

SOUTH EASTERN REGIONAL COLLEGE

Governing Body – Audit Committee

Minutes of the meeting of the Governing Body Audit Committee held on Tuesday 7th June 2016 at 6:00 p.m. in the Lisburn Campus.

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| 1. | Attendance and Apologies <u>Present:</u> Mr G. Hetherington, Mr D. Sagar, Mr S. Pollard, Ms C. Meharg, Mr N. Bodger, Mrs C. King <u>In attendance:</u> Mr T. Martin (Chief Finance Officer), Miss M. McAleer (DFE), Mr D. Lynn (NIAO), Mr J. Poole (KPMG), Mr M. Pitt (PwC), Miss C. McDermott (Minutes) <u>Apologies:</u> Mr K. Webb (Principal), Ms S. Corbett <u>In the Chair:</u> Mr G. Hetherington. The Chair welcomed everyone to the meeting and expressed his regret that Ms. Smith, Secretary of the Governing Body had passed away after a period of illness. |
| 2. | Declarations of conflicts of interest The Chairman asked if any member had an actual, potential or perceived conflict of interest with any item on the agenda. There were no declarations of conflicts of interest. |
| 3. | Minutes of the meeting held on 15th March 2016 Ms Meharg proposed the adoption of the minutes as a true record and Mr Pollard seconded with the following amendment: Page 3, Item. 7: "Mr Andrews added that this risk has not been categorised as "Sector Wide", possibly because the impact has not been assessed as yet. He added that the impact will be more evident at the end of this academic year and maybe then the risk will be worth considering for the Health Check Report." Amended to: "Mr Andrews added that this risk has not been categorised as "Sector Wide", possibly because the impact has not been assessed as yet. He added that the impact will be more evident at the end of this academic year and may be considered by individual colleges for inclusion on their strategic risk register and in the Health Check" |
| 4. | Matters arising There were no matters arising not included elsewhere on the agenda. |
| 5. | Chairman's Business There were no items to be taken. |

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| <p>6.</p> | <p>Correspondence:</p> <p><u>Further Education Financial Statements Benchmarking Report 2014-15</u></p> <p>The Chair presented the "Further Education Financial Statements Benchmarking Report 2014-15" and highlighted:</p> <ul style="list-style-type: none"> • Measure 12 - Cash and Short Term Investments (£m) which are below average • Measure 14 – Operating Cash Flow as a % of total income which are below average • Measure 15 – Capital expenditure (£m) which are higher than average <p>Members discussed the Report and noted the correspondence.</p> |
| <p>7.</p> | <p>Risk Management Report</p> <p>The Chief Finance Officer reported on the risks as follows:</p> <p><u>R074: Managing the financial viability of the College.</u></p> <p>The Chief Finance Officer reported that the Period 8 Management Accounts and Full Year Forecast were completed in April 2016 and recorded an historic cost surplus of £2,125k for the first 8 months of the year compared with a budgeted surplus of £1,471k giving a positive variance of £654k for the period. The Chief Finance Officer continued that the forecast outcome at this stage of the year is for a historic cost surplus of £1,048k.</p> <p>The Chief Finance Officer informed members that the cash balance is approximately £3.8m higher than at the same stage last year with a year-end forecast of approximately £4.63m and forecasted outcome at this stage of the year is for a historic cost surplus of £1,048k, which is a significant improvement on the original break-even budget. It's worth noting that this outcome must be considered in two "parts": the operational result and the "bottom-line" historic cost surplus or deficit.</p> <p>Risk to remain as <u>Category A.</u></p> <p><u>R075: Failure to manage the level of sickness absence within the College</u></p> <p>The Chief Finance Officer reported an improvement to the Absence rate YTD of 2.99% which is a 31% reduction from the rate in 2014/15 of 4.34% and significant reduction (40%) from the rate at the same period last year of 5.01%.</p> <p>Risk to remain as <u>Category B.</u></p> <p><u>R077: Ability to manage impact of financial cuts</u></p> <p>The Chief Finance Officer said the sector has commenced implementation of the 2016/17 VES and initial estimates provided to DEL indicate a funding requirement of approximately £5.3m for the sector with on-going salary savings of more than £2m per annum.</p> <p>The Chief Finance Officer informed the members that the Collaboration Programme is continuing with a particular focus on the Systems, Technology and Services Project and the Curriculum Development Project.</p> |

The Chief Finance Officer said SERC has received confirmation of a static budget allocation for 2016/17 which is dependent on an agreed utilisation of End of Year Flexibility funding which will be progressed via June monitoring.

