

BOARD OF GOVERNORS

Edge Hill
University

AUDIT COMMITTEE

Minutes of the meeting held on 4 November 2019

Present

Lisa Greenhalgh	Independent member	Committee Chair
Helen Smallbone		Clerk to the Board
Kashif Azeem	RSM	Internal Audit Representative
Christine Donnelly	Independent member	
Clive Elliott	Independent member	
Joanne Flitcroft	Independent member	
Robert Jones	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

Debra Chamberlain	KPMG	External Audit representative
Lisa Randall	RSM	Internal Audit representative
Mike Rush	Independent member	
Louise Robinson	Independent member	

AC.19.019 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. This session included a scheduled briefing on the Financial Statements, provided by KPMG.

AC.19.020 Declarations of Interest

There were no declarations of interest.

AC.19.021 Chair's Announcements

There were no announcements.

AC.19.022 Chair's Action

There was no Chair's Action to report.

AC.19.023 Minutes of the previous meeting

Received: Document AC/011/19

The minutes of the meeting held on 2 September 2019 were agreed and signed by the Chair as a correct record.

AC.19.024 Action Log

Received: Document AC/012/19

Members received the Action Log for the year noting that all items were complete or in progress.

Referring to the Internal Audit Progress Report, the Clerk stated that the Director of Finance would provide an update on outstanding management actions later in the agenda.

AC.19.025 Matters Arising

There were no matters arising.

SECTION A ITEMS

AC.19.026 2019 Financial Statements

Received: Document AC/013/19

The Chair introduced the item by highlighting that earlier that evening members had received a detailed briefing on the Financial Statements, delivered by KPMG. This briefing had covered the University's draft statements for 2018/19 set in the context of the Audit Committee's general responsibilities and specific duties. Individual transactions had been discussed where these were large (eg tuition fee income) or complex (eg assessment of pension liabilities), and members had agreed the areas they sought to explore.

Noting the Chair's comments, the Director of Finance introduced the Statements. He highlighted a Core Operating Surplus of £12.4 million for the year which, while lower than the previous year, was ahead of the budget projection and reflected a strong operating performance.

Turning to the Statement of Comprehensive Income and Expenditure 'SOCl' surplus, the Director of Finance highlighted that the surplus had reduced significantly when compared with the previous year, down from £14m in 2018 to £1m in 2019. He indicated that several items, which did not relate to operating performance, had contributed to this. The most significant area to note was pension adjustments standing at (£7.5m), other major transactions include refurbishment works, funding clawback and an impairment charge.

In terms of the cash position, this remained very strong despite the use of funds to complete the most recent campus development programme. Cash generated from operations stood at £18.5m with a year-end cash balance of £48.3m, resulting in a record net cash position of £17.5m (taking into account investments less long-term loans). All banking covenants have been complied with, which secures the positive terms of banking arrangements, and liability for long term loan repayments continues to decrease with debt being paid down at the rate of c.£2m per annum.

In discussion the following points were noted:

- *Tuition fee collection:* The tuition fee collection system had been interrogated during the audit of the accounts and had proven to be a reliable and highly effective system.

- *Actuarial loss.* The deficit recorded against total comprehensive income in the consolidated accounts was largely a result of actuarial pension adjustments, which were volatile having recorded a gain last year of £19.921m and a loss this year of (£15.583m).

Members noted that the valuation of pension liabilities is considered to be a complex area as the valuation relies on statistical inference and assumptions across three pension schemes which each have different liabilities.

Acknowledging this is a complex area to assess, the KPMG representative indicated that KPMG's actuary valuation of the pension liability had differed to the University's. He noted, however, that the difference was not considered to be material, and not classed as an error.

- *Refurbishment works (£1.7m).* The most recent works on the Main Building had been accounted for as Revenue spend rather than Capital expenditure given no additional asset had been created by the refurbishment. The KPMG representative confirmed that KPMG accepted the treatment of this expenditure as the logic applied was reasonable and consistent with Edge Hill's policies, and accounting standards.
- *Funding Clawback (£0.4m).* Clawback from the Office for Students (OfS) resulted from a change to the projected student demographic and did not reflect any lack of control.
- *Income and Expenditure.* Referring to the reduction in income (mainly due to reduced student numbers), members discussed the continuing pressure of increased expenditure—mainly driven by staff costs. The Director of Finance highlighted that detailed analysis of staff costs showed the majority of this expense was related to incremental drift and pension contributions. There was also some one-off spend incorporated. The Deputy Vice-Chancellor stressed that managing staff costs is recognised as a key issue. He stated that while costs such as national pay awards and increased pension contributions are outside the University's control, staffing levels were very carefully monitored.

