

HARPER ADAMS UNIVERSITY

Audit and Risk Management Committee

Minutes of a Meeting of the Audit and Risk Management Committee held on 16 November 2016 in the Boardroom

Present: Mr P Cowdy Chairman
Mr M Griffiths (Co-opted member)
Mr R Hambleton
Mr C Tweed

In attendance: Dr D Llewellyn Vice-Chancellor (Observer)
Dr C E Baxter University Secretary
Mrs L Furey Director of Finance
Mrs L Randall RSM
Mr M Rowley KPMG
Ms L Clarke KPMG

Apologies: Ms L Tweedie RSM

Members were reminded to update their entry in the Register of Interests as necessary.

16/01 Minutes

Approved: the minutes of the meeting of the Audit and Risk Management Committee held on 30 June 2016 (15/45-15/56).

16/02 Matters Arising

Received: a report from the University Secretary.

Noted: that the matters arising had either been addressed or were included later on the agenda.

16/03 Terms of Reference

Received: the terms of reference for the Committee.

Noted:

- i) that no recommendations were proposed for changes to the terms of reference for 2016/17;
- ii) that section 10 of the terms of reference set out, in particular, the role of the Committee in relation to the University's financial year and its role in preparing an annual report. The terms of reference also set out the Committee's role in considering the statement of internal controls included in the Annual Report and Financial Statements for the year-end.

16/04 Follow up on Internal Audit Reports

Received: a report from the University Secretary.

Noted:

- i) that very good progress had been made with implementing actions arising from the remaining reports completed in 2015/16;
- ii) that the University Secretary would ask the Farm to clarify with respect to page 21 of the agenda whether or not Item A listed on the report was now regarded as fully completed. Members would be updated at the next meeting;

CEB

- iii) that the Students' Union Office Manager had made significant progress in completing the various actions and was confident that the Students' Union would be able to provide evidence in due course to RSM demonstrating that actions had been fully completed. Only one action remained to be completed and this was scheduled for January 2017.

16/05 Annual Internal Audit Report 2015/16

Received: the Annual Internal Audit Report 2015/16.

- Noted:
- i) that the internal auditors were presenting a positive opinion with respect to their work during 2015/16. The auditors also referred to the additional work that had been completed in recent weeks and that reference to this work had been made in their report;
 - ii) that, RSM wished to review the final wording on page 31 of their report

Agreed: that RSM would complete their review and the final wording would be shared with the Chairman who would act with the delegated authority of the Committee.

LR/PC

16/06 External Audit 2015/16

- Received:
- i) an oral report from the Director of Finance on any proposed changes to the draft Annual Report and Accounts 2015/16 arising from discussion at the Finance and General Purposes Committee held on 8 November 2016;
 - ii) a briefing note from the Director of Finance on reporting requirements to meet Charity Commission regulations on the Reporting of Public Benefits;
 - iii) the External Auditors' 'Highlights Memorandum and Management Letter' on the external audit of the 2015/16 accounts together with the management response;
 - iv) the draft 2015/16 Annual Report and Accounts for Harper Adams University;
 - v) the draft 2015/16 Annual Report and Accounts for Cedar Energy Limited (CEL);
 - vi) the approved 2015/16 Annual Report and Accounts for Harper Adams University Development Trust (HAUDT) and Letter of Representation;
 - vii) a draft letter of support for Cedar Energy Limited from Harper Adams University;
 - viii) a draft letter of representation for Harper Adams University Group;
 - ix) a draft letter of representation for Cedar Energy Limited.
- Noted:
- i) that no material changes had arisen from discussions at the Finance and General Purposes Committee meeting held on 8 November 2016. A number of textual corrections had been made in relation to feedback from Finance and General Purposes Committee members and, as indicated on the updated CEL Annual Report and Financial Statements, a slight update had been made to these particular documents. It was noted that CEL and HAUDT respectively had agreed their Annual Reports and Financial Statements;

