

BOARD OF GOVERNORS

AUDIT COMMITTEE

Minutes of the meeting held on 30 October 2017

Present

Lisa Greenhalgh	Independent member	Committee Chair
Lesley Munro	Clerk to the Board	
Christine Donnelly	Independent member	
Clive Elliott	Independent member	
Mike Rush	Independent member	
Jane Forbes	PwC	Internal Audit representative
Clare Partridge	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

Apologies

Louise Robinson	Independent member
-----------------	--------------------

AC.17.015 In-camera meeting

Prior to the commencement of scheduled business, Independent members held a private meeting with the Internal and External Auditors who confirmed there were no issues to raise with the committee.

The external audit representative (CP) reported that there had been good co-operation in completing the year end audit of accounts and, with only minor adjustments still to be agreed, a clean audit outcome

was expected. Both the internal and external audit representatives (JF and CP) indicated that it had not been possible to include KPIs within their annual reports as previously suggested as a means of assisting the committee in evaluating their services as there were no agreed benchmarks for this purpose. It was reported that service user questionnaires were available to assist with evaluation which might prove more useful. Given that both services were due for tender over the next two years, it was noted that this would incorporate a full evaluation in any event.

AC.17.016 Declarations of Interest

There were no Declarations of Interest specific to the meeting.

AC.17.017 Chair's Announcements

There were no announcements.

AC.17.018 Chair's Action

There was no Chair's Action to report.

AC.17.019 Minutes of the previous meeting

Received: Document AC/007/17

The minutes of the meeting held on 3 September 2017 were agreed and signed by the Chair as a correct record.

AC.17.020 Action Log

Received: Document AC/008/17

Members received the Action Log noting all actions as implemented or in hand. The Internal Audit representative (JF) confirmed that user computer system security procedures had been checked and were in line with good practice. She reported that system lock-out occurred after ten minutes, password refresh was required every 30 days and the number of failed log-in attempts was restricted to six. It was suggested that the number of failed log-in attempts was high in comparison with a number of other commonly used sites and the Deputy Vice-Chancellor indicated that all these measures would be subject to review through the Information Governance group.

AC.17.021 Matters Arising

There were no matters arising.

SECTION A ITEMS

There were no Section A items.

SECTION B ITEMS

AC.17.022 2017 Financial Statements

Received: Document AC/009/17

The Director of Finance introduced the accounts noting that there were still some minor amendments to finalise. He drew attention to the accrual for restitution of funds to the National College for Teaching and Leadership (NCTL) in relation to a review of historic learner records, the addition of £1.083 million to the revaluation reserve resulting from recovered VAT and the previously agreed change to capitalisation levels noted in the accounting principles.

In response to a member's question, **it was agreed to check back with the Chair of the Board** in relation to the tone of some comments in his report concerning Student Loan interest rates and the inclusion of students in net migration figures although it was noted that the issues concerned had been the subject of wide public debate.

Action: Clerk

Members concurred with the Deputy Vice-Chancellor in thanking the Director of Finance and his team for the work undertaken in compiling the end of year accounts in good time and with no major issues arising.

Noting there had been detailed consideration at Resources Committee, **it was agreed to recommend approval of the 2017 Financial Statements to the Board.**

Action: Chair/Deputy Vice-Chancellor

AC.17.023 External Auditor's Letter of Representation

Received: Document AC/010/17

The External Audit representative (CP) introduced the document noting that the letter followed a standard format and there were no issues of concern to bring to the Committee's attention.

The Deputy Vice-Chancellor indicated that the accrual amount relating to NCTL historic learner data was still to be finalised but the figure of £1.44 million was considered sufficiently secure for the accounts by the auditors (para 15 bullet 2). He also drew attention to an outstanding issue regarding the impairment provision which largely related to the proposed disposal of the Woodlands site by LCC and the value of the University's user rights (para 16).

The Director of Strategic Planning drew attention to a typographical error in the reference to HESES15 (para 15 bullet 4).

