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**SOUTH EASTERN REGIONAL COLLEGE**

**Governing Body – Audit Committee**

Minutes of the meeting of the Governing Body Audit Committee held on Wednesday 18<sup>th</sup>

September 2019 at 5.00pm in the Bangor Campus

**1. Confidential session for members only**

A separate note was taken for this agenda item.

**Chair's Business:**

**2. a) Attendance and Apologies**

Present: Mrs C King, Mr N. Bodger, Mr S Pollard, Mr J Mackell, Ms C Goodwin

In attendance: Mr T. Martin (Chief Finance Officer), Mrs C Williamson (Secretary to the Governing Body), Dr M Malone (Director of Curriculum and Information Services) Item 2-5C Only, Mr K Webb (Principal), Mrs H McKee (Director of Strategic Planning, Quality and Support) Items 2-6 only, Mr J. McCallion (PWC), Mr N Taylor (Grant Thornton), Mr W Smyth (DfE), Mr N Parfitt (Boardroom Apprentice),

Apologies: None

In the Chair: Mr Bodger

The Chair welcomed everyone to the meeting and asked everyone to introduce themselves for the benefit of Mr Parfitt as it was his meeting with the College.

**b) Declarations of conflicts of interest**

The Chair asked if any member had an actual, potential or perceived conflict of interest with any item on the agenda. Mr Pollard highlighted a possible conflict of interest in relation to discussions around payroll as his wife works in this department in the College.

**c) Minutes of the meeting held on 20<sup>th</sup> June 2019**

The Chair invited members to review the minutes from the previous meetings, the minutes were accepted as a true and accurate record of the meetings.

**Agreed:** The minutes of the 28<sup>th</sup> February 2019 were proposed by Mr Pollard and seconded by Mr Mackell

**d) Matters arising**

The Chair confirmed that all actions from the previous meeting had been completed, the Chief Finance officer advised that the action point relation to Properties Services Division will be dealt with under the related items in item 3.

**e) Audit and Risk Committee Terms of Reference Annual Review**

The committee reviewed the Terms of Reference and agreed they were fit for purposes and no amendments were required.

**Agreed:** The Terms of Reference were recommended for adoption by the Governing Body on the proposal of Mr Mackell and seconded by Mr Pollard

**f) Risk Horizon Scanning**

The Chair advised members that he would like to try to identify any risks that would not normally be regarded as an obvious risk to the College that may ultimately impact on the College. Mr Pollard advised that there is nothing beyond the risks that are included in the Strategic Risk Register except he noted that the horizon can be relatively short in terms of public funding. In response to a query from the Chair Mr Pollard further Advised that he has been reassured by the CEO and CFO that a hard Brexit will have minimal "Day One" impact on the College.

The CEO advised that there are 21 students enrolled in the College from the Republic of Ireland and the College does not expect any substantial impact on enrolments post Brexit. He advised that in the longer-term funded projects such as Erasmus will be affected and there may be some governance issue to address but this is sufficiently planned for under the risk on the register. He highlighted that the College had quickly created 3000 places for upskilling when the 2008 recession hit and can respond appropriately again subject to government funding to ensure the economy is supported post Brexit. He concluded by advising members that the management team had a recent risk meeting and there was nothing further to add to the risk register and any new risks that are brought to the team's attention will be escalated to the Governing Body via this committee and the risk register.

### **3. Correspondence**

#### **a) Properties Services Division Update (enc)**

- 1. Property Services Division Business Case – Update Meeting with CPD from FE Director 09.08.19**
- 2. Sector Response 16.08.19**

The Chief Finance Officer directed members to the correspondence and advised that the Properties Services Division issue has moved on a lot since the committee last met in June. He advised that the Department now expect the Sector Business Case to progress which is a positive shift however the Department have also referenced that if the Sector can deliver the efficiencies set out in the business case then £1m will be cut from the Sector's budget. He emphasized to the committee that the business case sets out how much more can be done with the current estates budget and he would not be in favour of any reduction in this as it is already very stretched.

The CFO confirmed that a procurement framework to replace the PSD model will be drawn up by a subgroup of NIFON and it is expected to be in place for April 2021. Members were reminded that at the last meeting the committee had requested a letter was sent to the Chair of the DfE Audit Committee to highlight these issues however this was no longer necessary given the progress made on the business case since.

In response to a members question the CFO confirmed that there was no contingency plan in place to cover the proposed cut since no further detail has yet been provided as to how it would be progressed. He advised that the refreshed Estates Strategy this year includes condition surveys on traditional estates which highlight that priority 1 essential maintenance and health and safety items total £150k which again is not covered under capital funding. SERC therefore plans to highlight this example to the Department as to why any budget cut is unrealistic.

#### **b) Partnerships Between Departments and Arm's Length Bodies: NI Code of Good Practice (enc)**

- 1. Review of Departmental Sponsorship of Arm's Length Bodies (ALBs) – Draft Partnership Agreement -Feedback from Colleges of Further Education**
- 2. List of College Comments**
- 3. Draft Partnership Agreement-Response to Sector**

The Principal reminded members that the guidance document had been presented to them at the previous meeting and since then the Department have issued a draft agreement for comment which has considered comments submitted by the Sector. He advised that as a piece of work this is progressing

well, and it would be expected to see consistency across the Departments on their approach to this. He advised that the Department's response was very helpful but there is no timeframe set to deliver this; in fact, it will most likely take some time as any changes being implemented will require a cultural change along with any proposed policy changes.

