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SOUTH EASTERN REGIONAL COLLEGE

**Minutes of a Meeting of the Audit Committee of the Governing Body (the “Committee”)  
held on 11<sup>th</sup> November 2020 at 17:30, via Microsoft Teams Videoconference**

**1. Chair’s Business:**

**a) Attendance and Apologies:**

**Present:** Mr J Mackell, Mr S Pollard, Mrs K Fraser, Mr J Lee, Miss M Richardson

**In Attendance:** Mr G Hetherington (Temporary Chair of the Governing Body (the “Temporary Chair”), Mr T Martin (Chief Finance Officer)(the “CFO”), Mr P Smyth (Chief HR Officer (the “CHRO”), Ms S Woods (Temporary Secretary to the Governing Body), Mr K Webb (Principal), Dr M Malone (Director of Curriculum and IT Systems (the “Director of C&IS”), Mr A Emmett (Chief Technology Officer (the “CTO”)), Mr I McCartney (RSM), Ms H Kelly (PwC), Ms B Heenan (PwC), Ms H Sampson (DfE), Mr B O’Neill (NIAO), Mrs K Cochrane (Boardroom Apprentice)

**Apologies:** It was noted that all Committee members were present and there were no apologies to be conveyed to the Committee.

**In the Chair:** Mr Mackell

**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 noted his standing conflict, in relation to his wife’s employment in the College’s finance department. No further conflicts were declared.

**c) Minutes of the meeting held on 16<sup>th</sup> September 2020:**

The Chair invited members to review the minutes from the previous meeting. Following due consideration, the Committee agreed the minutes were a true and accurate record of the meeting.

**Agreed:** That the Committee approved the minutes of the meeting held on 16<sup>th</sup> September 2020, and that the minutes be tabled for approval at the meeting of the Governing Body to be held on 16<sup>th</sup> November 2020.

**Proposed by:** Karen Fraser

**Seconded by:** Steve Pollard

**d) Matters Arising:**

It was noted that there were no matters arising from the previous meeting of the Audit Committee.

**e) Appointment of Audit Committee Vice-Chair:**

The Chair noted that Mrs Fraser had expressed an interest in the position of Committee Vice-Chair and that he believed she was ideally suited for the role.

Following due consideration, it was agreed that Mrs Fraser be appointed Vice-Chair of the Committee with immediate effect.

**Agreed:** That Mrs Fraser be appointed Vice-Chair of the Audit Committee, with immediate effect.

**Proposed by:** James Lee

**Seconded by:** John Mackell

**f) Annual Review of Gift and Hospitality Register:**

The Committee members noted the Gift and Hospitality Register which had been previously circulated. The CFO observed that the threshold for reporting gifts and hospitality had been reduced to £10.00 and that it was not permitted for gifts of alcohol to be accepted. The Chair noted that there were no instances of gifts or hospitality reflected on the register and he asked that Governors inform the Secretary if they received any offers of gifts or hospitality.

**g) Audit Committee Annual Report:**

The Chair observed that the Committee prepared a report on an annual basis, which followed a set template, in conjunction with the Annual Report and Financial Statements of the College. He noted that the report reflected matters such as the work of the Committee and matters which it had reviewed and considered during the year. He commented that the report would be submitted to the DfE at the end of November and would be shared for publication.

**Agreed:** That the Audit Committee Annual Report be approved, subject to incorporation of any changes and re-circulation to the Committee prior to submission to the DfE, and be tabled as an ancillary document at the meeting of the Governing Body on 16<sup>th</sup> November 2020.

**Proposed by:** Steve Pollard

**Seconded by:** Karen Fraser

**2. Correspondence:**

**a) DfE Confirmation of Exceptional Covid-19 Funding:**

The CFO indicated that, as previously advised, the DfE had authorised an additional £1,153k to the College for Covid related expenditure incurred during the 2019/2020 financial year. He noted that the current estimates for Covid related pressures for 2020/2021 were £463k (plus a potential further £214k) and that the College was in active discussions with the DfE regarding sourcing this second tranche of funding.

**3. For Approval:**

**a) Annual Report and Audited Financial Statements for the financial year ended 31<sup>st</sup> July 2020, including Governance Statement:**

The CFO informed the Committee that the version of the Annual Report and Financial Statements, as tabled, was an update on the version which had been presented at the September Committee meeting. He noted that there were not a significant amount of changes and nothing material, with the exception of the financial performance narrative, which referenced the £1,153k Covid related pressures and exceptional budget cover received from DfE. He noted that, as the previously highlighted overspend had been covered by the additional funding, the College could be deemed to have met its target for 2019/2020.

