

## BOARD OF GOVERNORS

## AUDIT COMMITTEE

Minutes of the meeting held on 5 March 2018

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### Present

Lisa Greenhalgh	Independent member	Committee Chair
Lesley Munro	Clerk to the Board	
Christine Donnelly	Independent member	
Clive Elliott	Independent member	
Louise Robinson	Independent member	
Mike Rush	Independent member	
Jane Forbes	PwC	Internal Audit representative
Sarah Horseman	PwC	Internal Audit representative
Rob Jones	KPMG	External Audit representative
Richard Tyler	KPMG	External Audit representative

### Officers in attendance

John Cater	Vice-Chancellor
Carl Gibson	Director of Finance
Craig Hutchinson-Howorth	Director of Strategic Planning
Steve Igoe	Deputy Vice-Chancellor
Helen Smallbone	Academic Registrar (for item 8)

### Apologies

There were no apologies.

### AC.17.038 In-camera meeting

Prior to the commencement of scheduled business, Independent members held a private meeting with the Internal and External Auditors which is minuted separately.

The Chair welcomed Rob Jones (KPMG) to his first meeting of the committee. Rob was replacing Clare Partridge as the External Audit Director for the University.

**AC.17.039 Declarations of Interest**

There were no Declarations of Interest specific to the meeting.

**AC.17.040 Chair's Announcements**

There were no announcements.

**AC.17.041 Chair's Action**

There was no Chair's Action to report.

**AC.17.042 Minutes of the previous meeting**

*Received: Document AC/020/17*

The minutes of the meeting held on 30 October 2017 were agreed and signed by the Chair as a correct record.

**AC.17.043 Action Log**

*Received: Document AC/021/17*

Members received the Action Log noting all actions as implemented or in hand. The Internal Audit representative (JF) confirmed that she had reported on computer system security procedures at the last meeting. It was noted that reports on the Student Journey project and GDPR implementation would be taken at the June meeting.

**AC.17.044 Matters Arising**

There were no matters arising.

<b>SECTION A ITEMS</b>
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**AC.17.045 Student Data Management (Professional Learning Areas): Update on the University Action Plan**

*Received: Document AC/022/17*

The Academic Registrar introduced this report which provided an update on the integration of student data processes agreed as part of the HEFCE Data Action Plan following the discovery of data

inconsistencies arising from the operation of devolved processes around Professional Learning students in the Faculty of Education. She highlighted the following points:

01. A revised management structure had been implemented across all areas with those operating devolved processes now reporting directly to the Academic Registrar or appropriate members of the central Registry team. A number of integration activities had been undertaken to ensure a smooth transition to the new structure and this approach had been well received by staff. In addition, some areas of work had been transferred directly to the central team whilst new recruitment was subject to an assessment in terms of the most appropriate location. The Academic Registrar was able to assure members that the new structure was operating effectively;
02. Full central processes were now in place across all Professional Learning areas with regard to enrolment and the operation of Assessment Boards with all students required to re-enrol annually and to be presented at Progression Boards to monitor academic progress. Additional quality assurance checks had also been introduced. With these procedures in place, the Academic Registrar was able to assure members that the data records for these students were up-to-date and accurate;
03. Noting that UCAS admission procedures were not available to Professional Learning students, the Head of Admissions had been exploring the capacity of the student record system to handle direct admissions and, following a successful pilot, the Academic Registrar confirmed that all future Professional Learning admissions would be managed through this system.

In confirming that full compliance with central processes had now been achieved, the Academic Registrar indicated that, as a result of staff collaborations, further enhancement work had been identified and would be rolled out as the final part of the Action Plan.

The Internal Audit representative (SH) reported that she had recently conducted an internal audit of these processes and could confirm that that no issues had been identified.

Members thanked the Academic Registrar for her clear and concise report and welcomed the assurances provided.

**AC.17.046 Monitoring Returns**

*Received: Document AC/023/17*

**.01 *Transparent Approach to Costing (TRAC) Return***

The Director of Strategic Planning introduced this item indicating that the University completed this annual HEFCE return on a voluntary basis. Developed to monitor increased Government investment in Research, the core metric drawn from the report was a full economic costing figure used by the University to cost research activity. The return recorded similar data to previous years and was within the tolerance bands allowed. It was noted that the recorded Margin for Sustainability and Investment (MSI) was high at 26%, this provided the necessary flexibility to support the capital projects programme of work.

