

## SOUTH EASTERN REGIONAL COLLEGE

### Governing Body – Audit Committee

Minutes of the meeting of the Governing Body Audit Committee held on Tuesday 17<sup>th</sup> November 2015 at 6 p.m. in the Bangor Campus.

<b>1.</b>	<b>Attendance and Apologies</b>  <u>Present:</u> Mr G. Hetherington, Mr S. Pollard, Ms C. Meharg  <u>In attendance:</u> Mr K Webb (Principal), , Mr T. Keating (Director of Corporate and Economic Development), Mr T. Martin (Head of Finance,) Mr C. Andrews (DEL), Mr D. Lynn (NIAO), Ms E. Patton (KPMG), Ms M. Magennis (Grant Thornton), Mr D. McCullough (Minutes)  <u>Apologies:</u> Ms L. Martin, Mr N. Bodger  <u>In the Chair:</u> Mr G. Hetherington.  The Chair welcomed everyone to the meeting.
<b>2.</b>	<b>Declarations of conflicts of interest</b>  The Chairman asked if any member had an actual, potential or perceived conflict of interest with any item on the agenda.  Mr Pollard declared an interest in relation to Item 7.3 and the specific reference to Internal Audit's Report (14/15) on the Core Financial Process of Payroll. The interest related to Mr Pollard's wife being a Finance Assistant within the College's Finance Department.
<b>3.</b>	<b>Minutes of the meeting held on 15<sup>th</sup> September 2015</b>  Mr Pollard proposed the adoption of the minutes as a true record and the Chair seconded with the following amendments:  10. Final Paragraph – "The Chair asked the Head of Finance to bring a paper on the outcome of the matches to the next scheduled Committee meeting after the completion of the match investigation".
<b>4.</b>	<b>Matters arising</b>  <u>Update on introduction of new SORP</u>  The Head of Finance informed members that the sector's work on introducing and integrating the new SORP was nearing completion. The Head of Finance said a close-out meeting of the sector's FE SORP group would take place before the end of the 2015 calendar year with a briefing report expected from that meeting. The briefing report will be presented, when available, to the next scheduled Audit Committee.
<b>5.</b>	<b>Chairman's Business</b>  There were no items to be taken.
<b>6.</b>	<b>Correspondence:</b>  There were no items to be taken.

7.

### **7.1 Presentation of Annual Report and Financial Statements for the year ended 31<sup>st</sup> July 2015**

The Head of Finance presented the Annual Report and Financial Statements for the year ended 31<sup>st</sup> July 2015.

The Head of Finance outlined the financial statements preparation process as follows:

- Accounts Direction issued by DEL outlining basis of preparation of annual report and financial statements.
- Year-end Management Accounts prepared by Finance and reviewed and approved by College Management Team and Finance & General Purposes Committee;
- Annual Report and Financial Statements drafted on the basis of the Accounts Direction, Financial Memorandum, and the Accounting for Further & Higher Education SORP;
- 3 levels of review: Management Accountant, Deputy Head of Finance and Head of Finance;
- Draft Annual Report and Financial Statements presented to F&GP Committee in September and submitted to DEL in late September;
- Audit fieldwork carried out in September/October;
- Fieldwork wrap up meeting held with College Management in October with audit files and draft RTTCWG then being submitted to NIAO;
- Any changes required outlined in final RTTCWG from NIAO and are actioned before sign-off of the annual report and financial statements by the Governing Body and submission to DEL by 30<sup>th</sup> November 2015.

The Head of Finance informed members of the final year-end financial position:

- College total income for 2014/15 was £48.1m, which was an increase of £1.3m on the 2013/14 total income. The Head of Finance said the bulk of this increase was attributable to a £1m working capital investment provided by DEL Finance during the financial year.
- Total expenditure in 2014/15, before exceptional items, totalled £48m.
- Exceptional costs of £4,052k and exception income of £3,643k were recognised during the 2014/15 financial year, which related to redundancy and the NI FE sector Voluntary Exit Scheme.
- Historic outturn was a surplus of £1,315k (2013/14 -£64k). The College's original estimated outturn as per the College Development plan of a small budgeted surplus of £6k.

Mr Martin explained that the actual results take account of:

- Additional £1m working capital investment provided by DEL Finance during the financial year.
- Employer Engagement income being approximately £700k below the original target.
- Higher than planned income from both the Training for Success contracts and Steps to Work programme.
- Staff costs were £594k less than full year budget due to natural wastage, maximising the utilising of core staff in curriculum delivery, lower than budgeted delivery hours associated with employer engagement alongside delivery of employer engaged by core staff within their annual contract hours.
- Non-Pay expenditure efficiencies were successfully delivered throughout the College;
- Results reflect both exceptional redundancy and VES net costs of £409k and exceptional loss on disposal of property disposals of £142k.

