>Equity - UK</td>
<td>14,312,076</td>
<td>37.84%</td>
<td>18,102,741</td>
<td>39.81%</td>
</tr>
<tr>
<td></td>
<td>18,975,329</td>
<td>37.05%</td>
<td>19,054,838</td>
<td>37.13%</td>
</tr>
<tr>
<td>Equity - International</td>
<td>13,247,450</td>
<td>35.03%</td>
<td>16,905,506</td>
<td>37.18%</td>
</tr>
<tr>
<td></td>
<td>22,022,309</td>
<td>43.00%</td>
<td>22,045,176</td>
<td>42.96%</td>
</tr>
<tr>
<td>Cash</td>
<td>4,223,545</td>
<td>11.17%</td>
<td>188,632</td>
<td>0.41%</td>
</tr>
<tr>
<td></td>
<td>4,222,241</td>
<td>8.24%</td>
<td>188,632</td>
<td>0.37%</td>
</tr>
<tr>
<td>Total</td>
<td><strong>37,820,092</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>45,470,686</strong></td>
<td><strong>100.00%</strong></td>
</tr>
</tbody>
</table>

### By Fund Manager

<table>
<thead>
<tr>
<th>Fund Manager</th>
<th>31 July 2002</th>
<th>31 July 2001</th>
<th>% increase in year</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Dresdner RCM Global Investors</td>
<td>17,428,855</td>
<td>21,203,592</td>
<td>-17.80%</td>
<td>23,540,169</td>
</tr>
<tr>
<td>Capital International</td>
<td>20,391,238</td>
<td>24,267,094</td>
<td>-15.97%</td>
<td>27,669,632</td>
</tr>
<tr>
<td>Total</td>
<td><strong>37,820,092</strong></td>
<td><strong>45,470,686</strong></td>
<td><strong>-16.83%</strong></td>
<td><strong>51,209,801</strong></td>
</tr>
</tbody>
</table>

### UK Equities by Industry Sector

<table>
<thead>
<tr>
<th>Industry Sector</th>
<th>31 July 2002</th>
<th>31 July 2001</th>
<th>% increase in year</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>Mineral Extraction</td>
<td>1,784,700</td>
<td>2,206,715</td>
<td>12.19%</td>
<td>1,897,038</td>
</tr>
<tr>
<td>General Industrials</td>
<td>646,768</td>
<td>1,314,677</td>
<td>7.20%</td>
<td>1,010,471</td>
</tr>
<tr>
<td>Consumer Goods</td>
<td>2,880,839</td>
<td>3,898,027</td>
<td>21.53%</td>
<td>3,283,118</td>
</tr>
<tr>
<td>Services</td>
<td>3,913,621</td>
<td>4,841,782</td>
<td>26.75%</td>
<td>7,006,294</td>
</tr>
<tr>
<td>Utilities</td>
<td>926,797</td>
<td>1,065,899</td>
<td>5.89%</td>
<td>1,095,891</td>
</tr>
<tr>
<td>Financials</td>
<td>3,644,136</td>
<td>4,229,281</td>
<td>23.36%</td>
<td>4,039,023</td>
</tr>
<tr>
<td>Other</td>
<td>515,215</td>
<td>546,380</td>
<td>3.02%</td>
<td>645,494</td>
</tr>
<tr>
<td>Total</td>
<td><strong>14,312,076</strong></td>
<td><strong>18,102,741</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>18,975,329</strong></td>
</tr>
</tbody>
</table>

### Other Investment

<table>
<thead>
<tr>
<th>Investment</th>
<th>31 July 2002</th>
<th>31 July 2001</th>
<th>% increase in year</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
<td>CCLA Investment Management Ltd, COIF Fund</td>
<td>68,286</td>
<td>89,340</td>
<td>8.50%</td>
<td>11,921</td>
</tr>
<tr>
<td>Charities Aid Foundation</td>
<td>-</td>
<td>961,774</td>
<td>91.50%</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td><strong>68,286</strong></td>
<td><strong>1,051,114</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>11,921</strong></td>
</tr>
</tbody>
</table>

### Book Value

<table>
<thead>
<tr>
<th></th>
<th>31 July 2002</th>
<th>31 July 2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
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</tr>
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<tr>
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</tr>
<tr>
<td></td>
<td>4,222,241</td>
<td>188,632</td>
</tr>
<tr>
<td>Total</td>
<td><strong>37,820,092</strong></td>
<td><strong>51,316,124</strong></td>
</tr>
</tbody>
</table>

