SHEFFIELD HALLAM UNIVERSITY **A/2/17/M**

AUDIT AND RISK COMMITTEE

Minutes of Meeting held on Thursday 29 June 2017

Present:	Prof. C Kinsella (Chairman) Mr C Kenny Dr J Morrissy Mr R Plews Prof. J Simons Mr J Warner Mr M Conway (Secretary)
In Attendance:	Ms O Camm, KPMG Mr L Etherington, Chief Information Officer (for item 9.1iii and 9.3) Ms D Harry, Chief Finance and Planning Officer Prof. C Hughes, Pro Vice-Chancellor for Student Experience (for item 8.1) Prof. J Leach, Pro Vice-Chancellor for Academic Staffing and Equalities (for item 7) Ms L Mason, Director of Strategic Planning and BIS (for item 8.2 and 8.3) Ms N Rawlins, Director of Admissions and UK Recruitment (for item 8.1) Mr M Redfern, Grant Thornton Ms S Suchoparek, KPMG Mr S Taylor, Assistant Director, Financial Services Ms A Temple (Minute Secretary) Mr M Ward, Risk and Business Continuity Officer (for item 8.2 and 8.3) Ms D Watson, Grant Thornton

Apologies for Absence: None

Paper ref   Minute ref

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

17.1 The Chair welcomed Mr Martin Conway, University Secretary and Clerk to the Board, to his first meeting as Secretary to the Audit and Risk Committee.

17.2 It was noted that the Mr Richard Calvert, Chief Operating Officer, who was usually in attendance at the meeting, had sent his apologies.

A/17/18 **Declaration of Interests**

18.1 There were no declarations of interest.

A/1/17/M   A/17/19 **Minutes of the meeting held on 14 February 2017**

19.1 The minutes were approved.

A/17/20 **Matters Arising/Audit and Risk Committee Action Tracker, Version 7 June 2017**

20.1 **Minute A/17/01.3:** Linda Mason, as Interim Clerk to the Board, had confirmed that work has been completed to ensure that regulatory and statutory requirements were appropriately located with the relevant 'pillar board'. Members requested sight of the analysis in order to formally obtain assurance that appropriate action had been taken.

20.2 **Minute A/17/02.1.5 and A/17/02.3.3:** Responsibility for academic governance was addressed as part of the paper on 'Governance Changes' (BG/2/17/7.3) to the 4 April 2017 Board of Governors meeting. The Board of Governors approved the changes to Governance and the establishment of the Academic Assurance Committee of the Board. Terms of reference and a Chair for the Committee had been agreed. This Committee would take on responsibility for academic quality and the assurances to be given by the Board as part of the Annual Provider Review. Therefore, the Audit and Risk Committee would not play a role in this area.

20.3 **Minute A/17/05.1:** The external co-opted members, Rick Plews and John Warner, received a full set of Board of Governors papers from the April 2017 meeting onwards. Following the 4 April 2017 Board of Governors meeting they had met the Chief Operating Officer and the Interim clerk to the Board for a face-to-face briefing. These briefings would continue with the University Secretary.

20.4 **Minute A/17/05.2:** The Board of Governors had discussed equality and diversity at its meeting on 4 April 2017. One outcome of the discussion was that the Audit and Risk Committee would have a standing item for a report from the Equality and Diversity Committee (BG/17/31.1v refers). The first item was presented under agenda item 7.

20.5 **Minute A/17/07.3:** KPMG had tabled a paper at the workshop to discuss the internal audit plan, immediately prior to the meeting, which set out a summary of the reviews undertaken between 2014/15 and 2016/17 and how these aligned to the ten key priorities. All priorities had been addressed through reviews in the previous 3 years.

