

AUDIT AND RISK COMMITTEE

Minutes of Meeting held on Thursday 19 September 2019

Present: Prof. C Kinsella (Chairman)
Ms J Allen
Ms V Brown
Mr C Kenny
Mr J Warner

In Attendance: Mr M Ackoyd, KPMG
Ms M Boryslawskyj (Secretary)
Mr A Bush, KPMG
Mr R Calvert, Deputy Vice-Chancellor (Strategy and Operations)
Ms D Harry, Chief Finance and Planning Officer
Mr M Redfern, Grant Thornton
Ms A Temple (Minute Secretary)
Ms R Thei, Head of Governance and Sector Regulation (for item 9.1 and 9.2)
Mr M Ward, Risk and Business Continuity Officer (for item 9.1 and 9.2)

Apologies for Absence: Ms K Finlayson and Dr J Morrissy

Paper ref Minute ref

A/19/39 **Declaration of Interests**

39.1 There were no declarations of interest.

A/19/40 **Chair's Opening Remarks**

40.1 The Chair welcomed Ms Joanna Allen (member of the Board of Governors and member of Audit and Risk Committee) and Ms Victoria Brown (externally co-opted member of Audit and Risk Committee) to their first meeting of the Committee.

A/19/41 **Private meeting of Committee members**

41.1 A private meeting of Committee members (with the Secretary and Minute Secretary in attendance) took place to enable members to prioritise the agenda to reflect members' knowledge and concerns.

A/19/42 **Private meeting of Committee members and Management**

42.1 A minute confidential to the Committee was recorded.

A/19/43 **Update on Sector Issues**

43.1 The Chair asked the auditors to provide an update on any audit or sector matters relevant to the Committee's remit.

43.2 The external auditor reported that there would be a significant impact from pension changes on the University and across the HE sector - including:

- the fall in the discount rate for the LGPS since March 2019 which would have an impact on the statement of comprehensive income;
- the equalisation of pension liability across the LGPS as a whole (arising from the Court of Appeal judgement in relation to McCloud) which would impact on the revenue account in relation to past service benefit with a significant impact in the 2018/19 financial statements;
- the equalisation for the effect of the Guaranteed Minimum Pensions (GMP), which would have minimal effect;
- a significant increase in the liability in relation to USS for 2018/19 which should reverse in 2019/20. In relation to this it was suggested that it was important to explain this in the notes of the Annual Report and Financial Statements and it was noted that there was some recommended BUFDG guidance.

43.3 The FRC were due to publish a revised ethical standard (for external audit) in December 2019 effective for financial years starting from 1 January 2020 onwards. As part of this the definition of Public Interest Entity may be extended to large providers (i.e. greater than £500m turnover) and large education and charity institutions. External audit firms were lobbying to prevent the scope extending as this would lead to a number of additional rules and responsibilities for the audit of higher education financial statements.

43.4 The internal auditor reported that there appeared to be a softening of the tone of the Government in relation to higher education, for example, the recent announcement of the reintroduction of a two-year post-study work route for international students in UK higher education (with the provision for graduates who then find work being able to apply to transfer onto the Tier 2 skilled work visa). It was unclear which, if any, of the proposals set out the review of post-18 education and funding (known as the Augar review) would be implemented.

A/2/19/M A/19/44 **Minutes of the meeting held on 6 June 2019**

44.1 The minutes were approved.

A/3/19/6 A/19/45 **Matters Arising/Audit and Risk Committee Action Tracker, version 21 August 2019**

45.1 There were no matters arising not covered elsewhere.

A/19/46 **Appointment of Deputy Chair**

46.1 Mr Chris Kenny was appointed as Deputy Chair of the Committee from 19 September 2019 to the first meeting of 2020/21.

A/3/19/9.1 A/19/47 **Risk Management**

47.1 The Risk and Business Continuity Officer and the Head of Governance and Sector Regulation joined the meeting for items 9.1 and 9.2.

