

HARPER ADAMS UNIVERSITY
Audit and Risk Management Committee

Minutes of a Meeting of the Audit and Risk Management Committee held on 14 November 2019 in the Boardroom

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

In attendance: Dr D Llewellyn Vice-Chancellor (Observer)
Dr C E Baxter University Secretary
Mrs L Furey Director of Finance
Mr M Dawson KPMG
Ms L Tweedie RSM
Mr Ali Burr SU Director (for item 4-SU Report only)

Apologies: Mr R Hambleton

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

19/01 Minutes

Approved: the minutes of the meeting of the Audit and Risk Management Committee held on 27th June 2019 (18/45 – 18/56)

19/02 Matters Arising

Received: a report prepared by the University Secretary

Noted: that all matters arising from the meeting held in June 2019 were either completed or included later on the agenda.

19/03 Terms of Reference

Received: the Terms of Reference of the Committee;

Noted:

- i) that the Board had agreed a change to the Terms of Reference in July 2019 to reflect the fact that ARMC would be considering the TRAC returns in January 2020 instead of F&GP as in previous years. detail in 2017/18;
- ii) that as advised by KPMG in their sector update, the new terms and conditions of funding letter issued by OfS for 2019/20 does not include the previous Audit Code of Practice., although it has been suggested that further guidance may be issued at some point. The main change was that Audit Committees no longer have to provide an annual opinion on the effectiveness of risk management, internal control, governance and data quality. There was still reference on the likelihood of Audit Committees being involved in commenting on the adequacy and effectiveness of arrangements for securing value for money from funding received. There is also no longer any stated requirement for Internal Audit to provide an opinion on internal control, governance and risk management. However, as a minimum, an opinion on value for money was required and there was a need to comply with “good governance standards”;

Agreed: that the Committee remained committed to overseeing and advising the Board on the effectiveness of risk management, internal control, governance and data quality as well as advising on the adequacy and effectiveness of arrangements for securing value for money from funding received. Members also agreed that Internal Audit

should continue to provide an opinion all of these matters to the Board at least annually. Members therefore concluded that no changes the Committee's terms of reference were required for 2019/20.

19/04 Follow-up on Internal Audit Reports

Received: a report by the University Secretary.

- Noted
- i) that good progress had been made with all reports. The Deputy Academic Registrar had requested a revised completion date for his actions in connection with the documentation of updated attendance monitoring procedures and members were content to accept the rationale offered;
 - ii) that Student's Union had made positive progress with all of the actions arising from the Governance Audit since the follow-up report provided by RSM in June 2019. All of the actions were now completed, with the exception of one that was in hand and one that the SU Director suggested might be re-considered;
 - iii) that the action in progress related to the development of a Student's Union Strategic Plan. While a draft plan had been shared with RSM by the previous interim SU Manager, there had been little consultation with students and the SU Trustee Board and SU Director had agreed that for the strategy to be meaningful, such consultation was essential. To facilitate this process, tenders from companies who had worked with other Students' Unions to develop and monitor their Strategies had been sought. The successful tender would be determined by SU Trustees in January 2020, and thereafter consultation would take place with all stakeholders, including students, members of the Board of Governors, the University and Alumni. The independent consultants would feedback to the SU and help them to draft their Strategy. Thereafter, once the Strategy was agreed and in place, the company would independently monitor and report on progress at least annually;
 - iv) that the SU Director felt that the Memorandum of Understanding between the University and the SU might be sufficient to demonstrate the Union's engagement with the University. It was also the case that the University had consulted the SU and representative students about its new Strategic Plan and the SU would be consulting the University about its new Strategic Plan;
 - v) that RSM were able to clarify that the recommendation related to their experience that in some instances at other client HEIs they had identified a potential clash between SU objectives and University objectives about practical matters such as management of buildings when in fact the buildings were managed by the University;
 - vi) that a programme for training current SU officers was in place and would be further developed through engagement with other Student Unions in the Midlands and in North Wales. Such collaboration would also enable sabbatical officers to share experiences and provide valuable peer support;
- Agreed:
- i) that the University Secretary would provide a copy of the MOU to RSM for their consideration. However, it would still be useful for the SU to include in its Strategic Plan a clear statement about how it interacts with the University, how the SU is aware of and supports the University's Strategic Plan and has had an opportunity to feed into it, and how the University is aware of, and similarly supports the SU's plan and had had an opportunity to feed into it; **AB**
 - ii) that members wished to express their thanks to Mr Burr for his engagement with the Committee and to congratulate him and the SU on making such positive progress since June.

