

AUDIT AND RISK COMMITTEE

Minutes of Meeting held on Thursday 7 June 2018

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

In Attendance: Mr M Ackoyd, KPMG
Mr A Bush, KPMG
Mr C Clarke, KPMG (for item 8.1iv)
Mr L Green, Head of Academic Quality and Standards (for item 7.1 and 8.1ii)
Ms D Harry, Chief Finance and Planning Officer
Prof. C Hughes, Provost (for item 7.1 and 8.1ii)
Mr N Macdonald, Chair of Finance and Employment Committee (Observer)
Mr M Redfern, Grant Thornton
Mr J Richardson, Global Engagement Director (for item 8.1i)
Ms A Temple (Minute Secretary)
Mr M Ward, Risk and Business Continuity Officer (for item 7.2)
Ms D Watson, Grant Thornton

Apologies for Absence: Mr J Warner

Paper ref	Minute ref	
	A/18/23	Declaration of Interests
	18.1	There were no declarations of interest.
A/1/17/M	A/18/24	Minutes of the meeting held on 15 March 2018
	24.1	The minutes were <u>approved</u> .
A/2/18/5	A/18/25	Matters Arising/Audit and Risk Committee Action Tracker, version 30 May 2018
	25.1	A/17/20.1: Mapping the responsibilities of the strategic boards against regulatory and statutory requirements: The University Secretary, Martin Conway, reported that the Committee had not been assured that regulatory and statutory requirements were being met under the new governance structure. A review of the strategic boards was being undertaken by the University Secretary and the Director of Strategic Planning and this would consider regulatory and statutory requirements. Arising from this review the University Secretary would be able to give assurance to the Committee that these matters were being appropriately addressed.
	25.2	A/18/06.1: Board scheme of delegation: The University Secretary reported that the review of the Board's effectiveness conducted in 2016 had recommended reform of the University's Instrument and Articles of Government. Work would take place in due course to review these

documents with a recommendation on any changes being put to the Office for Students, which would take over responsibility from the Privy Council, for approving changes to such arrangements in 2019. It had been planned to review the scheme of delegation after changes to the Instrument and Articles. However, changes in senior managers' responsibilities had led to a need to review the scheme of delegation to ensure that existing authorities were correctly set out. The revised scheme of delegation would be submitted to the Board of Governors for approval and an update would be given to Audit and Risk Committee in September 2018.

25.3 **A/18/06.2: Value for Money (VfM) deep dive discussion topic for September 2018 Audit and Risk Committee:** The University Secretary reported that the call to members for suggestions for value for money themed deep dive discussions had not resulted in any suitable suggestions. The following was noted:

1. procurement including the use of collective purchasing may be an appropriate topic for a VfM discussion;
2. the Office for Students (OfS) had a statutory duty under section 2.1 of the Higher Education and Research Act to "have regard to the need to promote value for money in the provision of higher education by English higher education providers" and the OfS's Regulatory Framework included, as one of its four primary regulatory objectives, that all students, from all backgrounds with the ability and desire to undertake higher education should receive value for money. In view of this it may be appropriate for the Committee to consider the Office for Students' approach to VfM;

A member suggested that it would be useful to articulate what value for money is. It was noted that the Chief Executive of the Office for Students had written an article in WonkHE¹ which had highlighted value for money in two areas (i) value for the student (ii) value for the taxpayer. In addition it was noted that there was also operational value for money, such as achieving VfM in procurement.

25.4 **A/18/11.6: Report on Professional Services Operating Model (PSOM):** A report on the PSOM work had been deferred in the absence of the Chief Operating Officer. A report would be made at the September 2018 meeting. It was noted that one of the objectives of the programme was to improve the quality and effectiveness of the University's professional services. It was anticipated that the programme of work should contribute to more effective operations and that it should also bring cost savings. The Chair suggested that a deep dive discussion on this area, as a value for money initiative, would be useful in due course.