47.2 The Chief Finance and Planning Officer updated the Committee on risk management and noted that progress had been made on managing a number of corporate risks. The Committee noted that:

1. **CR4: UK recruitment:** a successful Clearing operation had taken place. Confirmation of the final student recruitment figures was expected from

UCAS in December 2019;

2. **CR6: Changes in Higher Education sector funding environment:** the likelihood and impact of this risk had both been reduced. This reflected revised expectations concerning the implementation of a change to higher education undergraduate student fees;
3. **CR7: Staffing.** noted the challenge of maintaining staff engagement and morale during a period of significant internal and external change. It was noted that UCU had issued a national ballot concerning strike action on pay;
4. **CR8: The estate:** this risk had been extended to include the balance between investing in new buildings as part of the Campus Master Plan, and the ongoing requirements for reactive and pre-emptive maintenance of the current estate.

47.3 The Committee congratulated the University on the successful Clearing operation and the Chair recommended that members took the opportunity to visit clearing in 2020 to observe the operation. In response to a question about whether the status of the UK recruitment risk could be further reduced the Chief Finance and Planning Officer observed that the current impact and likelihood was appropriate given other factors such as the position in relation to conditional offers.

47.4 In relation to the regular risk deep dive discussions it was noted that the forward programme included a discussion on the estates masterplan risk at the February 2020 meeting.

47.5 The Committee was assured that the University continued to have a robust and effective approach in place to the management of risk.

A/2/19/9.2
Confidential

A/19/48 **Assurance Map**

48.1 The Head of Governance and Sector Regulation updated the Committee on work to develop an assurance map for the University. This set out the way in which the institution would provide assurances to ULT and the Board of Governors that there was an effective system in place to monitor institutional risk and ongoing compliance with the OfS conditions of registration, alongside other regulatory issues.

48.2 In developing the assurance map the University had drawn on the Chartered Institute of Internal Auditors guidance, in order to develop a multi-layered model which ensured comprehensive but proportionate controls aligned to University processes and management structures. This was a bespoke tool developed by the University.

48.3 The map presented to the Committee provided a snapshot of the controls and assurances in place at 31 July 2019.

48.4 The Committee welcomed the development of the map and felt that the confidence rating of the controls and assurances was helpful, in particular, it was helpful that the map tracked where confidence levels were informed by external or internal verification. It was noted that work had been undertaken to cross map the risks/controls against recent internal audit reports. Members felt that the map was easy to understand and observed that it would be a useful tool for senior management.

- 48.5 In response to a question about how the map would be used as a management tool it was noted that ULT reviewed the Corporate Risk Register on a regular basis and would review the assurance map on an annual basis.
- 48.6 KPMG welcomed the development of the map and, as reported in June 2019 (A/19/29.1 refers), would review this in order to update their 2018/19 report on risk management. The revised report would be submitted to the November 2019 Audit and Risk Committee meeting.

A/19/49 **Update on No Deal Planning**

49.1 The Deputy Vice-Chancellor (Strategy and Operations) briefed the Committee on the University's work to plan for the impact of Brexit. The University had been monitoring the risks and a Brexit risk register was in place. The main risk areas for the University were:

1. staff - including the status of EU staff and the future attractiveness of the University as an employer;
2. students - including the impact on current and future students, the impact on the Erasmus scheme and the future attractiveness of the University to students;
3. grant funding - including research and regional structure funds;
4. supply chain - it was felt that there were no critical supply chain risks that the University could not mitigate;
5. legal and regulatory regime changes.

Overall the University did not foresee any critical risks on 1 November 2019 if the University exited membership of the EU without a deal in place. The risks were felt to be in the medium to long term and would depend on a number of factors including future participation in EU funding regimes, the future of Erasmus and the replacement for regional funds. The medium to long term risks were sector-wide and/or national matters.

A/3/19/10.1
Confidential

A/19/50 **Report on Waivers of the Financial Regulations**

50.1 The Committee received the report on waivers of the Financial Regulations in relation to expenditure. It was noted that the scheme of delegation was due to be submitted to the October 2019 Board of Governors meeting. This would provide members with further context, to support the report on waivers of financial regulations.

