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**Meeting:** AUDIT AND RISK ASSURANCE COMMITTEE

**Date and Time:** Thursday 5 November 2020 at 2.15 pm

**Venue:** Virtual via Zoom

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**Present:**

Tim Ford	Chair
Alex Bayliss	Appointed member
Professor Dot Griffiths	Lay member of Council
David Hardy	Lay member of Council
Charlotte Moar	Lay member of Council
Steve O'Donoghue	Appointed member

In attendance:

Jonathan Bound	PwC
Simon Fenne	Deputy Director of Finance
Lucy Fitzsimmons	PwC
Tom Stanton	Head of Internal Audit
Martin Williams	Director of Finance
Keith Zimmerman	Chief Operating Officer

Secretariat:

Karen Gleave	Administrator
Clare Henderson	Secretary to ARAC

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**1631 WELCOME AND QUORUM**

The Chair welcomed back members of the Audit and Risk Assurance Committee for the afternoon meeting. He explained that this meeting was primarily for consideration of the Annual Report and Accounts and business relating to 2019/20. Therefore, where possible, other items of business had been deferred to the January meeting.

The Chair confirmed that the meeting was quorate.

**1632 DECLARATIONS OF INTEREST**

No declarations of interest were made.

**1633 MINUTES OF PREVIOUS MEETING**

The minutes of the meeting of 1 October 2020 (Paper A20/21 – 026) were approved, subject to Minute 1613 being amended as follows:

It was suggested that KPIs, which might include feedback from managers on the usefulness of audit investigations ~~should be obtained~~, even if limited to brief verbal comments, ~~and become part of the~~ should be used in order to provide a performance profile of the Internal Audit Department.

The minutes will be signed by the Chair.

**1634 ACTIONS AND MATTERS ARISING**

1. Minute 1606, Membership, Terms of Reference and Standing Orders

The Committee agreed to recommend to Council amended Terms of Reference and a set of Standing Orders (Paper A20/21 – 027).

2. Minute 1608, Internal Audit Terms of Reference

The Committee approved the Internal Audit Terms of Reference (Paper A20/21 – 028).

3. Minute 1610, Matters Arising – IT Security Enhancement Plan

The Committee noted that the JISC assessment of the University's management of cyber risks would come to the next meeting.

COO/  
CIO

4. Minute 1621, Risk Reports

The Committee noted that a paper on pensions would be brought to the next meeting and that the Director of Finance and Deputy Director of Finance would give a pensions' briefing on 9 November 2020.

DoF/  
DDoF

## 1635 ANNUAL REPORT AND ACCOUNTS AND EXTERNAL AUDITOR'S MANAGEMENT REPORT 2019/20

The Committee considered the points raised in Minute 1628 in relation to the Annual Report and Accounts (Paper A20/21 – 025, Appendix 1).

The Committee agreed that:

- Annual Report: Statement of Corporate Governance: An amendment to the narrative around Court's decision-making authority was required. **Sec to Court**
- Annual Report: Financial Review: Given the cost management processes in place and the ability to meet covenant obligations, the University could present more positively the outlook for 2020/21. **DoF/DDoF**
- Annual Report: Risks and Future Prospects: This section should recognise more fully the strategic risks being confronted and cross reference them to the Strategic Risk Register. This was a point to note for the 2020/21 Annual Report.
- Accounts: Accounting Policies – going concern: Although the reasons supporting confidence in the going concern position had been expanded in the Financial Review, they could, if desired, be further strengthened by a reference to headroom against the covenant level. **Chairs**
- Annual Report and Accounts: Access and Participation: Greater clarity should be provided over the underspend on access. **DoF/DDoF**
- Annual Report and Accounts: Equality Objectives Statement: The statement should be enhanced by evidence of progress towards targets. **DoF/DDoF**
- Appendix 1 of the Letter of Representation: Some amendments were required to the list of Related parties and related party transactions. **DDoF**

As noted in Minute 1628, it had been agreed to delegate to the Chair of the Finance Committee and the Chair of ARAC oversight of changes to the Annual Report and Accounts prior to submission to Council.

The Chair invited the External Auditor to make any further comments on the PwC ISA 260 Report (Paper A20/21 – 025 Appendix 3). Jonathan Bound reported that:

- Revaluation of property, plant and equipment had identified a discrepancy in the value of the Westwood residences leading to the valuation being redone and a £13 million reduction in value being applied. This had arisen from an error in the number of rooms used in the calculation. The External Auditors would note this as a control point for next year's audit.
- Management judgements and accounting estimates included a judgement related to assessment of 'market rent', which had resulted in some properties being deemed to be able to achieve up to 10% more than actual rents. Whilst this assumption was not

challenged, it had been recommended that the University follow up with the valuer the basis of these assessments where the difference was highest.

- Appendix 1: Summary of audit differences represented adjustments identified by PwC during the audit which had not been adjusted by the University's management. These were not believed to be material in aggregate to the financial statements.

