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| **UNCONFIRMED MINUTES OF THE MEETING HELD ON 14 NOVEMBER 2022** | | | | |
| PRESENT: | | | | |
| **Audit and Risk Committee (ARC)** | | **Finance and Employment Committee (FEC)** | | |
| Joanna Allen (ARC Chair) | | Gabrielle Berring | | |
| Sameer Kothari | | John Cowling | | |
| Matt Lilley | | Professor Sir Chris Husbands | | |
|  | | Lord Kerslake | | |
|  | | Meg Munn (FEC Chair) | | |
|  | | Giles Searby (FEC) | | |
| IN ATTENDANCE: | | | AGENDA ITEM | |
| Michaela Boryslawskyj, University Secretary | | | All | |
| Richard Calvert, DVC Strategy and Operations (DVCSO) | | | All | |
| Benjamin Connor, PwC | | | All | |
| Katy Doherty, Grant Thornton | | | All | |
| Clair Marlow, Head of Legal Services & Deputy University Secretary | | | All | |
| Simon Taylor, Interim Chief Finance Officer (CFO) | | | All | |
| Tracey Taylor, Governance Senior Advisor | | | All | |
| Angela Temple, Governance Senior Adviser (Committee Secretary) | | | All | |
| Deborah Watson, Grant Thornton | | | All | |
| APOLOGIES: ARC: Ian Hall; FEC: None. | | | | |
| Minute Ref | Item of Business | | | Paper Ref |
| ARC/J/2022-11-14/1FEC/J/2022-11-14/1 | DECLARATIONS OF INTEREST | | |  |
| 1.1 | There were no declarations of interest. | | | |
| ARC/J/2022-11-14/2FEC/J/2022-11-14/2 | CHAIRS’ BUSINESS | | |  |
| 2.1 | The Chair ARC drew members attention to the guidance note (ARC/J/2022-11-14/P8 and FEC/J/2022-11-14/P8) setting out the Committees’ respective roles in considering the draft Annual Report and Financial Statements (ARFS). | | | |
| 2.2 | The Chair of ARC reported that ARC had considered its opinions on risk management, control and governance; value for money; and data quality and management, prior to this meeting and that the Committee was able to confirm that arrangements for these matters for 2021/22 and to date were adequate and effective. A report would be submitted to the Board of Governors on 29 November 2022 prior to the Board’s consideration of the ARFS. | | | |
| ARC/J/2022-11-14/3FEC/J/2022-11-14/3 | THE UNIVERSITY’S APPROACH TO GOING CONCERN ASSESSMENT | | | ARC/J/2022-11-14/P3  FEC/J/2022-11-14/P3  CONFIDENTIAL |
| 3.1 | The CFO presented the report providing an assessment of the University’s ability to operate as a going concern. FEC were asked to recommend to the Board of Governors that it was appropriate for financial statements for 2021/22 to be prepared on a going concern basis. | | | |
| 3.2 | The CFO highlighted management’s approach to the assessing the University's ability to operate as a going concern:   1. since thebudget was approved by the Board of Governors in July 2022, there had been a number of factors arising which would impact on the budgeted operating surplus position for 2022/23 and the forecast for future years; 2. forecasts for 2022/23 and 2023/24 indicated that the University would be able to meet all banking financial covenants; cash flow requirements (including the Campus Plan); loan repayments; and operational requirements; 3. in relation to covenants, scenario analysis had been undertaken to test the sensitivity of each covenant to changes in the underlying assumptions in order to determine what changes to the University’s key variables could result in a breach, which demonstrated available headroom in relation to each of the covenants. 4. there was no pending litigation that would result in a significant cost to the University, or significant reputational damage that would alter the going concern assessment. | | | |
| 3.3 | In response to questions the following was noted:   1. the key variables that had been amended compared to the budget approved by the Board in July 2022 were (i) the current view of income levels based on the student recruitment position and (ii) the impact of inflation. These matters had been reviewed as part of the work undertaken on the OfS 5-year Forecast, which was being considered by FEC at its meeting on 14 November 2022 for recommendation to the Board of Governors on 29 November 2022; 2. a minute confidential to the Committee was recorded; 3. a minute confidential to the Committee was recorded. | | | |
| 3.4 | **ARC** **noted** the report on the going concern assessment. | | | |
| 3.5 | **FEC** resolved to **recommend** to the Board of Governors that it was appropriate for the financial statements for 2021/22 to be prepared on a going concern basis. | | | |
| ARC/J/2022-11-14/4FEC/J/2022-11-14/4 | GRANT THORNTON: AUDIT FINDINGS FOR SHEFFIELD HALLAM UNIVERSITY | | | ARC/J/2022-11-14/P4FEC/J/2022-11-14/P4CONFIDENTIAL |
| 4.1 | Grant Thornton presented their audit findings for the University and its subsidiaries for the year ended 31 July 2022. The external audit work was largely complete, with the following work on-going:completion of quality review process;going concern assessment;receipt of third-party confirmations;outstanding bank confirmation from National Bank of Kuwait International;completion of work on defined benefit pensions schemes, particularly concerning valuation of the scheme assets;post balance sheet event review; andreceipt of letter of representation (minute FEC+ARC/J/2022-11-14/5 refers). | | | |