19/05 **Internal Audit 2018/19 and 2019/20**

- Considered:
- i) the Annual Internal Audit report 2018/19;
 - ii) a progress report on the 2019/20 internal audit programme
 - iii) a report from Internal Auditors on the audit of Academic Collaborative Arrangements;

- Noted:
- i) 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; They also confirmed that they were not aware of any matters which would change this opinion up to the present date.
 - ii) that the Internal Auditors had provided with their Client Briefings for the meeting, their annual report on benchmarking across their HE clients. The University continued to perform well and had returned to the stronger levels of performance seen prior to 2017/18 when a partial assurance opinion arising from the audit of Research Governance had reduced its overall performance. Members were pleased to see the positive performance in 2018/19;
 - iii) the outcome of the Academic Collaborative Audit was positive with a green opinion, two low and one medium recommendation, all of which had been agreed by management. Auditors confirmed that this was particularly noteworthy as there tended to be more issues arising from similar audits at other HEIs.
 - iv) that the Internal Audit Plan for 2019/20 was progressing as planned. Some dates had been slightly amended to meet diary requirements for key staff. A helpful meeting had once again 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. Discussion of the scope for the Access and Participation Audit has led to a proposal to focus on the framework for delivery of the 2020-2025 APP as the 2018/19 plan had been largely subsumed into the new 2020-2025 APP;

Agreed: that the internal Audit of the Access and Participation Plan should focus on the 2020-2025 APP. **RSM**

19/06 **External Audit 2018/19**

- Received:
- i) an oral report from the Director of Finance advising on any changes made at or following the meeting of Finance and General Purposes Committee held on 7 November 2019 and on the University's response to the OfS publication on Compliance with 2017/18 Accounts Direction and Accounts Direction from 1 August 2019. Copies of both documents had been circulated to members;
 - ii) a briefing note on reporting requirements to meet Charity Commission regulations on Reporting Public Benefits and OfS reporting requirements;
 - iii) the External Auditors Report on the External Audit for 2018/19 Accounts together with the Management response
 - iv) the draft 2018/19 Annual Report and Accounts for Harper Adams University;

- v) a draft Letter of Representation for Harper Adams University group;
- vi) the draft 2018/19 Annual Report and Accounts for Cedar Energy Ltd;
- vii) a draft Letter of Representation for Cedar Energy Ltd;
- viii) a draft Letter of Support and loan arrangements for Cedar Energy Ltd from Harper Adams University;
- ix) the agreed 2018/19 Annual Report and Accounts for Harper Adams University Development Trust and related Letter of Representation

Noted:

