

## AUDIT AND RISK COMMITTEE

## Minutes of Meeting held on Thursday 20 September 2018

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

**In Attendance:** Mr M Ackroyd, KPMG  
 Mr A Bush, KPMG  
 Mr R Calvert, Chief Operating Officer  
 Ms Rachel Devaney, Head of Strategic Procurement (for agenda items 9.1 and 9.2)  
 Mr N Macdonald, Chair of Finance and Employment Committee (Observer)  
 Mr M Redfern, Grant Thornton  
 Mr S Taylor, Assistant Director, Financial Services  
 Ms A Temple (Minute Secretary)

**Apologies for Absence:** Ms K Finlayson

Paper ref	Minute ref	
	A/18/37	<b>Declaration of Interests</b>
	37.1	There were no declarations of interest.
A/2/18/M	A/18/38	<b>Minutes of the meeting held on 7 June 2018</b>
	38.1	The minutes were <u>approved</u> .
A/3/18/5	A/18/39	<b>Matters Arising/Audit and Risk Committee Action Tracker, version 5 September 2018</b>
	39.1	<p><b>A/18/10.6.9: University's approach to its adoption of the CUC Remuneration Code:</b> The University Secretary reported that the Remuneration Committee had met on 19 September 2018 and discussed actions to respond to the CUC Remuneration Code (in addition to the measures already put in place in anticipation of the changes):</p> <ol style="list-style-type: none"> <li>1. the Committee agreed to recommend amended terms of reference to the Board of Governors on 5 October 2018;</li> <li>2. an annual report on remuneration would be submitted to the Board;</li> <li>3. action was being taken to address the recommendations made in KPMG's report on senior staff remuneration, expenses and other benefits; and</li> <li>4. the University would publish the required information concerning senior staff pay, including a justification of the Vice-Chancellor's remuneration, in its Annual Report and Financial Statements for year ended 31 July 2018 (as specified in the Office for Students' Accounts Direction).</li> </ol>

It was agreed that KPMG would conduct an early follow-up of the recommendations made in the senior staff remuneration, expenses and other benefits report.

- 39.2 **A/18/25.2: Board scheme of delegation:** The University Secretary confirmed that a scheme of delegation had been approved by the Board in July 2018 (BG/18/95.3 refers).
- 39.3 **A/18/25.3.2: VfM and the OfS:** The University Secretary reported that (i) the Office for Students' had not yet issued any further guidance on its approach to value for money and (ii) there was an on-going Education Select Committee inquiry into value for money in higher education.
- 39.4 **A/18/25.5: Implementation of recommendation 2 of external audit report:** The Human Resources and Organisational Development Directorate had confirmed (on 15 September 2018) that the outstanding action in the external auditors' report, to complete a ten percent sample check of casual worker records, had been completed. It was noted that as part of their current audit Grant Thornton would follow-up progress on the previous year's recommendations to seek evidence to verify completion.
- 39.5 **A/18/30.6: Estates masterplan discussion:** Dr Julie Morrissy reported that she had discussed her comments concerning the estates masterplan work with the Chair of the Board. The University Secretary reported that the Chief Finance and Planning Officer would report on financing options for phase 1 of the campus master plan (arising from the work of the Board's task and finish group on this matter) at the Board of Governors strategy event on 4 October 2018 prior to a formal decision on financing by the Board at its meeting on 5 October 2018.
- 39.6 **A/18/32.5.1: Going concern:** The approach to assessing the University's ability to operate as a going concern would be reviewed as part of the year-end process and a paper reviewing the going concern element of the Annual Report and Financial Statement would be provided to joint FEC and ARC in November (as normal). The implications of the financing of the campus master plan would be considered as part of the going concern assessment. In relation to availability of finance Grant Thornton observed that the position in six months may have changed which may impact on the going concern assessment.
- 39.7 **A/18/34.6: Internal auditor appointment:** It was noted that, following clarification interviews with the short-listed tenderers by the tender panel, a recommendation on appointment of internal auditors had been approved by the Chair of the Board (BG/18/91.1 refers). KPMG had been appointed as internal auditors for 2018/19 onwards for a minimum term of two years (i.e. for the internal audit for 2018/19 and 2019/20 financial years) with the option for two further 12 month extension periods depending on performance.

#### A/18/40 **Appointment of Deputy Chair**

- 40.1 Mr Chris Kenny was elected as Deputy Chair of the Committee from 20 September 2018 to 18 September 2019.