- ii) that, following further discussion with KPMG, it had also been agreed that 'biological assets' as defined by FRS 102 included the dairy herd as such herds were now regarded as a long term asset. This had, therefore, now been reflected in the financial statements;
- iii) that the Charity Commission regulations on the reporting of public benefits continued to be an important background document when considering the University's annual report and financial statements;
- iv) that the external auditors had found that preparing accounts for year-end July 2016 had been very challenging for many of their university clients due to the significant changes brought in under FRS 102. This has led to a significant amount of additional work for all finance teams in their experience and this had also been the case at Harper Adams;
- v) that the external auditors were pleased to note the significant amount of work and good progress that had been made on improving the University's arrangements for maintaining and updating its fixed asset register. In addition to this, sound progress had been made towards putting in revised purchase/payment processes and procedures;
- vi) that the revaluation of the Shropshire Local Government Pension Scheme (LGPS) was in line with changes seen in other LGPS pension schemes to which other university clients subscribed. The Director of Finance had recently attended the Shropshire LGPS employer meeting and had also attended a UCEA briefing in London on the LGPS. At both meetings, discussion had focused upon the fact that bond rates had been affected by BREXIT and this had led to significant increases in actuarial variations with regard to the funding shortfall. In Harper Adams's case, the deficit had increased to £17m, although it was understood that the increases were even larger for many other HEIs and, in some cases, had risen by up to 28%;
- vii) that the discussion at the recent Shropshire LGPS employers' meeting had, however, been slightly more positive in that Harper Adams's contributions would be increasing as an employer by 0.9% rather than the 2% which had been anticipated, with employer contributions rising to c14.3%. There would also be an adjustment to past service contribution which would be slightly reduced in the short term from £240k to £220k, although it was likely that it would go back to the £220k rate over the forthcoming 3-year period. The Shropshire Pension Scheme continued to perform reasonably well when compared to many other LGPS schemes and it was understood that, although schemes were going to be grouped together, these schemes would continue to make their own investment decisions and retain local control;
- viii) that Harper Adams was the only admitted body that had attended the recent UCEA meeting. The remainder of the universities attending were all required to be members of LGPS and had, in some cases, taken action to employ staff under separate subsidiary company arrangements so that alternative pension schemes could be offered. In addition, some had, therefore, closed membership of the relevant LGPS to new entrants. The Finance and General Purposes Committee would continue to be kept updated on pension arrangements;
- ix) that, in relation to Cedar Energy accounts, amendments had been made in relation to the treatment of the AD site. It was likely that Cedar Energy might not sell the slurry tanks to the University as had been previously suggested but would instead continue to provide

services to the University through the provision of slurry storage which had been further refined by the addition of the new bund. It had been necessary to impair the slurry tank assets due to the requirement for the investment in the bund to make the tank facility useable in an appropriate manner. In addition to this impairment, the asset review work had also led to recognition that there was a small number of assets held by the Farm and the IT team which needed to be impaired to reflect the fact that more values had significantly reduced;

- x) that the Cedar Energy Board had met immediately following the Finance and General Purposes Committee meeting and had agreed its annual report and financial statements, including the updated sections referred to above;
- xi) that the statement of controls as set out in the annual report and financial statements would be updated to reflect the discussions of the Committee; **CEB**
- xii) that detailed discussions had taken place with the Estates and Facilities Manager around the University's compartmentalisation of residences as assets. A schedule of refurbishment etc had now been reflected in the impairment charges;
- xiii) that the annual accounts and financial statements noted the contingent liability relating to the partnership with Dairy Crest; i.e. that, should the 15-year break clause become operational, the University may need to purchase the Dairy Crest Innovation Centre. However, at the current time, there was no indication that this was likely as the relationship was working very well. Careful governance arrangements were in place and the University and Dairy Crest had been shortlisted for a THE award for the innovative relationship that had been developed. Midlands Today would shortly be visiting the University to film a short piece about the shortlisting;
- xiv) that the draft letter of support for Cedar Energy Limited from Harper Adams University had been discussed with Finance and General Purposes Committee and members had been content for the letter to be recommended to the Board, noting that the Committee would be kept informed if any funding was to be required during the year;
- xv) that the letter of representation for Harper Adams University Group and the letter of representation for Cedar Energy Limited reflected previous letters of representation and did not present any particular concerns to the Committee.

Approved:

- i) the draft 2015/16 annual report and accounts for Harper Adams University for recommendation to the Board at its meeting in November 2016 noting that, within the Harper Adams University consolidated accounts, the annual report and accounts for the Harper Adams University Development Trust were included and that the amendments noted above would be completed prior to the Board meeting; **LF**
- ii) the 2015/16 Annual Report and Accounts for Cedar Energy Limited for recommendation to the Board at its meeting in November 2016;
- vi) to recommend to the Board the draft letter of support for Cedar Energy Limited from Harper Adams University;
- v) to recommend that the Board should approve the draft letters of representation for Harper Adams University Group and the draft letter of representation for Cedar Energy Limited.

- vi) that as discussed at the meeting, KMPG wished to make some minor amendments to their report and would represent the final copy for inclusion with the annual report of the Committee.

16/07 Value for Money

- Considered:
- i) the Value for Money Strategy;
 - ii) the 2015/16 Annual Report on the University's Value for Money activities;
 - iii) the Value for Money Plan for 2016/17;
 - iv) HEFCE Value for Money Reporting: August 2016.

