

AUDIT AND RISK COMMITTEE**Minutes of Meeting held on Thursday 15 March 2018**

Present: Prof. C Kinsella (Chairman)
Mr R Plews
Mr J Warner
Mr M Conway (Secretary)

In Attendance: Mr A Bush, KPMG
Mr R Calvert, Chief Operating Officer
Ms R Devaney, Head of Strategic Procurement (for item 12.3 only)
Mr M Redfern, Grant Thornton
Ms D Harry, Chief Finance and Planning Officer
Mr N Macdonald, Chair of Finance and Employment Committee (Observer)
Ms S Suchoparek, KPMG
Mr S Taylor, Assistant Director, Financial Services
Ms A Temple (Minute Secretary)
Ms D Watson, Grant Thornton

Apologies for Absence: Mr C Kenny, Dr J Morrissy and Ms P Thompson

Paper ref Minute ref

A/18/01 **Declaration of Interests**

01.1 None.

A/18/02 **Briefing by Auditors on Audit Matters and Sector Issues**

02.1 Mr A Bush, KPMG provided a briefing on current sector issues. The key areas highlighted by KPMG were:

1. the University was operating within a complex and changing landscape. Key factors affecting the landscape included the blurring of the difference between higher education and further education providers, the Industrial Strategy resulting in the development of institutes of technology and the growth in private sector higher education providers;
2. the challenges and opportunities arising from the introduction of apprenticeships, including whether the University was engaging appropriately with local employers;
3. the post 18 funding review which had been recently announced by the government;
4. the introduction of a new regulator for higher education, the Office for Students (OfS), which would replace HEFCE. The OfS had issued its Regulatory Framework which set out its priorities. One priority of the OfS was to promote value for money in provision by HE providers. The associated challenge for institutions was to articulate to students

the full range of benefits provided by the institution;

5. KPMG had conducted a benchmark study of sector audit committee agendas to review what matters were considered by the committees. The report would be published in due course.

02.2 Mr M Redfern, Grant Thornton, provided a briefing on developments in financial reporting;

1. HEFCE had published its Accounts Direction for 2017/18 and there were no significant changes in requirements. This was expected as there had been no significant financial reporting changes;
2. the Financial Reporting Council's (FRC) Thematic Reviews had placed more onus on the content of the narrative front end of financial statements;
3. the CUC had produced draft guidance on a voluntary remuneration for senior post holders, which primarily focused on transparency of remuneration decisions and ensuring appropriate governance arrangements were in place (A/18/10.6 refers). It was expected that the disclosure requirements and recommended governance procedures concerning remuneration decisions would evolve over the coming months and may impact on financial statements disclosures for 2018/19;
4. the deadline for higher education institutions to report gender pay gap figures to HEFCE was 30 March 2018;
5. HEFCE were due to publish their review of the financial health of the sector using 2016/17 financial statements and budget information from the sector. It was understood that the findings highlighted a widening gap between the best and worst performing institutions;
6. the key risks facing the University included the reduction in availability of lending from banks and the possible growth in claims of course miss-selling and associated compensation.

A/4/17/M
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A/18/03 **Minutes of the private meeting between Committee members and the Auditors held on 17 November 2017**

- 03.1 The minutes were approved.

A/4/17/M

A/18/04 **Minutes of the Meeting held on 17 November 2017**

- 04.1 The minutes were approved.

A/1/18/7

A/18/05 **Minutes of the Finance and Employment Committee and the Audit and Risk Committee held on 17 November 2017**

- 05.1 The minutes had been considered and approved by the Finance and Employment Committee at its meeting on 21 February 2018.
- 05.2 The minutes were approved.