A/3/18/8.1 A/18/41 **Update on Risk Management**

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

1. two new corporate risks had been developed (i) a GDPR risk developed following a recommendation in KPMG's privacy diagnostic audit report and (ii) a regulatory compliance risk setting out the risk related to compliance with the OfS's regulatory regime;
2. the risk appetite statement had been reviewed.

41.2 During discussion the following was raised:

1. a member suggested that the University should ensure the regular assessment of the cyber risk (Corporate Risk Register, page 9 of 11 - appendix 4) as this was a high priority issue for many organisations;
2. in relation to the GDPR risk it was felt that (i) staff engagement was key to successful compliance with the legislation (i.e. the GDPR and the Data Protection Act 2018) (ii) it was important to ensure a robust process for reporting data breaches to ensure that the University complied with the requirement to report to the Information Commissioner's Office within 72 hours of becoming aware of the breach. The University Secretary reported that a new incident management procedure had been put in place and that there was evidence of a culture of reporting, and learning from, near misses. Since May 2018 (when the revised reporting requirements had come into force) it had not been necessary to report any data breaches to the ICO. A member asked whether there was a culture of no-blame in relation to data breaches. The University Secretary confirmed that this was the case. It was recognised that data breaches may be as a result of negligence or deliberate action but that this was rare and it was more common for weak processes to be the cause rather than human error;
3. a member suggested that the University should consider revising the title of the 'courses' risk - possibly to 'academic portfolio'.

A/3/18/8.2 A/18/42 **KPMG report of Risk Management**

42.1 KPMG had conducted their annual review of risk management and had concluded that they could provide significant assurance with minor improvement opportunities. It was noted that:

1. the current risk management framework had been in place for a full year with risk management being aligned to the new governance structure whereby the four strategic pillar boards replaced the previous Risk Management Group;
2. KPMG had reviewed progress to implement previous years recommendations on risk management (section 3);
3. the report would inform KPMG's required opinion on risk management;
4. KPMG felt that the management responses were positive and that the implementation dates proposed by management were reasonable.

42.2 During discussion the University Secretary confirmed that action would be taken, with KPMG, to develop an assurance framework/map which would be more than simply an assurance template. He felt that the framework/map may help identify areas that would be suitable for deep dive discussions.

**A/18/43 Report on Progress to Implement the General Data Protection Regulation**

43.1 Minute A/18/41.2.2 refers. The Committee were assured that the University continued to have a robust approach to implementation of the Regulation and the Data Protection Act 2018.

*A/3/18/9.1*  
Confidential

**A/18/44 Value for Money: Procurement**

44.1 The Head of Strategic Procurement (HoSP) gave a presentation on the University's approach to procurement, within the context of the different views of what was considered value for money within a higher education environment. The presentation set out activity undertaken in 2017/18 and plans for 2018/19. The Head of Strategic Procurement would report annually to the Committee to evidence value for money.

44.2 The following was noted:

- the procurement plan, developed by the HoSP, had been written to fully align to the University Strategy. The majority of the strategic development activities within the plan linked to the 'Building a Great University' strand of the strategy;
- the University's current initiative was to focus on non-pay related savings opportunities and the Strategic Procurement Team (SPT) had been heavily involved in policy revision related to this;
- the SPT had produced a paper in conjunction with the Equality, Diversity and Inclusion (EDI) team to set out how the SPT approached EDI within the supply chain.

44.3 Members commended the presentation and asked that the HoSP to pass on their congratulations to the SPT for the progress demonstrated in the report and the presentation.

*A/3/18/9.2*

**A/18/45 KPMG Report of Procurement**

45.1 The Committee received KPMG's report on procurement which had been graded as partial assurance with improvements required. It was noted that the report presented the situation in relation to procurement in Spring 2018 and KPMG acknowledged that further progress would have been made since the fieldwork had taken place.

45.2 The HoSP:

- reported that potential areas for improvement had been identified in the procurement plan which predated the audit. KPMG acknowledged that the plan was in place prior to the audit and reported that the concern was to ensure an appropriate pace of implementation;
- she acknowledged that the SPT still had work to do to implement the

plan but confirmed that all recommendations within the audit report, save the Procurement Maturity Assessment, were currently in progress.

- reported that the audit had excluded FD and DTS which meant that some of the highest volume activity was not considered and much good practice would not have been seen by KPMG.

45.3 It was suggested that KPMG should follow-up progress in eight to ten months, i.e. June/July 2019, which would allow the SPT reasonable timescales to deliver the recommendations.

45.4 The HoSP confirmed that she had good engagement from staff within the University, including DTS which was a significant procurer. The Community of Practice which had been developed by SPT to support regular procurers in making strategic decisions about procurement was an important method of engaging with staff.

