

AUDIT AND RISK COMMITTEE**Minutes of Meeting held on Tuesday 14 February 2017**

Present: Prof. C Kinsella (Chairman)
Mr C Kenny
Mr R Plews
Prof. J Simons
Mr J Warner
Ms L Mason (Secretary)

In Attendance: Mr R Calvert, Chief Operating Officer
Ms O Camm, KPMG
Mr M Redfern, Grant Thornton
Ms D Harry, Chief Finance and Planning Officer
Ms S Suchoparek, KPMG
Mr S Taylor, Assistant Director, Financial Services
Ms A Temple (Minute Secretary)
Ms D Watson, Grant Thornton

Apologies for Absence: Dr J Morrissy

Paper ref Minute ref

A/17/01 **Chair's Opening Remarks**

- 01.1 The Chair welcomed Mr Mike Redfern, Grant Thornton and Ms Olivia Camm, KPMG to their first meetings of the Committee.
- 01.2 It was noted that from 1 February 2017 the Audit Committee had been renamed the Audit and Risk Committee. This arose from a recommendation made in the recent Board effectiveness review.
- 01.3 The Chair noted that the Board of Governors had approved the new University Strategy at its meeting on 7 February 2017. The documentation would be shared with co-opted members of the Audit and Risk Committee. It was important that the Audit and Risk Committee business, including the internal audit programme, was aligned to the new Strategy. It was noted that the Chief Operating Officer had discussed with KPMG the need to reset the internal audit programme to ensure that it aligned with Strategy. The Chair welcomed this approach. It was noted that any changes to the internal audit programme would need formal approval from the Committee.
- 01.4 It was noted that four 'strategic boards' were being established which related to the four pillars of the Strategy. These boards were: building a great university (University operations), leading locally and engaging globally, shaping futures, and creating knowledge. These Boards would report to University Leadership Team (ULT). The Chair suggested that the boards' responsibility for regulatory and statutory activity should be mapped to ensure that all areas were covered. It was noted that this work was taking place and was expected to be completed by Friday 17 February 2017. The outcomes would be shared with the Audit and Risk Committee.

A/17/02 Briefing by Auditors on Audit Matters and Sector Issues

02.1 Ms S Suchoparek, KPMG provided a briefing on current sector issues. The key areas highlighted by KPMG were:

1. the challenges and opportunities facing the institution, and the sector, were similar to those raised in 2016 with the addition of Brexit;
2. 134 higher education institutions had submitted Teaching Excellence Framework applications. The final ratings were expected to be released in May 2017. In relation to the risk of students boycotting the NSS it was felt that this would not jeopardise the TEF as the NSS outcomes were one factor used to assess teaching quality;
3. the planned additional guidance from HEFCE on value for money had not been issued. However, KPMG recommended that VfM should be an institutional priority for development rather than awaiting HEFCE's guidance;
4. higher education institutions were responding to Brexit in various ways including considering establishing EU-based campuses. It was noted that the rules around EU campuses and eligibility for EU funding were unclear. It was noted that Sheffield Hallam was reviewing its international recruitment strategy taking into account Brexit along with other factors;
5. the Annual Provider Review (APR) process, conducted by HEFCE, drew on data, student views and other intelligence and information collected through the annual accountability processes to assess academic quality. An annual statement from the Board was a requirement of the APR. In addition, HEFCE would conduct a re-focused five-yearly Assurance Review visit to test the basis on which the Board was able to provide assurances about the University's activities in this area. Questions raised by KPMG included (i) should the Audit and Risk Committee see the report and approve the report on prior to the Board? and (ii) how would the Audit and Risk Committee assure itself on the process and procedures.

