

SOUTH EASTERN REGIONAL COLLEGE

Governing Body – Audit Committee

Minutes of the meeting of the Governing Body Audit Committee held on Thursday 15th September 2016 at 6:00 p.m. in the Lisburn Campus.

1.	Attendance and Apologies <u>Present:</u> Mr G Hetherington (Chair), Ms C Meharg, Mr N Bodger, Mrs C King, <u>In attendance:</u> Mr T Martin (Chief Finance Officer), Mr C Andrews (DfE), Ms C O'Hagan (NIAO), Ms E Anderson (KPMG), Mr M Pitt (PwC), Ms L Cahoon-Kelly (PwC), Mr D. Sagar (Chair of Governing Body, via telephone), Mr K Webb (Principal & Chief Executive), Ms M McAleer (Acting Secretary), Mr D McCullough (Minutes) <u>Apologies:</u> Ms S Corbett <u>In the Chair:</u> Mr G Hetherington. The Chair welcomed everyone to the meeting.
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 7th June 2016 Ms Meharg proposed the adoption of the minutes as a true record and Mr Hetherington seconded.
4.	Matters arising There were no matters arising not included elsewhere on the agenda.
5.	Chairman's Business <u>5.1 Annual review of Committee Terms of Reference</u> Members discussed the committee's Terms of Reference and the Chair indicated that the Committee should compare these terms of reference to the Audit Code's model terms of reference. The Chair asked Ms O'Hagan if the points concerning the Committee's review of the 'Report to those Charged with Governance' and the 'external auditor's management letter' were the

	<p>same point. Ms O'Hagan agreed that they were the same point and that the 'management letter' could be removed.</p> <p>Mr Sagar informed members that the terms of reference would be discussed during the scheduled Committee Chairs lunch and that any changes would come back to the Committee to consider.</p> <p><u>5.2 Audit Committee Annual Report</u></p> <p>The Chair explained the purpose of the Audit Committee's Annual Report and asked members for their comments. There were no comments from members on the draft report.</p> <p>The Chair explained that he would discuss some of the contents with the Chief Finance Officer and the final report would be brought to the Committee's November meeting.</p>
<p>6.</p>	<p>Correspondence:</p> <p><u>6.1 DfE Accounts Direction 201516</u></p> <p>The Chair asked the Chief Finance Officer to talk through the Accounts Direction. Mr Martin explained to members that the Accounts Direction circular sets out the requirements for NIFE Colleges to prepare their Annual Report and Financial Statements.</p> <p>Mr Martin informed members that the most fundamental change to the previous year's accounts direction was the introduction of the requirements of the new Statement of Recommended Practice: Accounting for Further & Higher Education (SORP) 2015. Mr Martin explained that DfE FE Governance and the sector worked collaboratively on this Accounts Direction to ensure consistency and uniformity in implementing new regulations.</p> <p>The Chair asked members if they had any questions for the Chief Finance Officer. There were no questions from members.</p> <p><u>6.2 FE Colleges Audit Code</u></p> <p>The Chair brought to the attention of members the FE Colleges Audit Code and highlighted the importance and usefulness of the document for all Audit Committee Members. The Chair specifically noted Annex E in relation to key questions that the Audit Committee should be reviewing and examining each year in relation to their responsibilities.</p> <p>Mr Sagar noted that Chapter 6 was updated and reflected the Department for the Economy's input into the audits carried out by the College's Internal Audit Service where it stated that "the work of the internal audit service must cover the whole of the risk management, control and governance arrangements of the College, along with any other areas of work as required by the Department". Members discussed the inclusion of this statement in the Audit Code and noted that it may give the Department influence over the areas that internal audit review within the College.</p> <p>Mr Andrews (DfE) explained that the statement was included to give the Department flexibility in regards to suggested areas for internal audit to review in order to give the Department assurance, for example on an "ear-marked" fund. Mr Andrews noted that previously if additional assurance work was required on a ring-fenced fund the Department would have</p>