45.6 Members had been assured by the report and presentation from the HoSP, combined with the discussion about KPMG's report, that a robust strategy and plan were in place to secure value for money in procurement.

A/3/18/10      A/18/46      **Annual Review of Compliance with the Office for Students' Audit Code of Practice**

46.1 The Committee received a report on compliance with the OfS's 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 2018/19 other than that the Audit and Risk Committee should formally note the restriction of internal audit liability and this should be reported to the Board (via the Audit and Risk Committee chair's report).

46.2 It was noted that in relation to liability the 'Call off order form and call off terms for the management consultancy framework agreement RM3745' stated, in 37.2.1, that the supplier's liability to the University, as customer, was limited to a sum equivalent to 125% of the contract charges paid or payable to the supplier in the relevant year of the contract. The University was obligated to abide by the call-off terms and the level of liability provides reasonable recourse to the University.

A/3/18/11      A/18/47      **Annual Review of Committee Effectiveness 2016/17**

47.1 The Committee received the report which provided background information to enable members to assess the Committee's effectiveness during 2017/18.

47.2 The report included information about members' attendance, information about the secretarial support provided to the Committee, an analysis of items considered during the year against the Committee's terms of reference and feedback from members.

47.3 The Corporate Governance Officer and the University Secretary had reviewed the CIPFA *Good Practice Self-Evaluation Tool for Audit Committee Members* and concluded that action was in place to ensure that best practice was followed (section 21). Specifically the work to

develop an assurance framework/map and to review the policy on public interest disclosure would ensure best practice was followed.

47.4 As part of the review of the *Self-Evaluation Tool* a number of questions were identified which it was felt would be useful to seek the views of members and those regularly in attendance at the Committee. The following was noted:

1. the joint meeting of ARC and FEC held in November should continue. This was also the outcome from feedback obtained following the first joint meeting in 2017. A joint meeting has been scheduled for 2018;
2. the practice of chairs of ARC and FEC attending the other Committee should continue. The University Secretary confirmed that it was important that the chair's observed the respective meetings rather than contributing to discussion/business of the Committee;
3. a briefing on the OfS would be presented, by KPMG, at the Board of Governors development day in January 2019;
4. members were asked to suggest any topics that might be useful to consider as part of the development day;
5. KPMG and Grant Thornton were asked to provide any material that may be useful to use as part of new members induction;
6. the University Secretary would consider whether there was scope for conducting routine business by email and would also consider whether there were any improvements that could be made the structure of the agenda and/or papers.

47.5 It was felt that the proposed assurance map (A/18/42.2 above refers) would be useful to the Committee in assisting the Committee in understanding the assurance available to demonstrate compliance with the OfS's Regulatory Regime. KPMG noted that it was very important that the University remained compliant with the OfS's conditions of registration.

47.6 Members felt that the Committee was operating in an effective manner and did not make any recommendations to amend its terms of reference.

#### A/18/48 **Report on PSOM**

48.1 The Chief Operating Officer reported that FEC were monitoring the implementation of the Professional Services Operating Model (PSOM). In addition, there would be a presentation on the programme at the forthcoming Board Strategy event. The programme was in its second year with design and implementation due to be completed by Summer 2019. It was on track in terms of timescales and costs and was broadly on track in terms of benefits. It was confirmed that risk management processes were in place in relation to the programme.

#### A/3/18/13.1 A/18/49 **Internal Audit: Progress Report**

49.1 The Committee received a progress report on the 2017/18 internal audit programme. KPMG had delivered 222 days of the planned 269 internal audit days for 2017/18. In addition, KPMG had also delivered 20 days in

relation to the 2016/17 Governance and Research Strategy reviews that had been brought forward into 2017/18.

49.2 It was noted that it was proposed to move:

- the 2017/18 non-capital IT audit into 2018/19 to allow time for KPMG to attend relevant meetings;
- the 2017/18 commercialisation of research into 2018/19 possibly combined with the research strategy review.

49.3 KPMG had carried out one piece of additional work concerning assurance regarding ESFA subcontracting arrangements.

A/3/18/13.1i 49.4 *Expenses*: The Committee noted the report which had been graded significant assurance with minor improvement opportunities. A member welcomed the use of data analytics as part of the review.

A/3/18/13.1ii 49.5 *Cyber Programme Tranche 2*: The Committee noted the report which had been graded significant assurance with minor improvement opportunities. Based on their experience KPMG confirmed that the University was as advanced, if not more so, than other HEIs in terms of its cyber strategy and programme of work to mitigate the risks from cyber security threats.