Risk downgraded to Category B.

R078: Ability to Manage Enrolments in light of Youth Training Reform

The Chief Finance Officer said SERC are completing proposals/additional cohort requests for

- 6 Traineeships with 120 places against a DEL quota of 100
- 5 Level 3 Apprenticeship with 70 places against a DfE quota of 50
- HLA programmes with 96 places against a DfE quota of 50

The Chief Training and Contracts Officer and the Head of Quality Excellence and Development have held formal reviews of all Traineeships with full course teams. Retention is currently 84% across the four programmes. Feedback is generally positive, particularly from focus groups.

Risk to remain as Category A.

R080: Managing the Competitive Risk due to Demographic Change

The Chief Finance Officer said the Schools Partnership provision 16/17 has been agreed with schools with minimum overlap between school's courses and SERC's courses and SERC has adopted a policy of extending Access provision by relaunching to sustain overall enrolments and minimise impact of any loss of students to schools.

The Chief Finance Officer added that this risk was raised with the NIFON Group and all colleges are experiencing an impact from this risk and are attempting to minimise the risk with the use of marketing resources.

The Chair said there is a wider policy issue with this risk especially in terms of Post Primary Schools being in a much better position to encourage young people to stay at school to continue their education rather than perhaps choosing a course at an FE college that would be more suited to their needs.

Mr Sagar discussed the two objectives for the college as managing the financial viability and Delivering on Funded Learning Unit's and enquired where and how management are dealing with these within the top risks.

The Chief Finance Officer informed members that this risk (R080) has been identified as one of the underlying issues for not delivering on Funded Learning Unit's last year and possibly could be articulated better to show the correlation. He added that by developing other areas of the curriculum for next year this would hopefully compensate for areas that are being affected by the demographic change and allow the college to meet their FLU targets.

ACTION: The Chair suggested the addition of the FLU's Data Table to this section for future meetings.

Risk to remain as Category A.

Analysis of College Feedback Process

The Chief Finance Officer said the first Category A negative complaint has been closed up and the college has responded in writing.

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| | <p>There were no new risks identified.</p> |
| <p>8.</p> | <p>Fraud Update</p> <p><u>8.1 2015/16 Update on Alleged and Suspected Cases of Fraud</u></p> <p>The Chief Finance Officer reported that one case of attempted fraud remained live and one case was closed from the last update to the Audit Committee in September 2015 and there had been no further cases of alleged fraud.</p> <p>Mr Pitt added that the one live case of attempted fraud is a relatively common case of fraud.</p> <p>The Chair enquired if there is a relatively lower risk of fraud across the sector. Mr Pitt explained that across the sector it would tend to be a low volume of fraud cases that can be classed as low level fraud but can be quite significant fraud risks.</p> <p>Mr Lynn added that FE Fraud tends to be split into two categories :</p> <ul style="list-style-type: none"> • Theft of Assets, by students or the general public • Staff partaking in Fraud e.g. Diversion of income <p>Mr Sagar asked how often the Audit Committee would review the Whistleblowing Policy. The Chief Finance officer said this is reviewed annually by Finance and Audit Committees and it would form part of the Staff Online Mandatory Training.</p> <p><u>8.2 National Fraud Initiative – Progress Report</u></p> <p>The Chief Finance officer informed members how the report is related to data matching and identifying inconsistencies in the college data e.g. payroll, pensions.</p> <p>Mr Lynn said the data matched to the college identified 213 issues recommended for investigation and the college examined a further sample of 334. Mr Lynn added that the NIAO are relaying that the actual sophistication of identifying the matches for investigation is coming increasingly more and more refined and although there is a temptation to look at numbers over and above that, the NIAO are finding increasingly diminishing returns from that. Mr Lynn said that going forward he has no issues with only exploring the recommended matches for investigation.</p> <p>Mr Lynn added that the NIAO will have to re-examine the National Fraud Initiative again to ensure it stays relevant to the types of fraud in FE.</p> <p>Members discussed and noted the report</p> |
| <p>9.</p> | <p>Internal Audit Reports</p> <p>9.2 Monitoring of Performance against Budget</p> <p>Mr Poole presented the report and said that based on the work performed by KPMG, no issues were noted and the Internal Audit Review of systems and controls in relation to Monitoring of Performance against Budget received a substantial assurance rating.</p> |