A/1/18/8 A/18/06 **Matters Arising/Audit and Risk Committee Action Tracker, Version 6 March 2018**

- 06.1 **Minute A/17/49.1: Board's scheme of delegation:** Action had arisen from the Board Effectiveness Working Group to review the University's Instrument and Articles of Government. As part of this work the University Secretary had drafted an 'as is' scheme of delegation which would be considered by the University Leadership Team, then onto the Board of Governors in June 2018.
- 06.2 **Minute A/17/62.3.2: Role of Academic Advisers:** At its meeting on 17 November 2017 the Committee had received an internal audit report on academic advisers. An item had been scheduled to discuss the role of academic advisers at the Academic Assurance Committee as the Committee's remit was to oversee the academic governance of the University.
- 06.3 **Minute A/17/72.2: VfM Deep Dive Discussion:** Comments had been sought from members on areas to cover as part of a deep dive discussion into a value from money achieving initiative/area. It was agreed to circulate a list of suggestions to members for further comment by email with a view to agreeing an area for a discussion at the September 2018 ARC meeting (as a deep dive discussion was scheduled for the June 2018 meeting on the teaching quality corporate risk).

A/18/07 **Update on Equality and Diversity**

- 07.1 The Chair reported that the Audit and Risk Committee had previously been tasked with reviewing the implementation of an equality and diversity system until it became business as usual. It had been agreed at the Board meeting on 6 March 2018 (BG/18/32 refers) that responsibility for receiving reports on equality and diversity should move back to the Board.

A/1/18/11.1 A/18/08 **Risk Management Update**

- 08.1 The Committee received a report on risk management and noted that risk database was fully operational and was being used to capture all corporate risk information, as well as to automate the production of the risk register.
- 08.2 During discussion the following comments were made:
1. the number of risks and the interdependencies between them could constitute a specific drain on senior management time. It was noted that risks were reported to ULT but in practice management of the risks was allocated across the four strategic pillar boards - this meant that managing and monitoring the risks was not overly onerous in any one area and was unlikely to constitute a drain on management resources;
 2. the Chief Operating Officer suggested that there may be merit in further review of the likelihood assessment of some risks as the mitigating actions being taken should reduce likelihood;
 3. there had been a number of recent senior management changes which could have led to a short-term increase to risk levels. It was felt that the clear remit of the strategic pillar boards and the stability of the boards' membership including continuity of chairmanship meant that the senior management changes had not had a significant impact on the risk environment.

A/1/18/11.2 A/18/09 **Report on Progress to Implement the General Data Protection Regulation**

09.1 The Committee received KPMG's report entitled 'privacy diagnostic' which formed the first part of a two part review of the University's work to ensure compliance with the General Data Protection Regulation. The report provided an initial assessment to identify gaps in the University's planned approach. It would be followed up by a review to identify areas of non-compliance with the GDPR regulation and provide a formal assurance rating to the University.

09.2 The following was noted:

1. culture and behaviour were key to ensuring compliance;
2. the University had made a strong start in preparing for the implementation of GDPR and whilst three areas for improvement had been identified none were deemed critical. The University was operating at a comparable if not higher maturity level than other higher education institutions;
3. the audit identified that the risk of failure to comply with GDPR was not included on the corporate risk register. Management had agreed to develop a risk for consideration at the June 2018 ARC. The University Secretary suggested that this may be a wider regulatory compliance risk rather than restricted to GDPR implementation;
4. the Data Protection Officer was appointed in November 2017;
5. the University's risk based approach to implementation of GDPR would mean that the University was well placed to demonstrate that it had taken an appropriate approach to prioritising areas of the legislation for implementation if audited by the Information Commissioner's Officer;
6. KPMG's specialist auditor would attend the ARC meeting to present the second report. The Chair suggested that it may be appropriate to present the outcomes to the Board.

A/1/17/9.1 A/18/10 **Internal Audit: Progress Report**

10.1 The Committee received a progress report on the 2017/18 internal audit programme.

10.2 The faculty/directorate deep dive had been removed from the internal audit plan following discussion with managers due to the on-going change management programme at the University which meant that such a review was not timely. The days had been used for a management initiated review of senior officer remuneration, expenses and other benefits (A/18/10.6 refers).

10.3 The Health Innovation Park (HIP) review had been put on hold until relevant decisions were made by the University.

10.4 The non-capital IT review had been delayed and would be performed as an advisory review in conjunction with the implementation of a new non-capital IT system.

