SOUTH EASTERN REGIONAL COLLEGE

Governing Body – Audit Committee

Minutes of the meeting of the Governing Body Audit Committee held on Thursday 21st June at 5.10p.m. in the Lisburn Campus.

1.	**Private session with Internal Auditors and Committee Members** A separate note was taken for this discussion.
2.	**a) Attendance and Apologies** Present: Mr G Hetherington (Chair), Mr N Bodger **Items 1-5E Only**, Mr J Mackell **Items 1-2E, 4C-D, 5B Only,** Mr S Pollard, Ms S Corbett In attendance: Mr D McCullough (Financial Controller)**Items 2-8 Only**, Mr A McKibben (Grant Thornton), Mrs C Williamson (Secretary to the Governing Body, Ms K Doey (NIAO) **Items 2-8 Only** , Ms C McCrory (PWC) **Items 2-8 Only**, Mr M Cardwell (DfE) **Items 2-8 Only**, Mr L Ovadia (DfE) **Items 2-8 Only**, Dr M Malone (Director of Curriculum and Information Services)**Items 2A-B, 4C-D and 5B Only,** Mr A Emmet (Principal Systems, Technology & Services Officer, MILT) **Items 2A-B, 4C-D and 5B Only,** Mr D Sagar (Chair of the Governing Body) **Items 2-8 Only**, Mr K Webb (Principal) **Items 2-8 Only**, Ms C Goodwin (Governor) **Items 2-8 Only**, Mrs H McKee (Director of Strategic Planning, Quality &Support) **Items 2A-B and 4D only** Apologies: Ms R Heaney. Mrs C King Not present: Tommy Martin (Chief Finance Officer), Mrs A Hamilton (Boardroom Apprentice) In the Chair: Mr G Hetherington. The Chair welcomed everyone to the meeting and extended a special welcome Mr Ovadia, Mr Cardwell and Ms McCrory to their first meeting of the Audit committee. **b) 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. No perceived conflicts were declared. **c) Minutes of the meeting held on 26th March 2018**

	The Chair invited members to review the minutes from the previous meeting. The minutes were accepted as a true and accurate record of the meeting. The Chair agreed to record Mr Sagar's name as not present in the minutes.

Proposer: John Mackell

Seconder: **Steve Pollard**

d) Matters arising

The Chair reviewed the action points from the previous meetings and advised that they were complete or addressed elsewhere on the agenda.

The FC briefly updated the committee on the scheduling of the Department's request for internal audit to review the Hardship Fund, ASF and Care to Learn. He noted that the scheduling would be expected to be drawn from the days attached to sector reviews. The FC noted that the reviews will be detailed in the draft internal audit strategy that will be presented to the Audit Committee for approval.

e) Audit and Risk Assurance Committee Handbook

The Chair asked members to note the Audit and Risk Committee Handbook, he advised that it is a useful reminder of what an audit committee should be doing and suggested that it is reviewed annually. The Chair also advised that the document should be presented to any new members of the committee as part of their induction.

Action Point: The Chair requested that reference to Cyber Security is included in the committee's Terms of Reference at the next review in September

3.	**Correspondence**

NIAO 17/18 Audit Strategy

Ms McCrory, from PWC, presented the 17/18 Audit Strategy to the committee, she presented a high-level summary of the strategy, a brief discussion took place and the following points were noted:

- Ms McCrory advised members how the audit for year-end 31st July 2018 will be conducted; including how the audit of the financial statements will respond to the risks of material misstatement to transactions and balances and irregular transactions. Ms McCrory noted that the audit strategy has identified two risks that have the most significant impact on the audit report approach: management override of controls and fraud in revenue recognition.

- Ms McCrory advised that the level of materiality is set by considering both qualitative and quantitative aspects that would reasonably influence the decisions of users of the financial statements. The overall account materiality is £976,000. She further advised that the error reporting threshold, being all misstatements whether adjusted or unadjusted, is above £49,000 and will be reported to the Audit committee.