Responding to a member's question, the Vice-Chancellor indicated that business processes had been reviewed across the University to ensure efficiencies had been made where possible. While recognising the benefits of effective business solutions, members noted the limited number of suppliers in the HE market. They also acknowledged the restrictions around the extent to which the University can procure business solutions which meet its exact requirements, though suggested that management should remain alert to the opportunities presented by evolving technologies.

Concluding the discussion, the Chair referred members to the Committee's specific responsibilities in relation to the operation of the University's internal control system and financial governance arrangements. Members agreed these were appropriately addressed in the comprehensive commentary and in line with reports received during the year. Members were also comfortable with the accounting policies applied, and were content that all significant or complex transactions had been considered.

It was RESOLVED to recommend the 2019 Financial Statements to the Board for approval.

Action: Chair/Deputy Vice-Chancellor

AC.19.027 External Auditor's Letter of Representation

Received: Document AC/014/19

The KPMG representative introduced the Letter of Representation, noting that this followed a specified template format. While recognising that the letter was not insignificant in length, he confirmed that the report is a standard one with no unusual activity to note.

Members were pleased to note assurances that the Financial Statements have been properly prepared, and that they present a fair and accurate view.

It was RESOLVED to recommend the External Auditor's Letter of Representation to the Board for approval.

Action: Chair/Deputy Vice-Chancellor

AC.19.028 External Auditor's Audit Highlights Memorandum and Management Letter

Received: Document AC/015/19

The KPMG representative introduced the audit highlights. He outlined the major sections of the document, highlighting that external audit work was largely complete, with the pension liabilities valuation finalised since the Committee papers were circulated.

In discussion the following points were noted:

- *Accounts Direction.* The requirements of the Accounts Direction have been met, with no issues to report.
- *Recommendations.* Turning to page 17 of the report, members noted that two recommendations had been made to improve the control environment. Neither issue was fundamental or material, though both recommendations were immediately implemented by management.
- *Pensions.* Members noted that a particular point of consideration during the audit related to reviewing and assessing actuarial judgements on pension liabilities. The KPMG representative reiterated the complexity of this area and reminded members that there were some differences in KPMG's assessment of the precise liability, compared with the University's. For the purpose of this process, however, an external auditor's function is to report on whether the University's assumptions are balanced and within an acceptable range and KPMG is content that this is the case.

Concluding this aspect of the discussion, members noted that, where actuarial judgement is required, some differences in valuations are inevitable, given the predictive nature of an actuary's role. Members were, however, assured that KPMG found the University's assessment to be in an acceptable range.

- *KPMG non-audit work safeguards.* KPMG has undertaken other work for the University during the year relating to tax compliance and iXBRL, and VAT and tax advisory services. The KPMG representative confirmed that the levels of income are not significant to the firm as a whole and that appropriate safeguards are in place to ensure their independence and objectivity.

Concluding this discussion, members were pleased to note a clean audit on both the financial statements and the use of public funds. The Committee expressed thanks to the auditors and to the Finance team for their work in bringing matters together in a timely fashion.

The External Audit Highlights Memorandum and Management Letter were received.

AC.19.029 Going Concern Statement

Received: Document AC/016/19

The Deputy Vice-Chancellor introduced this item noting it provided a summary of key institutional performance data used to assess organisational sustainability. He reminded members that the OfS had advised that this statement was no longer required for submission and it was therefore provided for information only. Members agreed that the document offered a useful summary and should continue to be received, especially since it provides empirical evidence to support the basis upon which the Going Concern statement is made in the Financial Statements.

The Going Concern Statement was received.

AC.19.030 Value for Money Annual Report

Received: Document AC/017/19

The Deputy Vice-Chancellor introduced the item by highlighting that the OfS had recently published its Value for Money (VfM) Strategy 2019-2021, a copy of which was included with the paper. He indicated that the OfS's new strategy had significantly reformed the way in which VfM would be measured across the sector.

In a move away from the traditional HEFCE model, VfM will now be measured using statistical and data analysis which mainly concerns output rather than input measures. For example, using sources such as the National Student Survey and Graduate Outcomes information. An annual report is no longer required.