02.2 Ms D Watson, Grant Thornton, provided a briefing on developments in financial reporting;

1. the introduction of FRS102 had resulted in significant changes to presentation of financial performance and a greater variability in key financial performance indicators depending on the accounting policy choices made. It was noted that Grant Thornton would provide more information on the impact of the introduction of FRS 102 at the June 2017 meeting;
2. there were no major accounting standard or disclosure changes expected for 2016/17. It was expected that best practice would emerge around the classification of the USS pension liability and classification of surpluses from property sales;
3. informative and transparent narrative reporting in financial statements was increasingly important under FRS102 accounting. However, there were no significant changes expected to narrative reporting requirements for 2016/17. There were changes expected to the

external auditors reporting requirements in respect of narrative statements;

4. changes were expected to the accounting for gift aid. Grant Thornton would work with the Finance and Planning Directorate on the implications of this;
5. there were changes to fundraising regulation in the charity sector. As the University was an exempt charity it did not need to comply with the regulations but HEFCE had indicated that it would encourage institutions to disclose the same information as registered charities in their audited financial statements. It was noted that the Board had discussed fund-raising.

02.3 During discussion the following points were raised:

1. the briefings were commended as excellent;
2. it was felt that the Higher Education and Research Bill was a key opportunity and threat which had been missing from the presentation. The implementation of proposals within the Bill would bring greater competition and this would be a key factor when considering risk;
3. it was felt that assurance in relation to academic quality (A/17/02.1.5) should be provided to the Audit and Risk Committee. The Chief Operating Officer confirmed that responsibility for academic quality including the role of the Board of Governors and the Academic Board was being considered. This would include how to strengthen the role of the Board to oversee academic governance.

A/17/03 Declaration of Interests

03.1 None.

A/4/16/M A/17/04 Minutes of the Meeting held on 10 November 2016

04.1 The minutes were approved.

A/17/05 Matters Arising/Audit Committee Action Tracker, Version 26 January 2017

05.1 **Minute A/16/59.2:** At its last meeting the Committee had commented on the need to ensure that minutes reflected review and challenge by members. These comments had been taken into account when preparing the November 2016 Audit Committee minutes and members felt that the minutes did achieve the desired outcome. The externally co-opted members of the Committee commented that they did not find the Board of Governors minutes helpful in understanding the business discussed. This was exacerbated because they did not receive the Board papers. The Chief Operating Officer suggested that the co-opted members should receive copies of Board papers and/or be offered a regular briefing with the Chief Operating Officer and the Clerk to the Board.

- 05.2 **Minute A/16/63.3: Equality and Diversity:** The Interim Clerk to the Board reported that the Board of Governors would consider equality and diversity. The Chair felt that it was important that the Audit and Risk Committee were assured that processes to ensure compliance with equality and diversity legislation were in place and were effective.
- 05.3 **Minute A/16/76.2: Modern Slavery:** The Assistant Director, Financial Services reminded the Committee that the University was required to publish a statement annually on its due diligence concerning slavery and human trafficking. The initial focus on the work conducted by the University, and reflected in its statement published on 31 January 2017, had been on work with suppliers. A further programme of work was being co-ordinated by the Finance and Planning Directorate which would consider other matters such as corporate clients. This would focus on corporate clients with a turnover of greater than £36m (i.e. those that were obliged to issue their own statements on this matter). The Assistant Director, Financial Services felt that the University benchmarked well against other institutions in its response to the legal requirements. The statement published in January 2018 would reflect the additional work undertaken by Finance.
- 05.4 **Minute A/16/72.1: Discussion on Corporate Risk:** The corporate risk dashboard had been circulated to Audit Committee members on 24/11/2016 for comments. Comments had been received but there had been no consensus on which risk to discuss. Consequently the Interim Clerk to the Board and the Chief Operating Officer had agreed that the corporate risk discussion should be deferred to June 2017 meeting. It was agreed that it was too early to decide which risk to address at the meeting and this would be agreed by correspondence in due course. The Committee advocated the previously agreed principle that it should aim to have such 'deep dive' discussions on corporate risk twice a year.