- Ms McCrory noted that materiality is also considered qualitatively and that in areas where users are particularly sensitive to inaccuracy or omission misstatements will be treated as material even below the principal

	thresholds. These areas are: misstatements for remuneration and staff report, disclosures about losses and special payments, audit fee and irregular income and expenditure are treated as material even • The committee were asked to note that the other risk factors included in the audit strategy being the outstanding pay remits and the contract management of CPD / PD. • The committee were asked to note that the financial audit team would be mindful of value for money throughout the audit. • Ms Doey, of the NIAO, confirmed that her office has fed into this strategy and approved it before it was issued to the College • In response to questions from members around the materiality and error reporting threshold figures, Ms McCrory provided a detailed explanation on the methodology for calculation and advised that the calculation method is consistent across the public and private sectors. • Ms Doey confirmed that the basis for overall materiality calculation being 2% of the 2016/17 total expenditure is the standard method of calculation and without any other significant risks this calculation of materiality would not change. • The Chair highlighted to members that any change in materiality level, for example to 1% of total expenditure, would impact upon sample size selected in the audit and the resultant audit fee. Ms Doey confirmed that such a change would impact upon the audit fee and further advised that the level of materiality is set within the overall risk assessment conducted as part of devising the audit strategy. • The Chair asked Ms McCrory to provide members with an explanation of the term "risk-based audit" and how it relates to materiality. Ms McCrory explained that the NIAO audit approach is risk based, informed by a good understanding of the operations of the College and an assessment of the risks associated with the financial statements and the regularity of underlying transactions. Ms McCrory noted that this also involves the review of Internal Audit reports focused upon financial controls and processes. • Ms Doey confirmed that the Comptroller and Auditor General had not requested any specific reviews that would lead to any additional sections to be included in the College's audit report. • Ms McCrory highlighted that error reporting set at £49k would provide assurance to the Committee.
4.	**For Information:** a. **Operational Risk Summary** The Chair asked members to note the presentation provided by the Chief Training and Contracts Officer on the operational risks in the areas of Business Services and the Training Organisation. Members commented that the presentation was very useful. b**.** **Risk Management Report**

The FC drew attention to risk R086: Maintaining current levels of Higher Education provision and noted that this was a new risk presented to the last audit committee meeting. He highlighted to members the score for this risk, as set by the Risk Management Team, was a 9 and thus an amber rating.

Mr Pollard referred to Risk R074 Managing the Financial Viability of the College, specifically the detail provided as the current position which states that lower university entry requirements have contributed to fewer enrolments. Mr Pollard requested if the narrative around this point could be reconsidered as in other meetings the Governing Body have been provided with data that shows that as a % the proportion of students selecting FE, HE or school is static.

The FC provided a brief update on the use of Properties Division and advised that the Sector have been tasked by DfE to prepare a Business Case to look at alternative options to using PD. DfE are fully supportive of the preparation of the business case and the FC noted that the internal audit review of the Use of PD will still go ahead as it will supply robust information for the Business case.

Action Point: Mr Pollard will provide narrative for Risk RO74 to detail the data correctly on falling demographics

Action Point: The Freedom of Information Data will be emailed to members after the meeting

c. **IT Resilience**

The Chair informed members that the NIAO issued guidance on Cyber Security (which was reviewed at the last meeting) and the committee need to develop a programme of activities in response to the high-level questions set out in the guidance in order for the committee to seek assurance that college is taking all reasonable steps to protect IT systems, infrastructure, software and data.

The Director of Curriculum & Information Services addressed the committee and introduced Andrew Emmet, Principal Systems, Technology & Services Officer (PST&SO), MILT. Mr Emmett has recently absorbed IT Infrastructure into his role which involves the networks and systems in the College. In presenting an overview of IT Security, the PST&SO set out the top priorities for the College in this area including formalising the regime currently being used and the resilience of networks. During a detailed discussion; members were advised that the College is not formally certified to ISO 27001 standard, but processes follow the general guidance of this standard. The PST&SO identified documentation of processes as an area for improvement within his department. The Director of C&IS highlighted that formal quality certification would result in additional costs with the potential requirement for additional posts – information that the Governing Body will need to be cognisant of going forward in the future.

The PST&SO advised members that the College has adequate resources in regard to the resilience of networks (including theft of data). He used the example of the arrangements in place regarding College systems where (as noted in the Business Continuity Plan) any high-level loss could be recovered within half a day.

