

**JOINT MEETING OF THE FINANCE AND EMPLOYMENT COMMITTEE (FEC) AND THE
AUDIT AND RISK COMMITTEE (ARC)**

Minutes of the joint meeting held on 13 November 2018

Present: Prof C Kinsella, Chair ARC
Mr N MacDonald, Chair FEC
Mr D Bradley, member FEC
Mr C Kenny, member ARC
Ms M Munn, member FEC
Prof J Patnick, member FEC
Ms P Thompson, member ARC
Mr J Warner, member ARC
Mr M Conway (University Secretary and Clerk to the Board)

In Attendance: Mr M Ackroyd, KPMG
Mr R Calvert, Chief Operating Officer
Ms K Doherty, Grant Thornton
Ms D Harry, Chief Finance and Planning Officer
Mr S Taylor, Director of Financial Services
Mr M Redfern, Grant Thornton
Mr P Sweeney, Governance Services (FEC Minute Secretary)
Ms A Temple, Governance Services (ARC Minute Secretary)
Ms L Walsh, Management Accountant (for item 7)
Ms D Watson, Grant Thornton

Apologies for absence from: Prof C Husbands, member FEC; Lord Kerslake, member FEC; Dr J Morrissy, member ARC and Dr S Timothy, member FEC.

Paper reference	Minute reference	
	FEC+A/18/1J	Declaration of Interests
	1.1	There were no declarations of interest.
FEC/5/18/3J A/4/18/3J	FEC+A/18/2J	Guidance Note on the role of the Audit and Risk Committee (ARC) and Finance and Employment Committee (FEC) in considering the draft financial statements (ARFS)
	2.1	The Committee <u>received</u> the guidance note. The joint meeting of the ARC and FEC would only consider the University's Annual Report and Financial Statements (ARFS) for the year ending 31 July 2018 and related matters including the external auditor's findings. The recommendations to the November 2018 meeting of the Board of Governors made by each Committee would be recorded separately within the minutes.
FEC/5/18/4J A/4/18/4J Confidential	FEC+A/18/3J	The University's Approach to Going Concern Assessment
	3.1	The Director of Financial Services introduced the report which explained the assessment of the University's ability

to continue as a going concern during 2018/19 and 2019/20 and highlighted the robust approach to the assessment of going concern including:

- i) the review of cash flow forecasts including monthly cash requirements taking into account the peaks and troughs of the student loan company payments;
- ii) the assessment of the impact of potential new borrowing on the University's ability to meet its financial obligations;
- ii) the review of debt requirements and compliance with the covenants relating to the existing loan facility and potential new ones; and
- iii) the sensitivity analysis focusing primarily on the covenant compliance and cash requirements – including the impact of pension charges.

3.2

It was noted that:

- i) the going concern assessment was based on the existing Government fee cap of £9,250 for undergraduate tuition fees which prevented universities from increasing their fees in line with inflation;
- ii) the on-going HE funding review (Augur) was likely to recommend changes to the fee structures for undergraduate students;
- iii) a changed fee cap (imposed as a result of the current HE funding review) would not have an impact on the financials in 2018/19 or 2019/20 as these periods would not include any change in fees;
- iv) the Finance Directorate were undertaking scenario analysis looking at the impact of different possible fee caps arising from the review;
- v) the assessment of going concern for the purposes of approving the 2017/18 financial statements should only be based on an assessment of the situation known at the point that the statements were approved (i.e. 27 November 2018) and should assess going concern for the foreseeable future (which was deemed to be a twelve month period);
- vi) in the event that the outcomes of the HE funding review were announced prior to approval of the financial statements it would be necessary for the University to reconsider its going concern assessment. However, this would not necessarily mean that the conclusion concerning going concern would change.

3.3 With reference to the commentary in the external auditors' final report (page 13 in paper FEC/5/18/5J and A/4/18/5J refers) the external auditor commented that the going concern basis was appropriate for the preparation of the University's financial statements. They agreed that if an announcement was made concerning future HE funding there would be a need to take account of this in the going concern assessment prior to the accounts being approved.

3.4 **The ARC noted** the report on the going concern assessment.

3.5 **The FEC recommended** to the Board of Governors that it was appropriate for the financial statements for 2017/18 to be prepared on the going concern basis.

FEC/5/18/5J
A/4/18/5J
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FEC+A/18/4J
Grant Thornton: Audit Findings for Sheffield Hallam University

4.1 The Committee received the external auditors' final report and noted:

- i) the external auditors' work was substantially complete;
- ii) the use of a new data sharing platform had helped to improve the efficiency of the preparation of the ARFS;
- iii) Grant Thornton had made one control observation (page 16) and this did not relate to a fundamental systems weakness. This was favourable compared to other HEIs which Grant Thornton audited;
- iv) the control weakness recommendation arose from testing on cut off procedures at the year-end which identified one invoice that had not been appropriately accrued for. Grant Thornton then investigated the circumstances of this with the finance team and noted that the accrual was missed due to human error and as the amount was insignificant (£3,198) the error had not been identified by the budget holder. Grant Thornton extended their testing to ensure that there were no further instances of error and nothing was identified;
- v) all prior year recommendations had been implemented;
- vi) Grant Thornton noted that the narrative reporting within the financial statements was clear, concise and aligned with the strategy and risks;

