AUDIT AND RISK COMMITTEE

Minutes of Meeting held on Tuesday 12 November 2019

Present:	Prof C Kinsella (Chair)
	Ms J Allen
	Ms V Brown
	Ms K Finlayson
	Mr C Kenny
	Dr J Morrissy
	Mr J Warner
In Attendance:	Mr M Ackroyd, KPMG
	Mr Simon Briggs, Chief Information Officer (for item 9.1i)
	Mr A Bush, KPMG
	Ms M Boryslawskyj, University Secretary and Clerk to the Board of Governors
	Mr R Calvert, DVC Strategy and Operations
	Ms R Devaney, Head of Procurement
	Ms K Doherty, Grant Thornton
	Ms D Harry, Chief Finance and Planning Officer
	Ms L Mason, Director of Strategy, Planning and Insight (for items 12.1 and 13.1)
	Mr R Norman, KPMG
	Mr M Redfern, Grant Thornton
	Ms A Temple (Minute Secretary)
	Mr M Williams, KPMG (for item 9.1i)
	Ms H Williamson, Data Protection Officer (for item 11)

Apologies for Absence: None

Paper ref	Minute ref	
	A/19/61	**Private Meeting between Committee Members and the auditors**
	61.1	A minute confidential to the Committee was recorded.
	A/19/62	**Declaration of Interests**
	62.1	There were no declarations of interest.
A/3/19/M	A/19/63	**Minutes of the meeting held on 19 September 2019**
	63.1	The minutes were each <u>approved</u> as a correct record.
	63.2	The confidential minutes were <u>approved</u> subject to amending minute A/19/42.2vi to read "…in general, their audit work did **not** provide ….."
A/4/19/7	A/19/64	**Matters Arising/Audit and Risk Committee Action Tracker, version 31 October 2019**
	64.1	The Committee noted the action tracker and that the items which were due for implementation were all covered on the agenda as substantive items.

A/19/65   **Other Urgent Business**

65.1   The Committee had discussed the following matters with Grant Thornton during the private meeting:

- FRC findings in relation to an arrangement in place at the University of Salford;
- staff changes at partner level; and
- Grant Thornton's withdrawal of software which had been implemented to manage their external audit work.

The Committee received assurance that the specific issues had been dealt with appropriately by Grant Thornton. Further details of the discussion are set out in minute A/19/61.

A/19/66   **Internal Audit: Reports**

66.1   The Committee received the 2018/19 internal audit reports on IT: operational controls, budget setting and reporting, and follow-up. The 2018/19 student HESA report had been issued for management response and would be submitted to the February 2020 meeting. In addition, the 2018/19 early follow-up - risk management report was to be considered under agenda item A/4/19/10.2.

A/4/19/9.1(i)   66.2   **IT: operational controls**

Mr Simon Briggs, Chief Information Officer, joined the meeting for the item. Mr Matthew Williams, KPMG, introduced the report. It was noted that KPMG had found that:

1. data backups of SITS were undertaken on a regular basis and there were established procedures to be followed following a disaster recovery incident. However, the team responsible for supporting SITS and the underlying infrastructure were unable to provide evidence of a comprehensive Disaster Recovery plan covering the application. (high priority recommendation). The Chief Information Officer observed that that data back up and restoration was undertaken as part of the process of upgrading SITS but that these were not formally recorded. The next upgrade was due to take place in December 2019 and the disaster recovery action undertaken as part of that upgrade would be formally recorded. In addition, the DR process would be updated by Easter 2020;
2. the University had no formal assurance over the design and operating effectiveness of Core's general IT control environment and associated processes relating to the hosting of CoreHR and the management of the University's data. CoreHR did not produce an industry standard third party assurance report for the service and the University's contract with Core included only limited right of audit (high priority recommendation). It was noted that this was a contract point which was not unique to the University.

66.3   The following comments were made:

1. in relation SITS passwords it was confirmed that a plan was in place to bring password complexity in line with University standards and to be changed every upgrade;
2. given the flooding affecting the South Yorkshire region a member asked whether the University had data centre arrangements in place which

mitigated the risk. It was confirmed that the University had two city campus data centres and was working to transfer one of the data centres into the Cloud. It was noted that the other data centre location had previously been affected by flooding prior to the University moving the data centre into the area. Appropriate remediation work had been undertaken to make the area waterproof (A/16/64 refers).

