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**Meeting:** **AUDIT AND RISK ASSURANCE COMMITTEE**

**Date and time:** **Thursday 21 November 2019 at 11 am**

**Venue:** **4 West Board Room**

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**Present:**

Mr T Ford (Chair)

Mr A Bayliss

Appointed member

Mrs C Moar

Lay member of Council

Mr S O'Donoghue

Appointed member

Dr M Ellis, Partner, and Mrs L Fitzsimmons, Manager, PwC, attended the meeting by invitation

Mr R Brooks, Chair of Remuneration Committee, attended by invitation for items 1541 to 1542

**In attendance:**

Mr S Fenne

Deputy Director of Finance

Mr T Stanton

Head of Internal Audit

Mr M Williams

Director of Finance

Ms M C Henderson

Secretary

**Apologies:**

Mrs C Gibbons \*

Lay member of Council

Professor D Griffiths

Lay member of Council

Professor I White

Vice-Chancellor

\* Comments from Mrs Gibbons on the papers were reported to the meeting

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**ACTION**

**1540 DECLARATIONS OF INTEREST**

Mrs Moar advised that she was a non-executive director on the Board of the Student Loans Company.

**1541 REPORT OF THE REMUNERATION COMMITTEE**

The Committee received the annual update from the Chair of the Remuneration Committee (Paper A19/20-023). The Chair welcomed Mr Richard Brooks, Director of HR, who was presenting the report on behalf of the Chair who had sent apologies for the meeting.

Mr Brooks drew attention to the significant improvements in the Committee's operation and its compliance with the HEFCE and Halpin Reports as well as the most recent guidance from the CUC and Financial Reporting Council. This had resulted in the new Framework for the Remuneration of Designated Senior Staff.

There were three outstanding recommendations which had been incorporated into the Remuneration Committee work plan for the coming year. The improvements to process were ongoing but assessing their impact would only be possible after a couple of years. It was important that the working relationship of the Committee with the Vice-Chancellor was one that fostered joint working in a way appropriate to decision-making. The formulation of objectives for the VC (distinguishing between corporate and personal objectives) would provide common themes that could cascade to University Executive Board members and onwards. Discussion had taken place already on identifying objectives as distinct from tasks.

In response to a question on confidentiality clauses in compromise agreements, the Director of HR confirmed that any confidentiality clause did not affect public interest disclosure rights. A question was put on using market supplement to attract people in specific areas. He said that market supplements were used by the University for certain areas of expertise to take salaries outside the normal scale, but a rigorous approach was taken using market data to justify these salary decisions, which were reviewed every two years. It was intended to review the policy on market supplements in the coming year. The Director of HR confirmed that the Managing Director position of IAAPS (Institute for Advanced Automotive Propulsion Systems), although not within its formal remit, would be reviewed by the Remuneration Committee.

**1542**     **INTERNAL AUDIT REPORT 15-2018/19: WORKFORCE STRATEGY**

With the agreement of the Committee, Internal Audit Report 15-2018/19: Workforce Strategy (Paper A19/20-035) was taken as the next item of business.

It was noted that the University's arrangements for managing the implementation of the Workforce Strategy are reasonably effective.

The Director of HR reported that the Department had been working to deliver the themes in the Workforce Strategy and develop a new role for the Department with emphasis on building connection between University drivers and delivering a strategy in support. He noted that there was no standard approach or methodology to measure the impact of individual projects, such as defining the benefits. Post-project review would be important.

Mr Brooks considered that the creation of a Staff Committee or People/Personnel Board would be important for optimising people management and oversight of the culture and prioritisation of future projects. He noted that the benefits and composition of such a

Group were being considered. Members of the Committee suggested that Council should hold a development session on the Workforce Strategy to inform its discussion on items of business related to workforce issues.

**DoHR**

In response to a question on taking the pulse of staff satisfaction, Mr Brooks talked about building a closer relationship with the Trades Unions and the continued interactive engagement with staff, along the lines of the 'Our University, Our Future' conversation, in preference to the use of staff surveys which would be used infrequently.

The Chair thanked the Director of HR for attending the meeting.

**1543** **ANNUAL REPORT AND ACCOUNTS FOR THE UNIVERSITY OF BATH AND EXTERNAL AUDITOR'S ISA 260 REPORT 2018/19**

The Committee considered Paper A19/20-024:

- (1) University's Annual Report and Accounts for the year ended 31 July 2019
- (2) PwC's ISA (UK) 260 Report
- (3) Letter of Representation

- (1) Annual Report and Accounts

The Deputy Director of Finance briefly reviewed the financial statements drawing attention to the new integrated reporting format, the forward looking and more strategic opening section, the increase in reporting of KPIs (key performance indicators) and improvements to the public benefit and corporate governance statements. He noted that the next report for 2019/20 would align with any development of the University Strategy and KPIs as recommended by UEB (University Executive Board) to Council.

