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

**Date and time:** **Wednesday 2 October 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 Gibbons **	Lay member of Council
Mr S O'Donoghue	Appointed Member

**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

Mrs Emily Commander, Head of Strategic Governance, attended by invitation for the business recorded in Minutes 1519 to 1525

**Apologies:** Mrs C Moar Lay member of Council  
Professor D Griffiths Lay member of Council

\* Mr Bayliss was present for the business recorded in Minutes 1519 to 1537

\*\* Mrs Gibbons attended by video conference

\*\*\* Withdrew for the final item of business recorded in Minute 1539

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### **ACTION**

#### **1519 WELCOME**

The Chair welcomed the Head of Strategic Governance to the meeting and reported that Professor Dot Griffiths had been appointed to the Committee by Council. Mrs Christine Gibbons had been re-appointed for a further year.

#### **1520 DECLARATIONS OF INTEREST**

No declarations of interest were made.

## 1521 MEMBERSHIP AND TERMS OF REFERENCE

### 1 ARAC Membership and Terms of Reference

The Committee considered its Membership and Terms of Reference as set out in Paper A19/20 – 001.

AGREED to recommend to Council the following amendments to the Terms of Reference (shown in bold text and strikethrough):

- Financial Statements

10. To consider in the presence of the External Auditors, the final version of the audited financial statements after they have been submitted to Finance Committee reviewing the auditors' formal opinion, the corporate governance statement including a report from the Remuneration Committee, the statement of **Council** members' responsibilities and the statement of internal control in accordance with the Office for Students' Accounts Directions; the statement of principal accounting policies, the statement of consolidated and University comprehensive income, the consolidated and University statement of changes in reserves, the consolidated and University balance sheet and the consolidated cash flow statement. The role of the Committee will be to consider whether the University has adopted appropriate accounting policies, has ~~made an~~ **appropriate methodology for determining** estimates and judgements, has made disclosure with appropriate clarity and completeness and set these properly in context.

- Internal Control

16. To consider risk management reports and to recommend to Council the **Risk Management Strategy and the** Risk Register.

### 2 Internal Audit Department Terms of Reference

The Committee considered the Terms of Reference of the Internal Audit Department as set out in Paper A19/20 – 002.

AGREED to amend the Terms of Reference as below (shown in bold text and strikethrough):

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- Responsibilities

8. The head of the internal audit department is responsible for providing assurance to external stakeholders as requested by the ~~University~~ **Vice-Chancellor, Council and Audit and Risk Assurance Committee** in accordance with written instructions

- Standards and Approach

11. The head of internal audit will implement measures to monitor the effectiveness of the service and compliance with standards. The Audit **and Risk Assurance** Committee will consider and approve those performance measures and may also ask ~~the a firm~~ **of external auditors** to provide an independent assessment of internal audit's effectiveness.

- Reporting

18. The head of the internal audit department should report to the

Vice-Chancellor and the Chair of the Audit **and Risk Assurance** Committee any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work. If the Vice-Chancellor refuses to report the matter to the ~~HEFCE~~ **Office for Students'** accounting officer and the chair of the Council, then the **head of internal** auditor must report to them directly.

## **1522**    **MINUTES OF PREVIOUS MEETING**

The minutes of the meeting held on 12 June 2019 (Paper A 19/20-003) were approved as a correct record and signed by the Chair.

## **1523**    **MATTERS ARISING**

### (1)            Minute 1505, Minutes of Previous Meeting

The Committee received a Value Added Template (Paper A 19/20 – 004) and a PwC audit toolkit for Assessment of the effectiveness of the Audit Committee (Paper A 19/20 – 005). The Chair reminded members that the Committee conducted a self-assessment exercise in time for the April meeting.

It was agreed that the points set out in the value added template could be picked up as part of discussions between the Chair and individual members. The PwC toolkit questions will be used to inform future review of the Committee's activity.

### (2)            Minute 1506 (5), MA: Internal Audit Report: Individual Mitigating Circumstances

The Committee received Paper A19/20 – 006 which reported on the work being undertaken to review the University's policy framework and policy schedule. It was noted that the Office of Strategic Governance would be undertaking work, on behalf of Council, to review the policy framework and more widely the University's Statutes and Ordinances. It was recommended that a risk based approach be taken to prioritising policies for review.