3. the Chair suggested that it may be helpful to include additional internal audit work in 2019/20 in the area of IT. This would be discussed under agenda item A/4/19/9.4.

A/4/19/9.1(iii)   66.4   **Budget setting and Reporting**

The Committee noted the report and that scenario analysis concerning the impact of pensions on going concern was a challenging area for the sector as a whole.

A/4/19/9.1(iv)   66.5   **Follow-up of Internal Audit Recommendations**

The Committee noted the follow-up report on progress to implement recommendations. It noted:

1. the rate of completion of actions was in line with KPMG's other higher education clients;
2. there was a higher than typical level of recommendations that had been superseded. However, KPMG had obtained rationales for the superseded status and were content that these were reasonable.
3. the action on the high priority recommendation in the senior staff remuneration, expenses and other benefits report to publish the Remuneration Committee's policy and arrangements for determining senior staff pay which was reported as not meeting the expected completion date (page 12). This was being addressed through the remuneration report in the Annual Report and Financial Statements;
4. management reported that the actions in the academic advisors and student support services reviews which were reported as not meeting the completion date were likely to have been superseded. This would be investigated with KPMG on receipt of the detailed findings against each recommendation;
5. the report included a recommendation to ensure that the tracker was kept up to date by managers so that this remained an effective tool to monitor implementation of internal audit recommendations.

A/4/19/9.2   A/19/67   **2018/19 Internal Audit Annual Report**

67.1   The Committee received KPMG's annual report 2018/19 which had been updated following consideration of the draft report at the September 2019 meeting (A/3/19/12.3 refers).

67.2   It was noted that:

1. the 'A view of the University' section of the report had been updated;
2. there was a need to update page 10 to reflect the conclusion of the IT: general controls audit and the deferral of the HESA audit;
3. the report noted that the value added services provided to the University (page 14) had been included in the report. Members commented that value added services including access to KPMG's wider partnership were a key reason for KPMG's selection as internal auditors. In relation to value added services KPMG reminded the University that

management and the Committee could ask them for specific value added services which KPMG would consider;

4. in terms of achievement of KPIs it was noted that two reports had not been issued within 20 working days of completion of fieldwork and one had not been issued within 10 working days of receipt of management responses.

67.3 KPMG concluded that, for the period 1 August 2018 to 31 July 2019:

- that significant assurance with minor improvements could be given on the overall adequacy and effectiveness of the organisation's framework of risk management, control and governance. KPMG noted that the University had created and was further developing an Assurance Framework in the year.
- that Sheffield Hallam University had adequate and effective arrangements in place to promote economy, efficiency and effectiveness. In particular, KPMG undertook a review of the professional services operating model project, accounts payable and budget setting and forecasting processes. There were no findings from these reviews or other work carried out during the year that would lead them to question the arrangements in place at the University to secure value for money in the use of resources.

A/4/19/9.3   A/19/68   **Report on Implementation of Internal Audit Recommendations**

68.1 The Committee received a report on progress to implement outstanding medium and/or high priority recommendations in 2018/19 reports. It noted that KPMG's follow-up audit had followed up actions from 2017/18 reports (except international student recruitment and risk management) and actions from 2015/16 and 2016/17 that were outstanding when the previous follow-up was conducted.

68.2 The Committee noted that:

1. one action in the PSOM audit had been implemented;
2. one action in the international student recruitment audit had been implemented and it had not been possible to secure updates in relation to the two outstanding medium priority recommendation; and
3. the report had been compiled prior to the October 2019 completion date for three recommendations in the commercialisation of research report actions which had an expected completion date of October 2019. At the time the actions had been on track for completion by October 2019 and these would be followed-up with management after the meeting to confirm their status.

