

## BOARD OF GOVERNORS

## AUDIT COMMITTEE

Minutes of the meeting held on 17 October 2022

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### Present

Lisa Greenhalgh	Committee Chair	Deputy Chair of the Board
Helen Smallbone	Clerk to the Board	
Kashif Azeem	RSM	Internal Audit Representative
James Boyle	KPMG	External Audit representative
Clive Elliott	Independent member	
Mike Tate	Independent member	

### 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

Christine Donnelly	Independent member
Mike Rush	Independent member

Prior to the commencement of scheduled business, members met privately as a committee and then separately with the following groups:

- Officers of the Committee
- Internal and External Audit Representatives.

These meetings are recorded separately.

**AC.22.002    Declarations of Interest**

There were no Declarations of Interest.

**AC.22.003    Chair's Announcements**

The Chair noted that this was her last meeting as Committee Chair. She advised that, following a competitive process, Mike Tate had been recommended as the next Chair of Audit Committee. Whilst acknowledging that this recommendation was subject to Board approval, the Chair congratulated Mike and offered good wishes to the Committee going forward.

**AC.22.004    Chair's Action**

There was no Chair's Action to report.

**AC.22.005    Minutes of the previous meetings**

*Received:    Document AC/001/22*

The minutes of the meeting held on 20 June 2022 were agreed as an accurate record.

**AC.22.006    Action Log**

*Received:    Document AC/002/22*

Members received the Action Log noting that all actions were either implemented or ongoing.

**AC.22.007    Matters arising not included elsewhere on the agenda**

There were no matters arising.

SECTION A
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**AC.22.008 Board Assurance Framework**

*Received:* Document AC/003/22

*Reported:* The Director of Strategic Planning introduced the Board Assurance Framework (BAF), noting that the reaccreditation of the University's Initial Teacher Training provision had removed one of the key areas of risk since the last meeting. Student retention and satisfaction remain key priorities in the immediate term, with targeted work being overseen by institution-wide working groups.

More generally, the static student tuition fee coupled with increased operating costs is presenting the whole sector with a fiscal challenge that the University is not immune from. Work is ongoing to control cost and deliver efficiencies, whilst also making strategic investments to ensure financial sustainability (eg development of the curriculum).

No element of the BAF has had its risk level raised since the last meeting of the Committee, though there is an emerging risk around the challenges in recruiting and retaining staff given the competitive employment market.

*Discussed:* In response to questions, the following information was noted:

- The employment market has changed radically over the past few years meaning it is more challenging to both recruit and retain staff. Contributing factors include Brexit, which has led to a reduced supply of staff for some areas - notably hospitality and manual labour. The changed employment offers since Covid have also impacted staff retention. A significant number of organisations now offer their employees hybrid and remote working conditions as the norm, which has driven competition across the sector. In response, the University has invested in its recruitment material and the staff support offer, ensuring that the wider benefits of working at the University are showcased to current and prospective employees.
- Financial efficiency measures referenced in the report refer to a range of initiatives to control costs and cut these where possible. There is not a specific change project, rather – there is a concerted effort across the whole business to ensure prudence and deliver value for money. While there is not a definitive list,

one example includes establishing in-house building management systems to ensure we optimise our understanding of the University's utility systems. Another example is ongoing work to ensure administrative systems and structures are maximised to use technology more efficiently and avoid duplication.

In concluding the debate, members noted that some **new trends had emerged in the BAF. They agreed it would be helpful to identify these in the narrative so that their attention would be drawn to any changes, the reason for the change and any mitigating actions put in place.**

In making this request, the Committee recognised that not all changes are within the University's control (eg the economy). Nevertheless, members reiterated the importance of the BAF as a tool to provide the Board with assurance about how the University analyses risk and determines whether mitigating action can be implemented.

**Action: Director of Strategic Planning**

*Resolved:* To receive the Board Assurance Framework.

#### **AC.22.009 Draft 2022 Financial Statements**

*Received:* Document AC/004/22

*Reported:* The Director of Finance introduced the Financial Statements, confirming the accuracy of the detailed commentary in the accompanying report. He highlighted that, while the statements were technically in draft form, the content was complete and the information was not expected to change before presentation to the Board of Governors for approval in November.

A summary of the key highlights report was provided, with particular attention drawn to the increased valuation of the University which had been driven by a major reduction in the University's pension deficit.

