

**JOINT MEETING OF THE FINANCE AND EMPLOYMENT COMMITTEE (FEC) AND THE
AUDIT AND RISK COMMITTEE (ARC)**

Minutes of the joint meeting held on 12 November 2019

Present: Prof C Kinsella, Chair ARC
Ms M Munn, Acting Chair FEC
Ms J Allen, member ARC
Ms V Brown, member of ARC
Ms K Finlayson, member ARC
Lord Kerlake, member FEC
Mr C Kenny, member ARC
Dr J Morrissy, member ARC
Mr J Warner, member ARC

In Attendance: Mr M Ackroyd, KPMG
Ms M Boryslawskyj, University Secretary and Clerk to the Board of
Governors
Mr R Calvert, DVC Strategy and Operations
Ms K Doherty, Grant Thornton
Ms D Harry, Chief Finance and Planning Officer
Ms S Hook, Head of Financial Reporting and Compliance
Mr S Taylor, Director of Finance
Mr M Redfern, Grant Thornton
Mr P Sweeney, Governance and Sector Regulations (FEC Minute
Secretary)
Ms A Temple, Governance and Sector Regulations (ARC Minute
Secretary)

Apologies for absence from: Prof Sir C Husbands, member FEC; Mr N MacDonald, member FEC; and Dr S Timothy, member FEC.

Paper reference Minute reference

FEC+A/19/1J **FEC Acting Chair's Opening Remarks**

- 1.1 It was noted that the Finance and Employment Committee was inquorate as there were two members of the Committee present (the quorum is three).
- 1.2 In accordance with the Board's Standing Order 4.3, the Chair asked the members present to confirm whether they wished to continue with the business as published and, if so, the Clerk to the Board would be instructed to seek the comments of the absent members by correspondence immediately after the meeting. When sufficient absent members approved the decisions made at the meeting, in accordance with the Standing Order, the decisions would be confirmed as decisions of the Committee. Matters requiring decision of the Finance and Employment Committee were (i) FEC/5/19/4J concerning going concern and (ii) FEC/5/19/7J concerning the draft Annual Review and Financial Statements. Both matters were recommendations to the Board of Governors.

	1.3	The FEC members present <u>agreed</u> to proceed with the discussion.
		Action: Clerk to the Board
	1.4	Subsequent to the meeting the resolutions of the FEC were confirmed (FEC/19/4.6J and FEC/19/7.6J refer).
	FEC+A/19/2J	Declaration of Interests
	2.1	There were no declarations of interest.
FEC/5/19/3J A/4/19/3J	FEC+A/19/3J	Guidance Note on the role of the Audit and Risk Committee (ARC) and Finance and Employment Committee (FEC) in considering the draft financial statements (ARFS)
	3.1	The Committee <u>received</u> the guidance note. The joint meeting of the ARC and FEC would only consider the University's Annual Report and Financial Statements (ARFS) for the year ending 31 July 2019 and related matters including the external auditor's findings. The recommendations to the November 2019 meeting of the Board of Governors made by each Committee would be recorded separately within the minutes.
FEC/5/19/4J A/4/19/4J Confidential	FEC+A/19/4J	The University's Approach to Going Concern Assessment
	4.1	The Director of Finance introduced the report which explained the assessment of the University's ability to continue as a going concern during 2019/20 and 2020/21 and highlighted the robust approach to this assessment including: <ul style="list-style-type: none"> i) the review of cash flow forecasts including monthly cash requirements taking into account the peaks and troughs of the student loan company payments; ii) the assessment of the impact of potential new borrowing on the University's ability to meet its financial obligations; iii) the sensitivity analysis concerning covenant compliance; iv) the review of the impact of Brexit on the University; and v) the modelling to assess the potential reduction in fees at different levels which may arise from the implementation of the Augar Review.
	4.2	In discussion it was noted that there was significant headroom before covenants held with Barclays and Santander would be breached.