| 4.2 | The following was highlighted by Grant Thornton:  1. significant key risks covered in the report included management over-ride of controls, the revenue cycle/fraudulent transactions, and pension provision. The first two of these risks were standard across all HEI external audits as these were mandated by audit standards; 2. in relation to the revenue recognition risk, Grant Thornton had noted from their sample testing that the majority of research grants were recognised in line with the expenditure incurred in the year. They had challenged management as to whether this was appropriate, particularly where performance conditions could be inferred from the documentation. Management confirmed that this had been reviewed to determine whether any conditions had been met and that it was therefore appropriate to recognise revenue. Documentary evidence to corroborate this was being reviewed by Grant Thornton; 3. in relation to pensions, the following was noted:    1. assumptions were required in the valuation of the LGPS scheme at year-end and an expert actuary was used by management to calculate the FRS102 valuation;    2. there had been a requirement to perform additional testing on the valuation of pension fund assets compared to prior years and this work was in progress. Grant Thornton had received most of the information required from South Yorkshire Pensions Authority and were confident that they would receive outstanding information/confirmations in order to complete the work; | | | |
| 4.2 | * 1. Grant Thornton had identified during analytical review procedures on the rate of return on pension assets that there was a discrepancy between the rate of return used by the fund actuary in the FRS102 calculations and the actual rate of return confirmed by the pension fund (4.2% per FRS102 calculations and 2.7% per pension fund). The difference was material, and the pension fund and actuary were in the process of investigating and quantifying the impact. This would lead to an adjustment in the ARFS;   2. the CPI rate used to determine the pension increase assumption was based on CPI at September 2021, however there had been a significant increase in CPI between this point and the year end. Grant Thornton had challenged the actuary as to whether rising CPI to July 2022 had been reflected within the FRS102 valuation. The impact of any increase to CPI would be an increase in the pension liability and reduction in the actuarial gain recognised in year. It was likely that this would lead to an adjustment to the ARFS as it would have a material impact on the FRS102 valuation;  1. it would be necessary to delay signing of the ARFS if the outstanding bank confirmation was not received; 2. in relation to loan valuations and covenants, the University had entered into a private placement during the year ended 31 July 2022, this was subject to an assessment as to whether the loan was a basic or other financial instrument. This had been subject to a detailed assessment by management, which concluded this was a basic financial instrument; this had been challenged by Grant Thornton and the position was being reviewed by their Financial Instruments experts, who were in the process of confirming this assessment; 3. work to review the going concern assessment was expected to be complete prior to the Board of Governors meeting; 4. the challenge on approach to research grants had also been undertaken as part of Grant Thornton’s audit of SHUEL’s financial statements; 5. Grant Thornton noted that the investments currently held by SHINE were in the process of being wound down and therefore they challenged management whether this meant the company was no longer a going concern. Management confirmed that there was no intention to wind up the company and future investments may be made through it if the right opportunities arose; 6. Grant Thornton had not been made aware of any incidents of fraud or any significant incidences of non-compliance with laws or regulations; 7. prior year recommendations had been actioned. | | | |
| 4.3 | In relation to questions the following was discussed:  1. it was noted that the LGPS schemes actuary had changed. Concern was expressed that the schemes actuary had not identified the discrepancy between the rate of return used in the FRS102 calculations and the actual rate of return confirmed by the pension fund. It was noted that the University was being more challenging in relation to the work of actuaries; 2. in relation to the private placement a member of FEC commented that the task and finish group which considered the private placement had considered exposure to foreign currency and had been assured in relation to the associated cash flows; 3. FEC’s role included being assured in relation to accounting policies, the external auditors were able to confirm that they were comfortable with accounting policies and that these were consistent with those used in other HEIs. | | | |