*Discussed:* Members noted a clean audit, and the significant reassurance that was provided by the External Audit Representative's evidently thorough work, including significant interrogation of data systems.

In response to questions:

- The Deputy Vice-Chancellor (DVC) acknowledged that the employee turnover rate had increased from around 6% for the preceding four years, to 10.7%. He highlighted that 6% was low and that typical loss rates for an organisation such as Edge Hill would be between 10-15%. Whilst the current accounts show a spike, the DVC advised that back in 2006/07 the five-year analysis indicated a loss rate between 10.8 – 18.1% meaning this type of turnover was not unusual for the University. Notwithstanding the earlier comments about the challenges in recruiting and retaining staff, the DVC confirmed that he was not unduly concerned about the employee turnover rate.
- The Director of Finance confirmed that the Committee would be advised if there were any updates to report before presentation to the Board of Governors. The Chair noted that she **would seek confirmation of such at the Board meeting.**

**Action: Chair**

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.

*Resolved:* **To recommend the Draft 2022 Financial Statements to the Board for approval.**

#### **AC.22.010 External Auditor's Draft Letter of Representation**

*Received:* Document AC/005/22

*Reported:* The External Audit Representative introduced the Letter of Representation. He noted that it followed a specified format and provided confirmation that any estimates or assumptions made in the statements were reasonable. He also confirmed that unrestricted access had been provided to all information and persons within the organisation.

*Discussed:* In response to a question, the External Audit Representative confirmed that no engagement-specific risk had been identified during the audit.

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

*Resolved:* It was **resolved to recommend the draft Letter of Representation to the Board.**

**AC.22.011 External Auditor's Audit Highlights Memorandum and Management Letter**

*Received:* Document AC/006/22

*Reported:* The External Audit Representative introduced the report, outlining that audit work was substantially complete and had identified only one low-risk recommendation relating to Declarations of Interest. Significant progress had been made since the time of writing the report and the accounts were now close to completion. He reiterated that there were no areas of concern for the Committee's attention and highlighted the positive nature of ongoing work with management to achieve this position.

*Discussed:* In discussion, the following points were noted:

- *Testing process.* A very detailed process incorporating a data analytics tool was undertaken to test the revenue (and in particular tuition fee) figures. KPMG confirmed a very positive outcome for the University which should provide the Audit Committee with strong assurances that income is flowing through systems in line with expectations. KPMG has no concerns about the use of funds.
- *Management Override.* A significant assessment of journals and reconciling the trial balances has been undertaken, with no issues to report.
- *Pensions.* KPMG consider the University's Actuarial Firm's assumptions to be at the optimistic end, though these are within an acceptable range and KPMG have no concerns to report. It has been a dynamic year for calculating pension liabilities, and KPMG

has experienced issues with some actuaries' attention to matters such as emerging inflation and return rates for assets. This is not the case for the University's actuaries, and KPMG is satisfied with the work to deliver the assumptions made, in what is a detailed and complex area.

- *Going Concern.* In view of the cash balance and reserves, and the wider viability measures for the business, KPMG has no issue in the University reporting as a Going Concern. Nevertheless, given the extreme economic turbulence, this will be kept under review until the date of signing the accounts.
- *Recommendations.* The one recommendation was relatively minor, concerning a Declaration of Interest report which had not been fully completed. Action has now been taken in response.

In concluding discussion, members noted an excellent report which provided substantial assurance given the intensity of the field work.

*Resolved:* To receive the External Audit Representative's Audit Highlights Memorandum and Management Letter.

#### **AC.22.012    Going Concern Statement**

*Received:*    Document AC/007/22

*Reported:*    The DVC noted that the report provided a summary of key institutional performance data used to assess organisational sustainability. The report was shared to support the Committee's confidence in approving the accounts on the basis that the University is a Going Concern.

*Discussed:*    Noting the University's strong cash position, the Committee agreed that the metrics indicate that the University is a viable entity and has the resources necessary to continue operating on a Going Concern basis.

*Resolved:*    To receive and **endorse the Going Concern Statement.**

**AC.22.013    Serious Incidents and Whistleblowing Annual Report**

*Received:*    *Document AC/008/22*

*Reported:*    The DVC confirmed that, in line with the Office for Students (OfS)' reporting requirements, the University had notified the Regulator that Clive Elliott would become the Chair of the Board from 28 November 2022. The OfS had acknowledged this routine report.

