

AUDIT AND RISK COMMITTEE

Minutes of Meeting held on Thursday 21 September 2017

Present: Prof C Kinsella (Chairman)
 Mr C Kenny
 Dr J Morrissy
 Mr R Plews
 Ms P Thompson
 Mr J Warner
 Mr M Conway (Secretary)

In Attendance: Mr A Bush, KPMG
 Mr R Calvert, Chief Operating Officer
 Ms O Camm, KPMG
 Ms D Harry, Chief Finance and Planning Officer
 Ms N Rawlins, Director of Admissions and UK Recruitment (for item 12.2 and 10.1iii)
 Ms Aloma Onyemah, Head of Equality and Diversity, Finance and Planning (for item 9)
 Mr S Taylor, Assistant Director, Financial Services
 Ms A Temple (Minute Secretary)
 Ms D Watson, Grant Thornton

Apologies for Absence: None

Paper ref	Minute ref	
	A/17/34	Declaration of Interests
	34.1	There were no declarations of interest.
A/2/17/M	A/17/35	Minutes of the meeting held on 29 June 2017
	35.1	The minutes were <u>approved</u> .
A/3/17/5	A/17/36	Matters arising/Audit and Risk Committee Action Tracker, version 13 September 2017
	36.1	Minute A/17/24.3: Risk Appetite: It was noted that following further discussions with management it had been agreed that the Committee should receive an updated risk appetite statement annually, rather than every six months as suggested at the June 2017 meeting. It was felt that the University's risk appetite should not vary within a six month period and that annual review was an appropriate timescale to re-consider risk appetite.
	36.2	Minute A/17/28.6: Joint meeting of the Audit and Risk Committee and the Finance and Employment Committee: A joint meeting of the Committees had been scheduled for 17 November 2017 to consider the University's annual report and financial statements. This would be followed immediately by a meeting of the Audit and Risk Committee.
	A/17/37	Appointment of Deputy Chair
	37.1	Mr Chris Kenny was elected as Deputy Chair of the Committee from 21 September 2017 to 19 September 2018.

A/3/17/8 A/17/38 **Annual Review of Committee Effectiveness 2016/17**

- 38.1 The Committee received the report which provided background information to enable members to assess the Committee's effectiveness during 2016/17.
- 38.2 The Committee noted that Governance Services were reviewing the University's Policy and Procedures on Whistle-blowing/Public Interest Disclosure and it was intended to strengthen the link to the Audit and Risk Committee by amending the terms of reference to refer to the Committee's role in receiving reports on matters raised under the Policy. It was noted that matters raised through the Procedure may inform work undertaken by internal audit. A further report on the review and the Committee's role would be made in due course.
- 38.3 It was noted that it was important that the Committee had the right mix of skills and that these should extend beyond those with accountancy/financial experience. The Chair felt this was important with the increased emphasis on the Committee's role around risk management. It was felt that the balance of skills amongst the membership was appropriate.
- 38.4 The Audit and Risk Committee noted that the Board effectiveness review had recommended that "The review of specific risks on the register should be challenged somewhere and it is not clear where this happens, if at all. We recommend this is reviewed as soon as possible." The working group which was established to take forward the recommendations from the Board Effectiveness Review concluded that this was already a task of the Committee to systematically review and challenge risks and that this was taking place. The Chair of the Committee was asked to give a specific update on risk to the full Board in October and February each year. It was suggested that the key matter for the Chair to report was whether the Committee had received reasonable assurances in relation to the University's approach to risk management.
- 38.5 The Committee agreed that:
- the Committee's effectiveness should be reviewed for 2017/18 using the CIPFA 'Good Practice Self-Evaluation Tool for Audit Committee Members';
 - this work should be undertaken by Chair of the Committee with the Chief Finance and Planning Officer and the University Secretary and Clerk to the Board. A note of the review and any work arising from it would be the subject of a report to the Committee at its September 2018 meeting as part of its annual review of effectiveness.
- 38.6 The Committee commented on the quality of the paper and thanked the Minute Secretary for her work to compile the report.
- 38.7 Members felt that the Committee was operating in an effective manner and did not make any recommendations to amend its terms of reference at this stage (A/17/38.2 refers to a possible future amendment).

