

## **NORTHERN REGIONAL COLLEGE**

### **AUDIT COMMITTEE**

Minutes of the meeting of the Audit Committee held on 22 February 2011 at the Ballymena Campus of the Northern Regional College.

Present Mrs A Rankin (Chairperson), Rev T Jamieson and Mr R Jay.

In Attendance Mr T Neilands (Director), Mr S McCormick (NIAO), Mr R Monds (DEL), Mrs C Moore, Mr R Ross (NIAO), Mr M Pitt (PwC) and Mr JA Hunter.

#### **Pre-Meeting with Auditors**

The Audit Committee, less staff representatives, met with the Internal Auditor and representatives from NIAO prior to the main meeting. Mr Pitt, Internal Auditor, and Mr S McCormick, NIAO representative, stated that they had had full cooperation from College Management and had no points to raise with the Committee.

### **UNRESERVED BUSINESS**

#### **18.1 Apologies**

The Chairperson welcomed Mr Richard Ross as the Northern Ireland Audit Office representative on the Committee.

Apologies were received from Mrs A M Campbell, Alderman PJ McAvoy and Ms C O'Neill.

#### **18.2 Declaration of Interests**

There were no other declarations of interests.

#### **18.3 Risk Management**

##### **18.3.1 Departmental Risk Registers**

The Committee received a presentation from Mr R Laverty, Head of Faculty of Built Environment and Design, regarding the Departmental Risk Register.

Mr Laverty provided an overview of his Faculty's Review and Planning Process. He advised that the Course Team Review and Evaluation informed the School Operational Plan, which in turn informed the Faculty Operational Plan from which the Faculty Risk Register is derived. He added that the Faculty Risk Register informed operational planning in the Faculty.

He stated that the Faculty Management Team, in the main, was responsible for the identification of risks. Senior lecturers were made aware of risk management at School Management Team meetings. He added that there was a need to raise awareness within curriculum teams of risks associated with their curriculum area and the management of those risks.

Mr Laverty highlighted the key risks identified in the Faculty Operational Plan and referred, in particular, to the major risk associated with the continued depressed state of the construction industry.

In conclusion Mr Lavery provided a number of slides to illustrate the operation of his Faculty Risk Register.

During discussion Members stressed the importance of embedding risk within Faculties. A Member raised a query in relation to action arising in the Faculty Risk Register regarding alternative sources of funding. He was advised that attention was given to this matter at team level to ensure the most appropriate source of funding was sought after from a college rather than an individual perspective.

The Chairperson thanked Mr Lavery for an informative presentation.

#### 18.3.2 Risk Management Report

The Committee received a Report from the meeting of the Risk Management Group held on 12 January 2011. It was noted that the following topics were discussed:

- a) Departmental Risk Registers. New Departmental Risk Register pro-formas have been updated to reflect the 5 x 5 model and distributed to Departmental Heads;
- b) College Risk Register. The Group discussed the College Risk Register, in its new format, which focuses on identifying risks from objectives.

**The Committee agreed that:**

**a) The College Risk Register should be forwarded annually to the Audit Committee; and**

**b) In light of the significant changes due to the Northern Ireland Executive's Budget, the updated College Risk Register, which reflects the implications of the DEL budget, should be brought to the next meeting of the Audit Committee**

#### 18.4 Minutes of the Last Meeting

The minutes of the last meeting of the Audit Committee held on 16 November 2010 were approved.

#### 18.5 Matters Arising

18.5.1 Managing Public Money (minute 17.5.2).

Mr Monds informed the Committee that the revised Financial Memorandum had been put in abeyance until the reclassification issue has been resolved. He said that the Department was considering the issue of a circular to update certain financial matters during the interim period.

#### 18.6 Chairperson's Communications

There were no Chairperson's communications.

#### 18.7 Correspondence.

The Committee noted:

- a) Correspondence from Northern Ireland Audit Office, dated 27 January 2011, indicating that NIAO has decided to contract out the audit of the Northern Regional College's annual accounts to a private sector firm for a period of 3 years, with an option for extension of a further 2 years commencing with 2010/2011 accounts.