Noting the final amendments required, **the Committee recommended the External Auditors' Letter of Representation to the Board for approval.**

Action: Chair/Deputy Vice-Chancellor

AC.17.024 External Auditors' Audit Highlights Memorandum and Management Letter

Received: Document AC/011/17

The External Audit representative (CP) introduced the Audit highlights noting that this had been another good year for the University and for the sector generally. She indicated that the audit focus covered regulatory requirements and included close inspection of identified areas of sensitivity. It was reported that there had been a positive relationship with the Finance team throughout the process and a clean audit was anticipated. In terms of outstanding issues, these related to the review of the final HESA/HESES reconciliation and receipt of signed management representation letters. It was noted that bank confirmation letters had now been received.

Moving to specific aspects of the audit, the External Audit representative (RT) highlighted the following points:

- Three minor audit adjustments relating to impairments (Woodlands campus), accruals (NCTL historic learner data) and cash flow (VAT reclaim) which had been accepted by the University;
- Two low priority procedural recommendations, both accepted by the University, concerning the audit trail for payroll reconciliation and the formalisation of the impairment review process;
- Satisfactory provision for both the LGPS and USS pension schemes. In discussion, it was noted that LGPS provision was in line with central assumptions although at the optimistic end whilst USS provision (to which the University carries less exposure) was more prudent than central assumptions;
- Satisfactory progress in implementing recommendations from the previous year;
- No uncorrected audit differences.

Noting that the audit of the University's subsidiary companies was almost complete, RT also confirmed the independence of KPMG's service in terms of regulatory and professional requirements.

A typographical error referring to the University of Derby was noted for correction.

The Audit Highlights Memorandum was welcomed and received.

AC.17.025 Annual Report on Procurement and Value for Money

Received: Document AC/012/17

The Director of Finance introduced the report which outlined the work of the VFM group over the year and its contribution to the University's efficiency objectives especially in relation to expenditure commitments. He drew attention to successfully completed projects from the planned work including the Out of Hours Provision Review, the Student Support Review which followed on from changes in the DSA allowance, Purchase Ordering Enhancements, the Box Office System review, the Staff Utilisation Review in Catering and Cleaning, completion of a number of important tenders and trialling of a new reporting engine for the current Customer Relationship Management (CRM) System. Work on the Student Record System Revitalisation Project was progressing

whilst the Electronic Data Management project in Academic Registry would carry over to the following year. Evaluation work on previous projects had also been undertaken to ensure a continued positive assessment. Additional unplanned work had covered a review of staffing in the Faculty of Education in the light of reduced activity, reconfiguration of student accommodation reflecting the waning popularity of the 'catered package' and a discrete project to review postage services which had resulted in a significant saving for the University.

Looking forward to 2017/18, areas identified for consideration included Online Expenses, Institutional Policy Review, Financial Regulations Review with an important focus on associated awareness raising and an assessment of the need for new systems to support research management, enhanced student data reporting and Facilities Management requirements.

In response to members' questions, it was noted that:

- The Student Record Revitalisation Project was strongly tied to the Student Journey Project led by the Director of Student Recruitment and Administration. This was a major, long-term undertaking with a wide variety of associated sub-projects. **It was agreed that it would be helpful to see an overall timeframe for delivery which incorporated the sub-projects involved;**

Action: Deputy Vice-Chancellor

- Whilst the introduction of an on-site Subway operated by the Students' Union was likely to adversely affect catering cash sales in the short term, it was expected to positively impact student satisfaction ratings which would have long-term benefits for the institution;
- The Institutional Policy Review had been initiated largely to introduce a common format and to ensure a timely review schedule but it would also highlight any gaps or overlaps that needed to be addressed.

In discussion, members noted the valuable commentary provided through this report which offered a detailed insight into many aspects of the University's operational work although some of this was difficult to penetrate for non-specialists. With respect to Value for Money

considerations, it was suggested that it would be helpful if a specific VfM value could be identified against each project so that stated benefits could be evidenced. In this regard, it was noted that the current VfM report was no longer required for submission with the annual accounts and that a new annual Efficiency Return had been introduced by HEFCE for submission at the end of January 2018. This offered a more data-driven approach with savings or benefits given a specific financial value. The Committee would still be required to monitor VfM throughout the year.