	<p>used the services of their own FAST team, however that team no longer exists. Mr Andrews further informed members that if the Department wished to invoke the clause it would always be with the agreement of the audit committee.</p> <p>The Chair commented that the outworking of this clause may result in additional costs to the College for areas of review requested by the Department.</p> <p>Members agreed to discuss the point further at the Governing Body Meeting and Mr Sagar noted that the addition of this clause was potentially taking away from the independence of the Audit Committee and the spirit of governance.</p>
<p>7.</p>	<p>Risk Management Report</p> <p>The Chief Finance Officer reported on the strategic risk register from the 30th August 2016 Risk Management Meeting. Mr Martin informed members that the risks followed three main themes of Financial Viability, Staff Absence and Enrolments. The CFO reported 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 full year management accounts were completed in August with the College recording a historic cost surplus of £1m for the year in comparison with the originally budgeted break-even result. Mr Martin informed members that the surplus was a direct result of the agreed additional £1m working capital investment provided by DfE during the financial year and that these additional funds were designed to recognise the cash outflow associated with SERC's PPP contracts and to support the working capital requirements. The Chief Finance Officer noted that a break-even budget for 2016/17 was being submitted to DfE by the end of September.</p> <p>Mr Martin informed members that the Risk would remain as Category A and would be reviewed at the next Risk Management meeting.</p> <p><u>R075: Failure to manage the level of sickness absence within the College</u></p> <p>The Chief Finance Officer informed members that there are currently six cases of staff long term absence within the College. He reported that the trend of reduced absence rate continues with a current absence rate YTD of 3.11%, a 28% reduction from the rate at the same period last year of 4.34%.</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 continued to implement the 2016/17 VES and initial estimates provided to DfE indicate a funding requirement of approximately £5.3m for the sector with on-going salary savings of more than £2m per annum. Mr Martin reported to members that consideration will now turn to any potential Tranche 2 which may be required in the sector in light of curriculum demand and delivery plans for the year and noted that liaison with DfE continues and funds have been set aside for this.</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.

The Chief Finance Officer said SERC has received confirmation of a static budget allocation for 2016/17. He noted that DfE submitted a bid for End of Year Flexibility funding via the June monitoring round and whilst this was not 100% successful there will be no impact on FE Recurrent FLU allocations in 2016/17.

Risk to remain as Category B.

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

The Chief Finance Officer said that proposals for new cohorts within SERC have now been approved by the DfE and the Minister and funding secured to continue to run these courses.

R080: Managing the Competitive Risk due to Demographic Change

The Chief Finance Officer gave members an update on this risk in relation to Schools Partnership Provision, Access/Restart Education. L2 Traineeships and Level 3 Apprenticeships and Current status post 16 applications and offers.

The Chief Finance Officer said that the Risk Management Team have agreed that risks R078 and R080 should be amalgamated and considered as one strategic risk entitled "Enrolments". Mr Martin informed members that enrolments were formally reported to the Finance & General Purposes Committee and the Education Committee and asked members if they wished for them to be also reported formally to the Audit Committee or whether they would be held as a section on the Risk Management Report. Members agreed for the enrolment update to be held on the Risk Management Report.

The Enrolment Risk (formerly R078 and R080) to remain as Category A.

Analysis of College Feedback Process

The Chief Finance Officer brought to the attention of members the report on complaints and compliments within the Risk Management Report which highlighted one category A complaint and sixty-one compliments/positive feedback. Mr Martin informed members that the Risk Management Team were content that there were no trends or areas that presented a significant risk to the College.

The Chair thanked the Chief Finance Officer for presenting the Risk Management Report. The Chair noted that the College's Risk Management Report highlighted very few risks in comparison to the risks identified by other Colleges as identified in the DfE Healthcheck document. The Chair said there may be an opportunity for the Governing Body and the College Management Team to reconsider the risks identified within the College alongside their assessment. The Chair asked members for comment. Ms Meharg also acknowledged the number of risks in comparison to the other Colleges.