The Head of Finance said that DEL had been informed at the end of quarter 3 that an historic cost surplus of £605k was anticipated. The Head of Finance continued that the actual outturn represents a substantial £711k improvement, with the variance summarised as follows:

- Income remained largely static overall, with falls in employer engagement income offset by additional deferred grant releases and income increases in both Training for Success and Steps to Work contracts;
- Expenditure forecasts in Quarter 3 return held at prudent level to reflect the continued pursuit of employer engagement;

- Actual staff costs realised were lower than forecast in Quarter 3 return due to curriculum volume and both the volume of employer engagement activity and the mix of staff required to deliver it.
- Actual non-staff costs realised were lower than forecast in Q3 return due to knock-on impact of delivery volumes on materials and exam registrations and efficiency drivers in other cost areas.

The Head of Finance reported that the College's accumulated income and expenditure reserves totalled £3,761k with cash reserves at £3,727k as at 31 July 2015. The Head of Finance reported, that at approximately 7.7% of income, the College's 2014/15 cash reserves were within DEL's key performance indicator target of between 5% - 10%. Mr Martin continued that the Current Ratio at 1.26 is slightly below the DEL KPI target of 1.5-2.5, but was an improvement on 13/14 ratio of 1.06.

The Head of Finance informed members of one post-balance sheet event, being the authorised allocations from the Public Sector Transformation Fund for the NI FE Voluntary Exit Scheme. Approval was received on 9 September 2015 and DEL instructed the College to proceed with staff exits as reflected in tranche 2. The post-balance sheet event was an adjusting event and reflected in the Financial Statements.

The Head of Finance reported that the Northern Ireland Audit Office's final Report to Those Charged with Governance had not yet been issued, but the current draft identified no significant issues, no significant internal control weakness and no misstatements. The Head of Finance continued by highlighting that the draft report makes only one, sector wide, observation and it was assigned a Priority 3 rating (an issue of a more minor nature which represents best practice).

The Chair asked the Head of Finance if the reduction in employer engagement income was a continuing trend. The Head of Finance informed members that 2014/15 was a transitional year for the structure of the Business Services department in the College, which was one reason for not achieving the target in 2014/15. The Head of Finance said the management team had considered the target for 2015/16 and there was no stepped reduction in targeting employer engagement income.

The Chair noted that the Committee recognised the effort by the College Management Team to achieve the 2014/15 results with Mr Pollard concurring.

## **7.2 Presentation of the Report to Those Charge with Governance**

Mr Lynn informed members that the 2014/15 audit was a routine audit in terms of transactions with the VES transaction being the only less routine element in terms of transactions.

Mr Lynn drew members' attention to two main points:

- RTTCWG remains in draft until Comptroller and Auditor General of NIAO signs the audit report, but it is not expected to change.
- One Priority 3 issue is reported, which is a sector wide recommendation. No specific points noted in relation to the College.

Mr Lynn said Ms Magennis would take members through the draft report.

Ms Magennis drew members' attention to p1 where the recommendation to the Comptroller and Auditor General would be that he should certify the 2014-15 financial statements with an unqualified audit opinion, without modification, on the financial statements and no report on the account is expected to be required. On page 2, she said accounts of sufficient quality were received on 18<sup>th</sup> September 2015 and no misstatements were identified which required adjustment in the financial statements.