Members of the Committee welcomed the new presentation of the Report and Accounts and made the following suggestions:

- Minor amendments to the text with a request for greater explanation (including potentially calculation details) next year of KPIs and their relevance to performance and reputation, in particular the historic cost operating surplus (HCOS)
- Revaluation of land and buildings, which at fair value used a combination of cost, depreciated replacement cost, existing use and open market value measures. Each had led to some very specific valuation approaches for certain classifications. The Committee asked that the Deputy Director of Finance provide a report in April to ARAC around the risks associated with revaluation. A report on changes to accounting policies should also be provided for approval at the same time.
- The Statement of Equality Objectives should be expanded to evidence how the objectives were being achieved in future years.

**DDoF**

The Committee congratulated the finance team on their work on the Annual Report and Accounts. The Committee approved the sections setting out the Corporate Governance Statement, Responsibilities of the University Council, Statement of Internal Control, Independent Auditor's Report, Consolidated and University Statements of Accounting Policies, of Comprehensive Income (SOCl) and of Changes in Reserves, the Balance Sheet and the Consolidated Cash Flow.

(2) PwC ISA (UK) 260 Report

Mrs Fitzsimmons, PwC Audit Manager, presented PwC's report to the Committee. She reported that most of the final checks had been completed and that the audit had gone well. It had been necessary to allocate time to review of the John Wood Building lease arrangements which contained a reversionary agreement and to ascertaining whether other such leases existed. There would be a quality check of the final accounts prior to publishing.

The Audit Manager briefly reviewed the key audit risks highlighted in their report.

- Fraud management and override of controls had been tested for the appropriateness of journal entries and the business rationale behind any journals not following the usual pattern was found to be acceptable
- Revenue recognition and the risk of management manipulating this had not revealed any issues of non-compliance with the SORP (Statement of Recommended Practice)
- Avon Local Government Pension Scheme (LGPS) actuarial assumptions had been prudent and the University had made appropriate disclosure. It was noted that access to relevant information on the LGPS valuation at March 2019 would be important for next year's audit.
- Accounting for USS pension scheme liability had required enhanced disclosures, given the impact of valuations at both March 2017 and 2018. There was a significant charge in the current year to the SOCl (Statement of Consolidated Income) for changes to the pension provision that would be largely reversed next year.
- Revaluation of Property, Plant and Equipment had revealed one misstatement. It was suggested by the External Auditors that the cyclical approach to revaluation had drawbacks and that an annual valuation of all land and building should take place and become University policy given the level of materiality currently used.
- Accounting for finance leases included the finance lease liability for the John Wood Building and adjustment to bring this onto the balance sheet.
- There were no new control recommendations to draw to the Committee's attention.

Dr Ellis confirmed that PwC expected to issue an unqualified audit opinion. He noted that the University should be careful with regard to covenant reporting. The University had an EIB (European Investment Bank) loan for which revised covenants had not been agreed. The EIB loan agreement had a frozen GAAP (Generally Accepted Accounting Principles) clause so it would be necessary to report on the existing covenants. This was administratively burdensome but would ensure that there was no potential for a breach of the loan covenants.

(3) Letter of Representation

It was confirmed that the UEB had reviewed the statements in the Letter of Representation so that the Committee could reassure Council that it might go ahead with confidence and authorise the Chair to sign the letter.

The Chair thanked Mrs Fitzsimmons and Dr Ellis for their report.

AGREED to recommend the Annual Report and Accounts for 2018/19 to Council for approval.

**1544** **ANNUAL REPORTS OF THE AUDIT AND RISK ASSURANCE COMMITTEE AND THE INTERNAL AUDIT DEPARTMENT 2018/19**

The Committee considered:

- (1) Annual Report of ARAC for the year ended 31st July 2019 (Paper A19/20-025) and
- (2) Internal Audit Annual Report (Paper A19/20-025).

Subject to minor amendments, AGREED to recommend to Council the Annual Report of ARAC for the year ended 31<sup>st</sup> July 2019 for approval and to approve the Internal Audit Annual Report for the year ended 31<sup>st</sup> July 2019, prior to submission to Council. The annual reports would be part of the Annual Accountability Return to the Office for Students (OfS).

**1545** **ANNUAL PUBLIC INTEREST DISCLOSURE REPORT**

The Committee considered the Public Interest Disclosure Report for 2018/19 (Paper A19/20-027), prior to submission to Council.

**1546** **ANNUAL REPORT ON FRAUD**

The Committee noted the fraud reporting statement (Paper A19/20-028).

The Head of Internal Audit reported that new guidance from the Office for Students was less prescriptive about the level of materiality for reporting fraud to it. It was proposed that a process to respond to any future cases of fraud should be developed which would incorporate criteria for triggering a disclosure to the OfS and procedure for prompt action. The Committee asked that the document should come to it for review.

