

SOUTH EASTERN REGIONAL COLLEGE

Governing Body – Audit Committee

Minutes of the meeting of the Governing Body Audit Committee held on Tuesday 15th September 2015 at 6 p.m. in the Mourne Suite, Level 5, Downpatrick Campus.

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| <p>1.</p> | <p>Attendance and Apologies</p> <p><u>Present:</u> Mr G. Hetherington, Ms L. Martin, Mr S. Pollard</p> <p><u>In attendance:</u> Mr K Webb (Principal), Mr T. Martin (Head of Finance), Mr D. McCullough (Minute Secretary), Mr W. Smith (DEL), Ms C. O’Hagan (NIAO), Mr B O’Hara (KPMG), Ms L. Kelly (Grant Thornton)</p> <p><u>Apologies:</u> Ms N. Bodger, Ms C. Meharg, Dr R. Davison, Mr T. Keating.</p> <p><u>In the Chair:</u> Mr G. Hetherington.</p> <p>The Chair welcomed everyone to the meeting and sent the Committee’s best wishes to Ms D. Smyth (Secretary to the Governing Body).</p> |
| <p>2.</p> | <p>Declarations of conflicts of interest</p> <p>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.</p> |
| <p>3.</p> | <p>Minutes of the meeting held on 9th June 2015</p> <p>The Chair proposed the adoption of the minutes as a true record and Mr Pollard seconded them.</p> <p>The Chair said the minutes agreed a standing item in section 4.2, however this standing item is no longer required.</p> |
| <p>4.</p> | <p>Matters arising</p> <p><u>Update on Charitable Status</u></p> <p>The Head of Finance said there was no formal outcome since the last Audit Committee meeting. He said that since the last meeting the College has met with the Charities Commission and DEL.</p> <p>The Head of Finance said there were a number of points that needed to be addressed, such as the College’s Articles not making reference to the College having an Education Purpose.</p> <p>The Head of Finance reported that there is currently no timeframe on when the Charities Commission will make their decision.</p> <p><u>Disposal & Retention Schedule</u></p> <p>The Principal updated the Committee on the Retention & Disposal Schedule that has been approved for the Sector. The Principal said that the schedule is in place and operational within the College. He gave an example of financial ledgers that were held in Castle House, Lisburn that have now been transferred to PRONI.</p> <p>The Chair said that going forward the reporting of Disposals and Retentions would be when exceptional.</p> |

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| <p>5.</p> | <p>Chairman's Business</p> <p><u>Annual Review of Terms of Reference</u></p> <p>Members noted that no changes had been made to the Governing Body Audit Committee – Terms of Reference.</p> <p>Ms O'Hagan said that under Duties (Point 10) that there was a duplication, as follows:</p> <ul style="list-style-type: none"> - Reviewing the NIAO's 'Report to Those Charged with Governance' and management's response and having direct access to NIAO; - Reviewing the external auditor's Management Letter and management's response and having direct access to the external auditor. <p>The Chair agreed for the Terms of Reference to be updated to remove the duplication.</p> <p>The Chair proposed the acceptance of the Terms of Reference and Mr Pollard seconded.</p> |
| <p>6.</p> | <p>Correspondence:</p> <p><u>DEL Accounts Direction 14/15</u></p> <p>The Head of Finance confirmed that the Accounts Direction for financial year ended 31 July 2015 issued on 29 July 2015 had no substantial changes.</p> <p>The Head of Finance briefly outlined the main changes and brought the Committees attention to the guidance provided in relation to the Northern Ireland Further Education Sector Voluntary Exit Scheme (NIFE VES).</p> <p>Ms O'Hagan asked the Head of Finance when the Financial Statements were presented to the Audit Committee, as best practice would indicate that they should come to the Audit Committee prior to commencement of audit fieldwork.</p> <p>The Head of Finance said the Financial Statements were presented to the Finance & General Purposes Committee at the September meeting and they then return to both the Audit Committee and Finance and General Purposes Committee in November. The Head of Finance said that this process had been previously agreed by the Audit Office.</p> <p>Mr Webb said it would be helpful to have a consistent approach across the sector on processing accounts through the Committees.</p> <p>NIAO said they would raise the issue throughout the sector.</p> <p><u>FE Colleges Audit Code</u></p> <p>The Chair highlighted the importance of the FE Colleges Audit Code to all members of the Audit Committee.</p> |
| <p>7.</p> | <p>Risk Management Report</p> <p>The Principal presented the Risk Management Report and informed members that the events had moved on since its publication.</p> <p>Risk R074 – Managing the financial viability of the College. The Principal said the draft financial statements show a historic cost surplus of c£1.2m with a cash balance of £3.7m at 31 July 2015. The Principal reported that the 2015/16 Budget was presented to the Finance & General Purposes Committee on 14th September 2015 and showed a break-even position.</p> |