### Other Investment

<table>
<thead>
<tr>
<th>Investment</th>
<th>31 July 2002</th>
<th>31 July 2001</th>
<th>% increase in year</th>
<th>£</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>£</td>
<td>£</td>
<td>£</td>
<td>£</td>
</tr>
<tr>
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<tr>
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</tr>
<tr>
<td>Total</td>
<td><strong>68,286</strong></td>
<td><strong>1,051,114</strong></td>
<td><strong>100.00%</strong></td>
<td><strong>11,921</strong></td>
</tr>
</tbody>
</table>
PAPER G

REPORT FROM THE FINANCE COMMITTEE MEETING
HELD ON 27 NOVEMBER 2002

A Paper by the Chairman of the Finance Committee

REVISED FINANCIAL REPORTING FORMAT

1. The Committee was advised that the work on the Executive Reporting format continued to progress satisfactorily, but that it had not proved possible to produce the revised format for the Finance Committee and Council in the same timeframe. The Committee accepted that the new format would not be available for the December deadline, but stressed the importance of providing a suitable report as soon as possible.

DRAFT FINANCIAL STATEMENTS

2. The Committee received a draft of the Annual Financial Statements for the year ended 31 July 2002. It was noted that the Honorary Treasurer’s Report had taken on a new style and format, concentrating on highlighting the big issues facing the College. The Committee approved of the new approach and fully supported the sentiment of the Report. The Committee also noted that the financial content mirrored their expectations for the period and it was confirmed that the Auditors would be providing an unqualified opinion.

3. The Committee therefore recommends that, subject to any amendments required by the Audit Committee, the Financial Statements be approved by the Council.

DRAFT MANAGEMENT LETTER AND INTERNAL CONTROL REPORT

4. The Committee received a copy of the Management Letter and Internal Control Report provided by the College’s Auditors. The Committee commended the Director of Finance and his Division on the successful reduction in both the number and significance of the Auditor’s recommendations. The Committee were also pleased to note that the Management Letter had been produced simultaneously with the Financial Statements, thus allowing the Committee to consider the Statements in context.

FUNDING POLICY

5. The Committee received an update from the Sub-Committee formed by the Council to progress the College’s funding policy. It was confirmed that the arrangements with the European Investment Bank were progressing well and it was anticipated that the agreement
would be completed in time for this Council meeting. Furthermore, it was confirmed that negotiations were continuing to select advisors to assist in a private placement and that the Finance Division had allocated a dedicated resource to producing all the necessary information in a very demanding timescale. Further details of the current position are attached at Annex A.

**FINANCE DIRECTOR’S REPORT**

6. The Director of Finance provided the Committee with an update of the key financial issues. It was noted that the current forecast projected an operating deficit of c. £1.7M for the current year compared with a budgeted surplus. The main reason for this was that the exceptional income for the period would be down on budget as sales of TurboGenset shares and the mews houses were now highly unlikely. The Committee accepted that these aspects could be explained, and that the implications did not represent a ‘swing factor’ that would concern potential lenders. However, the Committee stressed that the potential failure to dispose of Montpelier House in the current year would create a significant difference between the forecast and actual results. It was therefore stressed that every effort should be made to sell Montpelier for market value prior to 31 July 2003.

**INTELLECTUAL PROPERTY VALUATION REPORT**

7. The Committee received an updated summary of valuations for the College’s spin-out companies as at the end of October 2002 from the Pro Rector (Public and Corporate Affairs). It was noted that the figures given were in respect of what were IC Innovations’ interests before the sale to Fleming/Gordon House. The Committee noted that the overall value of the portfolio had reduced from £35.3M to £34.1M between 31 August and 31 October 2002. This was primarily due to the reduction in the value of TurboGenset and the other quoted shares. The valuation of the unquoted shares in the College’s portfolio roughly maintained their value moving from £32.2M to £32.0M over the same period.