A/4/19/9.4   A/19/69   **Internal Audit Strategy and Operational Plan for 2019/20**

69.1 The Committee had approved phase 1 of the 2019/20 plan at its September 2019 meeting (A/19/56.3 refers). Following the meeting further discussion had taken place between management and KPMG to agree priorities for the later stages. As a result of the discussions the following changes were made:

- the proposed academic work planning (AWP) audit had been deferred from 2019/20 to 2020/21;
- the proposed student welfare and regulatory compliance audits had been combined into an audit of 'governance: regulatory compliance and case

management;

- KPMG had added a section to the plan which mapped the audit areas against the specific corporate risk (page 8 to 10 of the plan);

69.2 It was noted that work was due to commence during w/c 18 November 2019 on the TRAC audit in order for the report to be received by the special meeting of ARC to discuss TRAC compliance which was scheduled for 28 January 2020.

69.3 During discussion the following was noted:

1. given the strategic and financial importance of the forthcoming Research Excellence Framework (REF) exercise a member asked whether an internal audit of the preparations for the REF would be appropriate in 2019/20. It was noted that KPMG had provided an audit of REF for another client. It was noted that testing and benchmarking was on-going within the University as part of the extensive REF preparations. The Head of University Research Services had presented a briefing on the REF to the Board Strategy event in October 2019. It was agreed to seek a report from the Head of University Research Services on the assurance that was being carried out in relation to the REF which would be circulated to members before the next meeting. The DVC Strategy and Operations and KPMG would review the assurance in place and discuss whether KPMG input would be beneficial;

2. a member noted that the aggregate risk for the audit areas (pages 8 to 10) was medium for all areas. KPMG reported that in assessing the risk they had not felt that any area merited a high aggregate risk rating. However, they further noted that estates and IT may need to be reviewed to consider the rating allocated;

3. in response to a question KPMG confirmed that the number of days within the University's plan was similar to other comparable clients and that they were content that the final number of days used in 2018/19 was appropriate;

4. a member asked whether case management and regulatory compliance/interaction with the OfS aligned to form a coherent area for an audit. The University Secretary clarified that the intended remit for the audit was the governance of case management, rather than reporting to the OfS and the focus of the audit would be on the governance of student behaviour and conduct matters. The DVC Strategy and Operations noted that there was increasing scrutiny of how Universities managed these processes and assurance was needed. He further noted the importance of appropriately defined terms of reference for the review.

69.4 The Committee approved the phase 2 of the internal audit plan for 2019/20. The Committee would consider phase 3 and 4 of the plan at its February 2020 meeting.

A/4/19/9.5
Confidential

A/19/70 **Annual Performance Review of Internal Audit**

70.1 Representatives of KPMG and Grant Thornton left the meeting during discussion of this item.

70.2 The Committee considered the performance of KPMG during 2018/19 and agreed that KPMG's performance had been satisfactory.

70.3 As discussed under minute A/19/67.2.3 the value added services provided to the University had been a key reason for KPMG's selection as internal auditors. It was agreed that the management should ask KPMG for specific value added services and that the DVC Strategy and Operations and the CFPO should consider further what might be useful. It was also felt that it was important to clearly articulate what was needed. In addition, it was felt that it would be helpful for KPMG to consider what further help they could offer.

70.4 The current KPMG management team was felt to be strong and University management and the Committee felt that their continued involvement in the internal audit process was desirable. This would be fed back to KPMG.

70.5 The Committee recommended that the University should not retender the internal audit provision at the end of the second year but should maintain a close-eye on delivery over the next twelve months to ensure the improved performance seen during the first year of the current contact continued.

70.6 It was agreed to recommend to the Board that KPMG LLP should be re-appointed as internal auditors for 2020/21 with the option to extend for a further 12 month period (for 2021/22) depending on performance.

70.7 In response to a question it was noted that the University had not kept in contact with the other providers who had been short-listed. It was thought that this would not be permissible under public procurement regulations.

A/4/19/10.1   A/19/71   **Report on Risk Management**

71.1 Representatives of KPMG and Grant Thornton returned to the meeting.

71.2 Ms L Mason, Director of Strategy, Planning and Insight joined the meeting for the item and A/4/18/10 and A/4/19/12.1. The Committee received a report on risk management. It noted the current corporate risk register

71.3 The DVC Strategy and Operations provided a briefing to the Committee on the forthcoming UCU eight days of industrial action (scheduled w/c 25 November 2019). It was noted that this encompassed (i) national UCU strike action on pay and conditions and (ii) strike action in relation to a local dispute concerning academic work planning. Following the eight days of strike action there would be on-going action short of strike. The level of participation in the strike would not be known until it took place. It was expected that there would be scrutiny from the OfS concerning the impact on students of the loss of teaching, including the issue of financial recompense. In relation to the local dispute a member suggested that it was important to combine messages about the financial benefits of revised work planning systems and the benefits to staff of the work - such as improvements in timetabling.