There were no other relevant incidents or issues arising during the previous 12 months.

*Resolved:*    To receive the Serious Incidents and Whistleblowing Annual Report.

**AC.22.014    Internal Audit Annual Report 2021/22**

*Received:*    *Document AC/009/22*

*Reported:*    The Internal Audit Representative introduced the annual report which outlined the work undertaken during the year. He noted that this was in line with the Internal Audit Plan, and that work had progressed smoothly. The report confirmed that for 2021/22, RSM's opinion was that Edge Hill had an adequate and effective framework for risk management, governance and internal control, and economy, efficiency and effectiveness. This is the most positive rating that could be given and reflects the very strong control environment at Edge Hill.

*Discussed:*    Members noted the excellent outcome, which was supported by individual assignment reports which had indicated highly effective arrangements and operations across all areas covered.

The Committee agreed that the assignment reports during the period were thorough and commended management and all staff of the University for their exceptional work to achieve such positive outcomes.

*Resolved:*    To receive the Internal Audit Annual Report.



## AC.22.015 Internal Audit Reports

*Received:* Document AC/010/22

### *.01 Framework for Embedding Research Management*

*Reported:* The Internal Audit Representative presented the assignment report, which considered the University's management and oversight of its Significant Research Responsibility (SRR) process, which forms part of the wider research management framework. The audit identified one medium and six low priority actions for further enhancement of the activity – full details of which are included in the accompanying report. Overall, the audit found **Reasonable Assurance** that risk management controls are appropriate and effective.

*Discussed:* In response to questions, it was confirmed that for the sample year audited, the SRR letter did not provide absolute specifics in relation to information such as time allocation and expectation of outcomes. From the next academic session, the relevant information will be included for appropriate staff and the relevant actions completed.

Members noted satisfaction with the assignment report.

### *.02 OfS Conditions Compliance*

*Reported:* The Internal Audit Representative introduced the report which was designed to test the University's mechanisms to monitor compliance with the OfS Conditions of Registration. The audit dip-tested assurances provided to governors across a range of conditions and provided **Substantial Assurance** with no recommendations for management action.

*Discussed:* Management noted that the audit had been particularly intense, which made the positive nature of the findings particularly impressive.

Members noted satisfaction with and substantial assurance from the detailed assignment report.

### *.03 IT Security and System Resilience*

*Reported:* The Internal Audit Representative noted that this report intended to assess the University's control framework and provide assurance over the design of selected controls related to IT security and system resilience. The audit found areas of good practice relating to IT security

and provided **Substantial Assurance**. Two low priority management actions were identified to further enhance extant practice.

*Discussed:* Members discussed the current geo-political environment and escalating tensions in Europe. It was noted that as the war in Ukraine changes, non-lethal attacks including cyber-attacks to disrupt systems and processes were more likely. Whilst recognising that penetration testing and diversion control is in place, with significant resilience within the University's approach, the Committee observed that heightened alertness to IT Security should be at the forefront of the University's risk profile.

Members noted satisfaction with and assurance from the detailed assignment report.

#### *.04 UKVI Arrangements Framework*

*Reported:* The Internal Audit Representative introduced the report which sought to test the University's approach to ensuring a robust control framework is in place for international student recruitment and meeting UKVI requirements. The audit confirmed that the University has an established framework for ensuring that it continues to meet regulatory requirements in respect of issuing Confirmation of Acceptance to Study (CAS) to students.

The audit provided **Substantial Assurance**, though four low priority management actions were identified to further promote equality, diversity and inclusion through practice.

*Discussed:* Members noted satisfaction with and assurance from the detailed assignment report.

#### *.05 Collaborative Academic Partnerships*

*Reported:* The Internal Audit Representative presented the report which tested the framework to support and monitor collaborative academic partnerships. The audit sampled five partnerships (three domestic; two international) to ensure that the processes articulated in the University's Quality Management Handbook were effectively applied.

The audit provided **Substantial Assurance**. Two priority actions were identified (one medium and one low) to support further development.

*Discussed:* In response to questions about the scale and implications of the findings relating to audit trails, the Committee was satisfied that the level of risk and exposure identified was relatively low. Nevertheless, Committee members and Executive attendees agreed it is imperative to ensure that the whole lifecycle of partnership agreements is properly documented and stored in an accessible area to ensure there can be no confusion in any part of the University about the nature of a relationship with any third party.