**APPROVED CAPITAL PROJECTS REPORT**

8. The Committee received a report on the status of the College’s main Capital Projects from the Director of Estates. The Committee noted that the Scientific Research Infrastructure Fund (SRIF) Project in Physics remained in the red section, with a potential overspend of £900K. The Committee stressed that this Project could not be allowed to overspend, and therefore cost reductions would have to be found within the scope of works to bring it back into budget. The Committee welcomed the positive variation of £1.4M on the Power Supply Project, but emphasised the need to secure this saving, and not allow it to be used to augment the original scope of the Project.

**CAPITAL PROJECT APPROVAL**

9. The Committee received a tabled paper that set out a revised cost for the Bernard Sunley Project. The Committee expressed their concern that the original forecast had not
proved to be robust, especially following the recent decision of Council to approve the Project at £3.5M with the aim of keeping the project cost down. The Assistant Director of Estates (Projects) advised that the revised project cost of £3.95M reflected a robust estimate of the cost of works, and followed a period of significant inflation in the cost of building works.

10. The Committee agreed to recommend the revised figure for approval by the Council, subject to a review by the Director of Estates on why the original figure had initially been provided for approval and confirmation that the building inflation issue would not lead to a significant increase in the cost of the Capital Investment Plan.

M.P.K.
BORROWING ARRANGEMENTS

1. Since the last Meeting, the following actions have been taken to procure borrowing, within the £100M limit agreed by Council.

LONG-TERM BORROWING - PRIVATE PLACEMENT

2. The borrowing sub-committee agreed that £50M of senior debt would be raised through a private placement with financial institutions of fixed rate borrowing for the longest term obtainable in the market - probably 25 to 30 years - with a bullet repayment at the end.

3. Accordingly, a notice was placed in the Official Journal of the European Commission (OJEC) inviting suitably qualified organisations to tender for engagement as the College’s advisors. Three prominent investment banks have been short-listed, and the final selection is due to take place on 16 December.

4. In the meantime, background material concerning the College’s financial situation and funding needs is being collated into an Information Memorandum. This will be required regardless of which agent handles the private placement. Lawyers are preparing an Opinion on the College’s power to undertake borrowing of this sort, which will be available to investors within the pack of documentation for the placing.

5. It is hoped that the Placing Memorandum will be finalised, for issue to potential investors in early January. Presentations to investors will take place in mid-January, and the exact interest rate will not be known until that point. Draw-down of funds is targeted for 31 January.

6. Consideration was given to the possibility of obtaining a credit rating from Standard and Poors or a similar agency. King’s College London obtained such a rating prior to its £60M senior debt placement in March 2000. It is rated AA minus. We have been advised that it will not be necessary or advantageous for Imperial to obtain such a rating, since lenders reviewing the College’s financial situation will readily conclude that Imperial’s position is superior to King’s.

MEDIUM-TERM BORROWING - EUROPEAN INVESTMENT BANK

7. The borrowing sub-committee agreed that a loan would be taken from the European Investment Bank (EIB), of up to £22.5M for 15 years, under a scheme brokered by the HEFCE for university funding for research and teaching infrastructure. This would specifically relate to the unfunded portion of the Scientific Research Infrastructure Fund (SRIF) programme. Legal negotiations with EIB are at an advanced stage, with contract signing expected before Christmas and first draw-down - approximately £10M - in March 2003.
SHORT-TERM BORROWING

8. A committed money market facility of £13M from Barclays at 35bp over LIBOR continues to 31 July 2003. This will be reviewed during the Spring of 2003, by which time the outcome of longer-term borrowing negotiations and related capital expenditure programmes will be known.

9. The Royal Bank of Scotland overdraft facility of £20M at 1% over base has been extended to 15 November 2003. This is intended purely for day-to-day cash-flow fluctuations. It is not currently being used.

HEFCE SANCTION

10. Prior consent from the HEFCE is required for:

   a. Long-term borrowing where the effect would be to increase the annualised debt servicing to more than 4% of institutional turnover; and

   b. Short-term borrowing in excess of £2M.

11. Long-term borrowing is defined for these purposes as debt repayable after more than 365 days. Annualised servicing costs include capital repayments, and, in the case of bullet repayments, the capital repayment needs to be amortized over the life of the loan. On this basis, the annualised servicing costs of long and medium-term debt referred to above will be about 1.9%. Thus, HEFCE sanction is not required.

