



## **6.4 WHISTLEBLOWING CASES (13)**

Mr Stanley confirmed that the whistleblowing case concerning Student Benefits and the case concerning HMRC were separate cases. A Member expressed concern that HMRC did not provide follow up information on cases referred to it. Mr Boyd confirmed that, in line with the Authority's Whistleblowing procedure, a full investigation was carried out by EA officers to the best of their capabilities into any reported case.

## **7. CHAIRPERSON'S BUSINESS**

### **HEAD OF INTERNAL AUDIT – SELECTION AND RECRUITMENT PROCESS**

On the proposal of Mr Cargo, seconded by Mr Salmon, the Committee agreed to discuss this item in committee.

*Mrs Flavell, Mr Orr, Mr Russell and Mr Stanley withdrew from the meeting.*

Mr O'Neill provided a report on this matter.

On the proposal of Mr Forrest, seconded by Mr Salmon, the Committee agreed to resume the meeting.

*Mrs Flavell, Mr Orr, Mr Russell and Mr Stanley re-entered the meeting.*

The Committee noted, while in committee, a progress report on the recruitment exercise in respect of the post of Head of Internal Audit.

## **8. ANNUAL REPORT AND ACCOUNTS 2016/17**

The final draft of the Annual Report and Accounts was required to be submitted to the NIAO on 2 June 2017.

The Committee considered the draft Annual Report and Accounts 2016/17\*\* (ARA/5/17/6). Mr O'Neill advised that the document was structured in three parts: the Performance Report; the Accountability Report and the Financial Statements. He presented the section relating to the Annual Report.

Mrs Flavell highlighted that the Accounts still required a final reconciliation prior to their submission on 2 June and that the Annual Report would be subject to further review and update. She said that the Accounts reflected the consolidation of the five separate financial systems into one financial system. She drew attention in particular to Note 27 (Financial Target - Resource) and said that Note 27 provided a reconciliation of the total EA expenditure to the final outturn figure.

Mrs Flavell also referred to Note 22 (Pension Obligations), Note 28 (Financial Target - Capital), and Note 29 (Machinery of Government). Note 29 provided further detail on the transfer of the Youth Council NI to the Authority on 1 April 2016. In accordance with the Government Financial Reporting Manual (FReM), the transfer of the assets and liabilities of the Youth Council NI to the Authority was accounted for under absorption accounting.

The Committee noted that a full valuation of the schools' estate would be carried out in 2017/18. It also noted that that while pension liability fluctuated year on year based on

information provided by the Actuary, the liability had increased significantly over the previous year.

Mrs Flavell drew attention to the report on Payments to Suppliers. She also referred to the Remuneration and Staff Report. It was noted that further information was needed from external sources to complete this report.

A Member paid tribute to staff within Finance and the Central Management Support Unit for the compilation of the Annual Report and Accounts within a tight timeframe. He referred to the final outturn figure (resource) and queried the position given the political context and the bids which had been submitted by EA to DE in January monitoring. Mr Patrick said that the Authority's overspend would be considered in the overall Block position. DE's position would be taken into account with other Government Departments. Mr Boyd advised that potential recovery of an overspend was set out in HM Treasury guidance. The Department of Finance would decide on potential recovery set against budget assumptions and projections for the incoming financial year. He advised that EA and DE officials were currently engaging on this matter. The financial risks had been highlighted in risk registers, savings opportunities had been RAG (red, amber, green) rated and monthly reports had been given to the Finance and General Purposes Committee, and reported to Members through budget workshops. Miss Bill said that the Authority had taken a range of mitigating actions and had submitted bids for consideration in January monitoring; however January monitoring had not taken place due to the collapse of the NI Assembly.

Mr Patrick advised that the financial outturn position of other Government Departments would not be made publicly available until June monitoring.

A Member queried if the overspend would result in the qualification to the Accounts.

Ms Kane said that the issue would be carefully considered and there might be a preference for a public report on the issue but it might not necessarily lead to a qualification. She sought and received confirmation from Miss Bill that, as far as she was aware, there were no other issues in the Accounts that were likely to lead to a qualification.

A Member received confirmation that the Accounts did not include funding for the Voluntary Grammar sector.

Mr Boyd explained the basis of the £19m overspend. In 2016/17, the Authority had received a final allocation which was £38m less than 2015/16. The EA could not cope with the reduction in budgets together with the increases in demand for statutory and contract based services. A higher proportion of budget reductions in 2016/17 had been applied to the EA Block Grant. In addition to cuts, the Authority continued to experience increasing pressures within the area of Special Education (an additional £12m approximately had been spent within Special Education in 2016/17). He said that while schools had historically overestimated the level of surplus drawdown required in year and spending tended to slow in the later months of the year, in 2016/17 school spend was approximately £19m higher than allocated, £5m had been met from school surplus drawdown with £2m of surplus drawdown unmet in January monitoring, contributing to the overspend with the remaining £12m funded from within the EA Block Grant. This increase in school spend was evidence of the increasing pressures on school budgets in 2016/17 and the current year. Mr Boyd said that the EA Block Grant had been offset by one off savings amounting to approximately £19m (estimated). He said that a budget workshop had been held on 27 April 2017 for Board Members on the 2017/18 budget position. Members had noted the serious and immediate budgetary pressures and had agreed to ask DE to support

reshaping the delivery of services across the Education sector through a programme of transformation.