Under these arrangements the relationship between the audited body and NIAO does not alter. The accounts will continue to be certified by the Comptroller and

Auditor General. The appointed firm examines the transactions and accounting records in order to form an opinion on the accounts, which it presents to NIAO.

b) Correspondence from KPMG providing details of its Distinguished Visiting Lecturer Event on Wednesday 9 March 2011 at 6 pm in the Great Hall, Queen's University, Belfast. This year's Distinguished Lecturer is Baroness Onora O'Neill of Bengrave CBE; her address will be 'Trust, Trustworthiness and Accountability.

**The Committee agreed that Members should receive a copy of the official invitation to the Distinguished Lecturer event. Members wishing to attend should inform Claire Moore**

### **18.8 Annual Theft and Fraud Report 2009/2010**

The Committee received a copy of the Annual Theft and Fraud Report 2009/2010, compiled by the Department of Finance and Personnel, which identifies potential trends in the cases reported, highlights how such cases have been perpetrated and indicates how they can be prevented and detected in the future.

The category of fraud showing the highest number of cases reported was in the 'theft of assets' category with 55.4% of all cases reported being in this category. The Director of Finance drew attention to 'procurement' fraud; although there were only three cases the reported value was almost £206k equating to 36% of the overall value.

The Director of Finance stated that the majority of cases (45%) was found to be opportunistic in nature. Failure to apply existing controls contributed to 27% with inadequate controls being cited in 22 % cases.

She also referred to the methods of discovery; 41% of the cases were discovered by an internal member of staff, 33% were discovered through the operation of normal control procedures and 22% were reported by an external third party.

### **18.9 Outstanding Internal Audit Issues**

The Director of Finance provided the Committee with a progress report regarding the following outstanding audit issues:

a) PwC Outstanding Internal Audit Recommendations 2009/2010. Eleven of the 12 recommendations have been fully implemented and 1 partially implemented;

b) PwC Outstanding Internal Audit Recommendations 2010/2011. Seven of the 11 recommendations have been fully implemented, 2 partially implemented and 2 not implemented. The Chairperson stated that there should be timescales assigned for implementation of all recommendations outstanding.

c) Report to Those Charged with Governance (RTTCWG) Recommendations 2009/10. Twenty-six of the 34 recommendations have been fully implemented, 5 partially implemented and 3 not implemented/not applicable. It was noted that the College does not accept a recommendation in relation the preparation of the final accounts. The Director of Finance said that the final accounts had been prepared in accordance with the pro-forma set of accounts issued by the Department. There had been a late issue of the Accounts Direction from DEL. Any changes required to the draft accounts were made to the final accounts. Mr McCormick said that the matter had resolved itself but that NIAO were obliged to notify the Audit Committee of this issue.

## 18.10 Internal Audit Report to Audit Committee

Mr Pitt presented the Internal Audit Report to the Audit Committee, which provided an update on progress made against the 2010/2011 Internal Audit Plan.

It was noted that the following internal reviews have been completed since the last Audit Committee meeting:

- Cash Handling Arrangements (satisfactory);
- Procurement and Contracting (satisfactory);
- Development Planning (substantial);
- Reputational Risk (substantial); and
- Income Generation and Diversity (substantial).

It was also noted that the Internal Auditors are satisfied that all of the outstanding internal audit reviews are scheduled in line with the agreed timescale, and all audit work will be completed and reported in advance of the financial year end (31 July 2011) and within DEL requirements (30 September 2011).

## 18.11 Internal Audit Reviews

The Committee received the following Internal Audit Reviews:

a) **Procurement and Contracting.** The Internal Auditors have given a satisfactory assurance rating for procurement and contracting arrangements at the Northern Regional College. They have set out the assurance ratings for all the key processes, all of which have received substantial ratings with the exception of the tendering process for which a satisfactory rating has been given. There were no priority 1 issues identified during the review.