10.5 No additional work had been approved since the last meeting of the Committee.

10.6 **Senior Officer Remuneration, Expenses and Other Benefits:** The Committee received the confidential review and noted that:

1. the CUC had issued a consultation on draft remuneration guidance for the UK higher education with a response deadline of 12 March 2018. The outcomes of the consultation were expected to be implemented in April 2018;
2. the University had taken proactive steps to respond to the CUC consultation on draft remuneration guidance for the UK higher education sector by making proposals, which were in line with the content of the consultation, for interim reform of the Remuneration Committee to the Board of Governors in January 2018;
3. a number of areas of good practice had been identified in the audit including fixed terms of office for members of the Remuneration Committee and an annual review of effectiveness;
4. KPMG had made three high, five medium and three low priority recommendations all of which had been accepted by management;
5. in relation to membership of the Remuneration Committee the University had been proactive in amending membership in line with the CUC proposed guidance including removing the Vice-Chancellor from membership of the Committee and allocating the Chairing of the Committee to the Deputy Chair of the Board;
6. the University would implement the new guidance in the CUC's Fair Remuneration Code including the publication of an annual remuneration statement - it was not known at this stage whether this would be a standalone statement or part of the Annual Report and Financial Statements;
7. the University Secretary stated that (i) action had been taken to ensure that responsibility for the Remuneration Committee sat within Governance Services and (ii) it was important to ensure greater transparency of decisions through reporting to the Board of Governors;
8. Committee members were encouraged by the University's response to the audit and the pro-active approach taken to both commissioning the audit and to adopting the principles likely to be included in the new CUC guidance;
9. It was agreed that a report should be submitted to the ARC and the Board of Governors on the approach to Remuneration following final publication of the CUC code. The report should set out the University's approach to its adoption of the Code.

10.7 **Student Retention:** This review was close to completion but, due to the need for wider consultation on the management responses, it had not been possible to finalise the report for submission to the meeting. The findings had been accepted by management. There had been a number of positive initiatives identified but practice was not consistent across the University.

- 11.1 The Committee received a report on progress to implement outstanding recommendations made by the internal auditors.
- 11.2 It was noted that progress to implement the medium and high priority recommendation in the review of student support services and the review of academic advisors would be reviewed by KPMG as part of their 2017/18 follow-up review. Given the timescales for implementation of the actions the recommendations would not be followed-up through the tracking process until after the follow-up audit had taken place. Any outstanding recommendations would be added to the regular progress report to the Committee as appropriate after the formal follow-up review. In addition, it was noted that it had been agreed with the PVC Student Experience and the Dean of Students that further follow up by KPMG will take place around the end of October 2018 once the induction process for next Academic cycle has taken place. It was suggested that a number of days are included in KPMG's 2018/19 internal audit plan for this work.
- 11.3 It was noted that the outstanding recommendations in the 2015/16 cyber response planning report and the 2016/17 risk management, cyber programme health-check and absence management reports had been implemented. In addition, the Committee noted that management in Marketing were content that appropriate oversight of the marketing strategy was achieved through the Building a Great University Board (in line with the new governance model) and were of the view that the action is implemented (rec 1).
- 11.4 The Committee agreed revised completion dates for the following recommendations as the requests for extended completion dates were supported by reasonable rationales:
1. **2016/17 UK Educational partnerships (rec 7):** the action to update form NP2 and produce guidance notes for forms NP3 to NP5 would be completed by September 2018.
 2. **2016/17 Capital and IT equipment (rec 1):** the action to review all equipment assets with a net book value of zero and ask directorates to confirm if these assets have been disposed of would be completed by July 2018.
- 11.5 The Chief Operating Officer reported in relation to recommendation 2 of the Marketing report that whole University KPIs in relation to marketing were in place and were being monitored by the Pillar Boards. Based on this assurance, it was agreed that the action was implemented.
- 11.6 The Committee agreed that recommendation 3 of the Marketing report was superseded as management were content that action had been taken to address the principle of the recommendation and that further work will take place to review marketing and communication under the Professional Services Operating Model (PSOM) work.
- 11.7 The Committee requested an update on PSOM at the June 2018 meeting. It was confirmed that the work was being led by the University with *support* from Deloitte. It was noted that reports on the project were a standing item at the Finance and Employment Committee.