It was noted that the University Executive Board (UEB) was setting up Boards and Working Groups to undertake the detailed work of policy development and / or review and would also consider a schedule of delegation for development, review and approval.

### (3)            Minute 1506 (6), MA: Fraud Report

The Head of Procurement, Mr Tony Brett, joined the meeting for this item of business. Mr Brett gave a short presentation on the framework for procurement as it affects budget holders, with specific reference to the limits of financial approval. He noted that there were at least two individuals involved – the requisitioner (who raised the requisition for goods / services) and the budget holder (who authorised payment against the supplier invoice). For some projects (but not in the case of the fraud in the Faculty of

Engineering) an individual was designated as Principle Investigator to authorise all expenditure against specific projects. With regard to the fraud in the Faculty of Engineering, the weakness was that the budget holder's responsibilities were not effectively carried out by the Faculty Finance Office to whom this responsibility had been delegated and retrospective management review of costs charged was inadequate.

The learning points centred on reviewing the guidance for effective budget management, strengthening understanding of the responsibilities of being a budget manager / authorising against a budget, educating individuals with regard to the tools and local and central support available to them to manage budgets, and improving criteria and guidance on the appropriate authorisation route for each new budget.

In the course of discussion, it was recognised that detection tools played a valuable role in reviewing purchases for irregularities and the budget holder had a responsibility to understand the budget being managed and be alert to anything that was suspect.

Whilst a single Principle Investigator was preferred, the Vice-Chancellor noted the advantages of sub authorisations in some circumstances.

Mr Brett was thanked for attending the meeting.

(4) Minute 1506 (2), MA: Risk Management Progress Report

The Vice-Chancellor gave a short verbal report.

Professor White highlighted some recent achievements:

- The award of over £11 million to work on improving battery technology for electric vehicles
- Appointment of Professor Rajani Naidoo as UNESCO Chair of HE Management
- Hosting of the international mathematical Olympiad for its 60<sup>th</sup> anniversary
- Netting of over £1 million by Accommodation and Hospitality Services in a single week over the summer
- Success at the 2019 modern pentathlon European championships with a sweep of gold medals.

He then outlined some priority actions being taken:

- Home and EU undergraduate student numbers had exceeded target by c 100 (avoiding the downturn in recruitment experienced by some other institutions) and as a consequence a number of new students had had to be temporarily accommodated off campus in the YMCA. The package offered to them had been generous and many were now being moved back onto campus.
- The disciplinary policy for students had been approved under Chair's action in order to be ready for the new academic year.

- The bus service provided by First Bus had been enhanced, with more frequent services and more buses, additional stops, better sharing of information, and improvements to the Arrivals Square where three marshals were on duty.
- Brexit planning was on-going and a large senior management group had undergone a training exercise with consultancy support to identify gaps in preparation and potential worst case scenarios. The outcome had been reassurance that the University was in a better state of preparation than many other institutions.
- A Vice-President (Student Experience), Dr Cassie Wilson, had been appointed to provide better support to this area.
- In terms of other new initiatives, Boards and Working Groups were being set up and consideration was being given to a post of Chief Operating Officer further to the retirement in February 2020 of Professor Steve Egan, Vice-President (Implementation). An Operations Board would encompass the Department of Estates, the Digital, Data and Technology Group and the Department of Development and Alumni Relations because these groups were not represented on the University Executive Board.

The Chair thanked the Vice-Chancellor for sharing this review of recent developments.

(5) Minute 1507, Updates: Governance, Audit and Risk Management

The Committee received a proposal that, with effect from the 2020/21 academic year, there should be a joint meeting of Finance Committee and ARAC to consider the University's annual report and accounts (Paper A19/20 – 007). The Finance Committee would also consider this proposal.

The Committee expressed support for taking forward the proposal to hold a joint meeting in early November each year.

(6) Minute 1508, Risk Management Progress Report

The Committee received a report on Managing Risk in Higher Education – HE sector risk profile from PwC (Paper A19/20 – 008).