25.5 **A/18/12.1: Implementation of recommendation 2 of external audit report:** Recommendation 2 of the external auditors report for year ended 31 July 2017 was the only recommendation that was outstanding at the March 2018 ARC meeting. The action was to carry out a check of the storage of existing casual worker documents when undertaking the annual review of the casual worker workforce in January/February 2018. As at the March 2018 meeting the work had an expected completion date of the end of the month. Human Resources and Organisational Development have confirmed that the closure of the casual records took place in March 2018 and that the 10% sample

¹ <https://wonkhe.com/blogs/addressing-value-for-money-at-the-ofs/>

check was due to take place during June and would be completed by the end of June 2018. A further progress report would be made as a matter arising at the September 2018 meeting. It was noted that Grant Thornton would follow-up all 2017 recommendations as part of their 2018 audit.

A/2/18/7.1 A/18/26 **Report on Corporate Risk: Teaching Quality**

26.1 The University Secretary reported that the role of the Academic Assurance Committee was to provide independent assurance to the Board on the quality and standards of the University's taught and research degree provision. It fulfilled this role through consideration of key metrics and qualitative data on the academic health of the University, consideration of any significant change to the University's academic activities and scrutiny of annual reports on quality and standards matters, including the Annual Quality Review Report and Student Voice Report. The Audit and Risk Committee had a role in considering risks and seeking assurance that the risks were being appropriately managed.

26.2 The Provost and the Head of Academic Quality and Standards outlined key factors in relation to the teaching quality corporate risk:

1. the portfolio review process aimed to develop a coherent framework for the University's portfolio and its development, providing strategic direction and a set of common principles as the building blocks for the future portfolio. The following was highlighted:
 - a. the portfolio review considered the size, shape and mode of the University's portfolio.
 - b. a key question for the University was whether the University overly relied on undergraduate taught provision which could pose a financial risk to the University;
 - c. the University was scoping a business plan for the possible establishment of a new entity - Hallam University College - to host a range of existing and new sub-degree programmes and routes through to degree provision and to increase the numbers of students studying on these programmes. This would allow the University to deliver a more extensive flexible offer e.g. extended degree/foundation years; international foundation year; HNC/D provision; part-time; accelerated degrees; apprenticeships; modular provision; online distance learning;
 - d. it was proposed that online distance learning and technology enhanced learning would become a more significant part of the University's offer, underpinning all levels of provision;
 - e. work on portfolio review was on target and reports were being submitted to ULT.
2. employability was a strategically important area linked to the TEF (Teaching Excellence Framework). The following was highlighted:
 - a. every course had a risk rating (RAG) for all core metrics including employability;
 - b. the Board of Governors had received a presentation on the employability plan and had discussed the University's approach (BG/18/31 refers);
 - c. internships were a useful way to support graduates into employment;
 - d. the changes to the statistics on employability posed a challenge for the University. The DLHE (Destination of Leavers of Higher Education survey was being replaced by Graduate Outcomes. The survey would be fifteen months after graduation instead of six months and would be

co-ordinated by an external agency rather than directly by the University. It was felt that the University was more exposed than some institutions as a result of these changes due to the make-up of its portfolio, in particular, the high levels of nursing graduates who were likely to be difficult to contact 15 months after graduation;

- e. LEO (Longitudinal Earning Outcomes) data was collected five years after graduation from tax records and was considered as part of the TEF. Overall the University performed well in terms of salary five years after graduation. However, graduates from four subject areas earned below the median salary for all 25 to 29 years olds in work. These were subjects with lower expected earnings such as social care.
3. the National Student Survey (NSS) was an important measure of students' views of teaching quality. Response rates for the University for 2018 had been good and data was expected to be published in late July/early August 2018. The University had performed well in the NSS in 2017 although the boycott of NSS by students at the Russell Group Universities had impacted positively on the University's position as data for the previous year had been used for institutions affected by the boycott. The impact of the lecturer strikes in 2017/18 at a number of Universities was likely to have an effect on the NSS scores for those institutions. Such sector factors were beyond the University's control.