A/2/17/7 A/17/21 **Embedding Legal Equality Duties into University Processes**

21.1 The Pro Vice-Chancellor for Academic Staffing and Equalities attended the meeting to present the first report on work of the Equality and Diversity Committee (EDC). This had arisen from a report made to the Board of Governors at its 4 April 2017 meeting (BG/17/31.2v refers) which had led to the Board agreeing that the Audit and Risk Committee should receive a standing item on the work of the EDC. The purpose of this standing report was to ensure that the Board had regular oversight of the work of the Committee as part of its responsibilities arising from the Public Sector Equality Duty and the Committee of University Chairs Higher Education Code of Governance (December 2014).

21.2 The report outlined mechanisms which the University had in place to ensure it was fulfilling the legal equality duties established by the Equality Act (2010), for which the Board of Governors was legally accountable. This also related to a request by the Audit Committee on 10 November 2016 for a report on how the Committee would achieve oversight of the processes embedded in the University for equality and diversity compliance (A16/63.3).

21.3 The Pro Vice-Chancellor for Academic Staffing and Equalities highlighted the following points:

1. the Board of Governors was legally accountable for compliance with the Equality Duty and the specific duties contained within the Equality Act (2010). In addition to these legal accountabilities there was also a set of other responsibilities which the Board should fulfil which included the following;

   - Championing Equality and Diversity
   - Embedding equality and diversity in to the mission, strategy, and decision-making processes of the University
   - Building a diverse and representative governing body

   These responsibilities were cultural rather than compliance matters;

2. as part of the responsibility to implement and embed the equality duty at the University work would be undertaken to develop an Equality Analysis Framework and Online Toolkit which would support decision-making and good governance;

3. interactive Tableau reports (data analytics) were being developed to meet the requirement set out in the specific duty to publish information which demonstrated compliance with the three aims of the equality duty, and in an accessible manner;

4. progress towards achieving the current Equality Priorities, which were required to meet the University's Public Sector Equality Duties, had been varied. Refreshed and refocused Equality Objectives would be brought to the July 2017 meeting of the Board of Governors. To date two meetings of the EDC had taken place together with a meeting of a wider reference group at which the Equality Priorities had been discussed. The wider reference group had recommended that the Equality Priorities should not focus on any specific protected characteristic, however, it was felt that data showed that specific action should be taken in relation to race, as data for both staff and students suggested that the University's performance was poorest with regard to this protected characteristic.

21.4 In response to a question from a member about whether any 'quick wins' had been identified the Pro Vice-Chancellor for Academic Staffing and Equalities referred to (i) the need to improve the BME attainment gap and that lessons could be learned from action taken by a small number of universities which had significantly reduced the gap in a relatively short period; and (ii) considering action to portray success stories in relation to those with protected characteristics in public areas such as the main entrance (in addition to the photographs of Inspirational Teaching award winners).

21.5 The Committee fully endorsed the work to ensure compliance with equality and diversity responsibilities and requested an update on the Equality Priorities at its next meeting.

A/2/17/8.1   A/17/22   **Report on Corporate Risk (CR11: Courses)**

22.1 The Pro Vice-Chancellor for Student Experience and the Director of Admissions and UK Recruitment outlined key factors in relation to the courses corporate risk (CR11):

1. development of the portfolio was a key priority for the Shaping Futures Board;

2. the external environment including extended degrees, the introduction of post graduate loans and factors affecting international recruitment (such as place in league tables, UKVI requirements and the government's stance on international students) influenced the University's decisions about its portfolio;

3. the University had reviewed its postgraduate masters courses in response to rules around eligibility for loan payments which made courses with a 15 month duration less attractive to students;

4. the change from bursary to loan arrangements for some health courses had resulted in a review to ensure that they were relevant and attractive to students;

5. the University had expanded courses in high demand areas such as criminology and psychology (PG taught) and chemical engineering, physics and economics (UG). These were courses which the University had identified as market gaps in which the University could offer high quality outcomes/better employment rates to high tariff entry students.

22.2 In response to a question it was confirmed that all courses were ranked with a RAG rating with support being offered to courses ranked as red. In the event that improvements weren't made the University would consider the viability of the course.