In discussion, members were pleased to note that there were no validation issues, but a request for benchmarking data emanating from the return to be made available was made.

**Action: Director of Strategic Planning**

Noting the return date for the data did not fit with the Board's cycle of meetings, **the Committee gave retrospective approval to the TRAC 2016/17 submission.**

**.02 *Office for Fair Access (OFFA) Monitoring Return***

Members received the return noting that it provided a statement of spending from higher fee income in relation to activities to support widening participation along with a review of specific monitoring targets. The return was a compliance check which linked to the Access Agreement approved annually by the Board. Attention was drawn to Table 5b which identified the University's policy transition from paying bursaries to new students on entry to the provision of on-course support to assist in student outcomes.

It was noted that the report contained a set of institutionally set targets and milestones and that progress against these was generally in line with expectations.

In response to member's questions, it was noted that the number of students reporting mental health issues was increasing with an

associated call on resources. This report did not split out specific costs against mental health services but the Vice-Chancellor confirmed that any student presenting with issues would receive appropriate support and advice.

**It was suggested that the Director of Student Services be asked to give a presentation to a future meeting to discuss these issues in more detail.**

**Action: Clerk**

It was noted that OfFA had been incorporated into the new Office for Students (OfS) and that changes to the Access Agreement provisions should be anticipated.

It was reported that no queries had been raised in relation to the return but that final approval had not yet been received.

The 2016-17 Access Agreement Monitoring submission was received.

**.03 *National College for Teaching and Leadership (NCTL) Return***

Members received the NCTL Audit Grant Return noting that this had been audited by KPMG in line with NCTL set procedures with no issues raised.

It was noted that this was a statutory audit for the funding body and was received by the Audit Committee to provide assurance.

The NCTL return was received.

**AC.17.047 *Progress on Internal Audit tender process***

The Director of Finance reported that presentations from the three firms that had made submissions would be held on Monday 12 March. He reminded members of the need to complete initial scoring sheets based on the written responses and indicated that a scaling factor would be applied following presentations and questions to determine the final outcome.

The verbal report on the Internal Audit Tender process was received.

**SECTION B ITEMS**

**AC.17.048 Faculty of Education: PwC Final Review Report**

*Received: Document AC/024/17*

The Internal Audit representative (JF) introduced the report noting that it had been specifically commissioned by the committee, as an additional piece of work, to provide final assurance that all the control issues emanating from the RS fraud had been identified and addressed and to provide any further recommendations where these were felt appropriate. As this was not part of the standard internal audit schedule but had been specially commissioned, the report was provided to the committee without taking account of management responses which were presented separately for the committee's consideration. It was also noted that, whilst the brief centred on the Faculty of Education as the source area for the fraud, general assurance on the University's control environment were also provided.

In terms of process, JF outlined the five issues that had been identified for follow-up by the committee in November 2014 and the assurances provided by management at that time. The audit had followed these through and identified a number of devolved controls for investigation based their alignment to areas of known or likely fraud risk.

Turning to the conclusion, JF indicated that this was a positive report with no evidence of failures in the operation of the control framework now in place. It was clear from the findings that a great deal of work had been done since 2014 to improve fraud awareness both within the Faculty and across the wider University. In addition there was good evidence of collaboration between faculty and central teams which further improved the control environment and provided for more effective segregation of duties. Whilst the overall conclusion found no points of failure, three recommendations were included in the report for consideration by the committee which could further enhance the design of fraud risk controls. These related to consultancy work, overtime payments and the operation of the University's Gifts and Hospitality policy.

The Chair welcomed the report, which provided significant assurance to the committee and this was echoed by the Director of Finance. Members then went on to consider the specific recommendations contained in the report and the management responses provided:

***Recommendation 1a***

***Current practice with regard to consultancy work should be documented within the University's Financial Regulations which are currently under review.***

The Director of Finance indicated that this area of supply was subject to the Financial Regulations which state the point at which quotes and tenders should be sought. However, it is recognised that consultancy is a difficult area in relation to procurement and some additional guidance could be provided to clarify the position.