The VfM lens has also been broadened. Whereas traditionally VfM concerned economy and efficiency in the use of funds, there will now be a much greater emphasis on perceptions of effectiveness. That is,

the extent to which students, graduates and the public believe value for money has been delivered.

As has been the case since the OfS's inception, there remains a strong emphasis on transparency and ensuring public confidence in the use of public funds. In view of this, members were pleased to note that information about how the University spends tuition fees was publicly available, in a user friendly and accessible format, and would be updated for 2018/19 once the Financial Statements were confirmed by the Board.

In terms of work overseen by the VfM and Procurement Group during 2018/19, the Director of Finance gave a summary of work in the following areas:

- Outcomes from the National Student Survey
- Major construction project review: Catalyst building
- Implementation of Tableau data analysis tool
- Research management system: Phase 2 – full implementation
- Data and systems: student records
- Travel review
- Computer assisted facilities management system
- Review of cleaning and security
- Electronic data management: Academic Registry
- Integration of Student Support Services
- Various tenders
- Evaluation work

Looking forward to 2019/20, specific areas identified for consideration included:

- Review of Edge Hill Sport Operations
- Online enrolment
- Review of competitor behaviour and external market
- Restructure of Corporate Communications
- Reshaping of Student Support Services
- People plan
- Making tax digital
- Review of HR/Payroll systems
- Health Administration review

In discussion, members noted the need for the University to adapt its current VfM measures to meet the OfS's new approach. Given the University's longstanding aim to deliver an outstanding student experience which represents value for money, members noted that the reforms would not necessarily create new activity; however, the University's approach to monitoring and articulating VfM will require adapting to ensure it demonstrates that VfM has been considered from an appropriate perspective.

In further debate around perceptions of VfM, members considered the University's subscription to a fleet of BMW cars for staff use when travelling for business purposes. When questioned about whether this represented value for money, the Vice-Chancellor gave a detailed explanation of the benefits of the scheme. In view of the Vice-Chancellor's response, members were supportive of the arrangements, however, they suggested that the University might benefit from **explaining its rationale for arrangements with a high-end vehicle provider for staff**. The Committee also suggested that **consideration be given to articulating any other equivalent sustainability or efficiency initiatives** that are in place, but which are not necessarily obvious to students and the public.

Action: Executive team, as appropriate

The discussion was concluded with members welcoming the informative annual report. **They confirmed it should continue as part of a broader annual update which addresses all aspects of the OfS's VfM strategy.**

Action: Director of Finance

The annual report on Procurement and Value for Money was received.

AC.19.031 Risk Management Report (including risk registers)

Received: Document AC/018/19

The Director of Strategic Planning introduced the report noting that a copy of the full risk register had been included for information. He highlighted that the overall position of the University remained unchanged with key risks centring on recruitment and retention.

With respect to recruitment, the Vice-Chancellor indicated that despite the national demographic affecting applications, the University had recruited in line with last year. Members were pleased to note that this was the result of excellent conversion rates, which had been achieved without adopting questionable practices such as making widespread unconditional offers.

Referring to the individual risks listed, the Committee discussed the external environment, noting the potential risk to universities following the Augar Review, and the increased regulatory oversight from the OfS.

With regards to the external environment, the Vice-Chancellor advised members that the University had recently received notification that the University and College Union (UCU) had gained a mandate for strike action to take place at Edge Hill over eight days in November and December. The potential action at Edge Hill flows from a national dispute about the rising cost of pension contributions for members of the Universities Superannuation Scheme (USS), and a view that improvements are required across the sector to address the gender pay gap, casualisation and workloads.

The primary focus of this national dispute concerns the USS pension scheme, where there is minimal exposure at Edge Hill given the University does not have many staff subscribed to this scheme. With regards to the issues concerning the gender pay gap, casualisation and workload management, Edge Hill has an excellent track record concerning employee satisfaction and an absolute commitment to work of equal value being rewarded by equal pay. Any differential between the pay awarded to men and women is explained by the preponderance at Edge Hill, and in many organisations, for roles in domestic services, which are typically in the lower range for pay, to be occupied by females. While some universities have outsourced this activity, which will appear favourably in their statistics on pay differentials, Edge Hill is committed to ensuring that all staff are provided with fair pay, terms and conditions, which is a responsibility that will not be delegated to a third party. Casual contracts are used sparingly, and normally for unforeseen circumstances or where the arrangement is also advantageous to the individual employee, for example where a retired professional seeks to offer their services without being required to commit to a permanent contract.