- i) that there were some typographical and presentational points arising from discussion of the draft Annual Report and Financial Statements that took place at Finance and General Purposes Committee. These would be addressed in the final draft for the Board of Governors, and further presentational points made by members of ARMC would also be addressed; **LF**
- ii) that the final tax note on Cedar Energy Ltd had also been agreed and would be integrated into the final version of the Accounts. There was also a need to include an impairment of the Smart Agri-Epi Dairy which had been discussed with external auditors who agreed with the proposal. The repairs needed to ensure the facility was fully operational was estimated broadly at £160K, although it was noted that this was a broad estimate based on current knowledge and some quotations for the work that were available, Other quotes were being sought. F&GP had discussed this proposal and were content with it;
- iii) that there were no changes to the Public Benefit reporting requirements and members were content that the section on Public Benefits set out in the draft University Annual Report was comprehensive and noted that the external auditors had not raised any concerns in relation to this section of the University's Annual Report and Financial Statements. The University had also addressed the OfS publication on compliance with the 2017/18 Accounts Direction and external auditors noted that although the notes provided on senior staff pay were comprehensive in 2017/18 they had been further enhanced for 2018/19. In their view the University was fully meeting these requirements:
- iv) that the University had chosen (as it was permitted to do) not to adopt the new Accounts Direction (Regulatory Advice 9) from 1 August 2019 but to use the 2017/18 Accounts Direction. The Accounts Direction from 1 August 2019 had only been released at the end of October 2019 which was at a point when the year- end audit was in its final stages and very nearly complete. The 2019 Accounts Direction included a requirement to include a specific external audit opinion on disclosures related to spend on Access and Participation as set out in APPs. This would entail additional work for auditors and the finance team especially as the analysis of costs required was at variance with the way costs are allocated at present. Work to address this would begin at an early stage during 2020; External Auditors report presented an overall positive opinion with no major issues to highlight; **KPMG/LF**
- v) that the Auditors anticipated giving a positive opinion when the small remaining items were completed. They had no major issues or concerns to raise and were not expecting any changes that would affect their opinion up to and including the point when the Accounts are due to be signed on 27 November 2019;
- vi) that the external audit team had reviewed the significant risks (revenue recognition, management override of controls, and valuation of pension assets and liabilities) in detail as set out in their report and had no issues to raise. The team had spent some considerable time doing extended computer-based testing as was required and had also spent time reviewing pension assumptions. With respect to the latter, while

KPMG's valuation differed slightly from that provided to the University by Mercers (actuaries to the Shropshire LGPS). However, the difference was not significant and the Mercers advice was slightly more cautious;

- vii) that the University was considering testing alternative actuarial advice to inform its dialogue with LGPS. Mercers had suggested an estimate of £2M in 2019/20 which represented a significant uplift from the £1.2M included for 2018/19 and the £750K for 2017/18. A discussion with the Mercers actuary would be arranged as a first step to understand why they assessed the likely change to be so significant; **LF**
- viii) that KPMG were able to confirm from their experience that pensions were a significant challenge for most HEIs, and an increase in employer contribution rates was being assumed for many LGPS schemes as well as other similar DB schemes;
- ix) that KPMG confirmed that the major reason for the actuarial loss of £7.9m in respect of the pension schemes (previous year - £3.8m gain) was the change in the estimated discount rate for liabilities in the LGPS from 2.9% last year to 2.2% this year.
- x) that KPMG had also audited overall financial position, and were content that the University group was able to continue as a going concern for at least 12 months from the date of signing the financial statements. They had also reviewed the underlying data and treatment for tangible fixed assets/capital developments during the audit and had no issues to raise. Use of funds had also been tested to ascertain whether, in all material aspects, funds have been used for the purposes given including all sources of grant funding and had no issues to raise. There had been one audit adjustment (to depreciation) which had been corrected;
- xi) that two priority two recommendations had been made relating to bank reconciliation and approval of research projects. The research project matter pre-dated the internal audit and the process had already been improved to avoid such issues in future. The bank reconciliation had related to one isolated incident and additional resilience was now in place. Three priority three recommendations relating to enhancing IT systems were agreed and in progress. All management actions arising from prior years were confirmed as completed;
- xii) that the audits of Cedar Energy Limited and The Development Trust had not identified any issues and both bodies had agreed their Annual Reports and Financial Statements;
- xiii) that KPMG had provided information on their independence and confirmed that other work undertaken as agreed by the Committee had not resulted in any conflict or concerns with regard to audit team independence;
- xiv) that as part of their sector briefing, KPMG had provided a graph showing surplus/deficit positions of HEIs whose accounts are complete. Harper Adams remained in a relatively good position notwithstanding pension costs, compared to a number of HEIs (11 out of 21) in a deficit position, Vice-Chancellor's median pay reporting information was also noted, where Harper Adams was at 5.5 compared to the range of 4.5 to 10.8. KPMG would be providing further benchmarking in spring 2020. Members particularly welcomed the format of the sector updates on this occasion;
- xv) that members were content that F&GP wished to recommend the letter of support and loan arrangements for Cedar Energy Limited and noted the fact that Harper Adams had been ranked eighth in a table of Universities for green energy generation on campus, and that the HE sector was in active engagement with the climate commission about how it could contribute to this important activity more widely. The role of Cedar Energy in supporting the Charitable Objects of the University therefore remained significant;

- xvi) that RSM, as Internal Auditors advised that nothing had come to their attention with respect to the external audit that would cause them to review their annual opinion;

- 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 2018/19 Annual Report and Accounts for Cedar Energy Ltd for 2018/19 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 for 2018/19 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.