Members were provided with a brief overview on how the College handles external third parties accessing the College systems (including suppliers and students). Mr Emmett informed members that such access is treated as "hostile environments" where access is restricted along with the scope of information available to them.

The PST&SO stressed that IT security is viewed very seriously within the College Management Team and such an approach is attributed to no serious incidents being reported within the College. The PST&SO advised members that, alongside his role within the College, he has a sector role that assists with IT resilience. The Sector is considering the use of an IT Security Expert for a sector –shared role that may prove beneficial and cost effective.

The Chair noted that in terms of the Audit Committee seeking assurance that all College systems are protected and have appropriate levels of security for each internal and external system, there are different lines of defence we should bear in mind. He noted that the first line of defence came from front line staff, the second line of defence came from senior management and the third line of defence is independent assurance from an external organisation. The committee will therefore need to make a determination where the first and second lines of defence are sufficient and where independent assurance (i.e. the third line of defence) is needed. The Chair noted that to meet the ISO27001 standards will be a lengthy process and the assurance from the PST&SO of the work that has started amongst the IT teams to bring the College's process' in line with the certification.

In response to a query regarding the College's insurance policy, the FC confirmed that the broker has been tasked with sourcing Cyber Liability and if this would cover third parties, the broker had not responded at the time of the meeting a further update can be provided at the next meeting to confirm if the policy can be extended to third parties.

The Chair noted that this is very much a new area of the Audit committee and suggested that consideration needs to be given to the level of expertise amongst committee members. The Chair suggested that members may benefit from a half-day session on the basics of IT security. The Chair enquired if there was any further guidance from the NIAO in this area, Ms Doey advised that all relevant material has been passed down to Audit Committees and any future guidance would also be communicated.

Action Point: The Chair will meet with the Director of C&IS and PST&SO ahead of the next meeting to discuss a programme of work for the committee specifically on IT security

Action Point: The Chair will advise the wider GB that the committee would welcome Governors with a sound level of expertise in IT security to join the committee

d.   Complaint Information

The Director of Strategic Planning Quality and Support (SQPS) presented the complaint information to members and advised members that the details of the complainants had been redacted to comply with GDPR regulations. In response to questions on the report, the Director confirmed that a report reviewing any themes of complaints was reviewed by the education committee at their last meeting in May. Members were asked to note that the report was not a sample, but a full overview of all complaints received in the academic year.

The Chair of the Governing Body enquired why the report was confidential and asked if any of the outcomes have been examined to review the affect on other students, how may have went to appeal stage and if there has been any change in conduct due to a complaint. The Director of SQPS noted that the confidentiality of the report is due to the personal data (although somewhat redacted), but the overall intention was not to limit discussion on the overall issues within the report. She highlighted the area within the report that details the actions taken in response to the complaints and the NIPSO appeal. The Director noted the actions in response to the NIPSO complaint (being based on course descriptors) included changes to all course descriptors and their presentation online and that these changes have been accepted by NIPSO.

In response to further queries from members, the Director of SQPS advised that the complaints policy allows 20 working days for a complaint to be resolved with the majority of complaints being resolved within this timeframe. She informed members of the separate log held by the College on actions taken in response to the complaints and suggested, if members agreed, on its inclusion within this report. The Chair noted that the follow up summary is provided to the Education committee and therefore isn't necessary in this report to provide the information too.

A brief discussion took place around how satisfied customers are with how their complaints are dealt with, the Director of SQPS advised that complainants are fully supported by the Customer Services Officer throughout the various stages of the process and advised that if they are not satisfied they are given the right to appeal.

5.	**Internal Audit:**

a)   Internal Audit Progress Report

Mr McKibbin presented the internal audit progress report. Mr McKibbin noted field work had been completed on the non-assurance review of GDPR with an assurance audit on GDPR planned for year 2 of the audit strategy.

b)   IT Security Final Report

Mr McKibbin presented a high-level summary of the findings of the IT Security audit report. He advised the audit was conducted by Grant Thornton's specialist IT audit team with the overall finding of good processes and controls in the College. There were no Priority 1 recommendations and an overall Satisfactory assurance was provided.