12. HEFCE have previously agreed to short-term borrowing up to £22M to 31 January 2003. We will seek an extension during January, when the timetable for draw-down of the long-term funds is clear. (If drawn down on or before 31 January, short-term borrowing will not be required again until the Autumn of 2003).
REVISED FORECAST FOR 2002/3

1. The operating deficit for the full year is forecast at £4.5M, some £1.3M worse than budget. The main changes include:

   a. A £4.8M reduction in the research income, principally to recognise a lower level of charity-sponsored research contracts in Faculty of Medicine. This is fully offset by a £3.5M increase in income from NHS and other sources, and a £1.3M reduction in the academic Departments’ expenditure.

   b. A £0.4M increase in academic Departments, principally in Engineering, to allow for expenditure deferred from last year. This increase should be viewed against the better than budget brought forward balances as shown on the Faculty summary on Page 2.

   c. A £0.1M increase in CBS expenditure to recognise slippages in the purchase of equipment from last year into the current year.

   d. An increase of £0.8M in the Other Expenditure (line 16). This is due to the fact that, when the budget was prepared, it was assumed that an annual credit from the SAUL pensions provision would continue at £0.8M p.a., whereas the balance of that provision (£1.9M) was fully released in the last financial year due to a change in accounting standards.

2. This forecast assumes that all Departments will realise savings to offset the higher-than-expected pay award (approximately 3.2% against 2.5% budgeted).

3. The forecast for exceptional income has been reduced from the £14.5M budget to £2.8M. Of this, £5.0M is in recognition that shares in TurboGenset will not be sold due to the diminution in their value and the balance of the reduction is due to deferral of disposals of both the Montpelier hall of residence and two mews houses, partly offset by inclusion of the sale of another property earlier than budgeted.

4. The increase in the operating deficit and the reduced forecast for exceptional income has caused the overall forecast to move from a £11.3M surplus to a deficit of £1.7M.
WORKING CAPITAL

5. The cash position has improved significantly from net borrowings of £3.7M at 31st July to a net cash balance of £2.0M at 31st October. This cash balance is net of a £12.0M short-term loan and includes £10.8M of deposits held on behalf of subsidiary companies.

6. Debtors and prepayments totalled £122.4M at 31st October. This is £10.7M higher than the 31st July figure, principally due to student fees. The overall level of debtors is similar to the level a year ago but the over-12 month element is down from £12.9M to £6.6M. Of particular note is that the over-12 month debt net of the bad debt provision is down over the same period from £7.1M to £2.6M. This means that a much higher proportion of old debt is now provided against.

CAPITAL EXPENDITURE

7. On externally funded projects expenditure in the first three months totalled £9.1M, of which £3.9M relates to the refurbishment of St. Mary’s Medical School (total to date £7.4M), £1.4M to the Tanaka Business School (total to date £4.8M) and £1.0M to the refurbishment of Levels 0 & 1 of the Biochemistry Building (total to date £5.5M). A further £52.2M is forecast to be spent on all externally funded projects in the remaining nine months.

8. On College funded projects expenditure in the first three months totalled £3.0M of which £1.4M relates to the refurbishment of the Central Library and £0.4M to the Faculty Building. A further £9.8M is planned for the remaining nine months on all College funded projects, including £4.0M on the Faculty Building.

A.S.D. Cannon
1. The aim of this Paper is to explain the revised costing of the Project to refurbish the Bernard Sunley Hall of Residence and to seek the Council’s approval for an increase in funding for the Project from the £3.5M already authorised to £4.0M.

COSTING OF THE PROJECT

2. The Student Residences Department first estimated the cost of the Bernard Sunley Project as likely to be of the order of £3.5M and this figure was included in the Capital Investment Plan.

3. In order to optimise the value of the refurbishment and to capitalise on the successful completion of Willis Jackson Hall, the Bernard Sunley works were negotiated with Interiors plc against previously tendered rates. During the initial stages of the tendering process the contractor returned a project cost indicating that £3.5M was achievable. Estates as part of the tender evaluation process, carried out the necessary design validation, value engineering, and commercial negotiations to eradicate provisional sums and minimise the risk to the College.

4. During this phase structural surveys were undertaken and discussions were held with the Landlord and neighbours to address party wall issues and access to the works. As a result of discussions with the neighbours and the local authorities it became necessary to increase the scope both of the temporary works during the construction phase and of the permanent works. The main issues are tabulated at Annex A as “abnormal works”.