A/3/19/11.1

A/19/51 **Annual report on public interest disclosures 2018/19**

51.1 The University Secretary presented the annual report on the Public Interest Disclosure Policy and the Committee noted the revised policy was approved by the Building and Great University Pillar Board at its meeting on 9 April 2019. The Committee noted the communications that had been put in place to promote the revised policy and that there had been no public interest disclosure reports received during 2018/19.

A/3/19/11.2

A/19/52 **2018/19 Annual TRAC Return: Change in the Office for Students' Approval Requirement**

52.1 The Committee noted a change to the Office for Students' (OfS) requirements in submission of the University's TRAC (Transparent Approach to Costing) and TRAC(T) returns; namely that the TRAC returns should be subject to review and approval by a Committee of the Governing Body to confirm

compliance with TRAC and that, the previously acceptable process of Chair's action to approve was no longer permissible. Consequently, the TRAC return would be presented to a special meeting of the Audit and Risk Committee at the Governor's development day on 28 January 2020 and the TRAC(T) return would be presented at the Committee meeting on 27 February 2020. KPMG's internal audit of TRAC would be presented to the Committee meeting on 28 January 2020 to provide assurance concerning compliance with the TRAC requirements.

A/3/19/12.1 A/19/53 **Internal Audit: Progress Report**

53.1 The Committee received a progress report on the 2018/19 internal audit programme and noted that KPMG had delivered 143.5 days of a 152.5 day plan for 2018/19.

53.2 It was noted that no additional work had been approved beyond the agreed internal audit programme since the last meeting. During 2018/19 KPMG had undertaken an audit of ESFA arrangements regarding sub-contracting in the year.

A/3/19/12.1i 53.3 **Accounts payable:** The Committee received the review and the noted that it had been graded as significant assurance with minor improvements required. The Chair observed that during times of change there was a danger that basic processes such as accounts payable might not be followed.

A/3/19/12.1ii 53.4 **Business Readiness:** The Committee received the review and the noted that it had been graded as significant assurance with minor improvements required. A member observed that it would be interesting to see what the external audience view of the University's business engagement was. The Chair welcomed the introduction of Assistant Dean roles with a specific business engagement remit and the key account management proposals being progressed by LLEG.

A/3/19/12.1iii 53.5 **Health and Safety:** The Committee received the review and the noted that it had been graded as significant assurance with minor improvements required. A member observed that the recommendation that the ULT received reports on, and had oversight of, health and safety was a key recommendation to ensure a robust health and safety management system.

A/3/19/12.1iv 53.6 **Fraud Risk Assessment:** The Committee received the report of the advisory review and noted that the work had been undertaken by KPMG forensic specialists. It was noted that the review had shown that the University had in place the key building blocks required for a well-integrated anti-fraud control environment. While there were no significant gaps in the framework, KPMG had identified some improvement opportunities, where existing arrangements could be enhanced. A member observed that near-miss reporting of fraud incidents could be a useful tool in fraud prevention. In response to a question about whether Grant Thornton saw incidences of fraud at their clients the partner noted that there had been a number of sophisticated frauds, often IT based, which had affected their clients. This included a recent phishing attack at some universities, which had compromised payroll systems.

A/3/18/12.2 A/19/54 **Report on Implementation of Internal Audit Recommendations**

54.1 The Committee received a report on progress to implement outstanding recommendations. It noted that there were no actions to report against as relevant outstanding actions were being reviewed by KPMG in their 2018/19

follow-up review which was due to be submitted to the Committee at its November 2019 meeting.

