

## **NORTHERN REGIONAL COLLEGE**

### **AUDIT & RISK COMMITTEE**

Minutes of the meeting of the Audit & Risk Committee held on 7 October 2015 at the Newtownabbey Campus at 2.00 pm.

Present Dr D Lennox (Chair), Councillor J Brown, Mrs J Eve, Mr B Hutchinson, and Mr S McCartney

In Attendance Mr C Andrews (DEL), Mr A O'Brien (KPMG), Ms C O'Hagan (NIAO), Professor T Scott, Mrs C Moore and Mr J Hunter

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

The Audit & Risk Committee, less staff representatives, met with representatives from the NIAO, Internal Auditors and DEL prior to the meeting.

### **UNRESERVED BUSINESS**

#### **41.1 Apologies**

There were no apologies. The Chair stated that this was Mr McCartney's last meeting; he is the non-teaching staff representative on the Governing Body and his period of appointment terminates on 31 October 2015. Arrangements are in place to hold an election to appoint a replacement; Mr McCartney is eligible to stand in the election. Dr Lennox thanked him for his contribution to the work of the Committee.

#### **41.2 Declaration of Interests**

There were no conflicts of interest declared.

#### **41.3 Minutes of the Last Meeting**

The minutes of the last meeting of the Audit Committee held on 16 June 2015 were approved.

#### **41.4 Matters Arising**

There were no matters arising from the minutes of the last meeting.

#### **41.5 Terms of Reference**

The Committee received revised Terms of Reference, which are in accord with the model terms recommended by the revised Audit Code.

**The Committee considered and agreed that the Terms of Reference be endorsed with some minor adjustments and forwarded to the Governing Body for approval (see Annex 1).**

**Action: Secretary**

#### **41.6 Chair's Communications**

There were no Chair's communications.

#### **41.7 Correspondence**

The Committee received the following correspondence:

a) Correspondence from DfP, dated 6 July 2015, providing details of the Annual Compliance Report on the use of External Consultants 2013/2014.

b) Initial Fraud Notification from NRC to DEL, dated 23 July 2015

c) FE College Accounts Directive FE 07/15, dated 29 July 2015 and 7 September 2015, setting out the requirements for Colleges to prepare their 2014/2015 Annual Report and Financial Statements. Mrs Moore confirmed that the College had complied with the Direction in the preparation of its Annual Report and Financial Statements.

d) Correspondence from DEL, dated 18 August 2015, regarding the Returns Timetable for the year ending 31 July 2016.

e) Correspondence from DEL regarding the Audit Code for the Governing Bodies of FE Colleges. Mrs Moore emphasised that this was an important document and she indicated that she would be prepared to give a short presentation regarding the Code at the next meeting if necessary. The Chair reinforced the importance of the document and indicated that consideration would be given to a presentation. It was noted that both KPMG and the NIAO had had comments on the Audit Code and had been in contact with DEL. Mr Andrews indicated that there may be revisions to the document but they would be relatively minor.

#### **41.8 Follow-Up Review of Payments to Part-Time Lecturers**

Mr O'Brien advised the Committee that a Follow-Up Review of Part-Time Lecturers had been presented to the Audit & Risk Committee at its last meeting (16 June 2015); the Internal Auditors had provided a limited assurance rating for the Review. He said that KPMG had conducted a follow-up review to ascertain the extent to which agreed actions, in relation to outstanding recommendations, have been implemented. He provided Members with the Follow-Up Report, which indicates that good progress has been made in relation to the four issues raised in the initial Review and that a revised **Satisfactory** assurance rating has been issued.