- vii) a key challenge of the audit this year had been implementation of the Office for Students' reporting requirements on remuneration. This was due to various interpretations of the guidance issued by the OfS. It was noted that a paper was being tabled (FEC/5/18/7J + A/4/18/7J tabled) which set out changes made to the ARFS following circulation to the meeting. Two of the areas amended related to these reporting requirements. Grant Thornton were reviewing the amended figures;
- viii) that no significant issues had been identified with regards to the recoverability of debtors;
- ix) that Grant Thornton had not identified any incidence of fraud;
- x) Grant Thornton was awaiting confirmation from the LGPS in relation to certain elements of the data providing by the scheme actuaries in relation to the scheme. Subject to completion of the procedures in relation to pensions Grant Thornton had not identified any significant issues in relation to the pension schemes;
- xi) Grant Thornton was satisfied that the methodology used in relation to the phase 2 of the asbestos removal work in 2017/18 was appropriate and the calculation was accurate;
- xii) in relation to the prior year matter concerning the sale of the Norton Road Playing fields it was noted that under the terms of the sale agreement 50% of the proceeds were due for payment to the University in 2018/19. Grant Thornton had reviewed the sale agreement and satisfied themselves that (i) there were no conditions attached to the payment and that (ii) they were happy with the recognition of the debtor within the financial statements;
- xiii) in relation to the prior year matter concerning the risk of impairment of the NXP Building it was noted that the risk had reduced as the building was currently in operational use. This would need to be revisited if the building became vacant again in future;
- xiv) there were no misstatements, adjusted or unadjusted, identified for either Sheffield Hallam University, Sheffield Hallam University Enterprises Ltd or Sheffield Hallam Innovation and Enterprise Limited;
- xv) that that there were no significant facts or matters that impacted on their independence as auditors that they were required or wished to draw to the

Committees' attention. They also confirmed that they complied with the Financial Reporting Council's Ethical Standards and that they remained independent and were able to express an objective opinion on the financial statements; and

xvi) that they anticipated that they would be a position to give an unqualified opinion on the University's consolidated financial statements for year ended 31 July 2018, subject to completion of outstanding work set out in their report.

4.2

The meeting thanked:

- i) the auditors for the report and for their work to audit the ARFS; and
- ii) Finance Directorate staff for their work in preparation for the year-end audit.

FEC/5/18/6J
A/4/18/6J
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FEC+A/18/5J

Letters of Representation in relation to the 2017/18 external audit

5.1

The Committee received the report which included (i) the letter of representation to be signed by the Chair of the Board of Governors on behalf of the University and (ii) a reciprocal letter of representation from the University to the Board.

5.2

The purpose of the letter from the University to the Board was to provide the Board with assurance that the University had met all the requirements set out in the letter to the external auditors. In signing the letter from the University to the Board the Vice-Chancellor would be provided with appropriate assurance from the Chief Finance and Planning Officer (CFPO). The signed letter from the Chair of the Board of Governors to the external auditors was required by Grant Thornton prior to their approval of the ARFS for year ending 31 July 2018. The Chair of the Committee had asked Grant Thornton to confirm that they were content with the amendments made to the letter to create the letter from the University to the Board.

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A/4/18/7J
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FEC+A/18/6J

Draft Annual Review and Financial Statements for the year ended 31 July 2018

6.1

The Director of Finance Services introduced the draft ARFS for the year ended 31 July 2018 and the tabled paper (FEC/5/18/7J + A/4/18/7J tabled) which set out changes made to the ARFS following circulation to the Committee. He reported that considerable work had been undertaken to ensure that the narrative sections concerning the individual strands of the University Strategy were appropriate. The support of the Communications Team in this work had been invaluable. Members commented that the narrative was clear,

FEC/5/18/7J
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concise and read well.

6.2 The Financial Accountant gave a detailed briefing on the contents of the financial statements including EBITDA, the treatment of pensions and the new disclosures concerning higher paid staff bandings (note 9, page 73) and the Vice-Chancellor's remuneration (note 9, page 74). The tabled paper (FEC/5/18/7J + A/4/18/7J tabled) set out details of changes made to note 9 (i) to clarify to readers the basis on which staff members were included in the two tables setting out higher paid staff bandings and (ii) to amend the note concerning the Vice-Chancellor's remuneration expressed as a multiple of the median remuneration for all other staff (on a full time equivalent basis).

6.3 **The FEC resolved to recommend** to the Board of Governors the approval of the draft consolidated Financial Statements for the year ended 31 July 2018 (with the amendments set out in FEC/5/18/7J + A/4/18/7J tabled), subject to final audit clearance.

6.4 **The ARC resolved to recommend** to the Board of Governors the approval of the draft consolidated Financial Statements for the year ended 31 July 2018 (with the amendments set out in FEC/5/18/7J + A/4/18/7J tabled), subject to final audit clearance.

FEC/5/18/8J
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University's Subsidiary Company Reports and Financial Statements

7.1 **The FEC and the ARC**
i) received and noted the financial statements and update reports in respect of the University's subsidiary companies which were part of the consolidated results of the University;
ii) noted that the external auditors had requested letters of support from the University in respect of SHUEL and SHInE. These would be signed by the Chair of the Board of Governors, prior to Grant Thornton signing the University's financial statements.

7.2 It was suggested that the Directors of SHU Law should consider including details of the Compliance Officer Legal Practice (COLP) and the Compliance Officer Finance and Administration (COFA) within the accounts for the company in future reports. These role-holders were required in order for the Alternative Business Structure to be registered by the Solicitors Regulation Authority to provide regulated activities. The contents of the report complied with the requirements for annual reports for the dormant company.