**DoF/HoIA**

Mr Stanton reported on a case of recent low level fraud which was subject to an ongoing investigation.

**1547 STANDING ITEMS OF BUSINESS**

- (1) Governance, Audit and Risk Management – OfS Regulatory Framework (Paper A19/20-029)

The Committee received a report on the OfS regulatory framework which was now in operation, with details on how the University complied with the requirements.

- (2) Programme of work for the year (Paper A19/20-030)

It was requested that the programme should show items of business over a 12 month period.

**Sec**

- (3) No reportable internal or external incidents.
- (4) ARAC noted that the University would experience industrial action in the forthcoming week. The PVC (Learning and Teaching) and the Vice-President (Student Experience) would both be assessing the impact of the strike on students.

**1548 JOINT FINANCE AND ARAC MEETING**

The Committee expressed support for holding a joint Finance and ARAC meeting to consider the University's Annual Report and Accounts. It was considered that it had provided a more efficient process, a more comprehensive overview of the accounts and had led to more informed debate.

**1549 INTERNAL AUDIT REPORT 11 - 2018/19: COURSE COSTING**

The Committee received Internal Audit Report 11-2018/19: Course Costing (Paper A19/20-031).

It was noted that the University's arrangements for managing the risks related to the course costing tool are reasonably effective.

In the course of discussion, the Director of Finance noted that the course costing findings would have wider applications for understanding resource demands, which might in turn impact financial outcomes. The tool might also lend itself to evaluating tuition fee increases/decreases and their subsequent impact. The key users of the tool would be senior management probably extending to Associate Dean and Head of Departments level in due course.

The tool utilised financial and non-financial data from multiple sources. All of the data was used for other purposes within the University and with their own individual quality control processes.

There were some data quality issues but it was expected that reliability of some data components was likely to improve through the increased transparency provided by the course costing tool. The Director of Finance noted that the trustworthiness of the data would be critical to the credibility of decision-making.

The Chair noted that Mrs Gibbons had queried the grading of two B Grade issues and whether these should be A Grade issues. It was reported that the course costing model was at an early stage of development and, whilst it was recognised that these were important issues, the grading reflected this consideration.

**1550**     **INTERNAL AUDIT REPORT 12-2018/19: STUDENT FINANCE**

The Committee received Internal Audit Report 12-2018/19: Student Finance (Paper A19/20-032).

It was noted that the University's arrangements for managing the risks related to tuition fee income are effective.

The issue around the communication process regarding students who were excluded or suspended was noted to offer the stimulus for making improvements in clarifying processes and the status of students subject to exclusion or suspension.

The issue of recording access to SAMIS (the University's Student Record System) not being up-to-date was noted as a recurrent theme across the University's systems and prompted the Committee to note this as an item to pick up with the Chief Digital and Information Officer and her team at a future meeting.

**1551**     **INTERNAL AUDIT REPORT 13-2018/19: LEARNING TECHNOLOGIES**

The Committee received Internal Audit Report 13-2018/19: Learning Technologies (Paper A18/19-033).

It was noted that the University's arrangements for managing the risks related to the use of learning technologies are reasonably effective. The main management actions related to the need to address weaknesses in the way projects were identified, resourced, reviewed for continuation or cessation and scaled up across the University where appropriate. The Digital Steering Group would be a significant help in this respect but on-going consideration was needed with respect to how the governance structures operate and how decision-making is co-ordinated between UEB, the Digital Steering Group and Academic Departments.

With regard to horizon scanning to ensure the University is up-to-date with the latest developments and these are integrated into planning decisions, it was felt that it might be useful to look both at developments within the sector and outside for a broader awareness. However, there was recognition that a proliferation of systems should be avoided because the University was moving to improve support and minimise risk by providing an integrated service.

**1552**    **INTERNAL AUDIT REPORT 14-2018/19: SOFTWARE LICENCE MANAGEMENT**

The Committee received Internal Audit Report 14-2018/19: Software Licence Management (Paper A18/19-034).

It was noted that the University's arrangements for managing the risks related to software licences are reasonably effective.

AGREED to invite the Chief Digital and Information Officer and her team to a meeting in April or June 2020 after Internal Audit had conducted the Digital Strategy review.

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**1553**    **DATES OF MEETINGS 2019/20**

Wednesday 29 January 2020 at 11 am

Wednesday 1 April 2020 at 11 am

Wednesday 10 June 2020 at 11 am

Meetings will be held in the 4 West Board Room.

**1554**    **PRIVATE MEETING WITH THE EXTERNAL AUDITORS**

The Officers retired from the meeting and the Committee met in private with the External Auditors. In this discussion, it was confirmed that there were no issues of concern arising from the audit of the Accounts of the University for the year ended 31<sup>st</sup> July 2019.

The External Auditors commended the University's Finance team but considered that there would be benefits from bringing forward the timeline for audit of the accounts so that the audit was completed earlier.

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The meeting concluded at 1.40 pm

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