**4. For Approval**

**a) Draft Annual Report & Financial Statements**

The CFO presented the Draft Annual Report and Financial Statements for review and approval by the committee, he gave a brief overview on the preparation process of the accounts and the relevant accounting policies that had been used in drafting them. Members were advised that some statistics are missing from the Annual Report such as the internal audit assurance which will be included after the Audit Committee have been presented with this later in the meeting, and once this has been included the Draft Annual Report and Financial Statements will be submitted to DfE. The CFO advised that the external audit team are currently on site reviewing the reports and that a final version will be presented to the committee in November for formal approval before being submitted to NIAO for sign-off and on to DfE.

As regards financial performance, the CFO highlighted to members that although the financial statements display a deficit for the year, the College's primary financial performance target as an NDPB is to meet its Resource Requirement target as set out by DfE. He advised that the College does not receive Grant-in-Aid funding from the Department to cover noncash items such as depreciation or actuarial pension costs, both of which are highlighted as reconciling items in the attached reconciliation from financial statements total deficit to year-end Resource Requirement. The CFO advised that the deficit in terms of Resource Requirement was 0.27% (£92k). He went on to emphasise that this variance at the College year-end can be made up in time to meet the Department's March year-end target.

The CFO highlighted the Statement of Corporate Governance and Internal Controls to the committee which sets out the governance structures, risk management and internal control procedures that operated within SERC during the 2018/19 financial year and up to the date of approval of the Annual Report and Financial Statements.

In response to queries from Mr Mackell the CFO confirmed £165k of commercial income had been secured but had not been delivered on time to include for the July year end and so this was a factor in

why there was a shortfall. He further advised the committee that the business services team have reformatted their targets with sales teams and will meet with them monthly rather than quarterly to try and get a better understanding of the element of this income that didn't materialise. Internal audit has also been asked to review forecasting for commercial income in response to this year's missed target. Mr Pollard commented that he would not describe the commercial income or business services department as underperforming as they have performed exceedingly well, and he commended the College for making savings across the business despite rising costs and cuts to funding. The CFO echoed these views and advised that rising costs are a concern especially staff costs. He confirmed that the Department have recognised the challenges facing the Colleges in terms of staff costs for 2019/20 but a long-term solution is needed to cover these contractual costs.

**Agreed:** The committee agreed to recommend the Draft Annual Report & Financial Statements for the year ended 31 July 2018 to the Governing Body for adoption

**Proposer:** Carolyn King

**Seconder:** John Mackell

**5. For Information:**

**a. Operational Risk Summary**

*At this juncture Mr Webb left the meeting*

The Director of Strategic Planning Quality and Support presented a summary of operational risks in her directorate, the following points were noted:

- The Director began her presentation by giving an overview of the departments that fall within her remit and advised members that she had selected a sample of risks across these departments to present. She also advised that the risks are categorised into three types: staff; legislative requirement; and financial. She then provided detail on 4 operational risks, the impact they can have on the College and the measures in place to mitigate these risks.
- The Director highlighted two risks related to staffing and in response to a question the Director advised that risks are discussed with staff during regular team meetings, IMPMS meetings and staff inductions to ensure the information is kept fresh and staff are aware of the impact of these risks.

- In discussing the risks linked to Learning Support, Mrs King highlighted that it can be difficult getting students to self-declare a disability but the staff within the Learning Support team are able to quickly identify students with additional needs and put relevant support in place. The Director agreed and advised that the difficulties are mainly around students wanting to lose the stigma that they have carried throughout their education.
- Mr Mackell enquired if the College has a large increase in enrolments with students declaring a disability will it impact detrimentally on resource . The Director advised that so far staff have managed well by sharing classroom assistants and making more use of technology but additional funds to support these students has not been provided the Department even though it has been highlighted as an issue.
- The CFO informed members that the new funding model has exacerbated this issue as previously funding for learning support was ring fenced, and included the potential to request additional funding in response to operational needs, but that it is now part of block funding. This change has been very challenge to manage in the face of increasing operational demand for support.

**b. Risk Management Report**

*Mr Webb returned to the meeting*

The CFO presented the most recent risk report to the committee and presented a high-level summary of the risks currently on the risk register, during discussion the following points were noted:

- In response to question regarding the impact of Brexit on the College the CFO advised that the public sector recently ran an awareness event, the focus was on logistics such as food and the assessments that the College carried out in Spring of this year are still relevant, they determined that Brexit will have no impact on the College in the early days.
- The CFO confirmed that in terms of staff absence there were no trends for any particular school or unit and the 18 staff off on long term absence are mostly long-term serious illness. He highlighted the support measures the College have in place to encourage staff to return to work and support them whilst they are absent.