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| | <p>The Principal said this risk would change to become Managing Financial Viability in 2015/16.</p> <p>The Chair asked the Head of Finance for an explanation of the variance from Period 11 accounts to final outcome. The Head of Finance said there were a number of items behind the variance which were reported in a paper than was presented to Finance & General Purposes Committee and this paper would be presented at Governing Body.</p> <p>Risk R077 – Ability to manage impact of financial cuts. The Principal reported that Tranche 1 of the VES had been invoked with the result of 57 staff leaving (46.58 ftes). He noted that the Secretary of State for Northern Ireland had approved funding for the Public Sector Transformation Fund, which has allowed the Department to approve the execution of Tranche 2.</p> <p>The Principal informed members that Tranche 2 letters would be issued to relevant staff on Friday 18th September 2015.</p> <p>The Principal said it was likely that the sector would be seeking further expressions of interest for exits under the 15/16 VES scheme.</p> <p>The Chair asked the Head of Finance if the 2015/16 budget included an estimation of the further expressions of interest. The Head of Finance said it did not include a further tranche of exits.</p> <p>R078 – Planning the Curriculum Provision as a consequence of financial cuts. The Principal said the College had planned the curriculum provision based on enrolments and the staff exiting under the NI FE VES Scheme.</p> <p>The Principal informed members of the planning of staff exits under VES as a hierarchy as follows:</p> <ol style="list-style-type: none"> 1. Management 2. Non-Teaching 3. Teaching: Non-Priority Skills areas 4. Teaching: Priority Skills area. <p>The Principal explained the College was managing the whole process as well as the provision of new areas such as Youth Training Pilot to maximise value for money.</p> <p>R079 – Failure to introduce and manage the Steps to Success (S2S) Contract. The Principal said this risk will be removed from the Risk Register.</p> <p>The Principal informed members that SER was the most successful sub-contract for Reed in Partnership, whilst the College performance was outperforming Reed’s performance.</p> <p>Mr Pollard complimented the College on its work in the delivery of a difficult contract.</p> <p>The members noted the analysis of feedback included within the Risk Management Process. Mr Pollard stated his observation of how encouraging it was to see the number of students complimenting teaching staff. The Principal said this was also reflected in the number of Pearson Teaching Awards for College staff as they are nominated by students.</p> <p>The Chair noted that it would be useful for the wider Governing Body to be made aware of the positive feedback received by the College.</p> |
| <p>8.</p> | <p>Draft Governance Statements</p> <p>This Head of Finance said this document forms part of the draft annual report and financial statements to be submitted by the college on Friday 18th September 2015. It will be audited by NIAO as part of the college’s external audit commencing on 21st September 2015.</p> <p>The Head of Finance discussed the contents of the draft Governance Statement with the members. Ms O’Hagan made two observations on the draft Governance Statement:</p> |