A/1/17/8 A/17/05 **Risk Management**

- 06.1 The Committee received a report on risk management including work to review the University's approach to risk management and work to review the risk appetite statement. The report also included the Corporate Risk summary updated by the Risk Management Group on 25 January 2017.
- 06.2 The Committee noted that as a result of the review of senior level governance and decision making, it had been agreed that responsibility for corporate risk management should be assigned to the Boards that aligned with the four strategy pillars (minute A/17/01.4 refers). The Risk Management Group would cease to exist and risks would be considered by the relevant Strategic Board and managed by the strategic lead for that area. The University Leadership Team would take an overview of the entire risk picture. The Corporate Risk summary aligned the risks with the relevant strategic pillar.
- 06.3 During discussion the following comments were made:
1. some risks were likely to fall under more than one pillar. It was noted that the ULT oversight would enable this to be addressed;
 2. in relation to CR10 a member observed that the risk was not just confined to the issues set out in the Corporate Risk Summary. In particular, there were risks associated with partner engagement linked with the Government's Industrial Strategy and it was agreed that the Chief Finance and Planning Officer should reflect this, as appropriate, in the Corporate

Risk definition;

3. the revised format of the Corporate Risk Summary was welcomed by members who were impressed with the more strategic approach. However, the impact of Brexit had been shown on a previous version of the summary and a member suggested that it would be helpful to re-introduce this aspect into the documentation;

A/1/17/9.1 A/17/07 **Internal Audit: Progress Report**

- 07.1 The Committee received a progress report on the 2016/17 internal audit programme.
 - 07.2 KPMG had delivered 49 days of the planned 238 internal audit days for 2016/17.
 - 07.3 The Chair reported that he had asked Mr Andy Bush, KPMG, to review the previous internal audit reports within the context of the new University Strategy to identify if any reports should be re-visited in the light of the strategy. The outcomes of this consideration would be shared with members in due course.
 - 07.4 It was agreed that, given the likely number of internal audit reports to be submitted to the June 2017 meeting, reports would be circulated once finalised (this had previously been the agreed approach).
 - 07.5 The Committee received the 2016/17 reports on Payroll, Competition and Markets Authority and Sickness Absence
- A/17/9.1i 07.6 **Payroll:** The Committee received the report which was rated as significant assurance. Data analytics had been used to interrogate 57,001 records and very few anomalies had been identified. Where such anomalies were identified management had been able to adequately explain these.
- A/17/9.1ii 07.7 **Competition and Markets Authority:** The Committee received the report which reviewed the University's compliance with its obligations under consumer protection law and was rated significant assurance with minor improvement opportunities. A member observed that the actions within the report had a variety of owners across different parts of the institution and it was important that there was someone with overall responsibility. It was confirmed that the CMA management group took oversight of all actions relating to CMA compliance and that the Chief Operating Officer chaired these meetings. It was also confirmed that the ESCM programme on student and curriculum management had been a key method of providing the information needed for CMA compliance.
- A/17/9.1iii 07.8 **Absence Management:** The Committee received the report which was rated partial assurance with improvements required.
1. A member asked why recommendations 1 and 2 had been rated as high priority (i.e. a significant weakness in a system or process which was putting the institution at serious risk of not achieving its strategic aims and objectives). KPMG explained that in relation to recommendation 1 the current process of recording sickness absence did not provide timely absence information. This meant that opportunities to manage sickness absence and provide appropriate support to staff may be lost. Consequently the University may not be adequately discharging its duty of

care to staff. In relation to recommendation 2 the locally developed system for recording sickness absence used by Facilities Directorate did not comply with the University's IT policy. A breach of security of the system could have significant reputational impact on the University;

2. It was noted that the University was working with CORE to implement sickness absence on the CORE portal by the end of the academic year. KPMG had offered to revisit the work once the new system was live;
3. it was noted that all management actions had been accepted and that actions were in place to address the recommendations;
4. KPMG highlighted that the report contained good practice in relation to matters such as paternity, maternity and adoption leave.