Mr Webb said that the College Management Team and Risk Management Team would formally look at the risks within other Colleges to establish if they were risks within SERC and if they should be reported at the same level. Mr Webb brought to members' attention that certain

	<p>Colleges have individual risks that were not relevant to SERC, for example risks regarding Estates.</p> <p>Mr Andrews informed members that the risk summary within the DfE Health Check document attempted to bring together the risk registers of all 6 Colleges into a standard document and as such attempting a direct read across could be quite difficult.</p> <p>Mr Sagar thanked the College Management Team for the detail within the risk register and asked the team to consider two specific risks:</p> <ul style="list-style-type: none"> - Enrolment and FLUs - Estates Strategy – a risk that verbalises the need to get the best value from the Estate that is held by SERC. <p>The Chair brought to the attention of members one further item within the Risk Management Report concerning the case study on the NI Events Company and asked members to consider the lessons learned as detailed within the PAC Report and Memorandum of Reply.</p>
<p>8.</p>	<p>Draft Annual Report & Financial Statements (including Governance Statement)</p> <p>The Chief Finance Officer presented the draft Annual Report and Financial Statements. Mr Martin explained the preparation and audit process and timetable to members.</p> <p>The Chief Finance Officer reported that the College has recorded a draft historic cost surplus of £999k for the year compared with an originally budgeted break-even result. Mr Martin said the surplus was a direct result of the agreed £1m working capital investment provided by DfE Finance during the year and in keeping with last year the additional funds were designed to recognise the cash outflow associated with SERC’s PPP contracts and to support working capital requirements and therefore it was imperative that they were not utilised during the year.</p> <p>Mr Martin then explained the adjustments that were necessarily applied to the management accounts to arrive at the financial statements result of £378k deficit which was largely a result of a holiday pay accrual, pensions liability adjustment and the presentational reclassification of the revaluation reserve release.</p> <p>The Chair asked the Chief Finance Officer whether the format of the management accounts will change going forward to reflect the financial accounting requirements. Mr Martin said that the Finance team are currently working on reformatting the 2016/17 management accounts to reflect the financial accounting requirements of FRS 102/SORP 2015.</p> <p>The Chief Finance Officer provided members with an overview of the financial position as at 31 July 2016 and explained the main movements within each of the reserves. Mr Martin highlighted the change in the pension reserve and explained to members the change was in relation to the actuarial assumptions used to value the pension scheme and highlighted the detail within the covering report.</p> <p>The Chair asked the Chief Finance Officer if it was likely that the College would have to make significant contributions in future years to the pension scheme as a result of such valuations. The Chief Finance Officer agreed it was likely that contributions may increase in the future.</p>

	<p>Mr Martin concluded his report by summarising the contents of the Statement of Corporate Governance and Internal Control to members.</p> <p>There were no comments on the draft Annual Report and Financial Statements and the Statement of Corporate Governance and Internal Control.</p> <p>A discussion followed surrounding the date of the Governing Body meeting in November that was scheduled to approve and sign the Annual Report & Financial Statements prior to NIAO final sign off and submission to DfE. The Chief Finance Officer agreed to progress the practicalities of timing with DfE and the NIAO.</p>
<p>9.</p>	<p>Internal Audit Reports</p> <p><u>9.1 Internal Audit Report 2015/16</u></p> <p>Ms Anderson presented the year-end report against the Internal Audit Plan for 2015/16.</p> <p>Ms Anderson informed members that based on the Internal Audit work performed during 2015/16 KPMG provided an overall substantial assurance over the internal control environment at the College.</p> <p>Ms Anderson noted that there were eight new recommendations arising during the year with one recommendation being brought forward from the period year. Ms Anderson said that follow up work was performed on all brought forward items and current year issues with all nine recommendations raised having now been addressed leaving no recommendations to be followed up in the next financial year.</p> <p>Ms Anderson highlighted a number of sections of the internal report including all reviews being completed within budget and the achievement of the KPIs.</p> <p>Members had no questions on the 2015/16 Internal Audit Report.</p> <p><u>9.2 Internal Audit Strategy Annual Plan (2016/17)</u></p> <p>Ms Anderson presented the 2016/17 Internal Audit Annual Plan and informed members of the 7 scheduled internal audits for the year. Ms Anderson explained that the plan was largely consistent with the plan previously presented to the Audit Committee with 2 timing changes:</p> <ul style="list-style-type: none"> - Payroll Review now scheduled in 2016/17; and - Estates Strategy Review now scheduled in 2017/18. <p>The Chair enquired as to the reason for the changes to the 2016/17 internal audit plan. The Chief Finance Officer explained that they related to timing in that Estates Utilisation was very recently audited whilst it was timely to examine the process around joiners and leavers relating to the payroll instruction from HR.</p> <p>Ms Anderson informed members that the internal audit plan was aligned to the most recent risk register.</p>