A/3/17/9 A/17/39 **Sheffield Hallam Equality Objectives**

- 39.1 Ms Aloma Onyemah, Head of Equality and Diversity outlined the work being undertaken to refresh the University's Equality Objectives. The Committee noted that :

1. the Equality Objectives had been developed through work with the new Equality and Diversity Committee and with a wider reference group of staff from across the University;
2. in considering the revised objectives the Board of Governors had commented that the strategic ambitions of the refocused objectives were high (BG/17/29.3 refers) and that the targets were stretching but achievable (BG/17/65.2);
3. the three primary areas of focus were race diversity and equality, gender equality and a working and learning environment for all staff and students which was inclusive, accessible and open;
4. responsibility for the implementation of the equality objectives would, by their cross-cutting nature, sit with leaders in the University. For each set of deliverables the University had identified University Leadership Team (ULT) leads for Students (PVC Student Experience), Workforce (Director of HR) and the University (PVC Academic Staffing and Equalities). These ULT leads would be responsible for working with senior leaders across the University to achieve the deliverables identified. Where there were specific functional responsibilities for delivery (e.g. student recruitment) a Senior Responsible Officer would also be identified to drive forward the work.

39.2 During discussion the following points were noted:

1. the Committee would monitor the work to implement the equality priorities whilst the work was in the development stages. Once this had been moved to business as usual activity oversight would transfer to the Board of Governors;
2. a member questioned whether the #WeareHallam would provide a clear and powerful message about the University's commitment to equality and diversity. It was noted that following comments made at the July 2017 Board of Governor's meeting further work was being undertaken concerning this campaign including seeking feedback from students. The purpose of the campaign was to instil a sense of belonging and the idea arose during the equality objectives development work;
3. it was important that leaders, including the Board, demonstrated a clear commitment to the equality and diversity values espoused by the University;
4. the University would use appropriate benchmarks to assess its workforce, for example, professional services staff would be benchmarked against the city region as most were locally recruited and academic staff would be benchmarked more widely as they were recruited from a significantly wider geographical area;
5. work had started to engage staff who would undertake the role of a Senior Responsible Officer and further action around this would take place in the implementation stage of the work;
6. one of the equality priorities was to increase to 95% completion rates for unconscious bias and equality and diversity training by 2020. The Committee strongly encouraged the University to review this target with a view to escalating the achievement of the training to an earlier date as it was felt that this was a key enabler;
7. it was intended to provide unconscious bias training for Board members in early 2018.

A/3/17/12.1 A/17/40 **Risk Management**

40.1 The Committee received an update on risk management and noted that:

- a new risk management training package was being designed which would be delivered to staff who directly support the planning process. This would ensure consistency of understanding, terminology and expectations with regards to the Universities risk process. The intention was to develop an on-line training module in due course;
- a new format of risk register had been developed which would make the register shorter and more accessible. It would focus on the risk and the actions being taken to manage the risk. The template had been discussed with KPMG;
- as discussed at the Board of Governors in July 2017 the University was developing a new financial plan. As part of this work the estimates of the financial impact of a risk transpiring had been updated;
- it was agreed that the updates on risk should be circulated in paper format, rather than just in the digital meeting book, even if no formal action was required from the Committee. This was important given the Committee clear remit to consider risk management as the University.

40.2 The Committee received reasonable assurances in relation to the University's approach to risk management.

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and
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A/17/41 **Report on Student Recruitment Risk (CR4) and International Risk (CR5)**

41.1 Ms N Rawlins, Director of Admissions and UK Recruitment joined the meeting for the item and item A/17/10.1iii (KPMG's Marketing report).

41.2 There were two risks within the corporate risk register which considered student recruitment:

- CR4 (student recruitment) related to home student recruitment, which was the University's main income stream; and
- CR5 (international) which included consideration of international student recruitment as part of the risk.

41.3 In relation to home student recruitment it was noted that the combination of the ongoing demographic decline and the lifting of student number controls within the UK market had led to increased competition for students within the sector. Other factors affecting recruitment included changes to A-levels and the vocational curriculum and changes to funding for nursing, midwifery and allied health courses.