- 4.3 Grant Thornton had undertaken work to review the forecast prepared by management to assess whether preparation of the financial statements on a going concern basis was appropriate. They had concluded that the going concern basis was appropriate for the preparation of the University's financial statements (page 15 of FEC/5/19/5J and A/4/19/5J refers).
- 4.4 **The ARC noted** the report on the going concern assessment.
- 4.5 **The FEC resolved to recommend** to the Board of Governors that it was appropriate for the financial statements for 2018/19 to be prepared on the going concern basis.
- 4.6 addendum Subsequent to the meeting, the resolution in 4.5 was confirmed as the decision of the FEC.

FEC/5/19/5J
A/4/19/5J
Confidential

FEC+A/19/5J

Grant Thornton: Audit Findings for Sheffield Hallam University

- 5.1 The Committee received the external auditors' final report and noted:
- i) the external auditors' work was complete, with the exception of receipt of final paperwork from the University (specifically the required letter of representation), a conclusion on potential liability in relation to an issue with TPS, and final review of the financial statements;
 - ii) Grant Thornton had made no control observations and confirmed that the control observation raised in the prior year had been addressed;
 - iii) in relation to the Local Government Pension Scheme assumptions were required in the valuation of the scheme at year-end and an expert actuary was used by management to calculate the FRS102 valuation. Grant Thornton had reviewed the assumptions applied in the FRS102 calculation for reasonableness based on industry knowledge and using their in-house actuaries. Equalisation in response to the Court of Appeal decisions in the Sergeant and McCloud cases had been accounted for resulting in the need for additional provision for past service costs of £5.8m. Equalisation in response to the High Court judgement for the effect of unequal Guaranteed Minimum Pensions (GMP) had not been accounted for as there was a judgemental difference in assumptions by actuaries within the sector and the potential impact was not material. The impact of these changes was an increase in staff costs for 2018/19 only;

- iv) in relation to the Universities Superannuation Scheme (USS) Grant Thornton had reviewed the model and calculations used to assess the scheme's past service deficit provision required under FRS102 and considered whether the key assumptions were reasonable. The USS provision for the year ended 31 July 2019 reflected the requirements of the 2017 valuation deficit recovery plan. The 2018 valuation deficit recovery plan was not finalised until after the year end. The changes to the deficit recovery plan along with changes to staff assumptions and the discount rate resulted in the USS provision increasing by £4m to £6m in 2018/19. The £4m increase was reflected in expenditure for 2018/19. Applying the 2018 valuation deficit recovery plan would have resulted in a provision of £3.6m as at the year end and the £1.5m increase being recognised in expenditure. A post balance sheet event note to the accounts was included to reflect the updated Recovery Plan and the impact on the provision balance based on the 2018 valuation;
- v) in relation to the Teachers' Pension Scheme it was not necessary to make a provision in the financial statements;
- vi) the University had renegotiated the terms of the Barclays loan facility during 2018/19. It was noted that the requirements of FRS102 meant that consideration must be given to whether the changes in the agreement had resulted in a substantial change in the loan agreement that may alter the carrying value of the loan or the classification as a basic financial instrument. In addition the University had taken out a new loan facility with Santander which must be assessed to determine the classification of the facility within the financial statements. Grant Thornton were content that management judgements in relation to the loans were appropriate.
- vii) Grant Thornton were content that the unadjusted misstatements in relation to holiday pay accrual and TPS pension contributions were not material to the University or the Group financial statements,
- viii) that there were no significant facts or matters that impacted on Grant Thornton's independence as auditors that they were required or wished to draw to the Committees' attention. They also confirmed that they complied with the Financial Reporting Council's Ethical Standards and that they remained independent and were able to express an objective opinion on the financial statements; and

- ix) that they anticipated that they would be a position to give an unmodified opinion on the University's consolidated financial statements for year ended 31 July 2019 and on the financial statements for its trading subsidiaries: Sheffield Hallam University Enterprises Ltd, Sheffield Hallam Innovation and Enterprise Ltd and SHU Law Ltd, subject to completion of outstanding work set out in their report (page 4).