A/1/17/9.2 A/17/08 **Additional Work Carried Out by the Internal Auditors**

- 08.1 The Committee noted the report on additional work undertaken by internal audit.

A/1/17/9.3 A/17/09 **Report on Implementation of Internal Audit Recommendations**

- 09.1 The Committee received a report on progress to implement outstanding recommendations made by the internal auditors.
- 09.2 It was noted that a RAG rating had been added for each outstanding recommendation to give the Committee an assessment of the status of each recommendation. This was welcomed by the Committee.
- 09.3 It was noted that the Business Continuity review recommendation concerning review of the BIAs had been completed. This meant that all recommendations in the report had been implemented.
- 09.4 In relation to the recommendation in the grants and contracts management report concerning consistent use by all faculties of the post award system it was noted that the implementation of post award grant management using Converis was a major undertaking, similar to the level of effort required to implement a pre-award system. The implementation of the pre-award system had been on-going work for the 2 years and was still awaiting support from the vendors to implement reporting. Work to implement the Converis system to monitor grants post-award was unlikely to commence until 2018/19 and was dependent upon the allocation of resources. The Committee agreed that it should continue to receive updates on this action via the report.
- 09.5 The report included details of work of within the University concerning the governance of corporate projects, which had been addressed by the Process Improvement Portfolio (PIP) programme. PIP had been reviewed by KPMG and the report issued in May 2016. Work was underway to align the existing projects with the four pillar boards. A Portfolio Management Office would support the four boards and play an active role in ensuring that these new governance arrangements take into account the outcomes of this audit. Consequently, the proposed management action in the KPMG report was no longer relevant. The paper recommended that an audit of these new arrangements be conducted in summer 2018 in order to ensure that the portfolio management office was functioning well and that the recommendations from previous audit work in this area have been incorporated into its ways of working.

- 09.6 Members observed that a significant number of actions were delayed compared to the original expected completion dates. Did this demonstrate that managers were not taking recommendations seriously or was this caused by unrealistic/optimistic completion dates being given by managers? It was felt that managers may be over optimistic and that it was important that they set realistic implementation dates. Members expressed frustration about the time taken to implement recommendations.
- 09.7 The categorisation 'partially implemented' was not felt to be helpful and it was agreed to consider the categorisation of the status of outstanding recommendations.
- 09.8 It was agreed that members should receive an update on implementation of recommendations before the June 2017 meeting.

A/1/17/9.4 A/17/10 **Enhancing Student and Curriculum Management: Update Report on the Response to the Review of Course Portfolio Arrangements (October 2013)**

- 10.1 The Committee noted the good progress made to address the recommendations made in the internal audit and agreed that it did not need any further reports.

A/1/17/10.1 A/17/11 **External Auditor Performance**
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- 11.1 Representatives of KPMG and Grant Thornton left the meeting during consideration of item A/1/17/10.1.
- 11.2 The Committee reviewed Grant Thornton's performance based on:
- A questionnaire completed by the Assistant Director - Financial Services, the Financial Accountants (job share) and the Chair of the Audit Committee.
 - An assessment of Grant Thornton by the Assistant Director - Financial Services in consultation with the partner at Grant Thornton. This was based on a framework for an audit committee to carry out a formal review of the effectiveness and efficiency of their external auditors provided by KPMG in their document 'Shaping the UK audit committee agenda'.
- 11.3 The Committee noted that year ended 31 July 2016 had been a challenging year due to the implementation of FRS102. The Assistant Director - Financial Services reported that he was confident with the audit team's thoroughness, its technical competence and the support provided to the University during the audit.
- 11.4 The Committee noted that there had been a change of engagement partner following the audit of the financial statements for year ended 31 July 2016. It was noted that Ms D Watson was providing on-going continuity of staffing. The Committee felt that it was important that the University and Grant Thornton continued with the constructive relationship that the two organisations had under the previous engagement partner.
- 11.4 The Committee concluded that Grant Thornton's performance had been satisfactory.