Turning to Section 8 of the cover report, the CFO remarked that there were some items still outstanding with respect to non-financial statistics on qualifications and achievements. He observed that these statistics would be included in the version of the Annual Report and Financial Statements that would be tabled at the Governing Body meeting on 16<sup>th</sup> November 2020.

The CFO drew the Committee's attention to one other significant matter, which related to potential outstanding holiday pay on overtime. He remarked that in the previous year's accounts the item had been shown in a contingent liability note, which was still the case in the current version of the accounts, but that the NIAO or PwC representatives would speak to the matter. He observed that the external audit field work was complete and that no matters of significance had been identified. He noted that the Annual Report and Audited Financial Statements, as tabled, had been approved by the Finance & General Purposes Committee on the previous evening, subject to amendment of the Financial Statements to reflect the overtime-based holiday pay as a provision, rather than a contingent liability.

**Report to Those Charged with Governance:**

The CFO suggested that Agenda Item 7 be taken in conjunction with the current item. The Chair concurred. At the CFO's invitation, Ms Heenan presented the Report to Those Charged with Governance. She commenced by noting that the report was quite light and that the audit had gone quite well, despite the challenges of lockdown and remote working. She indicated that there were no adjustments or major concerns identified.

With respect to the holiday pay related to overtime, Ms Heenan observed that in the draft accounts it had been disclosed as a contingent liability. She noted that the same approach had been taken by all the colleges up to this point. However, it was the view of the NIAO and the External Auditor that the item should be treated as a provision rather than as a contingent liability, and she believed this was also the view held by the DfE. She remarked that the probability of outflow existed, although the outcome of the appeals process could result in a difference in the period for which these calculations and payments were to be backdated. She commented that the DoF had shared a detailed paper on the matter and that it had been agreed the colleges were to make provision in their accounts.

Mr O'Neill informed the meeting that the NIAO had, to date, certified a number of organisations which had reflected the item as a provision in their accounts. He noted that DfE's own accounts reflected it in this way and that there was now sufficient information to allow for the item to be calculated as a provision. He remarked that the college CFOs had now agreed to reflect the item as a provision and that adjustments would have to be made to the accounts, which would in turn need to be audited. He commented that this audit would take place the following week. The Chair asked what had triggered the change in approach. Ms Heenan replied that the point of view had changed based on the ability to make the calculation on a reasonable basis. She observed that DfE had shared its approach and methodology, which was believed to have yielded a fairly reliable estimate. As it was expected the item would ultimately become a liability, it was now deemed appropriate to make a provision rather than a contingent liability disclosure. She commented that all public authorities had to list the item as a provision, based on DoF guidance.

The CFO noted that the item would be recorded as a provision in the accounts but he stressed his professional opinion that he disagreed with the approach. He remarked that he would not want to do go against the Auditor's opinion and he was working on completing the amendments as quickly as possible. However, he believed that the amount of the potential liability was too uncertain. He remarked that the applicable period

could be a few years or could be as many as twenty-two. He commented that the current estimate of the figure to be included in the accounts was in the region of £700k, which was a significant number and which he believed could be somewhat misleading for readers of the accounts.

The Chair noted the CFO's position and stated that he could see his point. However, he noted that he and the other Committee members took assurance from Mr O'Brien's comments regarding other organisations. Mr O'Brien commented that the position could change the following year but that every public body would be similarly affected. The CFO noted that there would be a note included in the accounts explaining the uncertainty regarding the provision. Mr O'Brien acknowledged the concerns that had been raised and noted that he understood them. He indicated that it was essential to work together to ensure that the disclosure in the accounts was as accurate as it could possibly be and that the reader's attention was drawn to the provision.

Ms Kelly noted that there was one other item highlighted in the Report to those Charged with Governance, which related to pension figures. She noted that work was ongoing to engage with the actuaries in respect of this item.

The Chair asked Ms Kelly to present the RTTCWG. She commenced with an overview of the audit scope, noting that it had covered matters including remuneration, internal controls, and accounting policies and their appropriateness. She noted that all accounting policies were consistent with those of the other colleges and were being consistently applied. She remarked that a general review of the accounts had also been carried out, to ensure they were presented in line with NIAO guidelines.

