
Meeting: **AUDIT AND RISK ASSURANCE COMMITTEE**

Date and time: **Wednesday 12 June 2019 at 11 am**

Venue: **4 West Board Room**

Present: Mr T Ford (Chair)
Mrs C Gibbons Lay member of Council
Mrs C Moar * Lay member of Council

In attendance: Professor I White Vice-Chancellor
Mr M Williams Director of Finance
Mr S Fenne Deputy Director of Finance
Mr T Stanton Head of Internal Audit
Ms C Henderson Secretary

Dr M Ellis PwC
Ms L Fitzsimmons PwC

Mrs Pam Chesters, Chair of Council, attended by invitation

Apologies: Mr A Bayliss Appointed Member
Mr S O'Donoghue Appointed Member
Mr P Troughton Lay member of Council

* Mrs Moar was present for the business recorded in Minutes 1503 to 1514

ACTION**1503 WELCOME**

The Chair welcomed the Vice-Chancellor, Professor Ian White, the Chair of Council, Mrs Pam Chesters, and PwC Audit Manager, Ms Lucy Fitzsimmons, to their first meeting of the Committee.

1504 DECLARATIONS OF INTEREST

Mrs Moar advised that she was a NED and member of the Audit and Risk Committee of the Student Loans Company and an independent member of the Audit and Risk Committee of the Equalities and Human Rights Commission. Neither of these positions were relevant to the business for this meeting.

1505 MINUTES OF PREVIOUS MEETING

The minutes of the meeting held on 3 April 2019 (Paper A 18/19-048) were approved as a correct record and signed by the Chair. Further to comments that the self-assessment exercise should be a process driven by members reviewing the Committee's operation and assessing how individual contributions added value, the Chair reported that an 'added value' template was being considered to prompt reflection. This would be discussed at the October meeting. Relevant information from PwC was requested to inform this process.

PwC

1506 MATTERS ARISING

(1) Minute 1488, Risk Management Presentation: IT and Digital Capabilities

The Head of Internal Audit reported that the MIS Access Controls audit points had been re-opened and added to the audit points being kept under review which would be considered in October.

The Committee received Paper A18/19 – 049 setting out the Digital Steering Group Terms of Reference and Membership. The Director of Finance confirmed that the Terms of Reference and Membership had been approved by the University Executive Board and that the Steering Group had held its first meeting. It was confirmed that the Digital Strategy would be submitted to Council for approval; key deliverables would need to be articulated alongside the Strategy principles.

Chief D&I Officer

(2) Minute 1491, Risk Management Progress Report

The Committee received Paper A18/19 – 050 setting out the programme of business for the year. The following additions were made to the programme:

- Standard item at each meeting: Fraud report, report on internal and external incidents that might provide learning opportunities, and consideration to be given to a verbal report from the Vice-Chancellor on any matters of concern
- October meeting: Paper on accounting policies, estimates and judgements
- January meeting: remove contextual information
- Reference annual review of Public Interest Disclosure, GDPR, Fraud report and forward work plan on fraud, and any other relevant reports or policy documents (review of policies, cyber and information governance, insurance and H&S being mentioned for consideration).

VC

Sec

(3) Minute 1493 (1), MA: General Observations – Post-investment Project Appraisal

The Director of Finance reported that the post-investment project appraisal framework would be submitted to the next meeting of the

Finance Committee. It consisted of a staged approvals process for projects over £2 million and would be used on selected past projects as a trial.

(4) Minute 1495, Status Report on Internal Audits

The Head of Internal Audit reported that he had recruited a new Senior Internal Auditor to the team.

(5) Minute 1496, Internal Audit Report: Individual Mitigating Circumstances

The Committee received a list of University Policies and Codes and the Policy Framework governing policy documents (Paper A18/19 – 051). The following information will be added to the policies and codes schedule:

- Policy Owners
- Approval process/Committee
- Review Date
- Note of Equality Impact Assessments undertaken.

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The ease with which policies and codes and related procedures can be found was considered essential to supporting good governance and regular review of the suite of policies and codes for opportunities to remove, update, combine or simplify the provision was recommended. A member of the Committee proposed that equality impact (referenced in section 2.3.1 of the Framework) should be a required part of the process and that consideration should be given to reviewing costs and benefits.

The Committee considered that there was further work to be undertaken to ensure appropriate frameworks were in place to review governing documents (such as Ordinances and Student Regulations and Policies/Codes) for their relevance, clarity, workability and currency to meet the existing and potential future needs of the University. It was agreed that a report on development of such frameworks should come back to the Committee in the next academic year.