The Internal Auditors indicated that cumulative payments in excess of the tendering thresholds had been made to a number of suppliers. They recommended that the College should undertake a review of cumulative spend for each supplier on at least a bi-annual basis. Mr Pitt reassured the Committee that there had been no evidence of contract splitting and there had been no breaches of the EU procurement regulations. Mr McCormick suggested that the Audit Committee should be provided from time to time with a list of contract extensions. The Director of Finance advised the Committee that work had been carried out to prepare a 3-year procurement schedule for NRC, which included a review of cumulative spend per supplier. She also indicated that a procurement consultant was being commissioned to assist with procurement issues.

b) **Arrangements for the Management of Reputational Risk.** The Internal Auditors have given a substantial assurance rating for the management of reputational risk at the Northern Regional College. They have set out the assurance ratings for all the key processes, all of which have received substantial ratings. There were no priority 1 issues identified during the review. It was noted that a recommendation regarding the production and circulation of procedural guidance for dealing with press queries had now been implemented.

c) **Corporate Governance Arrangements with a focus on College Development Planning.** The Internal Auditors have given a substantial assurance rating for Corporate Governance Arrangements with a focus on College Development Planning. They have set out the assurance ratings for all the key processes, all of which have received substantial ratings. There were no priority 1 issues identified during the review. The Committee noted that the Internal Auditors had recommended that the CDP should be more readily accessible on the College website. The Director stated that this recommendation had now been overtaken by events for the Department no longer required the CDP in its previous format. It was noted, however, that the current CDP is on the College website..

d) **Cash Handling.** The Internal Auditors have given a satisfactory assurance rating for cash handling arrangements and income receipt. They have set out the assurance ratings for all the key processes, all of which have received satisfactory or substantial ratings. There were

no priority 1 issues identified during the review. It was noted that the recommendation regarding cash handling procedures had now been implemented. Procedures had been finalised and communicated to all staff. It was also noted that arrangements had still to be implemented for the opening and recording of cheques by staff outside the Finance Department. Implementation of the recommendation had been delayed as there had been difficulty in making appropriate accommodation suitable for the operation at the Farm Lodge buildings.

e) **Income Generation and Diversity.** The Internal Auditors have given a substantial assurance rating for income generation and diversity of income arrangements. They have set out the assurance ratings for all the key processes, all of which have received satisfactory ratings. There were no priority 1 issues identified during the course of the review.

It was noted that the Internal Auditors had identified a range of potential sources of income that the College could explore. The Director stated that consideration had been given to these options, which would be addressed at future meetings of the Governing Body and its Committees.

### **18.12 Internal Audit Service Key Performance Indicators**

Members noted that the Audit Committee (30 March 2010) had agreed that Key Performance Indicators should be prepared to review the Internal Auditors' performance.

The Director of Finance presented a Progress Report in relation to the eight KPIs, which had been prepared to review the company's performance. She said that she had been pleased with progress and everything was on target. Evaluation from each audit review will be passed to PwC, following agreement with process owners.

### **18.13 Any Other Notified Business**

#### **18.13.1 Internal Audit Service Report**

The Committee received a copy of a Peer Review, completed by Internal Audit Service, of internal audit arrangements provided by PriceWaterhouseCoopers to the six Further Education Colleges. The purpose of the Review was to examine internal audit arrangements within each of the six colleges, to assess PwC's compliance with Government Internal Audit Standards and to make recommendations for improvement where necessary.

It was noted that IAS had reviewed the internal audit arrangements within the FE Colleges and had found them to be satisfactory. IAS tests have revealed that PwC was appropriately appointed and complies with Government Internal Audit Standards when conducting reviews.

It was further noted that IAS had found a number of minor weaknesses in the internal audit arrangements of the six Colleges. It found, for example, that NRC did not tender for the provision of its internal audit service via a recognised Centre of Procurement Expertise (COPE) and it has recommended that ongoing liaison in relation to this issue should be progressed as soon as possible to ensure that future procurement adheres to best practice and displays value for money. Management has responded indicating that NRC has now in place a procurement strategy, recommended by the Directors of the six Colleges. This addresses the problem encountered by all Colleges in trying to obtain the services of a COPE. In response to a recommendation regarding the appointment of Internal Auditors, NRC Management has stated that it believes that the process undertaken by the College to appoint the Internal Audit Providers was in line with best practice and displayed value for money.

#### 18.13.1 Essential Skills Report

Mr McCormick drew attention to a forthcoming Public Accounts Committee report on Essential Skills.

#### **18.14 Next Meeting**

The Committee noted that the next meeting is scheduled for 5.30 pm on Tuesday 3 May 2011 at the Farm Lodge, Ballymena Campus of the Northern Regional College.