Turning to Section 3 of the RTTCWG, Ms Kelly noted that this section dealt with significant risks. She observed that the auditors had checked for material misstatements, fraud, and management override of controls. She reported that journal entries had been tested to ensure there had been no erroneous activities and she confirmed that there were no issues identified and no control recommendations to report.

With respect to risk in relation to fraud in revenue recognition, Ms Kelly stated that sampling had been carried out, particularly with respect to educational contracts and tuition fees, to ensure that revenue recognition were correct. She confirmed that no issues had been identified. Continuing with regard to other risks, she observed that the key part of the risk around Covid-19 was in connection with the risk of delays to payment and the potential impact of changes to the style of working. She noted that no issues had been identified.

Turning to Section 4, Ms Kelly noted that the Audit findings showed that the Annual Report was consistent and in line with the information presented. She reported that there had been no significant changes in relation to the accounting policies and that all such policies were appropriate. In terms of regularity, she noted that spending was appropriate and conducted through the appropriate channels. She indicated that there were no recommendations or findings to report and that there were no significant weaknesses in internal controls. With regard to the Financial Statements, she suggested that minor amendments be made to improve the narrative around disclosures but that these were minimal.

With respect to land and property, Ms Kelly noted that experts were putting caveats into financial statements regarding the possible impact of the pandemic on property valuations. She remarked that, as the College's key function was not in property it was just necessary to include an additional disclosure. She observed that the auditors were satisfied all valuations had been treated appropriately in the accounts. She reported that there were no unadjusted misstatements and no further matters to highlight for the Committee's attention.

Moving on to Section 5, which included the Appendices and the Letter of Representation (the “LoR”), Ms Kelly indicated that the draft version of the LoR contained reference to the contingent liability note regarding holiday pay due on historic overtime. However, she advised that this would be amended to reference the provision to be included in the Financial Statements. She informed the meeting that the audit certificate would be issued reflecting an unqualified opinion.

The Committee reviewed the Annual Report and Audited Financial Statements and the Corporate Governance Statement in detail and following due consideration it was agreed that the Annual Report and Financial Statements for the financial year ended 31<sup>st</sup> July 2020 be approved, subject to incorporation of the amendment changing the contingent liability disclosure, regarding back-dated holiday pay on historic overtime payments, to a provision.

**Agreed:** That the Annual Report and Financial Statements for the financial year ended 31<sup>st</sup> July 2020, including the Governance Statement, be approved and recommended for approval by the Governing Body at its meeting on 16<sup>th</sup> November 2020, subject to incorporation of the amendments as discussed.

**Proposed by:** Karen Fraser

**Seconded by:** Steve Pollard

**4. Items for Information:**

**a) Strategic Risk Management Report:**

At the Chair’s invitation, the CFO presented his report. He commenced by noting that there were a few amber risks and a couple of red risks. With respect to the amber risks, he observed that in relation to Financial Viability, the numbers were being collated and finalised. He noted that the first full-scale refresh of the forecast figures for 2020/2021 had been carried out after the end of Period 2. He remarked that the actuals were £238k better than target but that there was a likelihood of an overrun of £271k for the year to 31<sup>st</sup> July 2021. He indicated that the College was in discussions with the DfE to secure the required budget.

In respect of cash reserves, the CFO confirmed that they were currently sitting at approximately £4,000k and that there were no liquidity issues.

In response to a query on the forecast raised by Mr Pollard, the CFO replied that the figures reflected some pressures on fees as a result of the pandemic and that the estimated fee figure had already been reduced by approximately 30% with respect to part-time FE enrolments. He noted that this was in line with trends in the sector and that the HE forecast had been similarly downgraded. He observed that HLA figures were below the expected level but that TfS figures were higher than anticipated, and he remarked that all variances had already been factored into the update plan. He commented that issues regarding placements for TfS students had been a factor for a number of years and that there were procedures in place to deal with these issues, including placing students in projects rather than placements.

Turning to debt risk, the CFO reported that the College had a full credit control and debt collection procedure and would endeavour to manage risk as best it could. He remarked that on turnover the risk was less than £300k, which was being mitigated, and that the risk was not significant.