In discussion, University officers drew attention to the challenges in ascribing specific financial values to efficiency gains from many of the system improvement projects and noted that this would inevitably entail an element of subjectivity. Nevertheless, members felt it was important to make an informed financial assessment of the benefits achieved from projects to demonstrate rigour and provide a wider evidence base for committee discussion.

Concluding discussion, **it was agreed that the committee would receive the new Efficiency Return as it came into effect and would continue to receive VfM reports, with financial values applied.**

Action: Director of Finance

The Annual Report on Procurement and Value for Money was received.

AC.17.026 Internal Auditor's Annual Report

Received: Document AC/013/17

The Internal Audit representative (JF) introduced the report which provided a summary of key findings from the work done over the year and an audit opinion in relation to the University's arrangements for VfM, Governance, Risk Management and Control. In line with the Audit Plan, a total of 83 days had been committed. In confirming a satisfactory opinion with no issues raised, she highlighted that all the audits conducted had been classed as low risk and noted that the overall number of recommendations was decreasing year on year. This represented an exceptional performance within the sector.

It was noted that the two high risk recommendations referred to in the report from 2014/15 related to the fraud which had been the subject of a recent court case with both defendants found guilty.

The Internal Auditor's Annual Report was welcomed and received.

AC.17.027 Draft Audit Committee Annual Report to the Board

Received: Document AC/014/17

The Chair introduced the report which outlined the work of the committee over the year and provided the committee's opinion on VfM,

Governance, Risk Management and Control as well the adequacy and effectiveness of the processes underlying the submission of data to HESES and HEFCE. It was noted that the report followed a standard format and that the committee's opinion was positive.

In discussion, it was noted that the paragraphs concerning the 2014 fraud could be updated following conclusion of the court case and a number of typographical errors were identified for amendment.

Subject to these amendments, the Audit Committee Annual Report was approved.

Action: Clerk

It was further noted that, following the conclusion of the fraud court case, it was now appropriate to institute the agreed PwC review to ensure any learning points had been fully addressed and that this should be completed before Christmas. Noting that Terms of Reference had already been approved, **it was agreed that the Chair should finalise a work plan with PwC and that the Director of Finance would act as the University's liaison officer with PwC for the review.**

Action: Chair/PwC/Director of Finance

AC.17.028 Going Concern Statement (ASSUR)

Received: Document AC/015/17

The Deputy Vice-Chancellor introduced the report which detailed a number of financial and non-financial indicators which demonstrated institutional sustainability. He highlighted the Margin for Sustainability

and Investment (MSI) rate at 22% which was well above the recommended level of 9% and was likely to be one of the best performances in the sector. This provided an important buffer for the University in meeting future challenges. Other financial indicators were strong with the reduction in borrowing levels and the significant increase in net liquidity days particularly noted. It was reported that the slippage in staff costs was largely due to increased on-costs.

The Going Concern Statement was received.

AC.17.029 Internal Audit Reports

Received: Document AC/016/17

.01 Follow-Up Report

The Internal Audit representative (JF) introduced the report which summarised the status of recommendations made in the previous year. It was noted that the majority of these had been implemented and that any outstanding would be checked again in the next Follow-Up Review.

Some concern was expressed at the time lag in implementation in one instance relating to fixed asset identification in the Faculty of Arts and Sciences and members questioned whether this pointed to a weakness in the control environment. It was reported that the responsible officer in this case had left the University and there had been a subsequent gap before the new appointee commenced. Officers confirmed that appropriate handover processes were in place to pick up the recommendation.

In relation to the Information Governance recommendations which were noted as 'in progress', it was reported that a new group had been established which would be monitoring implementation of the new General Data Protection Regulations (GDPR), policy development, the creation of an Information Asset Register, revision of the Information Strategy and the introduction of Tableau to improve data analytics. The group was chaired by the Deputy Vice-Chancellor and would report to the Executive and the Audit committee as appropriate.