A/2/18/8.1ii A/18/27 **Internal Audit Report on Student Retention**

27.1 The Committee received the advisory report on student retention and noted that management had agreed all recommendations. The Committee noted that:

1. student retention was a part of the shaping futures strategy;
2. the Retention and Student Success Framework would be revised to take account of the new model of support for students arising from the PSOM and the revised academic advisor role;
3. Communication of the revised strategy was important, as was communication on interventions;
4. the retention rate for Foundation Degrees was significantly lower than other routes. The University, via the Hallam Guild, had established a special interest group consisting of all Foundation Degree course leaders to facilitate closer working of the course leaders and to enable management to receive feedback

In response to a question concerning the partial acceptance of recommendation 2 (on investment in technological infrastructure to support attendance monitoring) the Provost confirmed that a readiness survey was taking place concerning the use of learning analytics for automatically monitoring attendance.

In response to a question it was noted that every department and subject area received a RAG rating on student retention.

A/2/18/7.2 A/18/28 **Risk Management**

28.1 The Risk and Business Continuity Officer joined the meeting for the item.

- 28.2 The Committee received an update on risk management and noted that a risk objective working group has been created to scope, develop and implement the standardisation of risk management throughout the University.
- 28.3 The Risk and Business Continuity Officer outlined the University's approach to risk management. In response of questions/comments the following was discussed/noted:
1. it was confirmed that the University defined local risk registers as anything below the corporate risk register and programme and project risk registers, for example, faculty and directorate risk registers were local;
 2. the University had responded to the fire in the Grenfell Tower by testing cladding on buildings and had reported its action to the Board via an oral report (BG/17/72.2 refers). A member stated that it was important that the organisation had a learning culture and accepted accountability and was assured that the University had responded appropriately;
 3. a member asked whether aligning risks to the work of the strategic boards could lead to risks being missed. The Risk and Business Continuity Officer confirmed that work was taking place with Strategic Portfolio and Business Change to standardise risk reporting and action would be taken to develop risk registers for each strategic board linked to the programme and project risks monitored by that Board. Work would also take place to ensure clear escalation routes to University Leadership Team etc. All change projects were aligned to a strategic board which meant that all risks should all be addressed in appropriate fora.
- 28.4
1. The Committee received a proposed new regulatory and compliance risk which had been drafted arising from a recommendation made by KPMG, in the privacy diagnostic audit report, that the University should consider developing a GDPR risk;
 2. The University Secretary reported that he had further considered the risk and felt that a separate Office for Students (OfS) risk should be developed;
 3. In response to a question KPMG reported that institutions were approaching the OfS risk in different ways. KPMG agreed that there was a current high risk around the establishment of the OfS and its registration and on-going operating conditions due to the possible impact on the ability of the institution to trade if it failed to meet the OfS conditions;
 4. The Chair observed that given the nature of the risk it would be appropriate to isolate the risk from the other regulatory and compliance challenges.
- 28.5 The Chief Finance and Planning Officer reported that the University had received KPMG's draft 2017/18 risk management report for management comments. The report had been graded as significant assurance with minor opportunities for improvement. The report would be submitted to the September 2018 meeting.

A/18/29 **Report on Progress to Implement the General Data Protection Regulation**

29.1 The University Secretary reported on the University's on-going work in response to the requirements of the General Data Protection Regulation (GDPR), which had come into force on Friday 25 May 2018. The following was noted:

1. all privacy notices had been revised and published;
2. good progress was being made to develop the University's information asset register;
3. the PSOM work included the identification of information governance guardians in each planning unit who would work with the central Information Governance team in Governance Services.

A/2/18/8.1 A/18/30 **Internal Audit: Progress Report**

30.1 The Committee received a progress report on the 2016/17 and 2017/18 internal audit programme.

30.2 KPMG had delivered 152 days of the planned 269 internal audit days for 2017/18 and had also delivered a further 20 days in relation to the 2016/17 Governance and Research Strategy reviews that were brought forward into 2017/18.

30.3 It was noted that no additional work had been approved beyond the agreed internal audit programme.

30.4 The University had received a report by KPMG on the workload planning model for TRAC. KPMG had made nine recommendations which were noted by the University's management. However, these would not be implemented. To avoid compromising the success of the AWP project, the University had made a pragmatic decision not to add TAS compliance to the requirements at a late stage. The University had decided not to share this advisory report with the Audit and Risk Committee.