The Committee agreed to recommend to Council for approval and submission to the OfS the following:

- Annual Report and Accounts for the year ending 31 July 2020;
- PwC Management Report; and
- Letter of Representation for signing by the Chair of Council.

### **1636 ANNUAL REPORT OF THE AUDIT AND RISK ASSURANCE COMMITTEE**

The Committee considered the Annual Report for 2019/20 (Paper A20/21 – 029), which is part of the Annual Accountability Return to the OfS.

The Committee agreed to recommend to Council the Annual Report for 2019/20, subject to the following amendments (shown in bold type and strikethrough):

1. inclusion of the **HESA Student Record Return** audit report (paragraph 18)
2. The **OfS** Audit Code of Practice (paragraph 19)
3. ~~As noted above,~~ The Committee of University Chairs published **new guidance in September 2020: The HE Audit Committees Code of Practice** updating its guidance in the *Handbook for Members of Audit Committees in Higher Education Institutions*. **The Audit & Risk Assurance Committee has reviewed its compliance with the new guidance** (paragraph 24).

In the course of discussion, it was noted that:

- The new University strategy would have a stronger corporate performance framework and ARAC should consider this in the context of its review of control and governance arrangements.
- A paper on KPIs had been presented to Council at its last meeting and would be considered by Senate. A new set of KPIs was being developed, linked to strategy and, where possible, benchmarked against competitor performance and in a form that could be regularly updated and reviewed against performance parameters. Some of these KPIs would drive culture change.
- Additionally, the University undertook 'pulse surveys' that provided information and learning points (for example, on wellbeing and the student experience during this time of coronavirus pandemic).

### **1637 INTERNAL AUDIT ANNUAL REPORT**

The Committee approved the Annual Report of the Internal Audit Service (Paper A20/21 - 030), prior to submission to Council for inclusion in the

Annual Accountability Return to the OfS.

It was proposed that next year the Annual Report should include metrics and assessment of the performance and added value of the Internal Audit Department. **HoIA**

#### **1638 PUBLIC INTEREST DISCLOSURE REPORTING STATEMENT**

The Committee noted the Public Interest Disclosure statement for 2019/20 (Paper A20/21 – 031), prior to submission to Council.

#### **1639 PUBLIC INTEREST DISCLOSURE REVIEW**

The Committee noted that the Public Interest Disclosure (Whistleblowing) Policy and Procedure would be reviewed during the current academic year (Paper A20/21 – 032).

Some initial comments on the Policy and Procedure were made:

- The Policy and Procedure were not currently in a user-friendly format. The revised document should set out a straight-forward procedure that staff, students or contractors could easily follow and felt safe in so doing.
- The option of initial contact with a non-staff member should be offered.
- Examples of good practice and clear procedures should be identified to inform the process of revision. **Sec**

#### **1640 ANNUAL REPORT ON FRAUD**

The Committee noted the fraud reporting statement (Paper A20/21 - 033).

It was suggested that, in general, papers would have greater value if they included some objectives for the forthcoming year and learning points from previous activity. **HoIA**

#### **1641 FRAUD PROCEDURE**

The Head of Internal Audit introduced Paper A20/21 – 034, noting that a new F3 Reporting Group had been established to have oversight of reportable events to the OfS. Within the definition of a reportable event was suspected or actual fraud or financial irregularity.

The Committee:

- approved the amended procedure for the management of fraud risk and other irregularities, in line with delegated responsibility set out in the Scheme of Delegation; and
- agreed to recommend to Finance Committee the new procedure for incorporation into the Financial Regulations at the earliest opportunity. **Finance Committee**

## 1642 RISK MANAGEMENT PROGRESS REPORT

The Director of Policy, Planning & Compliance joined the meeting for this item of business.

Dr Nicky Kemp introduced Paper A20/21 – 035, drawing attention to the following points.

- Operational Risk Register: A RAG rating had been used to flag risks of greatest concern. Two such risks were:
  - cyber-attacks on the HE Sector (Ransomware and Phishing); and
  - financial sustainability due to the multiple and complex financial impacts of the Covid-19 situation.The University Executive Board had been reviewing the Operational Risk Register and had invited Heads of Service to feed into the process.
- Strategic Risks: Appendix 3 set out improvement actions and evidence of additional likelihood/impact.

The Committee made the following suggestions for the next report:

- A dashboard approach for both Operational Risks and Strategic Risks, providing a summary of risk movement, would be helpful.
- Where there were elevated risk levels, the plan of action to return to normal levels should be indicated, along with key milestones.
- Progress with developing a new Strategic Risk Register to map to the new University Strategy should be included. The current Strategic Risk Register meant that risks were no longer aligned with the new trajectory.
- The risks that Senate was concerned about should be built into the monitoring process so that academic risk was fully recognised within risk management arrangements.