22.3 Questions concerning the future shape of the University's portfolio i.e. post graduate versus undergraduate split were a matter for the Board of Governors as part of its remit, set out in the articles of government, for "the determination of the educational character of the University..." (article 3.1).

A/2/17/8.2   A/17/23   **Risk Management**

23.1 The Director of Strategic Planning and BIS and the Risk and Business Continuity Officer joined the meeting for agenda items 8.2 and 8.3. The Committee received an update on risk management.

23.2 The Committee noted that since issue of the paper the University had received the outcomes of the Teaching Excellence Framework (TEF) and had been rated as silver, which was as expected. The relevant risks would be reviewed in the light of the outcomes of the TEF, in particular, whether the performance of competitors who had achieved gold would affect the standing of the University.

23.3 The Committee noted the estates risk (CR8), in particular, that additional student numbers for 2018 were putting pressure on the estate. It was noted that work was taking place to consider the connection between longer term portfolio plans and the estate.

23.4 The Committee noted that the Risk Management Group had been disbanded as part of the reforms to corporate governance arrangements within the University. Risks would be managed through the relevant Strategic Board(s).

23.5 The Committee welcomed the clear mapping of risks in the corporate risk register (CRR) against the strategic boards.

23.6 In response to a question about whether it was reasonable to see risks in the red/amber and amber/green categories in the CRR KPMG commented that this was as expected.

A/2/17/9.1v 23.7 **Internal audit review of risk management**: The Committee noted the internal audit review of risk management which had been rated as 'significant assurance with minor improvement opportunities'. Two medium priority recommendations had been made in the report:

1. that risk monitoring should be incorporated into every agenda for the strategic boards to ensure that discussion of risks continued and that the ULT should identify risks and ensure that they were allocated to relevant pillar boards; and

2. that SMART principles were used as a basis for all mitigating actions identified in the CRR;

23.8 KPMG were content with the progress being made to implement previous recommendations in relation to risk management.

23.9 In addition to considering the central approach to corporate risks KPMG had reviewed faculty risk registers and had been reassured to note consistency of approach across Faculties.

23.10 Appendix D of the report provided details of top risks included in CRRs across a number of HEIs. The University's risks were largely consistent with those highlighted by other HEIs. This alignment was reassuring.

23.11 The Committee noted the concern raised by KPMG as set out in A/17/23.7.1. The Committee received assurance that, as long as this action was taken forward, management of corporate risk via the strategic boards was a robust way to ensure that the specialists in a particular area addressed each risk rather than a separate risk management group. The new system should assist in further embedding risk into 'business as usual' activity.

23.12 **Fund-raising and GDPR implementation**: Prof. Simons reported on the outcomes of a Governors workshop on legal and regulatory issues for charity trustees and fundraising:

1. an annual report on fundraising would be made to the Board of Governors to give assurance to the Board;

2. work was ongoing to develop gift oversight procedures and ensuring fundraising activity was compliant with General Data Protection Regulations (GDPR);

3. work was ongoing towards wider GDPR compliance. It was agreed that GDPR should be a standing item on the Audit and Risk Committee agenda.

A/2/17/8.3 A/17/24 **Risk Appetite**

24.1 The Committee received the paper which included the University's risk appetite statement. This had been developed with the University Leadership Team (ULT) and it was intended that ULT would review this annually.

24.2 It was noted that each area of activity had been given a range of risk appetite from 1 (none - where possible the University would choose to avoid risk) to 5 (significant - take significant risk but only where it could evidence a thorough due diligence process). A member observed that many risks had a range of appetite i.e. all but compliance and regulation ranged from 2 to 4. Given the range of appetite it was suggested that it may be helpful to review some decisions and assess how risk appetite was taken into account when making the decision.

