

HARPER ADAMS UNIVERSITY
Audit and Risk Management Committee

**Minutes of a Meeting of the Audit and Risk Management Committee held on 16 November 2017
in the Boardroom**

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

In attendance: Dr D Llewellyn Vice-Chancellor (Observer)
Dr C E Baxter University Secretary
Mrs L Furey Director of Finance
Mr M Dawson KPMG
Miss L Tweedie RSM

Apologies: Ms S Khanam
Members were reminded to update their entry in the Register of Interests as necessary.

17/01 Minutes

Approved: the minutes of the meeting of the Audit and Risk Management Committee held
on 29th June 2017 (16/44 – 16/54) **CEB**

17/02 Matters Arising

Received: a report prepared by the University Secretary including a note on Chair's action
taken since the last meeting.

Noted:

- i) that the Chair had taken action to approve minor amendments to the External Audit Engagement Letter during August 2017. The changes reflected the updated HEFCE Memorandum of Assurance and Accountability and the new auditing standards applicable to year ended 31 July 2017. The changes related to updates to language and structure of the letter but not material changes;
- ii) that the University continued to proactively manage collaborative risks. Members noted the briefing paper provided by the Vice-Chancellor and the range of management actions taken with regard to academic collaborative partnerships, collaborations with industry, and collaboration with other bodies which could include other universities, industry partners, or a combination;
- iii) members noted that wherever possible the University makes use of standard templates that have been developed within the higher education sector including those developed for research contracts by Lambert. It was also noted that the University seeks legal advice as necessary where collaborative arrangements are particularly complex. In this regard, members noted the detailed work that was undertaken including a range of working parties and other legal and professional advisers in setting up collaborative arrangements such as those established with Dairy Crest, the Agri-Epi company, and the current discussions with Keele University about a potential joint vet school. It was further noted that the Deputy Vice-Chancellor continued to keep the working group established by the Board informed about discussions in relation to the proposed vet school, and that previous level 2 projects, such as discussions with Dairy Crest, had also been subject to

engagement with a working group established by the Board during the negotiation and decision-making phases;

Agreed: to **ENDORSE** the Chair's decision to approve minor amendments to the External Audit Engagement Letter.

17/03 **Terms of Reference**

Received: updated Terms of Reference of the Committee;

Noted: that as previously agreed the Committee Chair had reviewed the Terms of Reference over the summer with a view to ensuring they were sufficiently clear. The changes related mainly to reordering the responsibilities of the Committee and did not represent significant changes to the actual substance of the document;

Agreed: to **RECOMMEND** the updated Terms of Reference of the Board of Governors. **PC**

17/04 **Follow-up on Internal Audit Reports**

Received: a report by the University Secretary.

Noted: that good progress had been made. In particular, it was noted that the Deputy Academic Registrar had worked with colleagues to ensure that agreed actions arising from the audit of postgraduate research data had been positively progressed. With regards to the audit of cyber security, members noted that due to other pressing matters, it had been necessary for the IT team to propose revised dates for completion of some of the actions, including penetration testing. Members confirmed that they were content that work was in hand and that they were happy to agree the amended dates for

LF

17/05 **Internal Audit 2016/17 and 2017/18**

Considered: i) the Internal Auditors report on their audit of the University's Access Agreement;

ii) the Annual Internal Audit report 2016/17;

iii) a report from Internal Auditors on progress with 2017/18 Audit Plan;

Noted: i) that the Internal Auditors report on the University's Access Agreement was the final report of the 2016/17 academic year. It gave a positive opinion with one agreed recommendation which is currently being actioned;

ii) that the Internal Auditors Annual Report included a positive opinion for the year. In particular, the auditors confirmed that in their opinion the University had an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness and that during the year the auditors had identified further improvements to the framework of control for these areas to ensure that it remains adequate and effective. The Auditors confirmed that they were content that the University was addressing these matters appropriately; They also confirmed that their opinion remained valid to the date of the meeting.