A/1/18/13.3 A/18/12 **Report on Implementation of External Audit Recommendations**

- 12.1 The Committee noted that the recommendations made by the external auditors had been relatively minor and all related to Human Resources actions. It noted that two recommendations had been implemented and one was due to be implemented by the end of March 2018. Grant Thornton would review action to implement the recommendations as part of their audit of the financial statements for the year ended 31 July 2018.

A/1/18/14 A/18/13 **Annual Report and Financial Statements**

- 13.1 The Committee received a report on action that had been taken following final approval of the Annual Report and Financial Statements by the Board and subsequent submission of the AR&FS to HEFCE (as part of the annual accountability process). It had been necessary to correct some errors in the version of the AR&FS which had been approved by the Board. These errors were in the comparatives for 2016 and page references and had not affected the figures reported for 2017 or the fundamental accuracy of the financial statements. The errors had occurred when the AR&FS had been transferred to into the marketing format from the Word version (which had been correct). The errors had not been spotted as part of Grant Thornton's final audit checks. Action was being taken to ensure that such errors did not occur in future years including investigating a range of software solutions to manage the document and track versions. The report had also been discussed at FEC on 21 February 2018.

A/1/18/12.3 A/18/14 **Internal Auditor Provision**
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- 14.1 Representatives of KPMG and Grant Thornton left the meeting. The Head of Strategic Procurement joined the meeting for this item.
- 14.2 The Committee noted that the current agreement for the provision of internal audit services with KPMG had a minimum term of three years plus the option to renew for successive periods of two years up to a maximum term of seven years. KPMG were reaching the end of the third year of the current agreement (i.e. they had undertaken internal audit work under the current contract in 2015/16, 2016/17 and 2017/18). KPMG had been the University's internal auditors for a total of ten years.
- 14.3 It was necessary, at this break point, to review whether to renew KPMG's contract for a further two years (i.e. 2018/19 and 2019/20), subject to an annual assessment of performance, or to go out to tender for internal audit services.
- 14.4 As part of the work to investigate options for internal audit management had considered whether to join an internal audit consortium. By joining the consortium the University would not be undergoing a competitive procurement process. Consequently management, in consultation with the Chair of Audit and Risk Committee, had concluded that joining the consortium should not be progressed.
- 14.5 If going out to tender there were two options:
1. using the Crown Commercial Service's RM3745 Management Consultancy Framework Agreement, Lot 3 (audit) - this option provided for an agreed set of twenty audit firms to bid for the work. These firms had been assessed by Crown Commercial to ensure that they met key criteria

for provision of internal audit services including being financially robust and meeting governance conditions; or

2. an open tender - this would allow all audit firms to submit bids and would enable consortiums to bid using their client offer (but not their membership offer). This procurement route was longer and more complex than using the Crown Commercial route.

14.6 The Committee agreed that:

1. the University should go out to tender for internal audit services using the Crown Commercial Service's RM3745 Management Consultancy Framework Agreement, Lot 3 (audit);
2. the tender panel should consist of management and members of the ARC depending on availability. The composition should be agreed at a later date when timing of key points in the tender process was confirmed; and
3. the Chief Operating Officer would contact KPMG to advise of the intent of go out to tender, after which time the Strategic Procurement Team would be in a position to formally advise of the University's intent to allow the contract to expire after its initial term, but that the opportunity to bid through the Crown's framework would remain.

14.7 The Committee felt that an important value provided by internal audit should be access to cross sector skills and experience and this should be included as part of the criteria for selecting the successful bidder.