5. Particular issues were that:

a. Unlike the Willis Jackson Project, where the contractors were able to use the garden behind the Hall for storage and access, extensive measures will need to be taken to provide access to Bernard Sunley House while accommodating the wishes of the Landlord. The College will also incur costs for the suspension of parking bays.

b. New environmental legislation has also come into force since the Willis Jackson Project and the design of the Bernard Sunley works has been developed to ensure compliance.

c. Lessons learnt from the earlier Project with regard to operation of the completed building have also been incorporated into the scope of the Bernard Sunley Project.
The building surveys identified a need to increase the scope of remedial works to the structure of the Hall. This was considered to provide better value than local repairs and to be an investment in the long-term future of the building.

**CONCLUSION**

6. Due to the increased scope of the works resulting from the discussions with third parties and detailed structural surveys it has become necessary to revise the forecast outturn costs from £3.5M to £4M.

7. In spite of the above, the predicted outturn costs for the Bernard Sunley, prior to contract award, can still be demonstrated to be providing good value against industry benchmarks.

8. The Council is therefore asked to approve the increase of £0.5M in the cost of the Bernard Sunley Refurbishment Project.

D.B.W.
## ABNORMAL WORKS

### Logistics

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<tr>
<th>Item</th>
<th>£</th>
<th>£</th>
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<tr>
<td>Parking bay suspensions</td>
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<tr>
<td>Beam hoist</td>
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<tr>
<td>Gantry/tunnel etc</td>
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### Design Issues

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<td>Additional design fees</td>
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<td>Disabled lift</td>
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<td>Replace all high level flat roofs</td>
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<td>Additional pitched roof repair</td>
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<td>Additional M+E items including,</td>
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<tr>
<td>Part L compliance, PIR's, additional heating controls,</td>
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<tr>
<td>BMS interfaces, chimney lining, lightning protection</td>
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<tr>
<td>Increased scope of chemical injection DPC</td>
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<td>Additional ironmongery</td>
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<td>Blast and paint stonework</td>
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<td>Furniture Scope increases</td>
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### Non Pro-rata Items

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<td>Costs of Plant etc</td>
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### General Items

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<td>Landlords fees increase from WJ</td>
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### Omissions

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<td>Central wc's in lieu of ensuites</td>
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<td>Landscaping</td>
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### TOTAL ABNORMALS

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<td>Total Abnormals</td>
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PAPER J

SUSPENSION OF DEGREE REQUIREMENTS

A Note by the Clerk

BACKGROUND

1. A medical student registered for the MBBS degree course in September 1990, passed the first two years of the course at the first attempt, and progressed normally on to the clinical element of the course. The assessments from the student’s clinical attachments were all satisfactory. The student then failed the final MBBS examinations on four occasions, the latest attempt being in June 2001. The student had only to complete one element of the examinations in order to be successful. On each occasion the reason for failure was ill health.

2. The student’s case was considered by a Fitness to Practise Panel which recommended that the student should be allowed one further attempt at the one remaining element of the final examination. The School of Medicine agreed that the student merited a further attempt and gave an undertaking to assist in every way possible with revision for the examination.

3. However, the Panel’s recommendation could only be implemented if Paragraph 13.7.1 of the Academic Regulations was suspended. This states that:

   “With the exception of candidates for course-unit degrees a candidate who at his/her first entry does not complete successfully an examination for a first degree, or, where appropriate, any part of an examination for a first degree, may re-enter for the relevant examination, on such conditions as may be prescribed in the Requirements for the particular degree, on not more than three occasions.”

4. The appropriate authority for such a suspension is the Council. However, Governors are asked to note that, in view of the urgent need for a decision to be given to the student, Lord Vincent took Chairman’s action on 11 November 2002 to agree the suspension.

K.A.M.
SALE OF COBHAM SPORTS GROUND

A Note by the Director of Estates

1. The College’s interim Property Strategy covering Residences, Prince’s Gardens and Sports Fields, which was presented to the Council at its last Meeting on 18 October, included the proposed sale of the Cobham Sports Ground.

2. The College has been successful in receiving a bid for £3.5M for Cobham Sports Ground and the Council is therefore asked to approve this sale.

3. The intended purchaser has insisted that the sale negotiations should remain confidential. Members are therefore asked not to disclose the fact that they are taking place until after the sale has been officially announced.

D.B.W.