9.3 Procurement

Mr Poole give a brief overview of the report highlighting that the review of Procurement received a substantial rating and there are no recommendations to bring to the attention of the Committee.

9.1 Progress Against Internal Audit Plan – 2015/16

Mr Poole presented the Progress against the 2015/16 Internal Audit plan and noted the Complaints Handling which has received a satisfactory assurance rating

Mr Sagar suggested adding data to the report that would detail when an item was last audited and enquired how the areas that are audited are chosen initially.

Mr Poole said that a three year strategy is designed and the areas for audit are chosen and then approved at the beginning of the financial year by the Audit Committee as an annual plan. This strategy will list the rationale for the areas chosen and the reports presented are the outcomes of this particular strategy document.

The Chief Finance Officer said that the initial management review of the 2016/17 annual internal audit plan is already scheduled. This plan will be reviewed by management before being presented to the Audit Committee in September 2016 for review and approval.

The Chair added that it would be beneficial to bring the draft internal audit plan to other committees for comment or recommendations.

Mr Pollard added that the number of substantial ratings is an excellent result and gave his congratulations to the management and staff involved.

10. Actions taken in response to Internal Audit/NIAO Audit Reviews

10.1 Items brought forward from 2014/15

The Chief Finance Officer reported that one item brought forward from 2014/15 in relation to the Internal Audit Review of Utilisation of the Estate remains in progress. This relates to the Estates Department liaising with the Timetabling Department to establish a format for regular utilisation reporting and identification of action plans to both CMT and to F&GP. The Chief Finance Officer said that the initial data will be included in June's Estates report with routine reporting commencing for the 2016/17 academic year.

Mr Bodger enquired about the communal areas and if they were being re-examined. The Chief Finance Officer said those areas are being reviewed and are included in the sub-categories of the Utilisation of the Estate.

The Chair enquired about the change of completion date from June 2015 to June 2016 and the Chief Finance Officer informed members that it was pushed back by one year initially to facilitate inclusion of the DEL sector utilisation review (which was completed in November 2015); but also to allow the College to build a regular reporting format on the back of this review.

10.2 Review of Core Financial Processes

The Chief Finance Officer reported that the one Priority 3 area relating to daily lodgement summaries has been completed and adherence to the SOP is being monitored by the Finance Department.

10.3 NIAO Report to Those Charged with Governance 2014/15

The Chief Finance Officer provided an update on the 2014/15 Report to those Charged with Governance in relation to the priority 3, sector-wide, recommendation on developing an Intangible Asset accounting policy through the SORP/FRS 102 working group. He noted this is on-going and the development is in consultation with the Department for the Economy and the policy will be finalised in the 2015/16 accounts direction.

The Chair enquired if this would be completed by the end of this financial year. The Chief Finance Officer said that he was hopeful this would be implemented to be published within Annual Report and Financial Statements

10.4 Review of Management of VES

The Chief Finance Officer reported that the process for the 2016/17 VES has incorporated the recommendation of recording the relevant SMT approval for each individual alongside summary/bullet point narrative on rationale and a forecast of the potential cost savings for that exit. He added that progress is to be reviewed by Internal Audit as part of their annual follow-up review.