**c. IT Resilience**

	<p>The Director of Curriculum &amp; Information Services gave the committee an update on the College’s work to address the NAO Guidance on IT resilience and cyber security, the following points were noted:</p> <ul style="list-style-type: none"> <li>• The Director began by advising that in this update he would be reporting on staff capability and skill, testing effectiveness and if recruitment is actively managed. He provided a high-level overview of the staff structure, systems in place, staff training and how cyber security is monitored.</li> <li>• Members were asked to note that recruitment for IT jobs is very challenging across the Sector due to the higher salaries that can be earned in industry. Specialists in cyber security can command exceptionally high salaries and so the Sector will most likely share staff members to keep costs low.</li> <li>• The Director gave members an overview of a live testing scenario conducted with a select number of staff recently. An email was sent to a random selection of staff asking them to submit payroll details with the pretence that it was from the finance department. 47 staff submitted their details and so they have been spoken to individually by the Chief Technology Officer and asked to complete the ESafety training module again.</li> <li>• The Director highlighted that two-step authenticator would have prevented any data loss in a real scenario and other processes in place have eliminated the risk. He concluded by reminding the committee that the weakest link for any organisation is staff and so awareness and training will continue frequently to mitigate the risks to cyber security.</li> </ul> <p><i>At this juncture Dr Malone left the meeting</i></p>
<p><b>6.</b></p>	<p><b>Policies for review</b></p> <p>No policies were presented for review.</p>
<p><b>7.</b></p>	<p><b><u>Internal Audit (For discussion and information):</u></b></p> <p>The Chair advised members that papers were received late and he had taken the decision not to circulate them in advance of the meeting to ensure that everyone had an equal opportunity to read them. He asked members whether they would like to take time now and read the hard copies of the papers provided or whether to include these items at the next meeting in November. Members agreed</p>

to take time to read them now, the CFO advised that all the reports had been presented to members at previous meetings and that the current reports summarised the follow-up and year-end position. The Chair acknowledged that the delay in papers had been unavoidable as there was a delay in providing information to Grant Thornton.

*At this juncture the committee took a break to allow members to review the presented papers. (7.04pm)*

*The committee meeting resumed at 7.16pm*

a) **Internal Audit Follow up plan 2018/19**

Mr Taylor from Grant Thornton addressed the committee to present the plan and advised that it feeds directly into the annual assurance plan. He highlighted that 10 recommendations are still to be fully implemented. 9 of these recommendations are in relation to GDPR. Mr Taylor highlighted that this was common across the Sector and that good progress had been made by the Colleges in this area.

b) **Internal audit Annual Assurance Report 2018/19**

Mr Taylor advised that the assurance report summarises the work completed in 2018/19, confirms that two extra days were delivered due to the assurance pieces requested by the Governing Body and sets out that the College achieved a satisfactory rating over the year (the highest available). He highlighted that appendix 2 sets out the KPI's for Grant Thornton and confirmed that they have been met for the year.

c) **SERC 2019/20 Annual Internal Audit Plan**

Mr Taylor asked members to note the key change to the plan is that the planned review for the funding model has been removed and a review of online enrolments had been included.

Mr Mackell enquired if the recommendations for the GDPR audit had been common across the Sector. Mr Taylor advised it had been and given the level of work required to implement the recommendations good progress had been made, he asked members to note that some of the recommendations required sector collaboration. He concluded by advising that he had no concerns with how the College had implemented GDPR so far.

Mr Mackell enquired how the areas were identified and if 7.5 days for payroll was higher than usual.

At this juncture Mr Pollard left the meeting due to a conflict of interest.



	<p>The CFO advised that he and the CEO had requested extra days for payroll as they felt instead of looking just at the transactional processes in place it would be of benefit to review the wider processes.</p> <p>The committee requested if a further follow up day could be included in the plan to specifically look at the implementation of the outstanding GDPR recommendations to take assurance the College have fully implemented them.</p> <p>In concluding this discussion, the committee confirmed that they were content with the 50 days proposed in the plan.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p><b>Action Point:</b> The Audit Plan for 2019/20 will be amended to reflect the committee's request to review the GDPR recommendations from 2018/19</p> </div>
8.	<p><b><u>Summary of Actions taken in Response to External &amp; Internal Audit recommendations:</u></b></p> <p>The CFO directed members to the report outlining the summary of actions taken for internal audit recommendations.</p>
9.	<p><b><u>Fraud Update</u></b></p> <p>The Chair asked the committee to note the SERC Fraud Report.</p>
10.	<p><b><u>Any other notified business</u></b></p> <p>The Chair advised that during a confidential session with the auditors he was pleased to say that they were all extremely content with how they were dealt with in the College by staff and management and he would like to pass on his thanks to the staff for their cooperation in completing these audits.</p> <p>The CFO advised that he had been liaising closely with internal audit this year and had formed a good working relationship.</p>
	<p><b><u>Date and time of next meeting</u></b></p> <p>The next meeting is scheduled be held on Wednesday 13<sup>th</sup> November 2019, 5.30pm, Lisburn Campus</p> <p>The meeting concluded at 7.38pm</p>