	<p>The Chair asked for the Internal Audit Plan to include the date of when the area was last reviewed and the assurance rating it was given. Ms Anderson agreed to include this in future plans.</p> <p>Mr Sagar acknowledged the work by management in relation the internal audit substantial assurance. Mr Sagar asked for the Audit Committee to consider the internal audit plan in relation to the identified risks of the College and specifically brought to the attention of members the risks of financial viability and enrolments.</p> <p>Mr Sagar also asked if there was merit in reviewing complaints handling in 2016/17 due to its satisfactory assurance in 2015/16. Ms Anderson informed members that Complaints Handling was subject to follow up review with all recommendations fully implemented. Ms Anderson also said that Complaints Handling was an area that required review once in every three years.</p> <p>The Chair agreed that these comments could be discussed at the Chairs meeting on 26th September.</p> <p>Ms Anderson brought to members’ attention the changes to internal audit assurance ratings introduced by DAO (DoF) 07/16 that will apply from 2016/17. Ms Anderson informed members that the “substantial” opinion rating was being removed and the definition of the remaining evaluations reworded. Ms Anderson also highlighted that recommendation priority definitions were revised to reflect organisational priorities, which is considered will enable management to more easily identify significant issues at a significant level.</p> <p>The Chief Finance Officer commented that such a change will need to be fully communicated to the wider Governing Body to ensure there is a recognition of rating and priority changes external to the College. The Chair agreed and said he would report to Governing Body on the changes.</p> <p>The Chair thanks Ms Anderson for her report.</p>
10.	<p>National Fraud Initiative</p> <p>The Chief Finance Officer reported that the College was partaking in the 2016/17 National Fraud Initiative and brought the 2016/17 timetable to members’ attention.</p> <p>The Chair and members discussed the effort and resources required to collate and review the data for the National Fraud Initiative. The Chair asked Ms O’Hagan about the Colleges continued participation in the initiative.</p> <p>Ms O’Hagan informed the Chair that she would discuss with her colleagues in NIAO and report back to the Committee and the College.</p>
11	<p>Policies for Approval:</p> <p>There were no policies for approval.</p>
12	<p>Summary of Actions taken in Response to External & Internal Audit Recommendations</p> <p>There were no recommendations outstanding to be considered.</p>

13	<p>DEL Health Check – Issue 3</p> <p>Members noted the contents of the DEL Health Check Issue 3 and Mr Andrews brought the relevant points to the attention of the Committee.</p> <p>The Chair expressed his support for this report and the value of the contents.</p>
14	<p>Training for Success & Apprenticeship NI: Department for the Economy Compliance Review Findings</p> <p>The Principal brought the report to the attention of members and discussion followed on the main topics contained within the report.</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 next meeting is scheduled be held on 23rd September 2016 at 6 p.m. in The SPACE.</p>

Signed: _____
Chair

Date: _____