24.3 The following comments were made:

1. the mapping of the risk appetite against the strategic pillar board areas was welcomed;

2. it was felt that risk appetite should be reviewed more frequently than annually and that it should be updated and presented to Audit and Risk Committee every six months.

A/2/17/9.1   A/17/25   **Internal Audit: Progress Report**

25.1 The Committee received a progress report on the 2016/17 internal audit programme. The Chief Information Officer joined the meeting for agenda items A/2/17/9.1iii and A/2/17/9.3.

25.2 KPMG had delivered 147 days of the planned 238 internal audit days for 2016/17.

25.3 The following changes to the programme were noted:

- it had been agreed to conduct a review of the new Governance arrangements - this change arose from the new University Strategy (A/17/01.3 refers);
- the review of IT governance had been deferred and an audit of IT Service Improvement Programme had been selected as a replacement;
- the academic workload planning review had been deferred.

A/2/17/9.1i   25.4   **Student Support Services**: The report would be submitted to the September 2017 meeting.

A/2/17/9.1ii   25.6   **Cash Collection**: In relation to the point raised at the November 2016 meeting (A/16/65.2xv) that the University should as far as possible limit and remove opportunities for fraud it was noted that a number of measures were in place. These included use of CCTV cameras, considering personal security of staff, removing cash by increased use of SHUcard for payments and use of a cash collection company to transport cash on site. The Chief Information Officer reported that work was taking place in cash offices on Payment Card Industry Data Security Standard (PCI DSS) compliance with measures such as isolation of networks and data loss prevention (i.e. preventing use of USB sticks in the computers). The Committee was assured that action was being taken to address this area which was of significant concern.

A/2/17/9.1iii   25.7   **Cyber Programme Healthcheck**: The Chief Information Officer assured the Committee that the programme of work was adequately resourced and was supported by ULT. He was confident that the University was well placed compared to both the sector and other organisations to respond to cyber threats.

| A/2/17/9.1iv | 25.8 | **Capital and IT Equipment**: The Committee noted the report. |

| A/2/17/9.1vi | 25.9 | **UK Educational Partnerships**: A member commented that the report gave details of the due diligence undertaken by the University on potential partners but did not comment on due diligence undertaken by potential partners about the University. |

| A/2/17/9.2 | A/17/26 | **Additional Work Carried Out by the Internal Auditors** |

26.1 The Committee noted the work, below the agreed £15k threshold, that had been approved by the Chief Operating Officer.

| A/2/17/9.3 | A/17/27 | **Report on Implementation of Internal Audit Recommendations** |

27.1 The Committee received a report on progress to implement outstanding recommendations made by the internal auditors. It noted that the categorisation of recommendations had been amended with the aim of focusing on whether an action was on target for the completion date and ensuring that amended completion dates were considered by the Committee.

27.2 It was noted that the following recommendations had been completed:

i. the recommendation in the CMA compliance review;
ii. the recommendation in the absence management review concerning improving the culture in relation to sickness reporting;
iii. the recommendations in the financial planning review;
iv. the recommendations in the estates planning review to develop a revised estates strategy and to ensure that appropriate procedures were in place in relation to estates projects;
v. the recommendation in the risk management review to update the risk register in a timely manner;
vi. the recommendations in student placements report concerning consideration of whether to continue using AT4 to support sandwich placement management and to seek legal advice concerning the University's employer liability insurance for overseas placements;
vii. the recommendations in the management accounting process review concerning resourcing of the management accounting team and to incorporate scenario planning into the planning process; and
viii. the recommendations in the cyber response planning to produce a cyber response strategy, to consider resourcing of cyber security and to improve monitoring of security logs.