It was suggested at the pre-meeting that the College should monitor the situation in three months' time to ensure that the e-claims system of control was operating effectively, as the Internal Auditors had not been able to test its operating effectiveness over the summer period. The Committee further **agreed that the Internal Auditors should return and review the control system in early 2016 making use of reserve days in the Audit Operational Plan. The Audit Operational Plan should be adjusted to reflect this decision.**

**Action: Internal Auditors**

#### **41.9 Annual Statement of Assurance**

Mr O'Brien stated that based on the work performed during 2014/2015, the Internal Auditors had issued an unqualified Satisfactory Assurance over the internal control environment at the College. He advised the Committee that the Assurance reflected the revised assurance for the Review of Payments to Part-Time Lecturers, which had been upgraded from limited to satisfactory.

#### **41.10 Internal Audit Plan**

Mr O'Brien presented the Audit Operational Plan 2015/2016, derived from the Audit Strategy, which will require an expected 57 days of audit time. The Audit Strategy will be reassessed on an annual basis in light of the key risks facing the College. It was noted that there were two days in reserve, which would be allocated to the review of the control system for Payments to Part-Time Lecturers.

#### **41.11 Draft Annual Report and Financial Statements**

Mrs Moore provided a presentation regarding the draft Annual Report and Financial Statement for 2014/2015. She indicated that the College had generated an historic cost surplus of £652k compared with the College's original planned outturn of a £0.4k surplus. She said that the College had

accumulated income and expenditure reserves, excluding pension reserves, of £2,341k and a cash balance of £4,787k.

During discussion a number of comments were made:

- The College had not realised a number of the targets set for 2014/2015. The Principal stated that more realistic targets had been set for 2015/2016
- Sickness Absence rates were higher than the previous year due to long term sickness. The College's rate was around the average for the Sector
- The College had fulfilled its Section 75 obligations in regard to equal opportunities.

Ms C O'Hagan advised that the NIAO had commenced work on the external audit and there were no issues of concern at this stage.

In conclusion, Mrs Moore stated that the document would be updated and forwarded to the Audit Committee (18 November 2015) for recommendation for approval to the Governing Body (25 November 2015).

#### **41.12 Direct Award Contracts**

The Committee received details of direct award contracts for June 2015, July 2015, August 2015 and September 2015.

#### **41.13 Any Other Business**

##### **41.13.1 Membership**

Mrs Eve drew attention to the need for at least one member of the Audit & Risk Committee to have 'recent and relevant experience in finance, accounting or auditing'. It was noted that there were no qualified accountants on the Governing Body, Finance Committee or Audit & Risk Committee. The Committee noted that it is possible to invite a person with accounting experience to attend meetings for a period of up to one year but that was not ideal. Mr O'Brien suggested that such an appointment would be of limited value as it would be for too short a period. It was suggested that Mr Andrews should investigate if there was a solution to this problem.

#### **Action: Mr Andrews to investigate**

Dr Lennox noted that it would be important for members of the Committee to have appropriate training. Mr Andrews advised that the Department would be organising training for all Audit Committee members in the near future. He also reminded members that they could avail of courses provided by the NICS Centre for Applied Learning.

#### **41.14 Next Meeting**

The Chair reminded members that the next Audit Committee meeting is scheduled for 18 November 2015 at the Farm Lodge Ballymena Campus at 5.30 pm. The pre-meeting commences at 5.15 pm

## Terms of Reference Northern Regional College Audit & Risk Committee

### Constitution and Membership

The Governing Body will establish a Committee of the Governing Body to be known as the Audit & Risk Committee. Details on the Committee are set out in the Articles of Government of the College.

The Audit Committee provides a medium of communication from the College's auditors that are not controlled by College management. In particular the Committee should ensure that the internal control systems, including audit activities, of the College are monitored actively, independently and objectively in order to:

- promote and ensure high standards of propriety, accountability and financial management within the College;
- improve the quality of financial reporting by reviewing internal and external financial statements on behalf of the Governing Body;
- promote a financial climate of financial discipline and control which will help to reduce the opportunity for financial mismanagement or fraud;
- improve where necessary, the effectiveness of the College's internal controls and mechanisms for achieving value for money and the extent to which these comply with requirements set down by the Department;
- reinforce the independence and effectiveness of the internal audit function and to underpin the objectivity and independence of the external auditors;
- advise on the reliability of the College's information systems;
- ensure that effective risk management processes are embedded within the college;
- provide a sounding board for College management on issues of concern in relation to the College's internal control systems; and
- contribute to the maintenance or increasing of public confidence in the quality of the College's corporate governance and management.