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External Audit Strategy

The Chair welcomed Mr Pitt from PwC to the meeting. Mr Pitt discussed the External Audit Strategy to include the purpose of the Strategy and how PwC plan to audit the financial statements for the year ending 31st July 2016. Mr Pitt summarised the actions for those charged with governance and the outline for their general audit approach. He highlighted materiality and noted that in line with generally accepted practice, they have set their quantitative materiality threshold as approximately 2% of expenditure, which equates to £955,000. Mr Pitt said that in relation to the error reporting threshold, they will treat any misstatements below £45,000 as "trivial" and will therefore not require consideration by the Audit Committee. He added that this amount would only apply to normal business and anything that would be particularly sensitive would still be brought to the attention of the Audit Committee.

Mr Pitt discussed the section within the Strategy on "Significant Risks" and highlighted one Audit risk for the college that relates to the New SORP/FRS 102, which is a change in accounting for the college. He said that this will be Audited this year and as last year's accounts had to be restated, the last year has been Audited also to reflect the new accounting policies. Mr Pitt said there are no major issues that have been brought to their attention but there is one area within Training for Success that has inconsistent approach i.e. not treating it as agency income, whereas other colleges are treating it as agency income.

Mr Pitt highlighted the presumed significant risk of material misstatement owing to fraud arising from management override of controls, for example, management not acquiring the correct level of approval. He also discussed the presumed risk of fraud in revenue recognition and lastly, other risk factors to include Financial Sustainability which is addressed across the sector to ensure recurring revenue and recurring expenditure are being matched.

Mr Pitt highlighted Annex 2 on "Value for Money" and noted the review on DEL training programmes that is scheduled to be published later in the Summer and would be an interest to the college.

Mr Pitt said that in relation to the issues raised on intangible assets, it is anticipated that this will be closed as they are content with the approach that has been adopted.

Mr Lynn added that when they get all results in they will write to the colleges to record the key items.

Mr Sagar asked for further detail on fraud and revenue recognition and also queried the materiality threshold of £955k and raised concern for it being possibly too high.

Mr Pitt said that in relation to the materiality threshold, that is standard practice and is the cumulative position, however, if this would possibly rule out a number of areas being examined this could be amended. Mr Pitt went on to discuss fraud and revenue recognition and said that they would focus on other income streams such as training contracts and student fees that may have carry a risk.

Mr Lynn addressed Materiality and added that across the sector there is a reasonable clean bill of health and in his opinion, the colleges build a significant strength from the NIFON relationship and working together. Mr Lynn added that in terms of NIAO reporting to the college, there might be items substantially below £955k that are reported back.

The Chair confirmed that in terms of the trivial £45k threshold, over and above that would be examined by the Governing Body. Mr Lynn said that the terminology used does not by any means mean that amounts under the £45k is trivial.

The Chair asked that with KPMG as the internal auditors for the Sector, what is the arrangement for external audit across the sector. Mr Lynn said that PwC manage external audit for three colleges in total, another firm audits one college and the NIAO audits the remaining two colleges.

12 SORP – Accounting for Further & Higher Education

The Chief Finance Officer presented the report and brought the pertinent accounting adjustments to the attention of the Committee:

Opening Balance Sheet Adjustments

The report identifies two adjustments to be made to the opening balance sheet (at 1 August 2014):

- › Creation of Holiday Pay Accrual as at 1 August 2014: £290,134.90
- › Transfer of Deferred Capital Grant from Reserves to Liabilities: £32,203,076

The adjustments, as a result of FRS 102/SORP, are made through the opening reserves as follows:

| Capital and Reserves – 1 August 2014 | £'000 |
|--------------------------------------------------------------------------------|---------------|
| Capital and Reserves as previously stated (under UK GAAP and SORP 2007) | 76,421 |
| Holiday Pay Accrual | (290) |
| Deferred Capital Grants | (32,203) |
| Capital and Reserves (as restated under SORP 2014 and FRS 102) | 43,928 |
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2014/15 Financial Statement Adjustments