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A/18/15 **External Auditor Performance**

15.1 The Committee reviewed Grant Thornton's performance based on:

- A questionnaire completed Chair of the ARC, the Chair of FEC, the Director - Financial Services and the Financial Accountants (job share).
- An assessment of Grant Thornton by the 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'.

15.2 The Committee noted that year ended 31 July 2017 feedback indicated that management were content with Grant Thornton's performance and it was noted that overall satisfaction scores had increased.

15.3 The Committee concluded that Grant Thornton's performance had been satisfactory.

15.4 The Committee agreed to recommend to the Board of Governors the re-appointment of Grant Thornton as external auditors for a further two years (i.e. for the audit of the financial statements for the year ended 31 July 2018 and 31 July 2019), subject to annual performance assessment.

A/1/18/13.2

A/18/16 **Additional Work Carried Out by External Auditors**

16.1 The Committee noted the report on additional work by the external auditors approved since the last meeting.

A/1/18/15 A/18/17 **Assurance of Data Returns - Update**

- 17.1 The Committee received the report on the data returns made so far during the 2017/18 academic year and progress towards the key data returns that would be submitted during the year. It was noted that all reports had been submitted by the deadlines and that there had been no significant issues raised as a result of the submission of the returns.
- 17.2 The information contained in the report would inform the 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 2018.
- 17.3 The Committee noted that the University was a member of the pilot group for the HESA Data Futures project which was a programme which aimed to transform the way data was collected, managed, and used in the UK HE sector, improving services, and reducing costs. The University would begin the in-year collection of data from the 2018/19 academic year.
- 17.4 The University was developing a data strategy which would complement the on-going work to comply with the requirements of the GDPR.

A/1/18/16 A/18/18 **Annual Efficiency Return to HEFCE**

- 18.1 The Committee received a report on the annual efficiency return which had replaced the Value for Money report which had been required by HEFCE as part of its annual accountability returns process. The deadline for submission to HEFCE of the first, and probably last, annual efficiency return had been 31 January 2018.
- 18.2 In response to a question it was noted that the University had not identified specific areas in which to deploy the savings made through efficiency. The process of budgeting embedded these efficiencies within the budget.

A/1/18/17 A/18/19 **Criminal Finances Act Update**

- 19.1 The Committee received a report on the planned actions required to comply with the Criminal Finances Act 2017. The Committee noted that the University was drawing on material prepared by the British Universities Finance Directors Group (BUFDG) to ensure a consistent approach to the legislation across the sector. For example, the University was compiling an initial risk register based on work carried out by KPMG on behalf of BUFDG and would consider the use of an on-line training module being developed by BUFDG.
- 19.2 The Committee approved the Statement on the Criminal Finances Act 2017, which would be published on the University's external website in order to illustrate the top level commitment to compliance with the legislation.

A/1/18/18 A/18/20 **Report on Review of Anti-Bribery Policy and Update on Bribery Act Compliance Measures**
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- 20.1 The Committee noted the report on steps taken by the University since its meeting on 14 February 2017 (refer A/1/17/12) to review and update measures to manage its bribery risks. The report included an updated version of the Adequate Procedures Log, which collated evidence to demonstrate that the University had "robust and effective anti-bribery systems" in place.

A/18/21 **Report on Waivers of the Financial Regulations**

- 21.1 The Committee received the report on waivers of the Financial Regulations in relation to expenditure.
- 21.2 In relation to a question raised by a member about whether the waiver of the Financial Regulations in relation to the work to replace the atrium roof was appropriate it was confirmed that the University had approached a number of design consultants but had not been satisfied by the level of detail provided. The chosen contractor had experience of conducting a similar complex project. It was deemed that the risk of selecting an unsuitable contractor who did not provide a suitable quality of design was higher than the risk of not conducting a competitive tender.

A/18/22 **Date of Next Meeting**

Thursday 7 June 2018:

- 3.30 to 4.30: Internal audit plan 2018/19 discussion/workshop
- 4.30 to 4.45: Private meeting of the Committee
- 4.45 to 6.30: Committee meeting