A/3/18/13.2 A/18/50 **Report on Implementation of Internal Audit Recommendations**

50.1 The Committee noted the report.

A/3/18/13.3 A/18/51 **Draft KPMG Annual Report to the Vice-Chancellor and the Board of Governors 2017/18**

51.1 The Committee received KPMG's draft annual report 2017/18 and noted that the report would be further revised and updated for submission to the November 2018 meeting. KPMG's opinion would be included in the Audit and Risk Committee's Annual Report. The Committee welcomed receipt of the early draft of the report.

51.2 It was noted that KPMG would follow-up the recommendations made in the 2017/18 senior staff remuneration, expenses and other benefits review in time to update the report for the November 2018 meeting (A/18/39.1 refers).

A/3/18/13.4 A/18/52 **Internal Audit Initiation Document**

52.1 It was noted that following their re-appointment as internal auditors KPMG had developed a transition plan which involved meeting members of the University Leadership Team, the Chair of ARC and the Chair of the Board. The meetings would be about resetting the relationship with internal audit and engagement with key staff and would also inform the further development of the audit plan for 2018/19.

52.2 KPMG had met with the Chief Operating Officer and had developed an initial suggested list of areas for audit in 2018/19 based on this discussion, the outline plan which was already in place, in-year developments and their knowledge of the University and sector issues.

52.3 The Chair suggested the following areas for the programme in 2018/19:

- support around business continuity and disaster recovery - perhaps through the provision of a serious incident simulation. It was noted that the University did conduct serious incident exercises for the gold incident team;
- international partnerships;
- cyber response.

52.4 A member commented that the core purpose of the University around teaching and learning did not appear to be reflected in the current suggested programme. The University Secretary highlighted that academic governance issues were dealt with elsewhere, but the University would incorporate more internal audit work in respect of student experience.

52.5 A member suggested the following areas for 2018/19 audit:

- human resources
- Integrity of systems to provide information to the OfS - linked to the OfS data strategy

In addition, it was suggested that the governance and planning of the estates masterplan may be an areas for audit in late 2019 or 2020.

52.6 The proposals to develop an assurance map/framework and to audit research strategy (carried forward from 2017/18) were welcomed. In relation to the research strategy, it was noted that work to scope the commercialisation of research audit (which would look at how the University capitalised on intellectual property) and the research strategy audit would lead to clarity about appropriate timing and scope. The timing of an audit of the research strategy/the Creating Knowledge Implementation Plan would need careful consideration as this had only recently been approved.

A/3/18/14      A/18/53      **Additional work carried out by the external auditors**

53.1 The Committee received a report on additional external auditors work carried out during 2017/18. In addition the Committee noted that there had been one item of additional work approved by the Chief Finance and Planning Officer since the meeting on 7 June 2018. This work was an audit of the Innovate-TSB funded developing non-animal tech 3D human tumors project.

A/3/18/15  
Confidential      A/18/54      **Report on Waivers of the Financial Regulations**

54.1 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 between the period 1 March 2018 and 31 August 2018, 26 formal requests for waivers were received and approved compared to 15 in the previous six month reporting period). This was because as a result of the the estates masterplan the University would be seeking to procure new delivery partners and it was necessary to extend existing providers as an interim measure until the masterplan procurement was complete.

**A/18/55 Value of Universities**

55.1 It was noted that there had been an article in the Guardian on 20 September 2018 questioning the value of Universities<sup>1</sup>. BUFDG had a useful set of videos on the value of universities and a link would be shared with members<sup>2</sup>. It was suggested that it would be useful to consider this as part of the Board strategy day.

**A/18/56 Date of next meeting**

56.1 Tuesday 13 November 2018 as follows:

- 11.15am to 11.30am: Audit and Risk Committee Members Private Meeting (Members only)
- 11.30am to noon: Audit and Risk Committee Members Private Meeting with management
- Noon to 12.30pm: Break
- 12.30pm to 1pm: Audit and Risk Committee Private Meeting with auditors
- 1pm to 2.30pm: Audit and Risk Committee Meeting
- 2.30pm to 3.30pm: Joint Finance and Employment Committee/Audit and Risk Committee Meeting

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<sup>1</sup> <https://www.theguardian.com/commentisfree/2018/sep/20/university-factory-failed-tony-blair-social-mobility-jobs>

<sup>2</sup> <https://www.bufdg.ac.uk/about/value-value-reporting/the-value-of-universities/>