**1524 STANDING ITEMS OF BUSINESS**

(1) Governance, Audit and Risk Management

The Committee noted the following:

HE Policy Institute) HEPI publications:

<https://www.hepi.ac.uk/category/publications/>

29 August 2019: *University governance in a new age of regulation: a conversation between Professor Steven Jones and Nick Hillman*, with a forward by Professor Michael Shattock:

<https://www.hepi.ac.uk/wp-content/uploads/2019/08/HEPI-University-governance-in-a-new-age-of-regulation.pdf>

Other exchanges in the series include: *The balance between governors and managers*, *The disconnect between academics and governors* and *The changing demands on governors*.

(2) Programme of work for the year

The Committee received a programme of work detailing business to be considered at each meeting (Paper A19/20 – 009).

(3) Internal and external incidents for noting

It was noted that there had not been any reportable incidents or other matters of specific concern or learning.

**1525 ANNUAL REPORT OF THE AUDIT AND RISK ASSURANCE COMMITTEE**

The Committee considered the Annual Report of the Audit and Risk Assurance Committee for the year ended 31st July 2019 (Paper A19/20 - 010).

It was noted that the report was a draft document and the underlined text of the report would be updated following consideration of the External Auditors' Management Report and Highlights Memorandum. The following amendments were agreed:

- (Paragraph 3) Membership Table to include dates of appointment
- (Paragraph 13) reference to the accounts to be put more positively in the underlined text: for example, 'The accounts for the year ended 31 July 2019 received positive assurance'
- (Paragraph 16) reference to progress with the Halpin report recommendations to be added
- (Paragraph 30) The Audit and Risk Assurance Committee will continue to monitor **the effectiveness of the arrangements to benchmark** whether or not Value for Money is achieved and will press for action where necessary.

The report will be re-presented to the Committee at the November meeting for final approval and subsequent submission to Council.

**1526 INTERNAL AUDIT ANNUAL REPORT**

The Committee considered the Annual Report of the Internal Audit Department for the year ended 31st July 2019 (Paper A19/20 - 011).

The Head of Internal Audit drew attention to the underlying work that supported the assurance statements that there are adequate and effective arrangements in place for the University to promote and pursue Value for Money (paragraph 10), that the systems in operation provide for adequate and effective arrangements of risk management, control and governance (paragraph 17), and that the arrangements for the management and quality assurance of data submitted to the Higher Education Statistics Agency, the Student

Loans Company, the Office for Students and other funding bodies are adequate and effective (paragraph 21).

With reference to Appendix 1 and the number of audits completed over the year, the Head of Internal Audit explained that the list would be extended because further audit reports were likely to be included in the November meeting's business.

The Committee noted the review of the Internal Audit Department by the Heads of Internal Audit at Cardiff University and Newcastle University and the high level of reassurance provided by the exercise which had placed Bath at the higher end of the quality spectrum out of nine institutions reviewed.

It was noted that the Internal Audit Report and the Annual Report of the Audit and Risk Assurance Committee would be submitted together to Council in November and subsequently to the Office for Students.

**1527     STATUS REPORT ON OPEN AUDIT POINTS**

The Committee considered the position of open audit points as at September 2019 (Paper A19/20 - 012). It was noted that 46 audit points had been closed since the April meeting. There were currently 61 audit points remaining open of which 31 were overdue.

The Head of Internal Audit noted management actions closing audit points in two areas: 06-2018/19 Retail Outlets and 05-2017/18 GDPR Implementation. Significant progress had been made in relation to two other areas: 15-2017/18 Purchases and Expenses and 03-1018/19 Individual Mitigating Circumstances.

In response to a question on the delay in developing a business impact analysis / risk analysis for disaster recovery, it was explained that other actions had been taken that overlapped with this area, most notably the Brexit planning exercise on the previous day.

A delay in training staff for supporting disabled students for which the target completion date had been rescheduled to March 2020 from October 2018 was attributed to the need to focus more widely on compliance issues resulting in *inter alia* additional support to the Director of Policy, Planning and Compliance. The Head of Internal Audit added that training for staff was undertaken as a comprehensive programme so that disability training was one aspect of training given in relation to postgraduate students.