19/07 **Value for Money/Annual Efficiency Return**

- Considered:
- i) the Value for Money Strategy;
 - ii) the final report on progress with the Value for Money Plan for 2018/19
 - iii) the draft Value for Money Plan for 2019/20

- Noted:
- i) that the VFM Strategy had been reviewed and refreshed in light of the recent publication of the OfS VFM Strategy 2019-2021. A copy of the latter had been provided to members for their information. The University had taken account of the DfE publication on VfM in 2018, and in preparing the 2019/20 Strategy and Plan had taken particular care to reflect on the OfS document which set out expectations with regard to VfM in detail in terms of regulation and the data sets that OfS will use to assess VfM in terms of student achievement and succession and other measures such as TEF, providers efficiency, students' outcomes, fees and funding transparency.;
 - ii) that the VfM Strategy and Plan for 2019/20 had taken account of the above and also included a mapping table that showed how the OfS information is managed by the University and how it is governed. It was noted that sector groups were keen to develop good practice in this regard and inclusion of mapping documents was seen as helpful to both staff and governors;
 - iii) that members were content with the progress made to address the VfM Plan for 2018/19;
 - iv) that with regard to the draft plan for 2019/20 members noted that the projects proposed sought to underpin the delivery of the University's new Strategic Plan which it was hoped would be approved by the Board on 27 November 2019. Members were also content subject to clarification of the target included in the KPI table relating to firsts and upper second-class honours degrees as it was noted that the Director of Academic Services and Academic Registrar had indicated a revised target was needed; [post meeting note, a new target has been included in the version of the table recommended to the Board at its meeting on 27 November 2019];

- Agreed: to **RECOMMEND** to the Board for its approval the VFM strategy together with the Value for Money Plan for 2019/20; **LF**

19/08 **Audit and Risk Management Committee Annual Report 2018/19**

Considered: the draft Report of the Audit and Risk Management Committee to the Board of Governors for 2018/19 financial year.

- Noted:
- i) that the draft report was due to be submitted to OfS by 2 December 2019 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.
 - iii) that references to “designated officer” needed to be updated to read “Accountable Officer” and a typographical error needed to be amended at paragraph 5; **CEB**

Agreed: to present the Annual Report of the Audit and Risk Management Committee to the Board of Governors at its meeting on 27 November 2019.

19/09 **Risk Management**

- Received:
- i) the University’s Risk Management Policy for 2019/20;
 - ii) the University’s updated Risk Analysis and Action Plan for 2019/20;

- Noted:
- i) that the Risk Management Policy 2019/20 had been reviewed in light of the outcomes of the internal Audit of Risk Management. The recommended changes including the inclusion of risk scoring had been added;
 - 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, and wider discussion with their teams as recommended by the internal auditors, it was proposed that the rating of eight risks be amended as set out in the draft RAAP. The inclusion of comments from a wider group of staff had been helpful in this regard;
 - iii) that the University Secretary had considered a publication on risk management in HEIs published by KMPG and also of a recent publication by RSM included in the Client Briefing pack for the meeting. No major changes had emerged from consideration of these documents and the internal and external auditors concurred with this conclusion;
 - iv) that a small number of minor updates to the wording of risks reviewed by Academic Board and one minor suggestion to include organisational development as well as staff development in a risk monitored by Staffing Committee had been received since the agenda papers were published. It was proposed that these changes would be included in the final version of the plan;
 - v) that as recommended by Internal Auditors, residual, gross and target risks had been set out and agreed by staff leading on risks and their teams. A Three lines old assurance model for Harper Adams had also been developed and included in the RAAP;
 - vi) that the assessment of the risk rating for failure to deliver the Access and Participation Plan remained as medium. In discussion members asked for assurance that this had been considered fully. Members noted that the University had worked hard in discussion with OfS to ensure that while stretching targets were set as required by the OfS the targets were achievable and reflected an extension of a trajectory along which sound progress had already been made. It would also