Mr Patrick acknowledged that the Authority's overspend had been impacted by January monitoring. He said that DE expected to receive funding in respect of school surplus drawdown.

It was recognised that more reliable information was available to EA on school spend in February / March of each year given that schools were operating on an academic year and it took a period of time to establish spending trends. DE officials would continue to work with the EA on the schools' outturn position. Miss Bill referred to the challenges associated with aligning the financial year with schools' budget planning as part of an academic year.

*(Mr Cargo declared an interest as he served as a member of a Board of Governors.)*

A Member referred to financial complexities for schools and systemic issues within LMS. He also referred to the Authority's transition period and the loss of expertise of staff through the voluntary exit scheme. He queried whether the Chief Executive was content with the controls in place in terms of management of individual budgets. Mr Boyd said that as senior management took forward the management of change process, attention had been given to delivering efficient and effective regional structures. He said that, in considering risks, he had taken the decision to move to the single financial system in December 2016 to enable the timely production of the Accounts. He considered that the financial controls in place were appropriate.

A Member queried the budget and outturn position for Special Education. Miss Bill advised that Special Education was funded from within the EA Block Grant. While the Block Grant had been impacted by a cash reduction of £22m at the start of the 2016/17 financial year, the Authority had protected the budget lines associated with Special Education as far as possible. In fact, the Authority had spent an additional £12m on Special Education in 2016/17. Members discussed the increasing demands on the Special Education budget in line with statutory assessment. Mr Boyd said that the CYPS Committee was actively reviewing the supports provided to children and young people. A Member referred to the Sustainability Report and sought clarification on some of the outworkings relating to the CYPS Directorate. It was pointed out that this information related to the work of the CYPS Committee.

A Member queried if the monitoring and review of school budgets was a robust process. Mr Boyd said that the Permanent Secretary had requested the Authority to consider the workings of LMS in the context of the Authority's financial challenges.

On the proposal of Mr Salmon, seconded by Mr Forrest, the Committee agreed to recommend that the Annual Report and Accounts for 2016/17, subject to a final reconciliation check being made, be submitted to the Comptroller and Auditor General by the deadline of 2 June 2017.

## **9. DRAFT AUDIT STRATEGY FOR 2016/17**

Ms Kane presented the NIAO letter dated 5 May 2017 and the draft Audit Strategy\* (ARA/5/17/7) which set out the audit approach to the 2016/17 Annual Report and Accounts and the actions to be taken by those charged with governance. She advised that, following an initial assessment of the Authority's operations and control environment, audit had identified two areas of significant risk of material misstatement. These related to the new integrated

finance system and procurement and contract management. She also made reference to the new HR Payroll system which was currently being procured.

Ms Kane said that other risk factors had been identified in the initial audit assessment. These areas would be monitored throughout the audit but were not considered to represent a significant risk of material misstatement in the financial statements. These included organisational change, budget constraints and the potential tax liability. She advised that the narrative relating to budget constraints could be amended with developments throughout the year.

A Member received information on the sample testing that would be carried out by the NIAO on the significant risks identified in draft Audit Strategy.

Ms Kane said that it was anticipated that the Report on Special Educational Needs would be published by the end of June. Work was currently taking place on a Report dealing with the financial health of schools which would focus on the extent to which schools were able to manage within their budgets without building up significant surpluses or deficits.

A Member asked if the NIAO could report on the implications of Brexit on the Authority. Ms Kane undertook that she would relay the Member's concerns back on Brexit as part of the overall consideration of study topics going forward.

The Committee noted the draft Audit Strategy.

## **10. PRIORITY 1 RECOMMENDATIONS – PROGRESS REPORT**

Mr O'Neill presented the report\* (ARA/5/17/8) setting out the actions taken to date and proposed actions on the implementation of Priority 1 recommendations.

A Member requested that the report should provide information on the date of establishment and conclusion of each Priority 1 recommendation. This was agreed.

Discussion ensued in relation to the development of a Disaster Recovery Strategy. Mr O'Neill said that consideration would be given to contracting IT specialists to carry out activities which would identify any vulnerabilities in the Authority's computer systems, network and web applications. He said that while information had already been made available to staff in respect of raising awareness of cyber attacks, training sessions would be provided to staff on potential risks and vulnerabilities.

A Member suggested that Committee Members, and indeed all Board Members, should also avail of this training.

**Actions:** *Revise report to include date of establishment and conclusion of Priority 1 recommendations. Training on risks and vulnerabilities associated with cyber attacks to be provided to Members.*

## **11. DE INTERNAL AUDIT LETTER ON THE IMPLEMENTATION OF INTERNAL AUDIT RECOMMENDATIONS**

The Committee noted DE's letter\* (ARA/5/17/9) dated 4 May 2017 on the follow up review of financial management arrangements that had originated in a former Education and Library Board. The follow up review had identified that the majority of the recommendations had been

fully implemented and some had been partially implemented. The Committee noted that the assurance level in DE's follow up review had been provided as satisfactory.

Mr O'Neill advised that two recommendations which had been partially implemented had now been fully implemented.

## **12. DIRECT AWARD CONTRACTS**

The Committee noted the Direct Award Contracts\* (ARA/5/17/10) authorised by the Chief Executive.

Miss Bill reported that the Authority would be required to enter into a Direct Award Contract in respect of its banking contract.

## **13. DATE OF NEXT MEETING**

The next meeting would be held on 2 October 2017.

The meeting ended at 2.55 pm.

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**Chair**

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**Date**

\* Paper circulated