Notwithstanding the comments made, the Vice-Chancellor indicated that it was not possible to predict the scale of any industrial action.

Staff are not required to declare their intention to strike and the University must be prepared for some action. In the event of action, the Executive team will closely monitor activity and will make certain that appropriate arrangements are in place to ensure that all reasonable steps are taken to mitigate the impact on students.

The Risk Management report was received.

AC.19.032 Draft Audit Committee Report to the Board

Received: Document AC/019/19

The Clerk introduced the report noting that it followed a standard format and had been prepared in view of the papers presented that evening. She asked for views particularly regarding the narrative commentary related to meetings during the year. In view of all the information considered, members were content that the report provided a fair and accurate reflection of the Committee's work during the period.

In particular, members endorsed the Audit Committee Opinions expressed in relation to governance, risk management, internal control, economy, efficiency and effectiveness, and data quality assurance. Responding to a request from the Chair, the Clerk confirmed that the Committee's overall opinions were now reported with an accompanying timeframe and that this closes an action emanating from the Independent Effectiveness Review held in 2018.

In response to a question, the Clerk confirmed that Tony Rankin, a former Independent Governor, was granted approval to abstain from Board meetings for a period in 2018, though this did not reflect a sabbatical from the position. He then stepped down from the Board in 2019 which explains his status during his final year in office.

The annual Audit Committee Report to the Board was approved.

Action: Chair

AC.19.033 Fraud and Irregularity/Serious Incidents Statement Annual Report

Received: Document AC/020/19

The Deputy Vice-Chancellor introduced the annual report on serious incidents and whistleblowing. He highlighted that there had been one notification of whistleblowing during the period. This had been reported anonymously to the Chair of Audit but was unrelated to the work of any individual while employed by the University. The matter, which was a re-presentation of a notification received last year, was investigated but not found to warrant further action.

One student case resulted in court action which had been successfully defended by the University. The OfS had been notified in accordance with the University's Serious Incidents Reporting Policy.

The annual report on serious incidents and whistleblowing was received.

SECTION B ITEMS

AC.19.034 RSM Progress Report

Received: Document AC/021/19

The Internal Audit representative advised that, following feedback from management and the Committee, the Internal Audit Plan had been updated to reflect the revised risks linked to specified audits, as agreed at the previous meeting.

Members noted that three assignments were currently in the planning or delivery stages, these are:

- Key financial systems – payroll and expenses
- Student retention and progression
- Measuring the effectiveness of anti-fraud awareness and controls

Summary reports will be provided at the Committee's next meeting in March.

Referring to the management actions identified as outstanding in the previous follow up report, the Director of Finance gave a detailed update on the three items prioritised by members at the Committee's last meeting. He confirmed that appropriate arrangements had been put in place regarding user privileges across the Student Records System and that the two concerns relating to ResourceLink (WebView leavers' process and Single Sign On) had been addressed.

The progress report from RSM was received.

AC.19.035 Update on the Independent Effectiveness Review Action Plan

Received: Document AC/022/19

The Deputy Vice-Chancellor introduced the report which provided a detailed update on progress against the action plan emanating from the Independent Effectiveness Review held in December 2018.

Recognising that some actions were contingent on the preparation of the Financial Statements 2018/19, which had dictated the timeframe for

progress to be made, members were pleased to note that all actions had now been completed.

The update on the Independent Effectiveness Review Action Plan was received.

AC.19.036 Transparent Approach to Costing Returns

The Deputy Vice-Chancellor reported that the University's TRAC return was due to be submitted to the OfS by 31 January 2020, but that the detailed workbook to return was still to be finalised. Members noted that the Committee was required to meet to consider the information before its submission. They agreed to do this on 27 January when members would be convened for the Board's annual strategy and development day.

SECTION C

AC.19.037 Revised Schedule of Business

Received: Document AC/026/19

The revised Schedule of Business was received.

AC.19.038 Any other Business

There was no other business.

AC.19.039 Date and time of next meeting

The next full meeting of the Committee is scheduled for 2 March 2020. An extraordinary meeting of the Committee will be held on 27 January 2020 to consider the TRAC return.