A/4/19/10.2   A/19/72   **Internal audit report 2018/19: Early Follow Up -Risk Management**

72.1 The Committee noted that it had received KPMG's 2018/19 report on risk management in June 2019 and that this had had been issued with the assurance rating to be determined. This was because the high priority action within the report related to the need to document the key controls in place to

mitigate the risks and this was being fulfilled through the assurance map which was being developed. As the assurance map was due to be completed by September 2019 (in line with the original implementation date for the action to develop the map included in the 2017/18 risk management audit) it was felt appropriate to review the work prior to providing an assurance rating to the 2018/19 risk management review.

72.2   The Committee received the updated internal audit report following KPMG's work to review progress to develop an assurance map. The rating of the report had been categorised as 'significant assurance with minor improvements required'.

A/4/19/11
Confidential

A/19/73   **Data Security Breach Report**

73.1   Ms H Williamson, Data Protection Officer briefed the Committee on a data breach which the University had reported to the Information Commissioner's Office (in line with its obligations under the Data Protection Act 2018). This was the first data breach that the University had reported to the ICO. The DPO outlined the lessons learnt and follow-up action taken by the University.

A/4/19/12.1   A/19/74   **Assurance of Data Returns**

74.1   The Committee received a report on the data returns submitted by the University to the Higher Education Statistics Agency (HESA), the SLC, the Office for Students, Research England and other funding bodies.

74.2   The purpose of the report was to enable the Committee to meet the mandatory requirement in the Audit Code of Practice to provide an opinion on the adequacy and effectiveness of the University's arrangements for the management and quality assurance of data submitted to the Higher Education Statistics Agency (HESA), the Student Loan Company, the Office for Students, Research England and other funding bodies.

74.3   The Committee noted the following:

1.   the External Data Returns Board, chaired by the Director of Strategy, Planning and Insight, oversaw the delivery of the majority of the University's large and highest risk data returns. This Board oversaw the work of a range of operational groups that had responsibility for the delivery of the data returns, providing assurance in terms of data quality and decision-making on policy matters. The Board also kept up-to-date with sector intelligence on changes that had an impact on the University's data and its provision to external bodies, ensuring that the university was are able to respond in a timely manner. This governance process was independent of the management line and provided scrutiny and challenge to ensure that the University complied with the standards set for each of the individual returns as well as the code of practice for higher education data collections;

2.   HESA had experienced some 'teething' problems with the first year of operation for the Graduate Outcomes survey under the new centralised process. In particular, there had been some issues with students dropping out of the survey before completing. HESA had undertaken a review of these issues and noticeable improvements had been made between cohorts A and B, although response rates and completion remained areas of concern. This was likely to impact on results for all institutions;

3. in June 2019, HESA confirmed some significant changes to the Data Futures programme and suspended the BETA pilot which Sheffield Hallam was participating in. HESA confirmed delays to the programme would mean that collections for 2020/21 would continue to use current systems and, in the medium term, the initial teacher training (ITT) collection would be removed from Data Futures and retained as a separate collection. HESA were running a further design phase to consider the scope and impact of changes required.

74.4 Given the assurance provided in the report and having regard to the Internal Auditors report on this issue A/4/19/9.2, the Committee <u>agreed</u> the following opinion on data management and quality assurance for inclusion in the Committee's annual report):

> The Committee is able to confirm for the year 2018/19 that <u>arrangements for the management and quality assurance of data</u> submitted to the Higher Education Statistics Agency (HESA), the Student Loan Company, the OfS, Research England and other funding bodies were <u>adequate and effective</u>.

A/19/75 **Report of Personal Development Reviews (PDRs)**

75.1 The item was deferred. The DVC Strategy and Operations and the University Secretary would consider how to report on this area including whether a report to FEC would be more appropriate.