**AGREED: That additional guidance on consultancies should be included in the Financial Regulations.**

**Action: Director of Finance**

***Recommendation 1b***

***In order to further strengthen the University's fraud controls, the University could seek to implement a dual monitoring process over contractors, in which two members of staff are required to approve progress or completion of activities prior to the payment of invoices. This would limit the possibility of collusion between staff members in fabricating or exaggerating invoices. In implementing this approach, the University should consider whether the secondary approval should be performed by a member of the finance team.***

The Director of Finance indicated that current procedures required that orders are approved by one member of staff and receipted by another. There were no procurement resources within the central Finance team to meet the proposal that a secondary approval be carried out by the central team. He also indicated that the issue of passive collusion had been addressed through fraud awareness training.

In response to members questions, JF confirmed that those interviewed had been aware of the reporting processes for any suspected untoward activity and the Director of Finance confirmed that this could also be done informally without fear of recrimination if suspicions were aroused.

Following a lively discussion, it was suggested that it was not necessary for every order to be centrally approved but that the introduction of a risk-based sampling system would suffice as a deterrent to collusion and provide sufficient assurance.

**AGREED: Central Finance team to establish a risk based sampling system against progress and completion activities to provide additional assurance in this area.**

**Action: Director of Finance**

***Recommendation 1c***

***The University should implement a system to compare payment addresses to staff addresses, highlighting postcode matches for further review by the Finance team.***

The Director of Finance indicated that there were significant issues around GDPR and cost implications for proprietary system amendments attached to this recommendation and that, in any event, it would only provide assurance in cases where the same address was being used to perpetrate a fraud. He drew attention to the new IR35 legislative requirement to report invoice payments to individuals who were also members of staff and suggested this offered a more effective preventative check.

Whilst recognising the issues raised, members wished to have a better understanding of the costs involved in any system changes required before making a final decision.

**AGREED: Further investigation of the costs attached to this recommendation to be brought to the next meeting.**

**Action: Director of Finance**

***Recommendation 2***

***The University should ensure that if senior members of the Faculty need overtime approval, there is appropriate oversight from the Dean of the Faculty.***

The Director of Finance indicated that overtime payments were not made to staff above grade 6. Payments at grade 6 and below are signed off by an authorised senior member of staff.

**AGREED: No further action required.**

**Recommendation 3**

***The University should ask all staff to complete an annual gifts and hospitality declaration, incorporating nil returns.***

The Director of Finance indicated that adoption of this recommendation would be time-consuming and burdensome if applied to every member of staff in the University and he questioned whether this was an efficient or proportionate measure in terms of the risk involved. He indicated that it would be possible to include a statement on the Declaration of Interests form completed annually by all staff on the management pay spine.

In discussion, it was suggested that full coverage could be provided through a statement included on staff appraisal forms but, overall, it was felt this was not an appropriate use of the appraisal process and that a more proportionate approach would provide adequate assurance.

**AGREED: A gifts and hospitality declaration should be included on the annual Declaration of Interests form completed by staff on the management pay spine.**

The Clerk noted that this provision would apply equally to members of the Board of Governors.

**Action: Director of Finance/Clerk**

**Concluding what had been a useful discussion, it was agreed to ACCEPT the report from PwC and the recommendations as amended through discussion. A final copy incorporating the amendments to be prepared for presentation to the next meeting of the Board.**

**Action: PwC/Clerk**

**AC.17.049 Internal Audit Reports**

*Received: Document AC/025/17*

*.01 Risk Management*

The Internal Audit representative (SH) introduced the report which was undertaken to provide assurance that appropriate risk management policies, procedures and controls were in place and

that the University's Strategic Plan and performance indicators reflected the University's risk appetite. The University had a mature system in place and good practice was noted across the areas investigated including documentation and the reporting and committee structure associated with risk management. No significant issues had been identified and **the Audit was classified as low risk** providing substantial assurance with one advisory recommendation suggesting the University should consider developing a formal statement to define its risk appetite.