A/2/18/8.1i 30.5 **Overseas Partnerships:** The Global Engagement Director joined the meeting for agenda item A/2/18/8.1i. The Committee received the report which was graded as partial assurance with improvements required. A member commented on the number of recommendations and was assured that the Global Engagement Directorate, whilst recognising the significant work to be undertaken, had expected the recommendations and was already implementing the changes necessary, for example, an International Partnership Development Framework had been agreed by the Leading Locally and Engaging Globally (LLEG) Board. The review had been useful as it had confirmed a number of issues which the directorate were aware of. The following was highlighted:

- an annual review of all partnerships would be submitted to LLEG;
- work was on-going on a due diligence process for all partnerships (i.e. UK and overseas);
- financial data was currently collected annually and this was being changed to collect data on a quarterly basis;
- it was important to recognise that the benefits of partnerships extended beyond financial.

A/2/18/8.1iii 30.6 **Estates Planning Follow-up:** The Committee received the report which was grade as significant assurance with minor improvements points. The report followed up a review of estates planning conducted in 2015/16. The review considered the quality of the current estates planning process and assessed progress made on implementing actions agreed in the previous internal audit review.

In response to a question about how risks identified in estates projects were recorded and escalated it was noted that the review had not considered a live estates project. However, the structures in place appeared to be sound in terms of the escalation process.

A member reported that they had raised comments with the Director of Estates and Facilities concerning some procurement processes being considered as part of the estates masterplan work. The Chief Finance and Planning Officer reported that an Investment in Infrastructure and Capital Board (INVIC) had been put in place and external legal advice was being taken on the project. It was agreed that the member (Julie Morrissy) and the Chief Finance and Planning Officer should discuss the process and the member should report any on-going concerns to the Committee following this discussion.

A/2/18/8.1iv 30.7 **Payment Card Data Project:** The Committee received the report which was grade as significant assurance with minor improvements points. The report was a post implementation review of the PCI-DSS project and had not considered technical compliance, although it was noted that 29 of the 36 card payment routes identified were judged compliant by the University's PCI Qualified Security Assessor.

A/2/18/8.1vi 30.8 **Devolved Governance and Decision Making Follow Up Review:** The Committee received the advisory report which followed up two previous audits: devolved governance and decision making and University Executive Governance. The recommendations made in the review were new recommendations which reflected the action taken to review governance structures since the original reports.

The Chair suggested that the report should be circulated to the Board.

Members observed that communication and engagement were a key theme in the report and had also been the theme in the student retention review. It was suggested that ULT should be made aware of this and consider communication.

Members felt that management response had been reassuring and welcomed managements' initiative in commissioning the review.

A/2/18/8.2 A/17/31 **Report on Implementation of Internal Audit Recommendations**

31.1 The Committee received a report on progress to implement outstanding recommendations made by the internal auditors.

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

- i. the five recommendations in the Service Improvement Project review;
- ii. the recommendation in the UK Partnerships review concerning implementing a streamlined version of the legal and financial due diligence process (recommendation 8);

31.3 The Committee agreed a revised completion date of the end of July 2018 for the recommendation in the Marketing report concerning metric reports (original completion date: April 2018). The Committee noted that the request for an extended completion date was supported by a reasonable rationale.

31.4 The Committee agreed that the recommendation in the 2014/15 Grant and Contract Management report to use the Converis system for post award reporting was superseded. Assurance was given that post award governance was robust and compliant with the University's financial regulations.

A/2/18/9.1
Confidential

A/18/32 **External Audit: The Audit Plan for Sheffield Hallam University, Year Ending 31 July 2018**

32.1 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 2018. It was noted that Grant Thornton confirmed their independence and would reconfirm their independence and objectivity for the year ended 31 July 2018 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.

32.2 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 override controls] were standard risks for the sector as defined and mandated in auditing standards.