- Noted:
- i) that the Director of Finance would be updating the Audit and Risk Management Committee on the University's approach in addressing the final HEFCE proposals on value for money reporting in 2017. With respect to this, it was noted that the proposals at the current time largely reflected the Diamond Report and did not, in the opinion of a number of universities, sufficiently reflect the need to ensure that the quality of output was also a VFM measurement rather than simply cost. BUFDG had expressed this view to the Director of Finance at HEFCE and it was hoped that some amendment to the proposals might be forthcoming, in due course. In particular, BUFDG had suggested that reports might need to include an output section focusing on such matters as employability, league table performance, quality indicators etc.
 - ii) that the University's Value for Money Strategy continued to be appropriate and the Committee did not suggest any further changes were necessary;
 - iii) that Section 6 of the Value for Money annual report 2015/16 should be updated to make it clear that it was challenging to deliver value for money when the University sector continued to be under considerable pressure from many new requirements including additional reporting requirements and additional government expectations all of which needed to be funded and supported by universities within their available resources; **LF**
 - iv) that subject to the above addition, the 2015/16 annual report and the University's value for money activities reflected the regular reports which had been made to the Committee during the year;
 - v) that the Value for Money Plan for 2016/17 looked appropriate and, subject to approval by the Board, should be presented to HEFCE as the compulsory report required for 2016/17 subject to clarification of the first sentence to make it clear that the University had previously received a formal annual report on VFM activities for the past 13 years; **LF/CEB**

Agreed: to recommend to the Board that the 2015/16 VFM Report subject to the inclusion of the additional information above) should be approved for submission to HEFCE as part of the Annual Assurance return due in December 2016.

16/08 Audit & Risk Management Committee Annual Report 2015/16

Received: the draft report of the Audit and Risk Management Committee to the Board of Governors for the 2015/16 financial year.

- Noted:
- i) that the draft report needed to be updated to reflect discussions during the meeting. In particular, section 13 and section 24;
 - ii) that the Committee had also completed its consideration of the statement of internal controls as noted under section 23B of the report as agreed at the meeting;
 - iii) that the Committee would be completing as part of the meeting, its consideration of the Risk Analysis and Action Plan and had continued to engage with this throughout 2015/16;
 - iv) that section 24 of the report set out the annual opinion of the Committee based upon the detailed work that had taken place during the year;
 - v) that the appropriate reports had been made to Companies House during 2015/16.

- Agreed:
- i) that subject to the minor amendments noted above and confirmation of the appointment of internal and external auditors which would be considered later on the agenda, the annual report to the Board of Governors and designated officer 2015/16 from the Audit and Risk Management Committee should be approved and presented to the Board at its meeting on 29 November 2016. **CEB**

16/09 Risk Management

- Considered
- i) the University's Risk Management Policy for 2016/17,
 - ii) the University's updated Risk Analysis and Action Plan for 2016/17.

- Noted:
- i) that no changes to the Risk Management Policy for 2016/17 were proposed and that members of the Committee were content that the policy remained appropriate;
 - ii) that the relevant staff leading on risks had reviewed the Risk Analysis and Action Plan in detail over the summer and early autumn period. Arising from this review, a number of changes set out in the summary paper were proposed and, in addition to this, a number of risks had been updated to include changes discussed during the year;
 - iii) that risks around the University's compliance with the PREVENT duty and the Competitions and Markets Authority requirements were currently covered under the risk relating to compliance with legislation. Members were asked whether or not they remained content with this treatment or whether they felt that a separate section with the risk register might be necessary. Members advised that they were content with the current arrangements;
 - iv) that it remained important for the Board to continue to review, not only the risks specifically allocated for its ongoing monitoring but also the top ten risks as set out in the overall Risk Analysis and Action Plan.

- Approved: the Risk Analysis and Action Plan 2016/17 for recommendation to the Board as set out in the agenda paper.

16/10 Internal Audit Plan 2016/17 - Update

- Noted:
- i) that the Internal Audit Plan 2016/17 was in hand;

- ii) that, as discussed at the meeting, internal auditors were happy to adjust the programme slightly and to carry forward the audits of Competition and Markets Authority compliance and the audit of strategic planning arrangements to 2017/18 given that an audit of strategic planning had taken place relatively recently and had not identified any significant issues and that the Board had received a detailed report on the University's compliance with CMA requirements at its meeting in September 2016 and, therefore, had received detailed management assurance recently on this specific issue. It was further recognised that this amendment to the internal audit plan would permit the University to address the recommendations made and that this would also allow the auditors time in their follow up schedule to address the outcomes of the special report.

Agreed: that progress with the internal audit plan remained appropriate subject to the rescheduling of audits noted above.

16/11 **HEFCE Circulars**

Received:

- i) HEFCE Accounts Direction for 2016/17
- ii) Changes to the Memorandum of Assurance and Accountability July 2016.