**1528     STATUS REPORT ON INTERNAL AUDITS**

The Committee considered a report on audits in the 2018/19 programme (Paper A19/20-013). It was noted that it had not been possible to finalise seven reports in time for this first meeting of the year but they would be submitted to the November meeting where available.

The Head of Internal Audit drew attention to the range of non-core audit work which, along with staff changes, had delayed completion of the audit programme for the year.

**1529**    **INTERNAL AUDIT REPORT 08-2018/19: STRATEGIC PROCUREMENT**

The Committee received Internal Audit Report 08-2018/19: Strategic Procurement (Paper A19/20 - 014).

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

After discussion, a Grade B point relating to high value or strategically important tenders not having a formal gateway sign off process for key stages remained as such rather than being escalated to a Grade A point. The Director of Finance noted that the category management approach was leading to improved processes for rationalising goods and services and for better procurement through aggregating data to underpin decision-making.

**1530**    **INTERNAL AUDIT REPORT 09-2018/19: REF PREPARATION**

The Committee received Internal Audit Report 09-2018/19: REF Preparation (Paper A19/20 - 015).

It was noted that the University's arrangements for managing the risks related to preparations for REF 2021 are effective.

Members of the Committee commended the collaborative and inclusive approach. With reference to collection of protected characteristics data being incomplete because members of staff had chosen the 'Prefer not to say' option or failed to update their records, it was noted that there was on-going equality and diversity training associated with the REF. The Grade B recommendation relating to the process for reporting compliance against open access requirements raised the question of staff resource and the Head of Internal Audit was asked to check the position with the University Librarian.

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**1531**    **INTERNAL AUDIT REPORT 10-2018/19: CRC ANNUAL REPORT**

The Committee received Internal Audit Report 10-2018/19: CRC Annual Report (Paper A19/20-016).

It was noted that the University's arrangements for compiling and submitting emissions data for CRC purposes are effective.

**1532**    **AUDIT PROGRAMME**

The Committee received the Internal Audit Strategy for the period 2019-22 and the Annual Audit Plan for 2019-20 (Paper A19/20 - 017).



The Head of Internal Audit noted that, further to advice received from UEB, the number of days allocated to the Digital Strategy had increased from 15 to 25. The CRC audit planned for 2019/20 had been taken out.

In response to a question on the three year audit plan, the Head of Internal Audit reported that years 2 and 3 would be reviewed at the year-end to ensure that any emerging areas of priority were appropriately scrutinized. It was noted that the last audit review of cyber-security had been in 2015/16 albeit cyber-essentials accreditation had since been achieved. With regard to cyber-security the Vice-Chancellor noted that UEB would be receiving an annual report.

A member of the Committee referenced *The Good University Guide* and its diversity rankings. It was reported that both the UEB and Council were keeping diversity under review from a compliance and governance perspective and the Students' Union had also been active in this area. The Vice-Chancellor reported that over the last few years the percentage of BME (Black and Minority Ethnic) students had risen from 12% to 19% and similarly the number of disabled students had increased. The University was in the process of developing a 5 year plan for widening access that would be submitted to the OfS for approval. However, the Government were changing their focus of interest to the gap between applications to University from rich and poor backgrounds. The University was disadvantaged in some data returns because Welsh students could not be included in the numbers and these students were more likely to be from lower income families. The University was reviewing factors in its provision that might deter poorer students from making an application.

Dr Ellis asked whether the University would be conducting a TEF strategy review; the Head of Internal Audit noted that some aspects of teaching would be reviewed but he would consider further.

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AGREED to approve the three-year audit programme for 2019-22 and annual plan for 2019-20.

**1533** **INTEGRATED REPORTING APPROACH TO THE 2018/19 ANNUAL REPORT AND ACCOUNTS**

The Deputy Director of Finance introduced Paper A19/20 - 018. He reported that the new approach sought to expand the narrative and include a value statement for the University. The Chair noted that the information in the annual report and accounts would be more accessible with potential to enhance the reputation of the University.