Members noted satisfaction with the assignment report.

*.06 Follow Up Report*

*Reported:* The Internal Audit Representative introduced the report which updated the Committee on the progress made against management actions agreed in the previous year. He confirmed that all seven outstanding actions had been fully completed.

*Discussed:* Members noted satisfaction with progress made against management actions agreed in the previous year.

*Resolved:* To receive the Internal Audit Reports.

<b>SECTION B</b>
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**AC.22.016 Draft Audit Committee Annual Report to the Board**

*Received:* Document AC/011/22

*Reported:* The Clerk introduced the report noting that it followed a set format and had been prepared in light of the papers discussed during the meeting. She highlighted that the report aims to provide the Board with assurances related to the University's arrangements for the following:

- Governance
- Risk Management
- Internal Control
- Economy, efficiency and effectiveness
- Data quality assurance

*Discussed:* Governors noted that it had been a routine year for the Committee's business, with no unexpected items. Positive reports had been received from both internal and External Audit Representatives which,

alongside the Committee's view, supported the draft narrative prepared by the Clerk/Chair. In view of this, members agreed that the Board should be advised that **Audit Committee members stressed that the Board should take significant assurance from the report content.**

**Action: Clerk**

*Resolved:* i) That the Committee had no concerns to highlight to the Board.  
ii) To submit the Audit Committee Annual Report to the Board of Governors.

#### **AC.22.017 Value for Money Assurance Statement**

*Received:* Document AC/012/22

*Reported:* The Director of Finance noted that this report sought to summarise procurement and value for money (VfM) work undertaken during the year. The Committee also received the constitution of the VfM & Procurement Steering Group and VfM & Procurement Strategy, to provide assurance of effective management practices.

In terms of the work overseen by the VfM & Procurement Steering Group during the past 12 months, the Director of Finance gave a precis of work in the following areas:

- Online payment of atypical workers
- New library management system
- Leave management
- Student internships
- Apprenticeship management
- Restructure of international operations
- Review of accommodation operations
- Tenders and evaluation
- Making tax digital
- Review of Edge Hill Sport operations

Looking forward to 2022/23, specific areas identified for consideration by the group include:

- Review of retention and withdrawal processes
- Advanced finance system upgrade
- Computer Assisted FM (CAFM) system

- Contract management
- RE:Action 24/7
- Tackling the Blues
- Planned preventative maintenance
- Review of catering and retail services
- Review of accommodation operations phase two
- Tenders and evaluation

*Discussed:* In response to a question, it was noted that there was no 'requirement' to submit a VfM return and therefore the report, and level of detail included, was not mandatory. Nevertheless, the Committee noted value in considering this information as a measure to support members gain assurance about value for money. It was therefore agreed to retain the report in its current format.

Overall, the Committee was pleased to note the VfM initiatives, and content that these were appropriate.

*Resolved:* To receive the Value for Money Assurance Statement – and to retain the report in its current format.

#### **AC.22.018 Audit Committee Schedule of Business 2022/23**

*Received:* Document AC/013/22

*Reported:* The Clerk introduced the item noting that the schedule for 2022/23 was non-exhaustive and could be updated to meet the emerging needs of the University or Committee at any time. Members also noted that the Committee would be included within scope of the Board's Effectiveness Review 2022/23 and any action plans would be picked up, as required.

*Resolved:* The Committee resolved to **confirm the business schedule proposed for 2022/23.**

#### **AC.22.019 Internal Audit Progress Report**

*Received:* Document AC/014/22

*Reported:* The Internal Audit Representative introduced the report noting that audit work for 2021/22 was complete and RSM was now focused on assignments for 2022/23. He also brought to members' attention the

publication of RSM briefing notes on news in the HE sector and other relevant topics.

*Resolved:* To receive the Internal Audit Progress Report.

**AC.22.020 Any other business**

The Vice-Chancellor reflected on the Chair of Audit's three terms in office, noting her outstanding contribution to the Committee, Board and University during that time.

The Committee offered their sincere appreciation for the Chair's service and wished her well for the future.

<b>SECTION C</b>
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The following items were received for information:

**AC.22.021 Schedule for Data Returns 2022/23** (*Document AC/015/22*)

**AC.22.022 Updated Internal Audit Plan 2022/23** (*Document AC/016/22*)

**AC.22.023 Date and time of next meeting**

The next meeting is scheduled for 20 February 2023.