32.3 Grant Thornton highlighted the following:

1. when considering going concern assumptions the external auditors needed to understand the impact of the new campus masterplan on future years financing as the main investment was due to commence in 2018/19;
2. the University was in the process of setting up a new subsidiary, SHU Law Limited, which would be a registered solicitors practice that would be used to assist the Law School students in obtaining practical legal experience;
3. Grant Thornton would audit compliance with the CUC Higher Education Remuneration Code and the Office for Students' accounts direction requirements on disclosure of remuneration. Grant Thornton encouraged the University to be open and transparent and the University Secretary confirmed that this was the University's intention (A/18/32.5.2 also refers);
4. HMRC had changed the rules related to tax and national insurance contributions for termination payments which had increased the cost of restructuring. The Chief Finance and Planning Officer confirmed that past payments had been reviewed and disclosed and that tax had been paid.

32.5 During discussion the following points were raised:

1. two key issues were likely to have an impact on the going concern assessment (i) the likely reduction in student applications for 2018/19 as the expected reduction would have a substantial impact on the financial

performance for 2018/19 (ii) the borrowing required to finance phase 1 of the campus masterplan (A/18/32.3.1 refers). It was noted that the Finance and Employment Committee was receiving detailed reports on the masterplan and was reporting to the Board. It was noted that the Board would receive a report on going concern at its July 2018 meeting and that a review of the process of assessing going concern would be presented to Audit and Risk Committee in September 2018. Having observed the FEC discussion on the campus masterplan the Chair was able to assure the Committee that a robust process was being undertaken in relation to the campus masterplan;

2. In relation to the CUC Remuneration Code a member asked about the involvement of staff and students in remuneration decisions. The University Secretary confirmed that this had been a suggestion raised by the government but that this idea had been withdrawn. He felt that transparency of reporting on the work of the Remuneration Committee to the Board would enable staff and student engagement in the issue through the groups' representatives on the Board. An annual report of the Remuneration Committee would be made to the Board. A member welcomed the move towards greater transparency in the working of the Remuneration Committee as she felt that all Board members should understand remuneration committee arrangements.

A/2/18/9.2 A/18/33 **Additional Work Carried Out by the External Auditors**

- 33.1 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/1/18/8.3 A/18/34 **Internal Auditor Appointment**

- 34.1 Representatives of KPMG and Grant Thornton left the meeting at this point.
- 34.2 The Committee received an update on the on-going tender for internal audit services using the Crown Commercial Service's RM3745 Management Consultancy Framework Agreement, Lot 3 (audit).
- 34.3 It was noted that the Chief Finance and Planning Officer would participate in the tender panel instead of the Director of Management Accounting.
- 34.4 The process was as follows:
 - the University Secretary and the Chief Finance and Planning Officer would score the tenders submitted against the quality questions. They would undertake the task independently of each other and their scores would not be shared with the other until a moderation meeting;
 - the University Secretary and the Chief Finance and Planning Officer would meet with a member of staff from the procurement team to moderate the scores and agree scoring. This would then be combined with a score allocated to each firm based on pricing in order to agree a short list of firms who would be invited to a clarification interview;
 - the panel, as set out in section 6 of the paper (with the change noted in A/18/34.3 above), would interview shortlisted firms. Where necessary and only as a result of clarifications provided by the tendering parties the qualitative scores might be amended. The final scores would be recalculated and the preferred supplier would be identified.

34.5 It was agreed to circulate the Invitation to Tender document to members.

34.6 The Committee give authority to the Chair of the Committee to make a recommendation to the Board of Governors on the appointment of internal auditors for the University. The recommendation would be made at the Board meeting on 24 July 2018 following the clarification interviews with the short-listed tenderers by the tender panel. The recommendation made would be for the appointment of firm that had scored the highest in the tender process.

A/17/35 Chair's Closing Remarks

35.1 The Chair thanked Mr Rick Plews, external co-option, for his contribution to the work of the Committee as his membership was due to end on 31 July 2018 as he would complete his maximum term of office of 8 years. Mr Plews had been a member of the Committee since 1 August 2010.

35.2 A recommendation from Nominations Committee concerning a replacement would be made to the Board of Governors in due course.

A/17/36 Date of Next Meeting

36.1 Thursday 20 September 2018, 4.30pm to 6.30pm