27.3 The Committee agreed revised completion dates for a number of recommendations which were reported as being off track and would not meet the completion date (as reported either at the February 2017 meeting or in the original report). The Committee noted that the requests for extended completion dates were supported by reasonable rationales:

i. **Health and Safety (rec 3 and 4)**: The delayed online incident reporting system was being piloted and would be fully implemented by the end of August 2017;
ii. **Cyber Response (rec 3):** The redraft of Bring Your Own Devices policy had been delayed, by a month, due to work on other areas of the Cyber Security programme that had a higher priority. The policy update would be completed by the end of June 2017 and the policy and guidance published;
iii. **Cyber Response (rec 7):** The action to examine security monitoring

and incident response capabilities including implementation of either a network Intrusion Detection System (IDS) or a network Intrusion Prevention System (IPS) has been rescheduled to include early input from a separate project to migrate a University datacentre. In addition, other factors have led to the rescheduling - specifically (i) training has been included as part of the Cyber programme and (ii) DST have focussed on hardening the network following cyberattacks since the last report to Audit and Risk Committee. Allowing for the re-planning around the datacentre project the investigation phase of Tranche 1 would complete in July 2017 to inform implementation of the recommended IDS/IPS solution in Tranche 2. The IDS/IPS work was due to commence in October 2017 and be complete by July 2018, subject to programme Board approval;

iv. **Income and Debtors (rec 1)**: The action concerning the raising of invoices through the Sales Ledger team had been delayed due to restructuring of the function. The new structure was due to be in place July/August 2017 with new processes rolled out in September 2017 including action to address the recommendation;

v. **Student placement (recs 1, 4, 5 and 6)**: The PS&G group had approved a new Placement Framework and an approach to audit against each stage of Placements. Individual teams in Faculties had been tasked with conducting a placement audit against the new framework and developing an action plan by 31 July 2017. This action would address these recommendations;

vi. **Risk management (rec 3)**: The action to ensure support for the newly created directorates to ensure effective risk management was originally proposed to be discharged through guidance on forming risk statements to the planning forum. It was now intended to provide direct training to planning support managers to ensure a higher level of participation and understanding. The revised completion date for the action was 30 November 2017;

vii. **Estates Planning (rec 5):** changes to the Financial Regulations had been made to address the recommendation and the revised Regulations had been submitted to FEC and would be published by 31/07/2017. Business case templates were being revised and process instigated through Pillar Boards and new INVIC (Infrastructure and New Venture Investment Committee). The revised completion date was 31 July 2017; and

viii. **Absence Management (rec 6)**: The review of the Sickness Policy and Procedure had been completed but required sign off at Joint Negotiating Committee which would take place in July 2017.

27.4 The Committee noted that the following recommendations were reported as superseded:

i. **Student Placement (rec 8)**: The action to ensure that there was sufficient interaction between the Careers and Employability Centre and faculties, to support a consistent and integrated delivery of support to students on placement was being taken forward as part of the new employability plan as part of the University's Shaping Future strategy. The Committee agreed that the recommendation was superseded as action was being taken forward through the employability plan;

ii. **Absence Management (rec 2)**: Facilities Directorate's Absence Database would be replaced from the 1 August 2017 when it was proposed that the migration over to the CORE system would commence. The Committee agreed that the recommendation was

superseded;

   iii.   **Risk Management (rec 2):** The Committee <u>noted</u> that the action had been superseded as it had been carried forward as an action in the 2016/17 risk management report.

A/2/17/10.1   A/17/28   **External Audit: The Audit Plan for Sheffield Hallam University, Year Ending 31 July 2017**

28.1   The Committee received the report from the external auditors, Grant Thornton, on their plan for the audit of Sheffield Hallam University and its subsidiaries for year ended 31 July 2017. It was noted that Grant Thornton confirmed their independence and would reconfirm their independence and objectivity to the Audit Committee for the year ended 31 July 2017 as part of their final audit report to the Committee. Details of fees for audit and non-audit work would be disclosed in their audit findings report

28.2   Grant Thornton's audit approach was based on an assessment of the audit risk relevant to the individual elements of the financial statements. The focus of their audit effort was on areas deemed of highest risk of material misstatement, these were categorised as 'significant risks' or 'reasonably possible risks'. The two 'significant risks' [i.e. that the revenue cycle included fraudulent transactions (revenue recognition risk) and that management over-ride controls] were standard risks for the sector as defined and mandated in auditing standards.