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| | <ol style="list-style-type: none"> 1. In regards to Fraud Reporting, it would be worth noting that the College takes part in the National Fraud Imitative exercise; 2. Items discussed at Audit Committee should include the NIAO Audit Strategy. <p>The Head of Finance said he would make these adjustments in the Governance Statement.</p> <p>Ms O'Hagan noted that the Governance Statement detailed the Chief Executive and Accounting Officer as being responsible to the Governing Body, whilst also being a member of the Governing Body. Ms O'Hagan asked about separation of duties and how the relationship worked.</p> <p>The Principal said there were three areas to his role: i. Principal and Chief Executive, ii. Accounting Officer, and iii. Governor and noted that this was how the Colleges were set up by the Department through the Articles.</p> <p>The Principal said he recognised the need for a separation of duties regarding strategy and delivery. The Principal said there was a need for the Governing Body to take account of information provided to them by him in his role of Accounting Officer.</p> <p>The Chair said there was still accountability between the Governing Body and the Principal in that the Governing Body discusses the Principal's performance without the Principal being present. The Chair noted that any other issues are managed through the Conflict of Interest mechanism within the Committee meetings.</p> <p>Mr O'Hara said that it was a question of balance and the relationship was commonplace within the private sector.</p> <p>Mr Pollard said as a Governor he recognised the right for the Accounting Officer to inform the Governing Body of matters arising.</p> <p>Ms O'Hagan said she recognised the experience and expertise that accompanies an Accounting Officer in their relationship with a Governing Body.</p> |
| <p>9.</p> | <p>Internal Audit</p> <p><u>2014/15 Internal Audit Report</u></p> <p>Mr O'Hara presented the 14/15 Internal Audit Report and said it was a very good picture in regards to Internal Control. Mr O'Hara reported that based on the Internal Audit work performed during 2014/15, KPMG provided a Substantial assurance over the internal control environment at the College.</p> <p>Mr O'Hara noted there were 5 recommendations in 2014/15, one at Priority 2 and four at Priority 3. As at 15 September 2015, one recommendation remained in progress.</p> <p>Mr O'Hara noted that 47.5 days of internal audit work were carried out during 2014/15.</p> <p>Mr O'Hara said the Substantial rating was testament to management and internal control within the College.</p> <p>Mr Webb said that the audit recommendation in progress related to Estates utilisation, which was being reviewed by the Department (DEL) across the sector. Mr Webb reported that the Department was developing KPIs for the sector and initial data indicates that SERC, as a whole, has the highest utilisation rate within the sector.</p> <p>The Chair noted that utilisation of the Estate is a key issue in regards to maximising value for money.</p> |

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| | <p>Mr Webb noted that the Director of Corporate and Economic Development was working on a separate report for the Governing Body on Estates utilisation and costs.</p> <p><u>2015/16 Internal Audit Strategy</u></p> <p>Mr O'Hara presented a new draft of a 3 year internal audit strategy and recognised that the current contract has two years left to run, but it was common for a new provider to accept an existing plan.</p> <p>Mr O'Hara explained that the Audit Strategy was compiled by reviewing the Corporate Risk Register, and consultation with the Audit Committee and management. Mr O'Hara said the strategy was a fluid document and welcomed comments from the Audit Commitment.</p> <p>Mr O'Hara brought to member's attention the present plan for 50 days work in 2015/16 to include:</p> <ul style="list-style-type: none"> - Bank & Cash/Treasury Management - Income & Debtors - Payroll - Monitoring Performance against budget - Procurement - Management of Voluntary Exit Scheme - Complaints Handling <p>The Chair asked if the move to NDPB status was specifically covered within the Audit Strategy. Mr O'Hara said that the new MS/FM and NDPB requirements were covered within the review of other areas.</p> <p>The Chair said he was pleased for the management of the voluntary exit scheme to be on the internal audit strategy as the governance surrounding VES was very important.</p> <p>Mr Pollard asked if there was any merit in bringing forward the Estates Strategy work from 2017/18 to 2015/16. KPMG noted that Estates Utilisation was reviewed in 2014/15.</p> <p>The Chair noted the review of Financial Planning and Budgeting in 2016/17 and linked its importance to the College's change to NDPB status. The Chair queried if this study could be brought forward. Mr O'Hara said he was happy to review this area and could move the review of Payroll as this was examined in 2014/15.</p> <p>Mr O'Hara said there was enough certainty in the plan to enable work to commence and any changes to the Audit Strategy would be brought to the next Audit Committee.</p> |
| 10 | <p>National Fraud Initiative</p> <p>The Head of Finance presented the update on National Fraud Initiative work. He said that out of 714 identified matches, 531 had been investigated to date. The Head of Finance noted that the matches recommended for investigation totalled 213.</p> <p>The Chair asked why the College had investigated more matches than recommended. The Head of Finance said that this was due to the nature of matches, for example Payroll to Creditors (471 matches) which related to staff travel payments being paid via the Accounts Payable process.</p> <p>The Chair asked the Head of Finance to bring a paper to the next Committee that detailed the outcome of the match investigation.</p> |
| 11 | <p>Policies for Approval</p> <p>There are no policies to be considered.</p> |