The Committee:

- Noted the Operational Risk Register and the update on risk mitigation activities in the Strategic Risk Register and Risk Management Plan 2020/21
- Recommended to Council an increase in the net likelihood of failure to comply with cyber-security requirements from 2 to 3 and an increase in the net impact from 3 to 4. (This relates to Risk 6 – Physical Infrastructure (IT) – Compliance).

The Director of Policy, Planning and Compliance was thanked for her report.

## 1643 INTERNAL AUDIT REPORTS

The Committee considered the following Internal Audit Reports:

1. **Digital Programme and Project Management** (Internal Audit Report 10-2019/20) (Paper A20/21 – 036)

It was noted that the University's arrangements for managing the risks related to the digital programme and project management are of limited effectiveness.

It was reported that more work needed to be undertaken to develop a Digital Strategy and a Digital Programme consistent with the overall objectives of the University Strategy, the Digital Review and the expectations and needs of stakeholders across the University. Consistent, standardised and robust project management frameworks needed to be used to deliver objectives co-ordinated with University priorities. Projects that had been reviewed were effective albeit operating independently of a central steering group.

In the course of discussion, the Committee made the following points:

- Project management weaknesses resided in poor process and resources; there needed to be significant improvement for successful delivery of big projects. The governance framework for the Digital Strategy and delivery of the digital programme and projects needed much greater clarity.
- The vision for digital transformation, encompassing a wide range of elements including review of the digital approach and roadmap, seemed to have a very challenging set of target dates in January 2021.

It was acknowledged that the IT environment had lacked an integrated approach, giving rise to a major programme of action started some 18 months ago to address governance weaknesses. The coronavirus pandemic, the online needs of students and cyber threat issues had impacted the work and new approaches had emerged. Over the summer a review of IT project management had shown the need for robust partnering in design and delivery and more explicit customer service orientation. It was proposed to take to UEB (University Executive Board) in the next three weeks a set of enabling steps that would meet the January 2021 target date and underpin actions beyond that point. A set of templates for project management were being built and the practice of assembling project teams that included academic and professional service staff, which had been started to manage Covid-19 and had proved effective, would be continued.

The Committee requested a follow-up report on this area in March. **HoIA**

2. **Institute of Advanced Automotive Propulsion Systems (IAAPS)** (Internal Audit Report 12-2019/20) (Paper A20/21 – 037)

It was noted that the University's arrangements for managing the successful delivery of IAAPS, with specific focus on the response to the Covid-19 pandemic, are reasonably effective.

It was reported that IAAPS team's response to the pandemic and management of the associated risks had been commendable. The appointment of a new Managing Director able to develop future business would have a significant impact on the success of the project.

However, the University needed to consider the broader question of the sustainability of IAAPS and should develop a position paper with contingency measures including an exit strategy.

In the course of discussion, the Committee made the following points:

- The resilience of IAAPS was essential to the successful delivery of future research income (Minute 1628 refers).
- It was difficult to assess the risk level with respect to IAAPS as the Risk Management Progress Report in the Operational Risk Register had a red flag against the failure of the IAAPS business model whilst the Finance Committee papers identified KPI risks related to IAAPS (including the funding metric) as green.

In response to this point, it was reported that progress towards achieving £52.8 million of matched funding had been delayed due to Covid-19. It was also noted that a risk register that applied specifically to IAAPS would have a different calibration from the University's Strategic Risk Register.

- The University Strategic Risk Register should aim to reflect connectivity of risk registers to provide a more rigorous presentation of risk issues.

#### **1644 TRAINING OPPORTUNITIES**

The Committee noted:

- The PwC event on 1st December from 5 – 6 pm: "[Where next for HE workforce transformation?](#)" which will cover the future impact of changes to pensions, immigration and Covid and is part of the HE Governors' programme; and
- THE BDO HEI Audit Committee webinar for HEI Governors on Wednesday 19 May 2021 from 9 – 10 am (<https://www.bdo.co.uk/en-gb/events/hei-audit-committee-session>).

Training opportunities will be included in the Council Weekly Digest and posted in the Document Library, ARAC Reading Room on Convene.

**1645 PROGRAMME OF BUSINESS 2020/21**

The Committee **noted**:

- Summary programme of business (Paper A20/21 – 038A)
- Detailed programme of business for the remainder of the year (Paper A20/21 – 038B).

**1646 PROGRAMME OF MEETINGS 2020/21**

The Committee noted dates of meetings in the 2020/21 programme, as follows:

- Wednesday 27 January 2021 at 11 am
- Tuesday 30 March 2021 at 2.15 pm
- Wednesday 9 June 2021 at 11 am

**1647 PRIVATE MEETING WITH EXTERNAL AUDITOR**

The Officers retired from the meeting and the Committee held a private meeting with the External Auditor. There were no issues of concern to record.

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The meeting concluded at 4.25 pm

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