28.3   The revenue recognition risk was further detailed in section 5 of the Plan which set out this risk in relation to all significant revenue streams. There were no changes from the previous year.

28.4   Grant Thornton highlighted the following:

1. there had been a change of audit approach concerning estates and investments as Grant Thornton had not assessed capital additions as a risk. They would still complete audit testing on fixed asset additions to confirm correct capitalisation;

2. they would review the assumptions made in the calculation of the Hallamshire Business Park dilapidations provision and consider any further evidence since the prior year audit;

3. they would review the progress made on the sale of Norton Road playing fields and consider whether this asset should be moved to current assets as a property held for sale;

4. the sector developments section included a report on the implementation of FRS102 (A/17/02.2.1). It was noted that no major accounting standard or disclosure changes were expected for the financial year 2016/17;

5. revised auditing standards meant that Grant Thornton must include additional matters in their opinion. The implications of this were that they would need to undertake more work in relation to the front end narrative part of the statements to verify any figures included in this section;

6. they would review going concern throughout the audit.
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28.5   During discussion the following points were raised:

1. the Chief Finance and Planning Officer asked for section 1 (page 4) which

stated that "We understand that the University is forecasting deficits in 2017/18 and 2018/19 as a result of investment in delivering the strategic plans and continuing pressures on student numbers" to be amended. This was because the University was forecasting an operational surplus with investment in delivering the strategic plan meaning that overall the University would be in deficit;

2. it was important that the Audit and Risk Committee understood the basis on which going concern was assessed and it was agreed to present a paper on going concern to the Committee.

28.6 It had been suggested that a joint meeting of the Audit and Risk Committee and the Finance and Employment Committee should take place to consider the financial statements.

A/2/17/10.2   A/17/29   **Additional Work Carried Out by the External Auditors**

29.1 The Committee received the report and noted the additional work that had been undertaken by the external auditors. This work had been approved by the Chief Finance and Planning officer in line with the agreed procedure for approving additional work.

A/2/17/11   A/17/30   **Value for Money Reporting**

30.1 The Assistant Director, Financial Services presented the report which set out the University's approach to preparing the annual Value for Money report for 2016/17. A cross-University project had been initiated to co-ordinate the collection and presentation of metrics to demonstrate value for money as part of the annual value for money report (as requested by the Audit Committee, A/15/57.2 and A/16/74.3iii refer).

A/17/31   **Fraud Investigations**

31.1 The Assistant Director, Financial Services reported on a recent fraud investigation which related to a matter that had come to light as a result of a significant adverse variance to budget being identified in a nominal code related to a particular area of expenditure. The matter had been reported to the Police in line with the Anti-Corruption Policy. Arising from this, two years of relevant transactions had been reviewed and no further incidences of the type of fraud had been identified. It had been decided not to amend procedures related to the type of expenditure concerned as there was a need for some operational flexibility and it was felt that any change would be disproportionate to the risk. The Chair reminded management of the Committee's concerns about the need to establish an appropriate control environment that minimised opportunities for staff to be tempted to commit fraud.

A/17/32   **Chair's Closing Remarks**

32.1 The Chair thanked Prof. Judy Simons for her contribution to the work of the Committee as her membership was due to end on 31 July 2017 as her she would complete her maximum term of office on the Board. Prof. Simons had been a member of the Committee since 1 August 2009 and had also been chair from 1 January 2014 to 31 December 2015. Prof. Simons commended the Committee on its operation and the support given to the work of the by University staff.

32.2 A recommendation from Nominations Committee concerning a replacement would be made to the Board of Governors on 18 July 2017.

A/17/33 **Date of Next Meeting**

Thursday 21 September 2017, 4.30pm to 6.30pm