41.4 The position in relation to international student recruitment was challenging with a greater number of factors at play including the need for students to obtain visas. In relation to UKVI compliance the University was working to reduce visa refusal rates and had been successful in doing so.

41.5 It was likely that all higher education institutions would have student recruitment as an escalating risk.

41.6 An update on the recruitment position would be made to the Board of Governors at its meeting on Friday 5 October 2017 as a 'to follow' paper to allow the Board to be informed of the most up-to-date position. The formal report to HESA on student numbers was due on 1 December 2017.

A/3/17/12.3 A/17/42 **Report on Progress to Implement the General Data Protection Regulation**

- 42.1 Standing reports on implementation of the General Data Protection Regulation (GDPR) would be made to the Committee whilst the University was implementing the Regulation.
- 42.2 The Committee noted that the University had established a GDPR Implementation Group and developed an action plan to achieve compliance with the Regulation prior to the implementation date of 25 May 2018. The programme of work focused on areas of greatest risk.
- 42.3 The internal audit plan (A/3/17/10.5) included a two phase audit of GDPR implementation with part 1 involving a high level diagnostic review of the maturity of key privacy components to judge preparedness for GDPR introduction and part 2 involving a review of implementation.
- 42.4 The Committee were assured that the University had a robust approach to implementation of the Regulation.

A/3/17/10.1 A/17/43 **Internal Audit: Progress Report**

- 43.1 The Committee received a progress report on the 2016/17 internal audit programme. KPMG had delivered 194 days of the planned 238 internal audit days for 2016/17.
- 43.2 The following was noted:
- the Governance Review and the Research Strategy work had been deferred into 2017/18;
 - the management responses to the Student Support Services review (A/3/10.1i) were subject to finalisation. The report would be submitted to the November 2017 meeting.
- 43.3 In relation to the Research Strategy review it was noted that there had been a change of leadership in this area with responsibility now resting with Professor Roger Eccleston, PVC Research and Global Engagement. Prof Eccleston would be developing the University's research strategy. The Chief Operating Officer would discuss the internal audit with the PVC Research and Global Engagement to agree the most appropriate way to target the internal audit work, including timing, and liaise further with KPMG.

- A/3/17/10.1i 43.4 *Marketing:* The Committee noted the report which had found that there was a need for clearer strategic cohesion in relation to Marketing including the need for clear oversight of Marketing by ULT, clarity concerning the role of Marketing within the University and the agreement of appropriate KPIs. The Director of Admissions and UK Recruitment reported that recommendations made within the audit report were in line with expectations and it had helped them to develop further thinking around how best to progress these issues, for example, developing improved links to the new Pillar Boards which had resulted in the introduction of a direct reporting line to the Building a Great University Board.

- A/3/17/10.1ii 43.5 *Student Loan Company Follow Up:* The Committee noted the report. The review followed-up recommendations made in a 2013/14 review which had also been followed-up in 2015/16. It was noted that good progress had been made with all recommendations implemented, with the exception of one which had been superseded. Implementation had resulted in improved data

quality. It was felt that this was an example of an area where internal audit added value.

A/3/17/10iv 43.6 *Follow-up:* The Committee noted the report which followed up all high and medium priority recommendations made in prior years together with a sample of low rated recommendations made in 2015/16. KMPG were assured that progress had been made against the recommendations. Management reported that a number of recommendations shown in the report as outstanding had been completed and/or superseded, for example, recommendations on process improvement should be categorised as superseded.

A/3/17/10.2 A/17/44 **Report on Implementation of Internal Audit Recommendations**

44.1 The Committee received a report on progress to implement outstanding recommendations made by the internal auditors in 2016/17 reports.

44.2 The Committee noted that recommendation 3 (medium priority) in the 2015/16 Risk Management report (A/17/23.7vi refers) had been superseded by a low priority recommendation made in the 2016/17 Risk Management review (i.e. recommendation 2, section 2 of A/2/17/9.1v). Action was being taken to address this more recent recommendation.