- iii) that the auditors had given slightly more amber opinions and overall medium rated audit reports than in the previous year. However they confirmed that the University's performance was in line with their other clients, and that a full benchmark report for their 18 HE clients would be provided at the next meeting in February 2018. They further confirmed that there was no cause for concern at Harper Adams with respect to the outcome of Audit Reports. It was also confirmed that the report reflected the Internal Auditor's opinion up to the current date and that they had a duty to keep us informed if this was not the case at the point when the accounts were signed by the Board of Governors. They confirmed that if anything changed in the interim then their report would be revised as necessary; **RSM**
- iv) that the Internal Audit Plan for 2017/18 was progressing as planned. A helpful meeting had been arranged by RSM with key staff involved in the Internal Audit Plan across the University. This had helped to brief staff on documentation required and to agree appropriate dates when auditors would be coming to the University to meet with relevant staff and consider documentation etc.

17/06 **External Audit 2016/17**

- Received:
- i) an oral report from the Director of Finance;
 - ii) a briefing note on reporting requirements to meet Charity Commission regulations on Reporting Public Benefits;
 - iii) the External Auditors' Memorandum and Management Letter on the External Audit for 2016/17 Accounts together with the Management response
 - iv) the draft 2016/17 Annual Report and Accounts for Harper Adams University;
 - v) a draft Letter of Representation for Harper Adams University group;
 - vi) the draft 2016/17 Annual Report and Accounts for Cedar Energy Ltd;
 - vii) a draft Letter of Representation for Cedar Energy Ltd;
 - viii) a draft Letter of Support for Cedar Energy Ltd from Harper Adams University;
 - ix) the approved 2016/17 Annual Report and Accounts for Harper Adams University Development Trust and related Letter of Representation
- Noted:
- i) that Finance and General Purposes Committee had asked for a number of minor amendments to be made to reports. These were minor wording updates and no suggested amendments to the figures included in the accounts other than noting a tax credit item which had been confirmed after the accounts had been circulated to F and GP committee. It was confirmed that this change would be included in the tax table in the final draft accounts;
 - ii) that members were content that the section on Public Benefit set out in the draft University Annual Report was comprehensive and that the external auditors have not raised any concerns in relation to this section of the University's Annual Report and Financial Statements;

- iii) that the External Auditors report presented an overall positive opinion with no major issues to highlight. The Auditors also confirmed that they expected to be able to give a positive overall opinion subject to the final Annual Report and Financial Statements being approved and signed at the Board meeting on 28 November 2017. A small number of outstanding issues have been highlighted in the External Audit report which was confirmed had all now been addressed with only those matters that could not be confirmed until the Accounts were signed remaining to be completed. Members also noted that where the External Audit Report refers to the University continuing with work to complete the purchase of agricultural land, depending on timing, it may be necessary to amend the final wording in relation to this matter to reflect that the land purchase had been completed; **KPMG/LF**
- iv) that overall the Auditors have confirmed that the University was in a good financial position, the going concern basis was clearly justified and there were no issues with bank covenants
- v) that during the audit three small adjustments have been identified, two of which have been fully addressed. One unadjusted matter had been highlighted in their report which was not material and had no overall impact on the accounts. This relates to a sale which did not occur until 4 August 2017 following a contract established on 28 July 2017. The Audit and Risk Management Committee were content to support the University's position on this matter and agreed that the accounts did not need to be adjusted to take account of it;
- vi) that KPMG were content with the University's approach to the areas of judgement set out in the accounts. They also confirmed their independence and noted that the tax advice work KPMG had completed during the year was fully disclosed within the accounts and have not led to any conflicts of interest;
- vii) that a recommendation relating to journal processing and authorisation had been made which the Finance team had agreed to address. Auditors also noted that the recommendation made in the previous year with regards the Register of Interests of the Development Trust had been fully addressed, while the recommendations relating to fixed assets, purchasing controls and supply management had made good progress and the recommendation relating to system changes relating to journal transaction had been superseded through a new journal authorisation process;
- ix) that the Letter of Representation referred to the provision in respect of workforce issues. This matter had been discussed at F and GP and clarification of wording had been requested which would be completed prior to the final Letter of Representation being presented to the Board for its approval. The Committee also noted that an appropriate reference had been included in the accounts to the purchase ledger issue identified during 2015/16;
- x) that the underlying University result was very positive and pension provision had been reduced overall. The more positive pension outturn was a change to the prediction made previously by Mercer actuaries, where it had been predicted that the shortfall would increase by year end 2017. KPMG confirmed that the pension figures were appropriate and that in fact the underlying assumptions were slightly more conservative than their own central assumption. KPMG had also