In discussion, members felt that a formal statement on risk appetite would be counter-productive and encourage a simplistic approach to a complex area. The University's view on risk appetite would vary depending on the matter being considered. The important element was to be risk aware and take account of risk when making decisions.

In rejecting the advisory recommendation, **it was agreed that it would be more appropriate to ensure the consideration of risk was recorded in decision-making processes.**

**Action: Executive/Clerk**

*.02 Compliance with the UUK Accommodation Code of Practice*

The Internal Audit representative (SH) introduced the report which was undertaken to ensure compliance with the Code which was a statutory requirement. It was noted that a full scope audit was required every three years and this was delivered through a rolling programme ensuring all areas were covered within this time frame. This audit focused on the General, Landlord and Tenant Relationship and the Health and Well-being sections of the Code. Many areas of good practice were identified during the audit with a high level of compliance throughout. No issues had been identified and **the Audit was classified as low risk** providing substantial assurance with no associated recommendations.

The Internal Audit reports were received.

**AC.17.050 Revised Financial Regulations**

*Received: Document AC/026/17*

The Director of Finance introduced the proposed revisions to the Financial Regulations which were the result of a wide consultation process. He indicated that, in addition to updating, the new document was shorter and more accessible with links added to provide easy routes to further guidance. In terms of specific changes, the following points were noted:

01. The section on Bribery and Corruption had been expanded and elevated to a more prominent position;
02. The financial limits at which quotes/tenders were required had been increased and the minimum number of quotes/tenders required specified. It was noted that staff were not restricted by the minimum level set and could obtain more if that was felt appropriate;
03. The revenue spending limit for Primary budget holders had been increased from £50k to £75k and a new authorisation limit of £25k attributable to the Director of Finance in relation to capital acquisitions and disposals had been introduced;
04. Financial limits were expressed as 'up to ....' which allowed for a lower limit to be applied where this was felt appropriate.

In discussion, it was noted that the University's approach to OJEU requirements could be queried although the University made full use of the North West Universities Purchasing Consortium arrangements which operated under an OJEU framework.

In response to members' questions, the Director of Finance indicated that it was generally regarded as good practice to provide feedback to losing bidders for contracts and that this provided encouragement to them to bid on future occasions.

**A small number of amendments were noted for section 8** concerning the operation of the Remunerations Committee in order to align this to the approved Terms of Reference.

**Action: Director of Finance**

**Concluding discussion, members welcomed the new documentation and agreed to support approval of the revised Financial Regulations.**

**Action: Chair**

**AC.17.051 Risk Management Report**

*Received: Document AC/027/17*

The Director of Strategic Planning introduced the report which outlined the current risk environment including the recent announcement of a government review of post-18 educational systems as well as the start-up of the Office for Students (OfS) as the new regulator for higher education.

Key risks were largely unchanged from the previous report with student recruitment proving particularly challenging. In this regard, it was noted that a revised school targeting model was in operation to seek to extend the reach of the University beyond the North West whilst new opportunities such as Health apprenticeships were being kept under review. In addition, the University's Fastrack programme continued to provide a popular route for mature entrants and Faculties were continually refreshing their portfolios.

In discussion, the following points raised by members were noted:

01. Risk owners were identified down to Departmental level but were not identified for the aggregated list prepared for this meeting;
02. A number of new risks such as the HEFCE Assurance Review and the government review of post-18 education would be added at the next iteration;
03. The University presented a principled approach in declining to make unconditional offers to students on the basis that this was unhelpful to schools and to young people but it was a practice which was becoming common in a limited number of institutions and causing some disruption to the market. The Vice-Chancellor indicated that the University was in contact with applicants and providers in relation to this.

The Risk Management Report was received.

**RESERVED BUSINESS**

**AC.17.052**

**AC.17.053**

**SECTION C**

**AC.17.054 Any other Business**

*.01 Draft External Audit Plan (Tabled Paper)*

Noting that this was an early draft, it was agreed to defer discussion to the next meeting.

**AC.17.055 Date and time of next meeting**

The next meeting of the Committee is scheduled for 4 June 2018.