The Committee and its Chair shall be appointed by the Governing Body, from among its own members, and must consist of members with no executive responsibility for the management of the College. There shall be no fewer than four members; a quorum shall be at least three members. The Chair of the Governing Body or the Principal should not be a member of the Committee. Members should not have significant interests in the College.

At least one member should have recent and relevant experience in finance, accounting or auditing. The Committee may, if it considers it necessary or desirable, have in attendance, members with particular expertise. No member of the Committee may also be a member of the Finance Committee (or equivalent), unless specifically authorised by the Department for Employment and Learning in line with the Audit Code. The current membership of the Committee is set out at Appendix 1.

### Attendance at Meetings

The Audit Committee must meet at least 4 times a year, normally quarterly. Proceedings will be carried out in line with College standing orders. The Chair of the Audit & Risk Committee may convene additional meetings, as they deem necessary. A minimum of three members of the Audit & Risk Committee will be present for the meeting to be deemed quorate.

The Principal, Head of Finance (or equivalent), the Head of Internal Audit, and a representative from the NIAO shall normally attend meetings where business relevant to them is to be discussed. However, at least once a year the Committee should meet with the External and Internal Auditors without any officers present. A representative from the Department will normally attend all of the College's Audit & Risk Committee meetings circumstances permitting.

The Audit Committee may ask any other officials of the college to attend to assist it with its discussions on any particular matter and may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

The Accounting Officer or Governing Body may ask the Audit & Risk Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

### **Authority**

The Audit & Risk Committee is authorised by the Governing Body to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the Audit Committee.

The Audit & Risk Committee will review the audit aspects of the draft annual financial statements. These aspects will include the Comptroller and Auditor General's opinion, the statement of members' responsibilities, the statement of internal control and any relevant issue raised in the NIAO's 'Report to Those Charged with Governance'. The Committee should, where appropriate, confirm with the internal auditors and the NIAO that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the Governing Body.

### **Rights**

The Audit & Risk Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience;
- and procure specialist ad-hoc advice at the expense of the college organisation, subject to budgets agreed by the Accounting Officer/ Governing Body.

However, it may not incur direct expenditure in this respect without the prior approval of the Governing Body which must be within the guidelines for procurement.

### **Access**

The Head of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the Audit & Risk Committee.

### **Duties**

The duties of the Audit & Risk Committee should include advising the Accounting Officer and Governing Body on:

- the strategic processes for risk, control and governance and the Governance Statement;
- the accounting policies, the accounts, and the annual report of the college organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the External Auditors;
- the planned activity and results of both Internal and External Audit;
- adequacy of management response to issues identified by audit activity, including External Audit's management letter;
- assurances relating to the management of risk and corporate governance requirements for the college organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations;
- the Audit & Risk Committee will also periodically review its own effectiveness and report the results of that review to the Governing Body;
- keeping the processes for ensuring the effectiveness of the financial and other internal control systems under review;
- advising the Governing Body on the provision of any non-audit services provided by the NIAO or any other professional body, approved by the Department;