It was noted that recommendations from Advisory Reviews were offered for consideration only and that one recommendation from

the Faculty of Arts and Sciences review had been rejected as it was considered too burdensome.

.02 *Financial Healthcheck*

The Internal Audit representative (JF) introduced the report which was undertaken to test the operating effectiveness of key financial controls including policies and procedures, bank and cash, accounts payable, accounts receivable, payroll and general ledger. No significant issues had been identified and **the Audit was classified as low risk** providing substantial assurance with one medium risk recommendation relating to the need for version control on policy documentation and two low risk recommendations relating to bank reconciliation procedures and the timely notification of student withdrawals to avoid errors in debt collection.

In discussion, it was noted that student debt was closely monitored through the Fees Group which was chaired by the Deputy Vice-Chancellor. In addition, tracking officers were in place in all Faculties to follow-up student absences and to report withdrawals on a timely basis but that this was a challenging area given the size of the student population. The Deputy Vice-Chancellor reported that the University was considering the adoption of an electronic Attendance Monitoring System for September 2018 which would provide further support.

The Internal Audit reports were received.

AC.17.030 Internal Audit Services: Tender Process

Received: Document AC/017/17

The Deputy Vice-Chancellor introduced the document which set out the proposed process and timeline for the tender for internal audit services

In discussion with members, the following points were agreed:

- The panel should comprise three members of Audit Committee and two University officers. The three Independent members were identified as Lisa Greenhalgh, Christine Donnelly and Clive Elliott;

- Independent members would consider the proposed list of those invited to tender and the Chair would confirm a final list to the Director of Finance;

Action: Chair/Clerk

- The Director of Finance would circulate the detailed specification for the tender to Independent Panel members.

Action: Director of Finance

Noting these points, the proposed Tender process for Internal Audit services **was approved**.

Action: Director of Finance

AC.17.031 Revising the Financial Regulations

Received: Document AC/018/17

The Director of Finance introduced the document which set out the rationale and timeline for revising the Financial Regulations. He highlighted the key areas which would be subject to change and stressed the importance of the associated consultation and awareness-raising processes. The Internal Audit representative (JF) confirmed that she was comfortable with the proposal.

The document outlining the process for revising the Financial Regulations was received.

AC.17.032 Risk Management Report

Received: Document AC/019/17

The Director of Strategic Planning introduced the report which outlined significant changes in the risk environment. He drew attention to the fall in recruitment to HEFCE monitored programmes in September and the mitigating actions taken to ameliorate this. With respect to the top ten risks identified, little movement had taken place from the previous report.

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

- A number of Departments had noted the **GDPR requirements** within their own risk registers but it was not considered a major risk at this

point with structures in place to ensure institutional compliance. It was suggested that a progress report to a future meeting would be helpful;

Action: Director of Strategic Planning

- The University had a zero tolerance policy with respect to **sexual harassment** with procedures and support in place for both staff and students. It was reported that the number of formally logged instances was low in comparison with the sector but it was noted that some cases were bound to occur within any large community with the potential to impact negatively on the University's reputation;
- Whilst the Board had not formally discussed **succession planning** recently, the Vice-Chancellor had been asked to address this issue as one of his performance objectives.

The Risk Management Report was received.

AC.17.033 Fraud and Irregularity/Serious Incident Statement

There were no issues to report beyond the fraud case which had recently concluded at Liverpool Crown Court with the defendants, Robert Smedley and Christopher Joynson both found guilty on all charges and sentenced to five years imprisonment. It was noted that the judge had commended the work of the University, the Police and the Crown Prosecution Service in bringing the case.

SECTION C

AC.17.034 Revised Expenses Policy

Received: Document AC/020/17

The Policy was received for information.

AC.17.035 Any other Business

There was no other business.

AC.17.036 Date and time of next meeting

The next meeting of the Committee is scheduled for 5 March 2018.