be the case that very regular monitoring and evaluation of progress would be made at University Executive and at the Board (through the Vic-Chancellor's Report) to ensure that should progress slow or reduce, intervention could be quickly identified and progressed to minimise risks of not meeting targets in the time agreed. [post meeting note: at the meeting of Academic Board that followed ARMC meeting on 14 November 2019, this matter was raised. Academic Board concurred with the above explanation of the risk assessment and this was supported by the Academic Registrar and Director of Learning and Teaching who attend Academic Board and are two of the key staff managing this risk];

- vii) that the University continues to encourage students to ensure they are vaccinated prior to coming to University. However, it was noted that immunity is not always guaranteed from disease such as mumps and the University cannot force students to be vaccinated as a condition of entry;

Agreed: to **RECOMMEND** to the Board that the University's Risk Management Policy for 2019/20 and subject to the above minor updates, the updated Risk Analysis and Action Plan for 2019/20 be approved;

19/10 **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 2018/19;

Noted: i) that the performance of Internal Auditors had been appropriate and the annual planning meeting that had taken place to prepare for the forthcoming 2019/20 Internal Audit Plan had once again been particularly helpful to clarify documentation and timetable for the process;

- ij) that the performance of KPMG had been appropriate and there were no issues. Mr Rowley had agreed that he would attend the Audit and Risk Management Committee in February each year and provide a sector update. Mr Dawson would be asked to ensure this was arranged; **MD**

- iii) that a tender for external audit services would be required in early 2021 after completion of the 2020 audit?]. A framework for external audit services was now in place managed by the North West Universities Purchasing Consortium and this would be explored;

Agreed: to recommend to the Board that RSM be reappointed as Internal Auditors for 2019/20 and that KPMG be reappointed to the role of External Auditors for 2019/20.

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

19/11 **Discussion with Internal and External Auditors**

Considered: in discussion with the Internal and External Auditors the conduct of audit programs at the University during 2018/19.

Agreed: that the Auditors had no issues to raise in relation to the conduct of the audit programs during the year. They expressed their appreciation for the helpful support they had received from University staff.

University officers re-joined the committee at this point.

19/12 **Client Briefing/Charity Commission Briefing**

Received:

- i) Internal Audit Client Briefings;
- ii) External Audit Client Briefings (included with the External Auditors Report earlier on the agenda);

Noted: that there were a number of important matters affecting the HE Sector set out in the briefing papers. The University would continue to keep abreast of developments as they arise. The useful workshop/briefing sessions being offered by auditors were also noted.

19/13 **Internal Audit Engagement Letter 2018/19**

Received: The Internal Audit Engagement Letter dated 1 August 2019

Agreed: that subject to the Board's approval of the committee's recommendation RSM be appointed, the Internal Audit Engagement Letter be accepted for 2019/20.

19/14 **External Audit Engagement Letter 2019/20**

Noted: that the External Audit Engagement Letter for the period to 31 July 2020 would be presented in spring 2020. **MD**

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 2020 could be reviewed and subject to that, accepted once it was available for consideration.

19/15 **Feedback from attendance at a BDO Seminar for members of Audit Committees**

Received: a briefing from Mr Greetham

Noted: that the session had been useful and also reassuring in that it was apparent that the Committee at Harper Adams was addressing the appropriate matters. The matters discussed were also reflected in the Client Briefings

19/16 **Feedback from ARMC as part of the 2019 Effectiveness Review of the Board and its Committees**

Received: a copy of the summary of feedback from ARMC presented at the ER workshop in 2019

Noted:

- i) that feedback had been positive with no issues raised
- ii) that the Committees process of annual review remained helpful and Remuneration Committee intended to also have an annual discussion on its effectiveness as recommended by CUC
- iii) that CUC were planning to update the 2006 Guide for Audit Committees in HE. It was understood that audit forms working with HEIs and AHUA/BUFDG would

be asked to comment on a draft in due course. The University would map its arrangements against the new guidance when it was available

Date of next meeting 29 January 2020 (Mr Greetham would be unavailable for the meeting).