A/4/19/12.3   A/9/76 **Modern Slavery and Human Trafficking Statement**

76.1 Ms R Devaney, Head of Procurement attended the meeting for items 12.3 and 13.1.

76.2 The Committee noted the progress made during the year to comply with the requirements of the Modern Slavery Act 2015 and the Modern Slavery Act 2015 (Transparency in Supply Chains) Regulations 2015. The report included the draft Slavery and Human Trafficking Statement and the Committee was asked to recommend the statement for approval by the Board of Governors, in order to meet the University's obligations arising under the Modern Slavery Act 2015 and the revised guidance from the Home Office, published in October 2018.

76.3 It was noted that the action for 2019 included:

1. ensuring that once appointed, the delivery partner alliance, responsible for delivering the University's masterplan, would be responsible for ensuring that their supply chain was procured in a responsible and ethical way. The delivery partner alliance would be required to identify any modern slavery risks and report annually how they were mitigating these risks;

2. work with the University's overseas representative offices to develop action plans further to have a greater understanding of how the university could remedy any direct risks identified;

3. generating an ethical procurement policy.

76.4   It was noted that a Slavery and Human Trafficking Statement must be produced for each financial year, approved and signed by the Board of Governors and published no later than 31 January 2020 via a prominent link on the University's website homepage.

76.5   Members commended the University on the quality and coverage of the Slavery and Human Trafficking Statement.

76.6   The Committee <u>recommended</u> the draft statement for approval by the Board.

A/4/19/13.1   A/19/77   **Annual Procurement Report 2018/19**

77.1   The Committee received the annual procurement report 2018/19 and noted procurement team activity during 2018/19 and that procurement matters were reported to the Building a Great University Pillar Board.

A/4/19/13.1   A/19/78   **Office for Students' Value for Money Strategy 2019 to 2021**

78.1   The Committee noted that the Office for Students' (OfS) had recently published its Value for Money (VfM) Strategy 2019/21. In the strategy, the OfS interpreted VfM more widely than HEFCE had previously done, focussing on its overall role in assuring high quality at the right cost, rather than a narrower focus on how universities are driving efficiency. In response, the University proposed to submit an annual Value for Money report to the Committee which would provide information against each of the thematic areas, focussing on controls and mitigating actions, rather than performance, which would continue to be covered by the University Performance Reports to the Board of Governors and the ARFS. The report would be presented to the September meeting of the ARC.

A/4/19/14.1   A/19/79   **Compliance with the Office for Students' Audit Code of Practice**

79.1   The Committee noted that a review of compliance with the Audit Code of Practice had been undertaken and it was confirmed that the University complied with all the mandatory requirements and good practice set out in the Audit Code of Practice in 2018/19.

A/4/19/14.2   A/19/80   **Draft Audit and Risk Committee Annual Report to Board of Governors and Accountable Officer 2018/19**

80.1   The Audit and Risk Committee received the draft annual report to the Board of Governors and accountable officer which it was required to produce by the OfS. The Committee noted that the report would be updated to take account of discussion at the meeting. The Committee considered the report including the statements of opinion (set out in section 2.1 and also covered in 6.4, 10.1, 10.3 and 10.4). The Committee <u>agreed</u> the opinions. The amended report would be considered by the Board of Governors at its meeting on Tuesday 26 November 2019.

80.2   The Committee considered its effectiveness including its terms of reference. It did not recommend any changes to its terms of reference. Based on information provided and discussion the Committee considered itself to be operating in an effective manner

A/4/19/15.1   A/19/81   **Additional Work Carried Out by the External Auditors**

81.1   The Committee noted the report.

| A/4/19/16 | A/19/82 | **Draft Outline Forward Planning Programme for the Audit and Risk Committee** |

82.1 The Committee noted the forward programme
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<table>
<tr><td>A/19/82</td><td>**Date of next meetings**</td></tr>
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82.1 Tuesday 28 January 2020 from 9.45am to 10.15am- as part of Governors Development Day - to discuss and approve TRAC submission as required by the OfS

Thursday 27 February 2020 from 4pm to 6.30pm