Head of Strategic Governance

Sec

(6) Minute 1497, Fraud Report

The Committee received a report on the fraud perpetrated in the Faculty of Engineering and Design (Paper A18/19 – 052). The Head of Internal Audit reported that a comprehensive exercise had been undertaken to ascertain the extent of the fraud. He reviewed control weaknesses that had facilitated the perpetration of the fraud. The Committee noted the management actions arising from the issues identified. A member of the Committee noted that wherever possible there should be segregation of duties for ordering and receiving goods. However, it was recognised that it may not always be practical and hence desirable for this to occur. It was agreed that the role of the budget holder to monitor all expenditure on their project was essential and checks on total numbers of items ordered would be

helpful in identifying any trends. In addition to ensuring order descriptions were sufficiently detailed, it was proposed that the purpose of the goods being ordered could also be included and merited consideration. The Committee requested that the framework for procurement as it affected budget holders (specifically the limits of financial approval) should be brought to the October meeting for consideration and that the Head of Procurement should attend the meeting. The External Auditor noted that communicating the use of firm disciplinary action by the University in such circumstances would deter others from fraudulent activity.

Head of Procurement

1507 UPDATES: GOVERNANCE, AUDIT AND RISK MANAGEMENT

The Committee noted the CUC set of Briefing Notes, including Audit Committee (No 14) and Assessing Effectiveness (No 13):
<https://www.lfhe.ac.uk/en/governance-new/governance-briefing-notes/index.cfm>

The Chair noted that the Audit Committee briefing note suggested that there could be 'a joint audit and finance committee meeting during the autumn to examine and approve the annual report and financial statements'. He considered that there might be merit in exploring this suggestion further with Finance Committee.

Chair

1508 RISK MANAGEMENT PROGRESS REPORT

The Director of Policy and Planning joined the meeting for the business recorded in Minutes 1508 to 1511.

The Committee received the Risk Management Progress Report (Paper A 18/19 – 053) and an update from the Director of Policy and Planning on the strategic and operational risks being managed by the University Executive Board. It was noted that the report also provided an annual summary of risk management activities, including the changes that had been made to the net risks in the University's strategic Risk Register, and presented the draft strategic Risk Register and Risk Management Plan for 2019/20 for consideration.

The Director of Policy and Planning reported that the University Executive Board recommended the deletion of one operational risk relating to capital budgets (IAPPS and SoM) and the addition of three new operational risks:

- Major capital projects
- Staff wellbeing
- Climate change.

With regard to operational risks with a high net risk score, such as the 3 West / 5 West refurbishment, a member of the Committee asked how risk tolerance would be measured and how Council's attention would be drawn to significant risks and options for potential mitigation. It was reported that the refurbishment had both operational and strategic strands, being both a project to address ageing infrastructure with business continuity implications and an

opportunity to develop strategically the accommodation to ensure it meets the needs of new teaching and research requirements. The Director of Policy and Planning noted that ongoing consideration was being given to risk tolerance levels and that emerging risks such as the Augur report recommendations for lower fee levels (gross risk 15) were addressed through maintaining the appropriate level of financial resilience as well as ensuring a responsive process with regard to student recruitment and admissions with particular attention focussed on results day interventions. Longer term, changes in the role of the Regulator, the Office for Students, had the potential to create significant impact on the University's operations. The Committee considered that the University Executive Board / Director of Policy and Planning should revisit the net risk related to students deferring courses as a result of media reports post-publication of the Augur Report recommendations on lower fee levels.

UEB/DoPP

The Director of Finance reported that forecast proposals, of which under-recruitment provision was a component, would be submitted to Finance Committee in October, along with the five year financial forecast for the Office for Students (OfS). The OfS required the five-year forecast to be submitted in December.

Dr Ellis noted that a further Appendix to the PwC Audit Strategy would be circulated to the Committee which identified the following as high risk events for the HE sector:

- Pension fund valuations and employer contribution increases
- International student recruitment
- Business continuity and cyber security
- Postgraduate student recruitment
- Undergraduate student recruitment.

Concerns over infrastructure related to IT and technical solutions rather than physical infrastructure. He recommended scenario planning as a useful tool for anticipating and managing risks arising from the Augur Report.

AGREED to

- (1) approve the new assessment of the likelihood and impact of the key strategic risks to the University;
- (2) approve the Strategic Risk Register and Risk Management Plan for 2019/20;
- (3) receive the annual report on risk management at its first meeting of the following academic year;
- (4) provide feedback to Executive Board on the emerging content and format of its regular risk management reports; and,
- (5) provide a covering statement for Council with the risk management report that was a summary of the points raised in this discussion.

RECOMMENDED to Council that it should approve Strategic Risk Register and Risk Management Plan for 2019/20.