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| <p>12</p> | <p>Actions taken:</p> <p>12.1 Response to NIAO RTTCWG 13/14</p> <p>The Head of Finance said that this report would be superseded by the RTTCWG on 14/15 financial statements. The updates were as follows:</p> <p><u>Ref 1: Pay Remit and Incremental Pay Rises</u> DFP provided temporary cover for the payment of contractual incremental payments for non-teaching staff (5 August 2014). Payment was made to staff in the August payroll.</p> <p>DFP provided temporary cover the payment of the 2013/14 contractual incremental payments for lecturing staff on 24 September 2014. Payment was made to staff in the September payroll.</p> <p>DFP approved (26 January 2015) the pay remit for lecturing staff in respect of pay settlement for financial year 2013/14, which was effective from 1 September 2013. Revalorisation increase of 1% was made to lecturing staff in February 2015 payroll.</p> <p>DFP issued the 1415 Pay Remit Approval Process and Guidance on 27 August 2014. The College has collated the necessary information and is awaiting full approval.</p> <p>DFP provided temporary cover for the payment of the 2014/15 contractual incremental payments for lecturing staff on 18 May 2015. Payment was be processed to relevant staff in June 2015 payroll.</p> <p>14.08.15: confirmation from DEL that senior staff pay remit effective from September 2014 has been approved by DFP. It is expected that the appropriate circular will be issued in time to allow the processing of this award in September payroll.</p> <p>20.08.15: confirmation from DEL that lecturing staff pay remit effective from September 2014 has been approved by DFP. It is expected that the appropriate circular will be issued in time to allow the processing of this award in September payroll.</p> <p>Ref 1 is completed as increments/pay awards are only processed after DFP approval.</p> <p><u>Ref 2: Funding in the current economic climate</u> The Head of Finance said that management continued to monitor income and expenditure through the IMPMS process in 2014/15. The draft year end result provided a historic cost surplus of £1.2m with cash reserves of £3.7m</p> <p>12.2 Business Continuity Management – Quality Improvement Plan</p> <p>The Principal noted the contents of this report with the members. The Principal brought members attention to note 4 in relation to fibre links across the College sites. The Principal said that this was being reviewed and costs/benefits were being established.</p> <p>The Chair asked who identified the issues within the QIP. The Principal said that issues identified were the result of an Internal Audit review, external facilitator review (after a workshop on the business continuity) and the College through the SER/QIP process.</p> |
| <p>13</p> | <p>Any other notified business</p> <p>There were no items to be taken.</p> |

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| 14 | Date and time of next meeting There being no further business, the meeting ended at 7.30p.m. The Chair thanked everyone for their attendance and contribution. The next meeting will be held on Tuesday 17 th November 2015 at 6.00 pm in the Bangor Campus. |
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Signed (Chairman)

Date