concurred with the provision made for workforce issues. In discussion members asked that the wording on reinvestment at note 12 might be reviewed and asked that the wording in the strategic review of student intake page 10 might merit consideration to ensure it was sufficiently clear; **LF**

- Agreed:
- i) to **RECOMMEND** to the Board for its approval the draft Annual Report and accounts for Harper Adams University, the draft Letter of Representation for the Harper Adams University group, the draft 2016/17 Annual Report and Accounts for Cedar Energy Ltd together with the draft Letter of Representation for Cedar Energy Ltd;
 - ii) to note the draft Annual Report and Accounts for the Harper Adams Development Trust and Letter of Representation for the Development Trust;
 - iii) to **RECOMMEND** to the Board for its approval the Letter of Support for Cedar Energy Ltd from Harper Adams University, on the basis that the activities of the Company conform to the charitable objectives of the University.

17/07 **Value for Money/Annual Efficiency Return**

- Considered:
- i) the Value for Money Strategy;
 - ii) the Value for Money Plan for 2017/18
 - iii) a presentation by the Director of Finance on the 2016/17 Annual Report on the University's Value for Money activities and its proposed approach to the new Annual Efficiency Return due to be submitted to HEFCE by 31 January 2018;
 - iv) a copy of the latest HEFCE guidance issued in October 2017 on preparation of the new Annual Efficiency Return;
- Noted:
- i) that the new AER focus particularly on cash savings rather than qualitative aspects of value for money and that it replaces the previous value for money reporting requirements which had originally been mandated with effect from December 2017;
 - ii) that the University will still need to prepare a Procurement Return annually and that the AER will reflect and present the University's performance in relation to other aspects of efficiency. It was still important for all universities to continue their own internal BFM approach;
 - iii) that the VFM strategy 2017/18 had been reviewed taking into account the report from HEFCE on the previous year sector wide VFM reports;
 - iv) that it would be useful for the Committee to receive a progress report on the University's Value for Money activities at its May 2018 meeting and that following this it would be appropriate, given the new approach to Value for Money in the development of new metrics for the annual AER return, to agree that reporting would normally be made annually to the committee rather than a brief update at each meeting on VFM progress as had been the previous approach. It was also noted that the Office for

Students (OfS) may streamline some of the reporting processes although further information was awaited. Members also noted the discussion ongoing at national level in relation to cross subsidisation in universities and a number of other VFM matters. Members also noted that it was becoming very clear that the OfS principal role will be that of a regulator rather than the funder or supporter of institutions;

- iv) that the presentation on the AER had been very helpful to outline to members of the new requirements, and in light of this, members were content that the final report should be prepared by the Director of Finance and her team and signed by the Vice-Chancellor as accountable officer in due course ready to be submitted on 31 January 2018;
LF

- Agreed:
- i) to **RECOMMEND** to the Board for its approval the VFM strategy together with the outline Value for Money Plan for 2017/18;
LF
- ii) to **RECOMMEND** to the Board that it endorses the Committee's decision that it would be appropriate for the Vice- Chancellor, as Accountable Officer, to approve the AER return for submission on or before 31 January 2018. It was further agreed that a copy of the AER return would be circulated to the Audit and Risk Management Committee at its February 2018 meeting and thereafter, a copy would be made available to members of the Board for consideration at its April 2018 meeting.
LF

17/08 **Audit and Risk Management Committee Annual Report 2016/17**

Considered: the draft Report of the Audit and Risk Management Committee to the Board of Governors for 2016/17 financial year.