The CFO indicated that the PSD replacement project was still amber due to its significance but that the target for completion in March 2021 was still on track. He informed the meeting that sickness absence was also in the amber category and that the current figures were an improvement on the previous year.

With respect to red risks, the CFO noted that there were significant issues for colleges in relation to HE provision in FE and that the issue was being taken forward by the Principals' Group. He noted that the matter was progressing and that there would be a wider review of HE in FE in the longer term.

Continuing with red risks, the CFO informed the meeting that he was now on the STS project group. He provided the Committee with an overview of the three main components of the project and the issues that were being encountered, particularly with respect to the facility to invoice students and receive payments. He noted that all colleges were affected by these issues to some extent and that SERC was working through the interface files individually, which required significant manual intervention. He noted that this issue was unlikely to have an impact on debt, as the students were signing liability letters and were aware that the fees would be payable.

Turning to Covid-related risks, the CFO noted that there were existing risks with respect to enrolment and curriculum delivery. He observed that mitigation measures were in place, that the College was in a good position, and that work was ongoing to continue to develop improved mitigations were possible.

The CFO reported that there were two new red risks; the first of which related to qualifications for the current academic year. He provided the Committee with an update on the issues that were being encountered and noted that the DfE Task and Finish Group was providing limited oversight. The Director of C&IS noted the concern in relation to the lack of clear direction from the Regulator and the awarding bodies. He indicated that the College was gathering evidence and banking assessments as they occurred and would continue to do so, to minimise any detriment to the students. He commented that it appeared the Regulator and the awarding bodies had not learned any lessons from the issues that had arisen in the previous academic year and were still not clear on the issues the sector was facing.

The Principal remarked that the Regulator had control over academic qualifications but had essentially no control over vocational qualifications, which were largely awarded by English-based bodies following Ofqual guidelines. He commented that the Regulator had no influence over Ofqual and that this was a serious risk. He noted that students had no idea what would happen regarding assessments, examinations and qualifications and that this would continue to affect them for many years to come.

The Temporary Chair asked if there was anything the Governors could do to raise the profile of this issue with the DfE or other relevant entity. The Director of C&IS indicated that there had been a review paper which had been prepared by the Regulator, and that the Regulator should not have carried out this review. He noted that the awarding organisations had been asked how they felt they had performed and that their responses had, unsurprisingly, been positive. He observed that the report, in itself, was faulty and the Regulator's involvement was a conflict of interest. He believed that the Governing Body should consider raising the matter with the DfE and request that it be investigated. The Principal indicated that the Economy Committee had asked the colleges for a view on this matter and he indicated that a draft response had been prepared, which was awaiting approval from the DfE to submit to the Economy Committee. The Chair remarked that, should it be of benefit, the Committee or the Governing Body would be willing to provide whatever support it could.

Continuing with red risks, the CFO indicated that TfS had moved from supplier relief to operational requirements with effect from 1<sup>st</sup> November. He indicated that some of the operational requirements were not appropriate in the current pandemic, particularly with respect to the administrative and compliance burden they created, and that there were some practical issues. He noted that, for example, there were additional delivery hours required which were not factored into any budgets. He observed that discussions were ongoing with DfE and that he would bring a full update to the next Committee meeting.

**b) Operational Risk Reports:**

**(i) Finance**

The CFO indicated that there were still issues with the new EBS enrolment system, as previously discussed, and he noted that this was an amber risk.

With respect to procurement, he observed that there were a number of active contracts and that work was ongoing with respect to laying the groundwork for an overall 3-year procurement plan for the college. He commented that this risk remained amber.

In regard to contract management, he remarked that this was another area for development within the Finance department. He indicated that a dedicated management function would be applied to contracts.

**(ii) Estates:**

The CFO informed the Committee that there was a green risk related to the PPP operating costs. He indicated that this was the main risk with respect to Estates, due to the sums involved. He noted that the area would be audited again in early 2021 and would go through a benchmarking process.

He noted that there was a 5-year plan in relation to maintenance, with 3 sections to be completed during the current year and he provided the meeting with an overview of the areas involved.

**(iii) Human Resources: Health & Safety and Learning Academy:**

The CHRO informed the meeting that there were 4 risks in relation to HR. The first of these was absences, particularly mental health absences, and he noted that a Covid piece had been added to this area. He indicated that significant resources had been invested into mental health and wellbeing as it remained a significant issue – for all organisations.