The report identifies four areas of change in regards to the 2014/15 Financial Statements on the adoption of SORP 2014 / FRS 102:

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| › Creation of Holiday Pay Accrual as at 31 July 2015: | £188,657.80 |
| › Care to Learn Agency Arrangement (Income & Expenditure): | £63,179.26 |
| › Transfer of Deferred Capital Grant from Reserves to Liabilities: | £42,877,447 |
| › Pension - NILGOSC: | |
| › I&E Charge Impact – Increase of Charge: | £510,000 |
| › OCI – Increase of Gain: | £510,000 |

The impact on capital and reserves as at 31 July 2015 is as follows:

| Capital and Reserves – 31 July 2016 | £'000 |
|--------------------------------------------------------------------------------|---------------|
| Capital and Reserves as previously stated (under UK GAAP and SORP 2007) | 92,951 |
| Holiday Pay Accrual | (189) |
| Pension Charge (I&E) | (510) |
| Deferred Capital Grants | (42,878) |
| Pension Amount recognised in OCI | 510 |
| Capital and Reserves (as restated under SORP 2014 and FRS 102) | 49,884 |

The changes also impact upon the "deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax" for the year end 31 July 2015 as follows:

| | £'000 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|--------------|
| Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax (under UK GAAP and SORP 2007) | (210) |
| Holiday Pay Accrual | (189) |
| Pension Charge | (510) |
| Deficit on continuing operations after depreciation of assets at valuation, disposal of assets and tax (as restated under SORP 2014 and FRS 102) | (909) |

13 DEL Health Check – Issue 2

Members noted the contents of the DEL Health Check Issue 2 and the Chief Finance Officer brought the relevant points to the attention of the Committee:

- Recurrent Spend for SERC is a £65k overspend, which is within -0.22% of target
- The College has suffered a drop in income in the employer engagement, Training for Success and Steps2Success as well as reduced non-EU grant income
- Cash Days are within range
- Debtor Days are outside range at 47
- Current Assets are outside range at 2.7
- Cash Balance is within range
- Staffing costs are within range, 56% of total income and 55% of total costs.
- Prompt payment ratios are outside range, with 85% of invoices paid within 30 Days q/w 31 January, based on a target range of 95%

The Chair expressed his support for this report and the comparative FLU performance results enclosed.

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| | Mr Pollard said he was pleased to see the general improvement in Creditor Days. |
| 14 | <p>Policies for Approval:</p> <p>Anti-Fraud Policy</p> <p>The Chief Finance Officer informed the Committee that minor updates were made to the Anti-Fraud Policy and Fraud Response Plan as recommended by the FE Corporate Governance and Accountability Branch.</p> <p>The Policy was recommended for approval by the Governing Body on the proposal of the Chair seconded by Mr Bodger with a typing error amendment on page 1.</p> |
| 15 | <p>Any other notified business</p> <p>There were no items to be taken.</p> |
| 16 | <p>Date and time of next meeting</p> <p>The external representatives left the meeting at 7:59p.m. The Governing Body members, Miss McAleer and the Chief Finance Officer remained for confidential business.</p> <p>Confidential Business</p> <p>A separate minute was taken for the confidential item.</p> <p>The meeting, including confidential business, ended at 8:07 p.m.</p> <p>The next meeting will be held on Tuesday 15th September 2016 at 6 p.m. in the Lisburn campus.</p> |

Signed: _____

Date: _____

15/9/16

Audit Chair

| Attendees | Time Arrived | Time Left | Duration | Entitlement to Payment Y/N |
|---------------------|--------------|-----------|----------|-------------------------------|
| Gareth Hetherington | 6pm | 8:07pm | 2:07 | Y |
| Neil Bodger | 6pm | 8:07pm | 2:07 | Y |
| Steve Pollard | 6pm | 8:07pm | 2:07 | Y |
| Carolyn King | 6pm | 8:07pm | 2:07 | N |
| Claire Meharg | 6pm | 8:07pm | 2:07 | Y |
| Ken Webb | | | | |

Signed: _____

Date: _____

Chairman of Governing Body