	<p>Ms Magennis drew members' attention to the observation and recommendation on Page 5, relating to a sector wide observation, that the College does not have an accounting policy for Intangible Assets and as a result does not capitalise any intangible assets on the balance sheet. Ms Magennis informed members that this related, primarily, to software licences. The recommendation was accepted by Management and the College would review its capitalisation policy with regard to intangible assets, which would be discussed on a sector basis.</p> <p>Ms Magennis noted there were no other observations.</p> <p>Ms Magennis informed members that there were:</p> <ul style="list-style-type: none"> <li>- No priority 1 issues to follow up on from the 2013/14 year;</li> <li>- No adjustments made to financial statements;</li> <li>- No unadjusted misstatements</li> </ul> <p>Ms Magennis thanked the Head of Finance for his help and support throughout the audit.</p> <p>The Chair thanked Mr Lynn and Ms Magennis for their report and articulated the Committee's recognition of the unqualified audit opinion.</p> <p><b>7.3 Audit Committee Annual Report 14/15</b></p> <p>The Chair outlined the contents of the Audit Committee's Annual Report for 2014/15 that had been circulated to members.</p> <p>The Chair commented on the Internal Audit Reviews for the 14/15 year stating that the achievement of two satisfactory assurance ratings, 5 substantial ratings and an overall substantial assurance rating was an excellent result. The Chair noted that only one recommendation was still in progress at 31 July 2015 and this related to room utilisation, which was being reviewed by the sector.</p> <p>The Chair continued that the RTTCWG was a relatively light report and that the Committee was pleased with its contents.</p> <p>The Chair asked for comments on the annual report. There were no comments.</p> <p>The Chair informed members that he would sign the Audit Committee Annual Report for 14/15 on behalf of the Committee.</p>
<p><b>8.</b></p>	<p><b>Risk Management Report</b></p> <p>The Director of Corporate and Economic Development reported on the risks as follows:</p> <p>Risk 074 – Managing the Financial viability of the College. He reported the result for 2014/15 and that the forecast for 2015/16 remained on target. Risk to remain as Category A.</p> <p>Risk 075 – Failure to manage the level of sickness The Director of Corporate and Economic Development reported that the absence rate for the year to date is 3.2%, which is a 26% reduction from rate in 2014/15. Risk to remain as Category A.</p> <p>Risk 077 – Ability to manage impact of financial cuts He reported three main items within this risk:</p> <ul style="list-style-type: none"> <li>- DEL initiated a Collaboration Programme which identifies six key projects that will potentially promote more efficient ways of working;</li> <li>- SERC initiated second trawl for volunteers on VES process;</li> <li>- Sector continues to promote its worth in driving the economy.</li> </ul> <p>Risk to remain as Category A.</p>

	<p>Risk 078 – Planning the curriculum Provision as a consequent of financial cuts. Mr Keating reported that Youth Training and Higher Level Apprenticeship Pilots had commenced. He said that all six Colleges continue to work in collaboration with 6 new Curriculum Leaders taking up their posts to work with staff to ensure the courses are a success. Risk to remain as Category A.</p> <p>Risk 079 – Failure to introduce and manage the Steps to Success (S2S) Contract He reported that performance to date was very good with Reed’s Board complimenting SERC on its performance. Risk Management group agreed that this risk would be downgraded to the Operational Risk Register as it had been mitigated and managed effectively.</p> <p>The Director of Corporate and Economic Development concluded by saying that 5 Category A complaints had been received alongside 18 compliments/positive feedback and the Risk Management Team were content that there were no trends or areas that presented a significant risk to the College. There were four active risks, which were all category A.</p> <p>The Chair thanked the Director for his report and asked for comments from Members.</p> <p>Mr Pollard asked for the sickness statistics to be reported in days, which was agreed by the Director of Corporate and Economic Development.</p>
<p><b>9.</b></p>	<p><b>Internal Audit Reports</b></p> <p><b>9.1 Progress Against Audit Plan 15/16</b></p> <p>Ms Patton tabled the document “Progress Against Audit Plan for 2015/16”.</p> <p>Ms Patton reported on progress to date and said that of the 7 Internal Audit Reviews in the 15/16 annual plan, one had been fully completed and two had fieldwork completed with draft reports issued to management.</p> <p>Ms Patton noted that the Financial Planning &amp; Budgetary Control review was now included in the 2015/16 plan having replaced the proposed review of payroll, which was completed in 2014/15.</p> <p>Ms Patton informed members that dates for the remaining reviews had been agreed with management.</p> <p><b>9.2 Review of Complaints Handling</b></p> <p>Ms Patton reported that the College had received a satisfactory assurance rating for the IA review of Complaints Handling. She continued that there were four priority 3 issues and one priority 2 issue which had been accepted and were being implemented by management.</p> <p>The priority 2 issue was in relation to timeliness of responses to complaints and the issuance of feedback letters and holding letters. The recommendation detailed that all Heads and Assistant Heads of Schools/Units are to be reminded that it is their responsibility to ensure that Feedback Outcome Letters are sent to the customer within 20 workings days of the date of the Acknowledgement Letter and that they must advise the Customer and Community Services Team if the 20 working days timeframe is unlikely to be met so that a Holding Letter can be issued. The observation also recommended that emails sent to the Responsible Officers from the Customer and Community Services Team state the date by which the Feedback Outcome Letter should be issued by.</p>