1509 STATUS REPORT ON INTERNAL AUDITS

The Committee received a report on the progress of audits included in the 2018/19 programme (Paper A 18/19 – 054). The Head of Internal Audit reported that staff changes and the fraud investigation had delayed the programme of work but he was confident that all of the internal audit work would be completed by the time of the October meeting in line with the timetable.

1510 INTERNAL AUDIT REPORT 06-2018/19: RETAIL OUTLETS

The Director of Accommodation and Hospitality Services (ahs) and the Commercial Director joined the Committee for this item of business.

The Committee received Internal Audit Report 06-2018/19: Retail Outlets (Paper A 18/19 - 055).

It was noted that the University's arrangements for managing the risks related to retail outlets were of limited effectiveness. The Head of Internal Audit noted that there were three Grade A issues with the reconciliation process having been of particular concern. The Commercial Director noted that self-service tills represented a significant change to the business model, with 70% of transactions being undertaken in this way resulting in a reduction in staff costs and an improvement of 5% to the net margin. The Director of ahs reported that the guidance of Internal Audit had previously been sought for cash reconciliation practices and noted the Committee's suggestion that Internal Audit involvement might be beneficial in other change processes. The Director of ahs acknowledged that self-service tills installed in the Fresh Shop as part of capital investment funded under the Southern Co-op franchise arrangements should have been subject to more rigorous review to ensure that there was access to relevant transaction reports and sufficient understanding by staff of the VME system. The weaknesses in stock taking procedures were also recognised to be a priority for management action. Despite this incident of fraudulent activity, the trading advantages of the self-service tills were significant. The Deputy Director of Finance reported that there was ongoing encouragement to those handling cash to use new methods.

As with the Faculty of Engineering and Design fraud, the University would deal firmly through the disciplinary process with students who perpetrated fraud.

The Director of ahs and the Commercial Director were thanked for attending the meeting.

1511 INTERNAL AUDIT REPORT 05-2018/19: BUSINESS CONTINUITY

The Committee received Internal Audit Report 05-2018/19: Business Continuity (Paper A 18/19 - 056).

It was noted that the University's arrangements for managing the risks related to business continuity were of limited effectiveness. The Director of Policy and Planning reported that the audit had provided the opportunity to refocus the business continuity structure and systems. The Business Continuity Strategy was now due for review.

There were two Grade A issues and eight Grade B issues for attention. A priority concern was to address the completeness and connectivity of Business Continuity Plans. The Business Continuity Group, which included some new members, had been actively working to progress management actions and there were renewed efforts to re-engage with the community to ensure that roles and responsibilities and action timelines were understood. The Vice-Chancellor commended the work undertaken by the Director of Policy and Planning to motivate the Group and cascade Business Continuity information across the University. The Committee requested that an update report be brought to the January meeting. **Sec**

Dr Ellis noted that business continuity and recovery and cyber security represented areas of weakness across the sector. Attention had been drawn to the exposure of HEIs and Chief Information Officers moving from the private to the University sector had noted a less robust environment.

The Director of Policy and Planning was thanked for attending the meeting.

1512 INTERNAL AUDIT REPORT 07-2018/19: INSTITUTE OF CODING

The Committee received Internal Audit Report 07-2018/19: Institute of Coding (Paper A 18/19 - 057).

It was noted that the University's arrangements for managing the risks related to the Institute of Coding (IoC) were reasonably effective. It was noted that the consortium involved a complex network of relationships and business model for which the University held a key role as the lead institution. As a consequence the University needed to manage effectively the reputational and financial risk. There was currently a lower than anticipated level of matched funding and co-investment to date, especially from industry. This Grade A issue was considered to be predominantly a timing issue and the level of co-investment would likely pick up in line with successful project activity. The enrolments on courses for developing digital skills had exceeded expectations.

In response to a question, the Director of Finance reported that it was the IoC Governance Board and the IoC Finance Advisory Board that reviewed the outcomes delivered. The Finance Advisory Board considered the financial position and submitted its reports to the Governance Board. There was no direct link with the University's Finance Committee and as the project posed primarily a reputational risk (rather than financial risk), this was considered appropriate.

1513 PwC's AUDIT STRATEGY

The Committee received the PwC External Audit Plan for audit of the 2018/19 University accounts (Paper A18/19 - 058).

Dr Ellis drew attention to the scope, audit approach and risk areas identified along with proposed plans for audit focus. Added value would be delivered in the following ways:

- The results of the HE risk benchmarking assessment would be provided in a further Appendix to the document (as referenced above)
- The journal analyser data tool would be used to inform testing of journals in response to the risk of management override of controls, providing insights for management
- The programme of specialist talks would provide wider sector perspectives
- Thought leadership would be shared with management and observations arising from the year-end work.