| 4.4 | Grant Thornton intended to issue an unmodified audit opinion on the consolidated financial statements of Sheffield Hallam University and the financial statements for its trading subsidiaries, Sheffield Hallam University Enterprises Ltd, Sheffield Hallam Innovation and Enterprise Limited and SHU Law Limited, subject to the satisfactory completion of the outstanding audit work. | | | |
| ARC/J/2022-11-14/5  FEC/J/2022-11-14/5 | LETTERS OF REPRESENTATION IN RELATION TO THE EXTERNAL AUDIT | | | ARC/J/2022-11-14/P5  FEC/J/2022-11-14/P5 CONFIDENTIAL |
| 5.1 | The Committees 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. The letter of representation was required by the external auditors, Grant Thornton, prior to approval of the Annual Report and Financial Statements. The University had a process in place to ensure that the Board received appropriate assurances in order to provide the letter to Grant Thornton. In response to a question, Debbie Watson, Grant Thornton, confirmed that the statements in the letter were standard declarations expected of all higher education providers with specific statements for the University in relation to the actuarial assumptions underlying the valuation of pension scheme liabilities and treatment of unadjusted misstatements. | | | |
| ARC/J/2022-11-14/6  FEC/J/2022-11-14/6 | DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS AND SUBSIDIARY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2022 | | | ARC/J/2022-11-14/P6  FEC/J/2022-11-14/P6 CONFIDENTIAL |
| 6.1 | The Chief Finance Officer presented the report which contained the Draft Annual Report and Financial Statement. It was noted that:   1. the aim had been to keep the narrative front section concise whilst including the necessary information. The numbers and other matters with the narrative section had been audited by Grant Thornton; 2. there were two amends in relation to LGPS: a minute confidential to the Committee was recorded; 3. an additional note would be added concerning the Brent Cross Campus noting that the University had have entered an agreement for lease (**AFL**). The note had not been included in the ARFS documentation to date as a non-disclosure agreement had been in place prior to public announcement. The wording of the note had been agreed with Grant Thornton. | | | |
| 6.2 | During discussion the following was noted:   1. the additional note on Brent Cross would not result in any changes to the numbers in the ARFS; 2. the Brent Cross AFL had been signed before year-end so was not a post balance sheet event. | | | |
| 6.3 | It was **agreed** that, in addition to the note on the Brent Cross AFL, it would be appropriate to include details of the planned London campus in the Vice-Chancellor’s and/or the Chair of the Board’s narrative sections of the ARFS given the strategic significance of the proposals. | | | |
| 6.4 | It was **agreed** that members could submit comments on the ARFS to the CFO by close of play on Wednesday 16 November 2022. Comments should be added to the Diligent meeting book for consideration. | | | |
| 6.5 | **FEC resolved to recommend** to the Board of Governors the approval of the draft consolidated Financial Statements for the year ended 31 July 2022 subject to final audit clearance and the amendments noted in the meeting. | | | |
| 6.6 | **ARC resolved to recommend** to the Board of Governors the approval of the draft consolidated Financial Statements for the year ended 31 July 2022 subject to final audit clearance and the amendments noted in the meeting. | | | |
| ARC/J/2022-11-14/7  FEC/J/2022-11-14/7 | RELATED COMPANIES REPORT FOR THE YEAR ENDING 31 JULY 2022 | | | ARC/J/2022-11-14/P7  FEC/J/2022-11-14/P7 CONFIDENTIAL |
| 7.1 | The Committees noted the report, in particular, that the University had eight wholly owned subsidiary companies of which four were currently dormant. During 2021/22 the University had incorporated SHU Education Services Ltd, a wholly owned subsidiary as a special purpose vehicle for Brents Cross. | | | |
| 7.2 | In response to a question, members were assured that it was intended that the trading subsidiaries would return to a positive liability position and therefore, it would be appropriate and in line with Charity Commission guidance for the Board of Governors to sign letters of support for those companies. | | | |
| ARC/J/2022-11-14/8FEC/J/2022-11-14/8 | GUIDANCE NOTE ON THE ROLE OF THE AUDIT AND RISK COMMITTEE (ARC) AND FINANCE AND EMPLOYMENT COMMITTEE (FEC) IN CONSIDERING THE DRAFT ANNUAL REPORT AND FINANCIAL STATEMENTS (ARFS) | | | ARC/J/2022-11-14/P8  FEC/J/2022-11-14/P8 |
| 8.1 | The Committees noted the report. | | | |
| ARC/J/2022-11-14/10FEC/J/2022-11-14/10 | DATE OF THE NEXT MEETINGS | | |  |
| 10.1 | FEC: Monday 14 November 2022, 1500 - 1800  ARC: Thursday 9 March 2023, 1600 - 1830 | | | |