A/1/17/10.2 A/17/12 **Additional Work Carried Out by External Auditors**

12.1 The Committee noted the report on additional work by the external auditors.

A/1/17/11 A/17/13 **Assurance of Data Returns - Update**

13.1 The Committee received the report on the data returns made so far during the academic year. It was noted that the returns may have an impact on both funding and/or other areas such as the outcomes of the TEF. The information contained in the report would inform Audit and Risk Committee's annual opinion on the adequacy and effectiveness of the University's arrangements for the management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies which would be reported in the Committee's Annual Report in November 2016.

13.2 The Interim Clerk to the Board briefed the Committee on the key data returns submitted by the University. The following was noted:

1. the Student Loan Company data exchanges were increasingly important as this was the main source of funding. The variance of £45k between net payment figure and income invoiced to the SLC was an acceptable position;
2. The University would be subject to a HESA Student return funding data reconciliation in 2017 because the forecast for the 2015/16 grant allocation was over £500k above the amount predicted in the HESSES 2015 submission. This had happened in 2016 when HESA had recognised that there were legitimate reasons for the variance;
3. changes were expected to the organisation/operation of the Destination of Leavers from HE Survey (DLHE) in the next few years with the likely outcome that this was centrally conducted rather than conducted by each HEI.

13.3 The Chair observed that all submission deadlines had been met and that the processes for approval were effective, for example, appropriate action was taken in relation to the TRAC return following the Committee's confirmation of compliance with the existing TRAC validation process.

13.4 The Committee welcomed the paper and the detailed briefing provided. Members were content that this met the request for a briefing made at the previous meeting (A/16/75.5 refers).

13.5 The Committee requested that future reports should include details of the action/risk owner for each data return (in appendix 1).

13.6 It was noted that the level of risk shown in the appendix was the impact if there was a problem with the return. The rating did not show the likelihood as controls were in place to reduce the likelihood of occurrence.

13.7 The Committee considered whether it would be helpful for the Board to receive a similar briefing on the returns. It was agreed that the Board should be informed that the Committee had received an appropriate briefing. It was agreed the paper should be provided to the Board as a 'for information' item.

A/1/17/12 Confidential A/17/14 **Report on Review of Anti-Bribery Policy and Update on Bribery Act Compliance Measures**

14.1 The Committee noted the report on steps taken by the University since its

meeting on 25 February 2016 (refer A/1/16/13) to implement agreed measures to manage its bribery risks. It noted that responsibility for this area had moved from Legal Services to the Finance and Planning Directorate.

- 14.2 The Finance and Planning Directorate disseminated a survey to staff in January 2017. The findings indicated that there was a need to undertake more communication around anti-bribery responsibilities and to roll-out further training.
- 14.3 The Finance and Planning Directorate had worked with Legal Services to undertake an annual review of the University's Anti-Bribery Policy. Based on the reviews it was not considered necessary to make any amendments to the University's Anti-Bribery Policy.
- 14.4 The University's process for Declarations of Interest had been reviewed and identified as an area where communication could be improved. A communications plan would be agreed and delivered.
- 14.5 The Committee was assured by the report that appropriate action was in place.

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A/17/15 **Report on Waivers of the Financial Regulations**

- 15.1 The Committee received the report on waivers of the Financial Regulations in relation to expenditure.
- 15.2 In relation to the action to introduce a system for logging advice given by the Strategic Procurement Team about possible requests for waivers of the Financial Regulations (A/16/63.2 refers) the Assistant Director, Financial Services confirmed that this was now in place. It was noted that one formal request for a Financial Regulations waiver had been rejected in the period 1 August 2016 to 31 January 2017.

A/17/16 **Date of Next Meeting**

Thursday 29 June 2017:

- 3.30 to 4.30: Internal audit plan 2017/18 discussion/workshop
- 4.30 to 4.45: Private meeting of the Committee
- 4.45 to 6.30: Committee meeting