44.3 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 in the original report). The Committee noted that the requests for extended completion dates were supported by reasonable rationales:

1. **UK Educational Partnerships (rec 1):** work was being progressed to develop the new FE Partnership Strategy but had been delayed in order to allow input for FE partners. The revised completion date was November 2017;
2. **UK Educational Partnerships (rec 3):** an action plan was being produced for the implementation of the strategic principles agreed by Leading Locally Engaging Globally Board. It was anticipated that this action plan would also include KPI's specific to the relationships that the University maintains with FE College partners. The revised completion date was January 2018.
3. **UK Educational Partnerships (rec 7):** action to update forms and associated guidance notes was ongoing. The forms had been updated and were in use but further work was ongoing to develop new report templates which were in line with the approved updated due diligence questionnaires. The revised completion date was November 2017;
4. **UK Educational Partnerships (rec 9):** action around reporting to the Leading Locally Engaging Globally (LLEG) Board would be completed by the end of December 2017;
5. **Cash collection (rec 6):** work to implement improvements to prevent any 'error batch' occurring in E5 had been delayed as there was a need to resolve further issues identified following initial implementation in April 2017. The revised completion date was September 2017.

- 44.4 A member asked whether the number of completion dates which needed extending indicated that management were over ambitious when setting completion dates when providing management responses or whether this was due to unforeseen changes in circumstances. It was noted that the new strategy had reset some priorities which may have resulted in completion dates being extended. It was important to monitor the number of recommendations where implementation had slipped.
- 44.5 It was noted that in some cases recommendations had been categorised as 'off track and will not meet the completion date' as action had been delayed but it was felt that 'off track' may be misleading and the naming of status categories should be reviewed.
- 44.6 A member commented that the commitment to, and progress made towards, implementing recommendations was impressive and that this should be encouraged further to ensure that managers viewed internal audit as a management tool.

A/3/17/10.3 A/17/45 **Additional work carried out by the internal auditors**

- 45.1 The Committee received a report on additional internal audit work and noted that no additional work had been approved since the last meeting.
- 45.2 The Committee approved the amended process for approving additional work including the revised thresholds for approval.

A/3/17/10.4 A/17/46 **KPMG Annual Report to the Vice-Chancellor and the Board of Governors 2016/17**

- 46.1 The Committee received KPMG's draft annual report 2016/17 and noted that the report would be further revised and updated for submission to the November 2017 meeting. The Committee welcomed receipt of the early draft of the report.
- 46.2 It was noted that KPMG would follow-up the recommendations made in the 2016/17 Absence Management review in time to consider the report at the November 2017 meeting. It was understood, from reports submitted by management in the recommendation tracker, that the high priority actions had been implemented. If this was found to be correct this would mean that this area would no longer be reported as an exception to the opinion in the 2016/17 internal audit annual report.
- 46.3 During discussion the following points were raised:
1. it was suggested that KPMG should consider adding new paragraphs to the section 'A view of the University' (page 5) on (i) a comparison of the University against other HEIs and (ii) good practice and areas of development such as giving an example in the third paragraph;
 2. the wording on page 8 concerning the finding in the Marketing report about the need for more strategic direction of this area (entitled 'lack of strategic direction' in A/3/1710.4) should be revised to give more context as it was felt that the heading required more explanation;
 3. the Committee noted that it was positive that there was a range of assurance levels evident in audits as it would be likely to indicate that areas where improvements could be identified were not being targeted if all audits gave significant assurance (green).
 4. the statistics concerning the findings in the follow-up review (page 11)

should be revised following work to further review the status of recommendations (A/17/43.6 refers);

A/3/17/10.5 A/17/47 **Internal Audit Strategy and Operational Plan for 2017/18**

- 47.1 The Committee noted that the outcomes of the Audit and Risk Committee workshop to discuss the plan held on 29 June 2017 had been taken into account when preparing the proposed plan. In addition, following the workshop, the plan had been discussed at a University Leadership Team meeting. The approach of KPMG attending a ULT meeting rather than holding separate meetings with members of ULT was endorsed by the Committee.
- 47.2 It was noted that the programme included 109 days of audits linked to the ten immediate priorities set out within the University's Strategy Implementation Plan, together with more routine audits including work alongside external audit.
- 47.3 In relation to key financial systems it was noted that the Finance and Employment Committee had received a report on 'Bad Debts - Recommended Provision and Write Offs at 31 July 2017' and an action had been agreed that the Audit and Risk Committee would receive a report from the Chief Finance and Planning Officer on an analysis of aged debt and the provision for it.
- 47.4 The Committee approved the internal audit strategy and annual plan for 2017/18.