- discussing if necessary with the NIAO, before the audit begins, the nature and scope of the audit;
- discussing with the NIAO problems and reservations arising from the interim and final audits, and any other matters the NIAO may wish to discuss (in the absence of management where necessary);
- reviewing the NIAO's 'Report to Those Charged with Governance' and management's response and having direct access to the NIAO;
- advising the Governing Body on the criteria for the selection and appointment of the Internal Audit service;
- reviewing the scope and effectiveness of Internal Audit's work including planning and operation of the work and the internal audit annual report;
- ensuring that the College has efficient and effective procedures in place so as to ensure that statistical returns are accurate, timely and prepared in accordance with agreed procedures;
- ensuring that the College has systems and procedures to promote economy, efficiency and effectiveness - this may require identifying specific value for money studies;
- considering the College's annual financial statements prior to submission to the Governing Body, focusing in particular on any changes in accounting policy, major judgmental areas, significant audit adjustments, the going concern assumption and compliance with accounting standards and the Accounts Direction;
- reviewing relevant reports from the Department, NIAO and other organisations;
- monitoring and reporting annually on the performance and effectiveness of the NIAO and internal audit;
- keeping under review the effectiveness of the risk management, control and governance arrangements, and in particular to review the NIAO's 'Report to Those Charged with Governance', the internal auditors' annual report, and management responses; and
- monitoring and reporting on the implementation of agreed audit-based recommendations, from whatever source.

The Audit & Risk Committee should ensure that all significant losses and instances of fraud or theft have been properly investigated and that the Internal Auditors, NIAO and the Department have been fully informed of the matter in line with relevant procedures.

### **Reporting Procedures**

The Audit & Risk Committee should circulate the minutes of its meetings to the Governing Body, College Accounting Officer and to the Department.

The Department must be advised in advance, the time, date and location of all meetings and provided with an agenda of all items for discussion.

The Committee will produce an annual report by the deadline set out in the annual timetable of returns which it will submit to the Governing Body, College Accounting Officer and the Department. The Audit & Risk Committee's report will provide an opinion on the adequacy and effectiveness of the College's arrangements for the following:

- risk management, control and governance (the risk management element includes the accuracy of the statement of internal control included with the annual statement of accounts);

- the NIAO's 'Report to Those Charged with Governance';
- the Internal Auditor's annual report;
- any value for money exercises and any other relevant reports; and
- assessment of internal and External Audit's performance in year against appropriate performance measures that had been previously approved by the Audit & Risk Committee.

The report should include and refer to the findings of the Internal and External Auditors relating to the relevant reporting period, or an update on issues raised where this is not possible, due to timing.

### **Information Requirements**

For each meeting the Audit & Risk Committee will be provided (well ahead of the meeting) with:

- a report summarising any significant changes to the college's strategic risks and a copy of the strategic/corporate Risk Register;
- a progress report from the Head of Internal Audit summarising:
  - work performed (and a comparison with work planned);
  - key issues emerging from the work of internal audit;
  - management response to audit recommendations;
  - changes to the agreed Internal Audit plan; and
  - any resourcing issues affecting the delivery of the objectives of Internal Audit;
  - a progress report (written/verbal) from the External Audit representative summarising work done and emerging findings (this may include, where relevant to the college organisation, aspects of the wider work carried out by the NIAO, for example, Value for Money reports and good practice findings);
  - any management assurance reports; and
  - reports on the management of major incidents, "near misses" and lessons learned.

As and when appropriate the Committee will also be provided with:

- proposals for the terms of reference of Internal Audit/the Internal Audit charter;
- the Internal Audit strategy;
- the Head of Internal Audit's Annual Opinion and Report;
- quality assessment reports on the Internal Audit function;
- the draft accounts of the college;
- the draft Governance Statement;
- a report on any changes to accounting policies;
- External Audit's management letter;
- a report on any proposals to tender for audit functions;
- a copy of the report of every Internal Audit assignment;
- a report on co-operation between Internal and External Audit; and
- the College's Risk Management strategy.

The above list suggests minimum requirements for the inputs which should be provided to the Audit & Risk Committee. In some cases more may be provided. For instance, it might be agreed that Audit & Risk Committee members should be provided with a copy of management Stewardship Reports (or equivalents) if these are used in the college.

## Appendix 1

### Membership of the Northern Regional College Audit & Risk Committee

Dr D Lennox (Chair)

Alderman J Brown

Mrs J Eve

Mr S McCartney

Mr B Hutchinson