Noted:

- i) that the Accounts Direction for 2016/17 set out how the University should address its accounting arrangements during the current academic year;
- ii) that a number of changes to the Memorandum of Assurance and accountability had been made in July 2016. In particular, members were aware of the new focus on the Board's responsibilities in relation to academic quality assurance. The Board had focused upon this particular area of its work at the planning day held on 30 September 2016 and further reports would be considered as part of the forthcoming meeting on 29 November 2016.

16/12 **Review of Internal and External Audit Performance**

The internal auditors left the room for consideration of their performance and the external auditors left the room during consideration of their performance.

Received:

- i) an aide memoire on the sources of information and key questions recommended by the CUC for evaluation of the performance of internal and external audit providers;
- ii) the view of University Officers and members of the Audit and Risk Management Committee on the conduct of the audit programmes in 2015/16.

Noted:

- i) that whilst CUC checklist remained helpful, it did not necessarily fully reflect the new accounting standards or auditing standards, It was recognised that the CUC had indicated it was intending to update their advice and guidance on the operation of audit committees;
- ii) that with respect to the changes in auditing standards, external audit was now responsible for undertaking significantly more testing work themselves rather than relying upon internal audit work to quite the same degree. Nevertheless, external auditors did find it useful and helpful to review reports made by internal audit and they continued to find the engagement with RSM to be positive;

- iii) that members of the Committee and University Officers had found engagement with the internal auditors to be appropriate during the year and were happy to recommend reappointment to the Board; the Director of Finance had met with Lisa Randall and found that the discussion had been useful in ensuring that further emphasis on detailed work within the finance team continued to be important;
- iv) that the performance of external auditors and their engagement with internal audit had been positive during the year and no issues had arisen. In the opinion of members of the Committee and of University Officers, external audit had also performed effectively during the year. A detailed “wash up meeting” would be taking place as usual once 2015/16 year end was fully complete.

Agreed: to recommend to the Board that RSM be reappointed as internal auditors for a further year and that KPMG be reappointed as external auditors for a further year. **PC**

16/13 Discussion with Internal and External Auditors

University Officers, including the University Secretary left the room for consideration of this item. The Chairman of the Committee agreed to take the notes in the Secretary's absence.

- Noted:
- i) that the external auditors confirmed that they consider the University's accounting policies to reflect an appropriate application of generally accepted accounting practice. This is particularly relevant to consider in view of the adoption of FRS102 this year.
 - ii) that both internal and external auditors wished to compliment the Finance Team on the very open, transparent and responsive way in which they deal with audit matters, despite the heavy year end workload.

16/14 Client Briefings

- Received:
- i) Internal Audit Client Briefings;
 - ii) External Audit Client Briefings.

- Noted:
- i) that, in addition to the internal audit client briefings included in the agenda, RSM Benchmarking Report had also become available just prior to the meeting and was circulated for discussion at the meeting. In relation to this, it was noted that Harper Adams continued to perform effectively when compared to other HEIs for whom RSM provided internal audit services. Whilst the University was not complacent, it was pleasing that positive engagement had been demonstrated once again during the previous year;
 - ii) that both internal and external auditor client briefings noted the importance of BREXIT and that there might be opportunities for universities to engage positively in the process as well as to deal with challenges relating to research funding and other possible changes. In relation to Harper Adams the University had recognised that there might be opportunities to engage positively with development in the agri-food sector that were likely to flow from BREXIT and the University was continuing to focus upon developing its international links. Recent activities included the attendance of University staff at an India/UK Tech Summit; the Vice-Chancellor's forthcoming visit to Zambia with senior executives from AGCO and the Vice-Chancellor's recent engagement with the High Commissioner from New Zealand. The High Commissioner had agreed to visit the University in early 2017 with a view to exploring whether or not there might be an opportunity to

help further develop links with agricultural institutions in New Zealand and to encourage further staff and student exchange.

16/15 Internal Audit Engagement Letter 2016/17

Received: for information, the draft Internal Audit Engagement Letter for the period to 31 December 2017.

Agreed: that the engagement letters remained appropriate for 2016/17, subject to the Board's approval of the reappointment of the internal auditors.

16/16 External Audit Engagement Letters 2016/17*

Received: for information, the External Audit Engagement Letters for the period to 31 July 2017

Agreed: that the engagement letters remained appropriate for 2016/17, subject to the Board's approval of the reappointment of the external auditors.

16/17 Any Other Business

Noted: that University was continuing to engage with fraud Guidance issued by the Charity Commission together with a number of sources of advice forthcoming from engagement with the BUFDG Fraud Task Group and other information and guidance issued by HEFCE and others relevant bodies.

16/18 Date of Next meeting

16 February 2017 at 10.00 am