With respect to Covid, the CHRO noted there were challenges for HR in relation to completion of investigation and disciplinary processes. He remarked that progress was slowly being made but that there had been issues in getting Trade Unions to engage online and face-to-face for hearings, where appropriate, and that this challenge had been particularly difficult during the summer.

Turning to the Learning Academy, the CHRO indicated that a new induction process was being created and would be implemented for new managers, to provide a consistency of approach across the whole organisation. He noted that work was still outstanding but that it would be completed by December 2020.

**c) Direct Award Contracts:**

The CFO noted that any contracts awarded directly rather than via the normal processes were clearly reflected in the Annual Report. He remarked that this included the Disability Planning Application.

	<p><b>d) IT Resilience Statement:</b></p> <p>The Director of C&amp;IS noted that the IT Department carried out its own internal security review and reported back on any security incidents. He noted that this included phishing expeditions and he remarked that the CTO would cover some of these points in his report.</p> <p>The CTO reported that, with respect to benchmarks, the College set a target Secure Score of 80%. He noted that this had not yet been achieved due to PC equipment loans to students and staff but that SERC continued to perform very favourably in comparison with other educational institutions and the banking sector.</p> <p>Turning to testing, the CTO remarked that there had been two security exercises since the previous Committee meeting. He noted that users were continuing to make disappointing errors in judgement but that the numbers had been low, and the users in question had been contacted and required to re-take the College’s E-Safety module.</p> <p>With respect to current projects, the CTO observed that home-working continued to progress well. He remarked that 628 computer loans had been made to students and that these computers had been configured to minimise any risk to the College’s systems. He noted that two-factor authentication for students continued to be an issue, with an uptake rate of 24%, however, it was hoped to ultimately reach 100% - although it might not be feasible to reach this level during the current academic year.</p>
5.	<p><b>Policies for Approval:</b></p> <p>It was noted that there were no Policies for review or approval.</p>
6.	<p><b>Internal Audit:</b></p> <p><b>a) Internal Audit Progress Report: Review of Human Resources – Staff Support:</b></p> <p>At the Chair’s invitation, Mr McCartney provided the Committee with an overview of the review of staff support by the Human Resources department, which had increased in importance due to the pandemic and lockdown. He indicated that the review had focused on pastoral care and wellness, in light of staff working from home. He noted that the outcome of the review had been a satisfactory assurance and that only a couple of low priority issues had been identified.</p> <p>Mr McCartney observed that the College had carried out high quality work in relation to the subject of the review and that the items raised were effectively just housekeeping issues. He remarked that the Mental Health Policy which had been drafted needed to be finalised and circulated to staff and that there was a need to draft a Working from Home Support Policy. The CHRO confirmed that these two policy areas had been identified by the College at the start of the year and that work was progressing well to complete them.</p>
7.	<p><b>External Audit:</b></p> <p><b>a) Report to Those Charged with Governance:</b></p> <p>It was noted that this matter had been discussed under Item 3 of the Agenda and that there were no further matters in this regard to bring to the Committee’s attention.</p>



8.	<p><b>Summary of Actions Taken in Response to External and Internal Audit Recommendations:</b></p> <p>The CFO noted that there were no items currently outstanding in relation to recommendations of the Internal and External Auditors and that the recommendations identified during the Internal Audit review of Human Resources would be included on the agenda for the next Audit Committee meeting.</p>
9.	<p><b>Fraud Update:</b></p> <p><b>a) Fraud Report November 2020:</b></p> <p>The CFO informed the meeting that there were no items to bring to the Committee’s attention. The Fraud Report was taken as read.</p>
10.	<p><b>Any Other Business:</b></p> <p>No further items of business were raised.</p> <p><i>At this juncture, Messrs Lee, Hetherington, Emmett, Webb, Martin, Smyth and O’Neill, Dr Malone, Miss Richardson, Ms Kelly, Ms Heenan, Mrs Cochrane and Ms Sampson left the meeting. [19:59]</i></p>
11.	<p><b>Confidential Business:</b></p> <p>A separate note was taken for this section of the meeting.</p>
	<p><b>Date and time of next meeting:</b></p> <p>It was noted that the next meeting of the Audit Committee was scheduled to be held on Wednesday, 20<sup>th</sup> January 2020 at 17:30, via Microsoft Teams Videoconference.</p>

**The Chair declared the meeting closed at 20:01.**