	<p>Ms Patton reported the four priority 3 issues, which reflect improvements that will enhance the existing control framework and/or represent best practice, as:</p> <ul style="list-style-type: none"> <li>- Review and update Customer Feedback SOP to include a stipulation that if feedback is relatively easy to resolve, then the staff member may do so without invoking the formal complaints handling procedure, however all feedback should continue to be logged within the current register. It was also recommended that the SOP should also be updated to reflect that in practice the Direct of Learning and customer Support is only advised of Category A Customer Feedback rather than all feedback.</li> <li>- Standard format Feedback Outcome Letter be developed and included in the Customer Feedback SOP. The template should include advice to the customer of the option to appeal within 10 working days and how appeals may be lodged.</li> <li>- Records should be maintained for each Feedback Review Panel with a number of minimum requirements for information.</li> <li>- Consideration of implementing more comprehensive reporting in respect of non-Category A complaints to allow any potential trends in respect of feedback received to be formally identified.</li> </ul> <p>The Principal informed members of progress in that the SOP was already updated with the revised Policy being brought to this Committee meeting for approval.</p> <p>The Chair thanked Ms Patton for her report.</p>
<p><b>10</b></p>	<p><b>Policies for Approval</b></p> <p><u>Risk Management Policy</u></p> <p>The Director of Corporate and Economic Development presented the Risk Management Policy and informed members of the updates to the Policy in response to guidance from DEL FE Corporate Governance.</p> <p>Mr Lynn asked the Director of Corporate and Economic Development for clarity on the Risk Appetite of the College. Mr Keating explained that College Management had assessed risk profile against College objectives as per section 1.3 of the Policy. Mr Lynn asked if the Risk Profile table was the Risk Appetite judgement and Mr Keating confirmed that Risk Profile was Risk Appetite. Mr Lynn asked for the wording Risk Appetite to be included in the table in section 1.3. Mr Keating agreed to this change.</p> <p>The Policy was recommended for approval by Governing Body on the proposal of Mr Pollard, seconded by Mr Hetherington.</p> <p><u>Customer Feedback Policy</u></p> <p>The Principal presented the Customer Feedback Policy to members by highlighting the amendments made in the policy that reflected the recommendations of the Internal Audit Review of Complaints Handling.</p> <p>The Policy was recommended for approval by Governing Body on the proposal of Mr Hetherington, seconded by Mr Pollard.</p>
<p><b>11</b></p>	<p><b>Actions taken in response to IA items brought forward from 2014/15:</b></p> <p>The Head of Finance reported one item brought forward from 2014/15 in relation to the Internal Audit Review of Utilisation of Estate.</p> <p>The Head of Finance said the recommendation was in progress. An Estate Utilisation Report was presented to the November 2015 meeting of the F&amp;GP committee that addresses a number of key topics in relation to utilising the SERC estate.</p>

	<p>Mr Martin said the College continues to work with DEL to establish sector-wide utilisation rates, which will be used to report to the College Management Team and Governing Body.</p> <p>The Head of Finance reported that work continues on the Estate and Timetabling action plans.</p>
<b>12</b>	<p><b>Direct Award Contracts 14/15</b></p> <p>The Head of Finance presented the list of Direct Award Contracts in the period 1 August 2014 to 31 July 2015.</p> <p>The Head of Finance explained that a Direct Award Contract was a contract awarded without competition and were only awarded in exceptional circumstances. He explained that DEL classify Direct Award Contracts under two main headings:</p> <ul style="list-style-type: none"> <li>- Purchases up to £5,000; and</li> <li>- Purchases above £5,000</li> </ul> <p>The Head of Finance informed members that purchases up to £5,000 are not subject to the full range of procurement rules and as such there was no requirement to report such DAC's to DEL.</p> <p>The Head of Finance outlined the approval process for Direct Award Contracts up to £5,000 and above £5,000.</p> <p>The Head of Finance drew members' attention to the listing of Direct Award Contracts and noted that only one contract was above £5,000 and thus reportable to DEL. The Head of Finance explained the reasons for that particular DAC.</p> <p>The Chair asked who approved DAC purchases up to £5,000 in advance. The Head of Finance said it was the appropriate budget holder.</p> <p>Ms Meharg asked if individual purchases up to £5,000 with the same supplier were examined for cumulative spend over £5,000. The Head of Finance said there was no formal requirement to report, but they would be discussed with DEL.</p> <p>Ms Patton informed members that Internal Audit Reviews of Procurement examine cumulative expenditure and look for evidence of procurement slicing.</p> <p>The Chair thanked the Head of Finance for his report.</p>
<b>13</b>	<p><b>Any other notified business</b></p> <p>There were no items to be taken.</p>
<b>14</b>	<p><b>Date and time of next meeting</b></p> <p>There being no further business, the meeting ended at 6.54p.m. The Chair thanked everyone for their attendance and contribution.</p> <p>The next meeting will be held on Tuesday 26 January 2016 at 6.00 pm in the Lisburn Campus.</p>

Signed ..... (Chairman)

Date .....