In response to a question from members concerning the review of user access rights, the FC confirmed that the finding was in relation to access of staff when moving across departments as opposed to leaving the College. The FC advised of the robust process already in place for terminating access to systems at the point of a person leaving the employment of the College.

Mr McKibbin noted that although processes were being carried out, as detailed through management assurances, there was a lack of formal documentation of such processes – as such a number of recommendations focus upon improving documentation. The PST&SO provided an overview of the work plan already in place to formalise and document the processes.

The Chair enquired if the STS project had made any progress since the last meeting and noted that it remains a risk on the strategic risk register. The Director of C&IS informed members that the concern for the STS project was the timeline for implementation and not the new system itself. He advised that the current system is in place until 2019 and DfE have put extra resource in to cover the contracts.

c)   Health & Safety Final Report

The FC and Mr McKibbin confirmed the report had been reviewed offline since the previous meeting and both were now content with the wording in the report.   The report now included a recommendation as "Advice to Management".

The Chair noted that as a committee the difference in opinion regarding this report was a new experience and stressed that it is important that if agreement cannot be reached the audit committee will have to accept it.

d)   Business Continuity Planning/Disaster Recovery Final Report

The Chair highlighted the timing issue in regard to receiving this report and asked Mr McKibbin to note that papers need to be received a week in advance to allow members sufficient reading time ahead of the meeting date, he noted that he would like to see this issue resolved moving forward.

Mr McKibbin acknowledged the delay in presenting members with the report and highlighted that year one of the audit strategy is more compressed and going forward Grant Thornton would like to agree the audit dates to ensure there is sufficient time to produce reports in time for meetings.

In terms of the Business Continuity Planning/Disaster Recovery report the committee noted that a satisfactory assurance was provided in relation to the controls in place with no Priority 1 ratings.

e)   Draft 2018/19 Annual Audit Plan

The committee noted the draft strategy presented and Mr McKibbin advised that he will work with management over the summer months to present a final strategy to the committee for approval in September.

In response to queries from Ms. Goodwin, the Chair advised members that the number of internal audit days attached to key financial controls was reflective of the risk and the previous limited findings in these areas. The Chair noted that

	the committee had agreed for internal audit to review a wider range of processes within the College. The Chair also confirmed the College's internal audit function is outsourced and the annual number of days, currently set at 50 days, is part of the contract with Grant Thornton as agreed by Audit Committee. Additional days could also be procured if the Audit Committee deemed it appropriate.
6.	**Summary of Actions taken in Response to External & Internal Audit recommendations:** The FC advised that there were no finalised internal audit reports with outstanding recommendations that required reporting to this meeting of the Committee. He confirmed that the Audit Committee will be presented with the summary of actions taken in response to audit recommendations for all finalised reports at the next meeting. Mr McKibbin further advised that the September internal audit report will validate the responses through their follow up review.
7.	**Fraud Update** The Chair asked the committee to note the Department of Finance Fraud Report. The FC presented the College Fraud Update. He advised of one new live fraud case from the previous meeting. The FC noted the live case is a suspected fraud as a result of false representation in relation to the recording of review meetings and service guarantee hours on the Steps to Success database. The FC asked members to note that an internal investigation has commenced with the outcome expected to be reported to the next Audit Committee.
8.	**Any other notified business** The Chair of the Governing Body requested the following points to be considered within the College's Whistleblowing Policy: 1. Recommend Audit committee works with management to review the policy 2. Details of when and how management report when whistleblowing does occur 3. Stages 1 & 2 of the policy are currently impractical for staff members. Suggest contacting Public Concern at Work to seek independent advice on reviewing the policy 4. Policy review is overdue-Last reviewed by Audit in February 2017 **Action Point:** The Chair requested if the GB Secretary would confirm that these points have been recorded correctly with the Chair of the Governing Body The Chair and the Principal thanked Martin Pitt from PWC for his service to the College and wished him well in his retirement.
	Date and time of next meeting The next meeting is scheduled be held on Thursday 13th September 2018, 5pm, Bangor Campus The meeting concluded at 19.40pm