5.2 During discussion:

- i) it was noted that the triennial review and valuation of the LGPS was in progress with the conclusions in relation to the South Yorkshire Pensions Scheme expected soon;
- ii) a minute confidential to the Committee was recorded.

ACTION: Chief People Officer

5.3 The meeting thanked:

- i) the auditors for the report and for their work to audit the ARFS; and
- ii) Finance Directorate staff for their work in preparation for the year-end audit.

FEC/5/19/6J
A/4/19/6J
Confidential

FEC+A/19/6J

Letters of Representation in relation to the 2018/19 external audit

6.1 The Committee received the report which included (i) the letter of representation to be signed by the Chair of the Board of Governors on behalf of the University and (ii) a reciprocal letter of representation from the University to the Board.

6.2 The purpose of the letter from the University to the Board was to provide the Board with assurance that the University had met all the requirements set out in the letter to the external auditors. In signing the letter from the University to the Board the Vice-Chancellor would be provided with appropriate assurance from the Chief Finance and Planning Officer (CFPO). The signed letter from the Chair of the Board of Governors to the external auditors was required by Grant Thornton prior to their approval of the ARFS for year ending 31 July 2019.

6.3 It was noted that the content of the letter was based on standard declarations which Grant Thornton, as external auditor, required of all its clients. The declaration under 'financial statements' para xii was a statement specific to Sheffield Hallam University related to provisions made for

asbestos removal.

6.4 Mr J Warner, member of ARC, left the meeting. The ARC remained quorate.

FEC/5/19/7J
A/4/19/7J
Confidential

FEC+A/19/7J **Draft Annual Review and Financial Statements for the year ended 31 July 2019**

7.1 The Head of Financial Reporting and Compliance introduced the draft ARFS for the year ended 31 July 2019. She noted that work to compile the ARFS had been co-ordinated between Finance and Planning, Governance and Sector Regulation, and Marketing. She gave a detailed briefing on the content of the financial statements.

7.2 It was noted that two areas had not been adjusted within the financial statements (FEC+A/19/5.1vii refers);

i) holiday pay accrual was first calculated in 2016 on transition to FRS102 and represented the cost of paid annual leave that had not been used at the year end. The accrual was originally calculated at £5.2m. Each year the accrual was recalculated using the same methodology. The calculated accrual for 2018/19 was £468k lower than the accrual recognised in the financial statements. At present, not everyone used the holiday booking system and the calculation was based on a sample. The University was intending to align the holiday year end and add the holiday booking process to Core for everyone to use. The accrual had not been adjusted as it was felt that it gave a more prudent estimate until such time as a more accurate method of calculation could be developed using the new holiday year end date and system and the difference was not considered material enough to affect the users view of the financial statements; and

ii) an adjustment had not been made for possible costs in relation to TPS as management had determined that due to the low value of potential liability the financial statements for 2018/19 would not be adjusted.

7.3 During discussion it was suggested that management should consider planning key high-level messages about the University's underlying financial position prior to publication of the ARFS. This should include messages to local stakeholders. The messages should take into account the impact on the balance sheet of the changes in USS pension discount rates, which was an accounting adjustment and did not impact on cash generation. It was noted that the Chief Planning and Finance Officer had discussed internal messages with Communications and

Marketing and would extend this to external messages. It was also noted that the CPFO was delivering a session to staff on 13 November 2019 concerning financial sustainability.

ACTION: Chief Finance and Planning Officer

- 7.4 Members were content with the narrative and commented that it read well.
- 7.5 **The FEC resolved to recommend** to the Board of Governors the approval of the draft consolidated Financial Statements for the year ended 31 July 2019 subject to final audit clearance.
- 7.6 Subsequent to the meeting the resolution in 7.5 was confirmed as the decision of the FEC.
addendum
- 7.7 **The ARC resolved to recommend** to the Board of Governors the approval of the draft consolidated Financial Statements for the year ended 31 July 2019 subject to final audit clearance.