A/3/18/12.3 A/19/55 **Draft KPMG Annual Report to the Vice-Chancellor and the Board of Governors 2018/19**

- 55.1 The Committee received KPMG's draft annual report 2018/19 and noted that the report would be further revised and updated for submission to the November 2019 meeting. It was noted that the University awaited further guidance for the Office for Student concerning its reporting requirements in for 2018/19. In previous years KPMG's annual report had been submitted to HEFCE/the OfS and their opinion on risk management, control and governance and value for money had been included in the Audit and Risk Committee's Annual Report (as part of the requirement for the Committee to comment on the adequacy and effectiveness of these areas). The Committee welcomed receipt of the early draft of the report.
- 55.2 The 'A view of the University' section of the report had been added in 2016/17 to provide context to the report.
- 55.3 It was noted that the figures in relation to the University's performance in league tables were incorrect and would need to be corrected prior to finalisation of the report.
- 55.4 In response to a question KPMG confirmed that they were not concerned that the number of days delivered in 2018/19 (i.e. 152.5) was significantly lower than that originally planned (223). KPMG confirmed that the reasons for the reduced days had been justifiable and that changes had been reported to the Committee during the year. The following reasons for deferral were noted:
1. the faculty deep dive and IT service management audits had not been timely given the structural changes being implemented during 2018/19;
 2. it had been agreed that the strengthening leadership workshop/review would focus on the Civic University initiative. The audit had been deferred in consultation with the Vice-Chancellor's Office;
 3. the UKVI data did not take place because the University had been subject to a UKVI compliance audit (tier 2 and tier 4) in summer 2018;
 4. TEF data quality was postponed as new metrics were awaited. The audit was included in the draft programme for 2019/20 (A/3/9/12.4).

It was suggested that it would be helpful to include an explanation of the deferrals in the narrative of the report, including providing confirmation that KPMG were content with the reasons for deferral.

A/19/56 **Draft Internal Audit Strategy and Operational Plan for 2019/20**

- 56.1 The Committee noted that an outline programme had been submitted to the Committee for discussion at its June 2019 meeting. Following this KPMG had consulted further with University management in order to develop the proposed plan. It was noted that the audits mapped against the University's strategic priorities and the Corporate Risk Register.
- 56.2 The following was discussed:
1. the review of effectiveness of business development and arrangements set up to support delivery of HE apprenticeships was a data audit assessing whether the University's data processes were sufficiently

developed to support the delivery of HE apprenticeships. This would also include a consideration of the business development arrangements in place with regards to HE apprenticeships. The audit would involve KPMG's data audit specialists. A member suggested that there may be benefit to a wider consideration of management of HE apprenticeships as part of a future internal audit;

2. in response to a question Grant Thornton confirmed that the internal audit work on key financial systems (KFS) did not duplicate the work of external audit as their audit work focused specifically on the impact of KFS on the Annual Report and Financial Statements;
3. the programme was ambitious and it was felt that it was important that audit areas were appropriately prioritised. It was noted that there was a need for the programme to be flexible and to respond to changes during the year.

56.3 The Committee approved phase 1 of the 2019/20 internal audit programme and agreed that further discussion should take place between management and KPMG to agree priorities for the later stages and that, if needed, Chair's action could be obtained to approve phase 2 of the plan to enable KPMG to plan for the delivery of the audit programme.

A/19/57 External Audit: Year Ending 31 July 2019

57.1 The Committee noted that the external audit was on schedule.

A/3/19/13.1 A/19/58 Additional Work Carried Out by the External Auditors

58.1 The Committee received a report on additional external auditors work carried out during 2018/19. In addition the Committee noted that there had been two items of additional work approved by the Chief Finance and Planning Officer since the meeting on 6 June 2019.

A/19/59 Report on Implementation of External Audit Recommendations

59.1 The Chief Finance and Planning Officer confirmed that the outstanding action from Grant Thornton's 2017/18 audit had been completed.

A/19/60 Date of Next Meeting

60.1 Tuesday 12 November 2019 as follows:

- 11.15am to 11.30am: Audit and Risk Committee Members Private Meeting (Members only)
- 11.30am to noon: Audit and Risk Committee Members Private Meeting with the auditors
- Noon to 1pm: Break
- 1pm to 2.30pm: Audit and Risk Committee Meeting
- 2.30pm to 3.30pm: Joint Finance and Employment Committee/Audit and Risk Committee Meeting