- Noted:
- i) that the draft report was due to be submitted to HEFCE by 1 December 2017 along with a copy of Internal and External Auditors Annual Reports;
- ii) that the draft report had been shared with the Chair for his comments in advance of the meeting and had also been shared with the Internal and External Auditors. Both had confirmed they were content with the draft report.

Agreed: to present the Annual Report of the Audit and Risk Management Committee to the Board of Governors at its meeting on 28 November 2017.

17/09 **Risk management**

- Received:
- i) the University's Risk Management Policy for 2017/18;
- ii) the University's updated Risk Analysis and Action Plan for 2017/18;
- iii) a briefing from the Director of Finance on the University's plans for complying with the Criminal Finances Act;
- iv) a briefing note from the Director of Finance on Payment Practice Reporting.

Noted: i) that the Risk Management Policy 2017/18 and Risk Analysis and Action Plan 2017/18 had been reviewed against sector benchmarking reports provided by RSM and UNIAC. Both were recognised Internal Auditors involved in the higher education sector. No changes have been

proposed to the policy following this review. A number of changes had however been proposed to the Risk Analysis and Action Plan;

- ii) that following a detailed review of the Risk Analysis and Action Plan by those staff responsible for leading and assisting the management of risks, the rating of the risk relating to UK Tier 4 had been increased to medium/high; that risks related to legal compliance had been increased to medium from low/medium; that a new rate risk related to the recruitment and retention of farm staff as proposed by the Farm Strategy Committee, had been added to the register and had replaced the previous risk related to the availability of appropriate agricultural land; and that the risk related to network security had been increased from low medium to medium. Members also noted that the Academic Board has suggested that the risk related to UK Tier 4 should be included in its monitoring portfolio as it had introduced a new system for receiving reports in relation to the latter. As the risks related to UK Tier 4 continued to be rated highly within the register this risk would still be included in the top 10 risks reported to the Board;
- iii) that the University had been taking steps to ensure compliance with the Criminal Finances Act together with Payment Practices Reporting. A personal tax group had continued to meet on a weekly basis and this would be particularly important in ensuring the University is compliant with Criminal Finances Act. **CEB**

- Agreed:
- i) to **RECOMMEND** to the Board that the University's Risk Management Policy for 2017/18 and the updated Risk Analysis and Action Plan for 2017/18 be approved;
 - ii) that members were content that the University was taking appropriate steps to address the requirements of the Criminal Finances Act and Payment Practices Reporting.

17/10 HEFCE Higher Education Assurance Review (HAR)

Received: the final report by the HEFCE Assurance Team on the HAR conducted at Harper Adams University in June 2017;

- Noted:
- i) that the report had previously present been presented to the Board at its meeting in September 2017, however it was useful for the Audit and Risk Management Committee to formally note the report and to share it with Internal and External Auditors together with Mr Griffiths as a co-opted member of the Committee;
 - ii) that the report was positive with no recommendations and that this was a very positive outcome.

17/11 HEFCE Circulars

- Received:
- i) HEFCE Accounts Direction for 2017/18;
 - ii) a note from the Director of Finance on changes to the Memorandum of Assurance and Accountability.

Noted: that no major changes were highlighted in the HEFCE Accounts Direction the 2017/18. Similarly the changes to the Memorandum of Assurance and Accountability were relatively minor. Members also noted that the University continued to subscribe to JISC and that this

service provided the University with important support in relation to IT networking and other IT systems and processes.

17/12 **Review of internal and External Auditor Performance**

The Internal and External Auditors left the meeting for discussion of this item.

- 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 views of University Officers and members of the Audit and Risk Management Committee on the conduct of the Audit Plan in 2016/17;
 - iii) an oral report from the Director of Finance on the appointment of KPMG to undertake advisory work in relation to joint veterinary school project with Keele University together with a note on work undertaken during the year in relation to tax advice.