A/3/17/11.1 A/17/48 **Additional work carried out by the external auditors**

- 48.1 The Committee received a report on additional external auditors work carried out during 2016/17. In addition the Committee noted that there had been no additional work approved since 29 June 2017. There were no issues of auditor independence arising from undertaking the work undertaken during 2016/17.
- 48.2 It was noted that paragraph 30 of the Audit Code of Practice (the code) incorporated into the Memorandum of Assurance and Accountability between HEFCE and Institutions states that "HEIs must not agree to any restriction in external auditors' liability in respect of the external audit of their annual financial statements." Paragraph 31 states that "For other types of work performed by the external auditors, the provider may ask the HEI to agree to a restriction in the auditors' liability arising from any default by the auditors. However, as with internal audit services, HEIs may negotiate a restriction in liability if the decision is made on an informed basis and the liability remains at such a level as to provide reasonable recourse to the HEI. The governing body, through the audit committee, should be notified of any liability restriction agreed." Grant Thornton seek limitations of liability for types of assignment other than the external audit of annual financial statements, e.g. grant claim certifications, tax advice and other non-audit services, any of which are subject to a separate engagement letter at the time they are requested to perform such work by the University. The items listed under paragraph 5 of the report were all subject to a limitation of liability amounting to £2,000,000 each.

A/17/49 **Financial Regulations - Reserved Matters**

- 49.1 The University Secretary reported that he was undertaking work to review the Board's scheme of delegation as part of work to review the Instrument and Articles of Government. The Committee would receive an update later in the academic year.

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A/17/50 **Report on Waivers of the Financial Regulations**

- 50.1 The Committee received a report on waivers of the Financial Regulations in relation to expenditure. This arose from a recommendation in the internal audit review of VfM Professional Services. It was noted that Finance continued to log cases where requests for fee waivers were declined.

A/3/17/15

A/17/51 **Annual Review of Compliance with the HEFCE Audit Code of Practice**

- 51.1 The Committee received a report on compliance with the HEFCE Audit Code of Practice and noted that the University complied with all the mandatory requirements and good practice set out in the Audit Code of Practice. There was no specific action that needed to be taken in 2017/18.

A/3/17/16
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A/17/52 **Value for Money Reporting to HEFCE**

- 52.1 The Committee noted that in previous years HEFCE had asked Higher Education Institutions (HEIs) to submit reports on VFM as part of their Annual Accountability Return. Submission of these reports was optional until 2016 when it became mandatory but there was no prescribed format or standard content.
- 56.2 For 2016/17 HEFCE would not require HEIs to submit 'value for money' reports in December as part of the annual accountability returns process. Instead, HEFCE required all HEFCE-funded HEIs to submit an annual efficiency return – a more targeted collection of data on efficiencies realised in the 2016-17 academic year – by 31 January 2018. Further guidance was expected in October 2017.
- 56.3 HEFCE still expected each HEI to consider internal reporting on value for money as part of management and governance processes and appropriate to each HEIs circumstances. The Audit and Risk Committee would receive a VFM report which would be based on key indicators that had been identified as demonstrating VFM in the organisation.

A/17/57 **Date of next meeting**

- 57.1 Friday 17 November 2017 as follows:

- 2.30pm to 2.45pm: Audit and Risk Committee Members Private Meeting
- 2.45pm to 3.15pm: Audit and Risk Committee Members and Auditors Private Meeting
- 3.30pm to 4.30pm: Joint Finance and Employment Committee/Audit and Risk Committee Meeting
- 4.30pm to 6pm: Audit and Risk Committee Meeting