**1534** **ACCOUNTING POLICIES, ESTIMATES AND JUDGEMENTS INCORPORATED IN THE 2018/19 ANNUAL REPORT AND ACCOUNTS**

The Deputy Director of Finance presented Paper A19/20 - 019 and noted that there were no changes to policies. He drew attention to uncertainties with regard to the estimates used for the USS and

Local Government Pension Scheme. It was noted that there had been a substantial increase proposed in deficit recovery contributions to the USS in the 2017 valuation which had led to a large increase in the provision shown in the accounts. Clarity was being sought from the External Auditors as to whether the University should apply the provision based on the 2018 valuation instead of the 2017 valuation. Dr Ellis advised that there was disagreement between accounting firms on this issue which was expected to be resolved in the next couple of weeks. In terms of the LGPS, a valuation had taken place in 2019 with results to be released next year.

Dr Nicky Kemp, Director of Policy, Planning and Compliance, joined the meeting to present the items of business reported in minutes 1535 and 1536.

**1535**     **ASSURANCE CONTROLS FOR ANNUAL ACCOUNTABILITY AND DATA RETURNS 2018/19**

The Committee considered a paper setting out assurance controls for statutory data returns to the Office for Students (OfS) in the academic year 2018/19 (Paper A19/20 - 020).

The Director of Policy, Planning and Compliance noted that in the absence of updated guidance from the OfS, other than in relation to the Prevent duty, the report assumed that the accountability and data returns should replicate the approach taken in previous years. The HESA Student Data Futures Project whereby in-year data would be returned rather than retrospective data had been delayed.

Dr Kemp reported that, as an on-going condition of registration, the OfS had required HEIs to complete a Transparency Return for 2018/19. The OfS had used the University's HESA student record return to generate a table of differential outcomes but had collected applications and offers information directly from the University. The University had combined its own student record information with the UCAS data. The first Transparency Information return had covered 2018/19 but the University would also be required to make an in-year return for the 2019 intake. With regard to the initial Transparency Information tables, a credibility check of the differential outcomes had been undertaken by reference to the Deputy Vice-Chancellor and PVC (Learning and Teaching) who monitored such impacts internally.

**1536**     **RISK REPORTS**

(1)            **Risk Management Progress Report**

The Committee received the Risk Management Progress Report (Paper A 19/20 – 021). The Director of Policy, Planning and Compliance noted that the Augar report had not significantly impacted the number of undergraduate students deferring their place. Two operational risks had been added to the Operational Risk Register related to the bus services and to business continuity. The bus services had improved and work was on-going in this area.

The Business Continuity internal audit report had identified actions and a new Business Continuity Standing Group had been established. Dr Kemp provided brief updates on action to address the potential impact of failure of the 3 West electrical supply on business continuity and she reported on planning for a no-deal Brexit. In response to a question about mitigation activities in the Strategic Risk Register due to be completed by September, she noted that the Digital Transformation project scope had not been finalised but a clearer understanding of digital initiatives and directing of resources had emerged. The Vice-Chancellor reported that projects needed to be underpinned by a proof of principle and aligned with the University's priorities.

With regard to risks related to strike action, it was reported that the University was adopting a new approach to engaging with the Trades Unions. The current threat of strikes resulting from national negotiations would be experienced at local level and impact institutions differently across the country.

AGREED to

- (1) approve the new assessment of the likelihood and impact of the key strategic risks to the University; and
- (2) provide a covering statement for Council with the risk management report that was a summary of the points raised in this discussion.

(2) **Tabulation of Assurance Activities**

The Committee received the Tabulation of Assurance Activities (Paper A19/20 - 022). The Director of Policy, Planning and Compliance drew attention to the UKVI audit of compliance with Tier 4 student visa requirements and the Disclosure and Barring Service compliance audit which were new assurance activities that had not previously been included in the tabulation.

Dr Kemp was thanked for presenting the reports.

**1537 TRAINING EVENTS FOR AUDIT AND RISK ASSURANCE 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.

**1538 DATES OF MEETINGS**

Thursday 21 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

**1539 PRIVATE MEETING OF HEAD OF INTERNAL AUDIT WITH COMMITTEE MEMBERS**

The Officers retired from the meeting and the Committee met in private with the Head of Internal Audit. In this discussion, it was confirmed that there were no issues of concern arising over the previous year. The Committee re-iterated their availability to discuss with the Head of Internal Audit any matter at any time.

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The meeting concluded at 2.15 pm

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