- Noted:
- i) that the performance of Internal Auditors have been appropriate and the additional meeting that had recently taken place to prepare for the forthcoming 2017/18 Internal Audit Plan had been particularly helpful to clarify documentation and timetable for the process;
 - jj) that while the Committee and the University were content that the overall External Audit performance had been appropriate, it would nevertheless be helpful for the Chair and Director of Finance to meet with the audit partner for HE to remind him that the Committee wish to ensure that he remained engaged with the work of the Committee and although helpful continuity had been maintained through the former Audit Manager being promoted to Audit Director, the Audit Team itself had not been quite so experienced this year **LF/PC**
 - iii) that the work of KPMG in relation to tax advice continue to be conducted appropriately and did not cause a conflict of interest with the External Audit Team. Similarly at the current time the work commissioned by both Keele and Harper Adams University from KPMG in relation to tax advice about the new proposed joint vet school did not cause a conflict of interest or compromise the independence of the KPMG External Audit Teams role with respect to Harper Adams University. However members agreed that it would be important for both KPMG and the Director of Finance to continue to monitor the level of the work being undertaken by KPMG to ensure that impartiality was maintained with respect to the Internal Audit process. **LF/KPMG**

- Agreed:
- to recommend to the Board that RSM be reappointed as Internal Auditors for 2017/18 and that KPMG be reappointed to the role of External Auditors for 2017/18.

*The Internal and External Auditors re-joined the committee.
University Officers left the committee at this point.*

17/13 **Discussion with Internal and External Auditors**

- Considered:
- in discussion with the Internal and External Auditors the conduct of audit programs at the University during 2016/17.

Agreed: that the Auditors had no issues to raise in relation to the conduct of the audit programs during the year and thanked the Finance Team in particular for their helpful support during the year.

University officers re-joined the committee at this point.

17/14 **Client Briefing/Charity Commission Briefing**

Received:

- i) Internal Audit Client Briefings;
- ii) External Audit Client Briefings;
- iii) a briefing from the Charity Commission on Cyber Risks.

Noted:

- i) that a number of important issues were currently affecting the HE sector including Gender Pay Gap reporting, GDPR, the Teaching Excellence Framework and the Higher Education Research Act. Briefings were also presented on the National Student Survey;
- ii) that HEFCE had recently published its latest report on the financial health of the HE sector for the period 2016/17 to 2019/20. Members noted that the review of Financial Forecasts had highlighted to HEFCE that there may be significant variation and a widening gap between the best and worst universities in terms of institutional income and cash generation. There were also some issues relating to certain HEIs having overly optimistic forecasts of additional student numbers during the period of demographic downturn and challenges in relation to recruitment of international students. Members noted that Martin Thomas had attended a recent HEFCE meeting which had covered some of these issues and that his feedback would be an item for discussion at the forthcoming Board meeting;
- iii) that Finance and General Purposes Committee had also been briefed on these matters;
- iv) that, in response to questions from members about External Auditor's views of Harper Adams Sustainability and Financial Performance, Auditors noted that the core financials remain strong, the University was generating cash and its level of gearing had been reduced. Nevertheless as members and the University were aware, as a smaller institution working in a specialist area it may be more subject to particular market changes and other influences that could affect recruitment and other aspects of its specialist work;
- v) that the Charity Commission briefing on Cyber Security highlighted a number of important risks and their significance to the Sector.

17/15 **Internal Audit Engagement Letter 2017/18**

Received: the draft Internal Audit Engagement Letter for the period to 31 December 2018.

Agreed: that subject to the Board's approval of the committee's recommendation RSM be appointed, the Internal Audit Engagement Letter be accepted for 2017/18.

17/16 **External Audit Engagement Letter 2017/18**

Received: the External Audit Engagement Letter for the period to 31 July 2018

Agreed: that subject to the Board's approval of the committee's recommendation that KPMG be reappointed to the role of External Auditors, the Engagement Letter for year end 31 July 2018 be accepted.

Date of next meeting 15 February 2018 at 10 AM