The impact of the USS 2017 pension fund valuation and any updates was noted to have potential for elevated impact on the year-end accounts; the Director of Finance reported that the liability had been increased in the forecast out-turn for 2018/19 and that this would be reviewed as part of the year-end activity.

The revaluation of tangible fixed assets using market value represented another area of potential elevated risk. The revaluation was part of a rolling process and a quarter of the estate had been revalued in the previous year. The revaluation policy creates an inherent risk of impairment which needs to be regularly monitored. The Deputy Director of Finance was noted to be looking at the results of the valuation.

Dr Ellis considered that the financial stability of the University was contingent on complying with covenants. He noted that the process of covenant compliance would be essential for supporting the going concern opinion. The European Investment Bank had suggested revised covenants following the change to FRS 102. These changes had not been agreed by the University so the existing covenants remain in place. The University needs to be diligent in ensuring that there is no breach of its loan covenants.

It had recently been discovered that the John Wood Building Lease gave the University the right to acquire the freehold at the end of the lease. The lease would be reclassified from an operating lease to a finance lease in the light of this reversionary arrangement and there would be an impact on the accounts though the extent would not be clear until a valuation had been undertaken.

Dr Ellis noted the timetable for the audit work and the fee proposed. Dr Ellis and Ms Fitzsimmons then withdrew from the meeting while the Committee discussed the fee proposal.

AGREED to

- (1) approve the PwC audit plan for the year ending 31st July 2019 and
- (2) recommend to Council the payment of fees of £66,126 (including VAT), in line with the contract negotiated

Dr Ellis and Ms Fitzsimmons rejoined the meeting and were thanked for presenting the Audit Strategy.

1514 AUDIT STRATEGY 2019-2021 AND ANNUAL PLAN 2019/20

The Committee considered the outline audit strategy for 2019-21 and annual plan for 2019/20 as set out in Paper A18/19-059.

Prior to leaving the meeting, Mrs Moar suggested that an IT Security audit should be included in the annual plan and indeed every year given the level of risk. The Head of Internal Audit commented that the inclusion of cyber-security in the following year's plan related to ongoing work undertaken by the University in complying with the cyber-essentials framework. The timing of the review had been designed to fit with the completion of this work.

The Head of Internal Audit noted that the annual plan featured a number of compliance audits, such as the UKVI Tier 4 compliance, adherence to the requirements of the Competition and Markets Authority (CMA) as well as a new audit in the programme on the student disciplinary processes. There was also a Digital Strategy audit in the programme.

The Chair asked whether the plan had been reviewed by the University Executive Board and the Head of Internal Audit indicated that whilst discussions had taken place with many members of senior management (including the Vice-Chancellor), it had not been presented to the UEB. The Chair suggested that this should happen in due course prior to the final plan being approved at the October meeting.

AGREED to confirm the audit strategy for 2019-21 and annual plan for 2019/20, subject to any changes required from the presentation of the Risk Register at the next meeting of Council.

1515 RETIRING MEMBERS

The Chair reported that he had been re-appointed to Council for three years and as Chair of the Committee for one further year. He noted the end of two members' terms of office and reported that the vacancies would be reviewed over the summer with Nominations Committee recommending to Council members to fill vacancies on Committees.

The Chair thanked members for their contributions over the year.

1516 TRAINING EVENTS FOR AUDIT COMMITTEE MEMBERS

The following websites with information on training events were noted:

(1) BDO Seminars

Details posted at: <http://www.bdo.co.uk/events>

(2) KPMG Audit Committee Institute events

Details posted at: <http://www.kpmg.co.uk/aci/>

(3) Leadership Foundation for HE

Details posted at: <https://www.lfhe.ac.uk/en/programmes-events/indix.cfm>

(4) PwC has information on their Audit Committee Network web pages at: <https://www.pwc.co.uk/services/audit-assurance/the-audit-committee-network.html>

PwC also provide briefings at:

<https://www.pwc.co.uk/industries/government-public-sector/education/he-matters.html> for which a subscription can be facilitated by the Deputy Director of Finance.

1517 ANY OTHER BUSINESS

The Chair reported that the risk presentation programme for 2019/20 included presentations by Professor Jonathan Knight (PVC Research) in January 2020 and Professor Jeremy Bradshaw (PVC International and Doctoral) in April 2020.

1518 DATES OF MEETINGS

2019/20

Wednesday 2 October 2019 at 11 am

Wednesday 13 November 2019 at 11 am (Special)

Wednesday 29 January 2020 at 11 am

Wednesday 1 April 2020 at 11 am

Wednesday 10 June 2020 at 11 am

The meeting concluded at 1.45 pm
