



Audit Committee

SUMMARY MINUTES AND ACTIONS

26 September 2017

14:00-15:00hrs

Ted Wragg, Northcote, House, Streatham Campus

CONTENTS:

Item No.	Title
1	Welcome and Introductions
2	Minutes of the Meeting of 26 th September (AUD/17/41) and Matters Arising
3	Terms of Reference for the Audit Committee 2017/18, including Annual Plan of Business (AUD/17/42)
4	Draft Annual Report of the Audit Committee (AUD/17/43)
5	Fraud Response Plan (AUD/17/44) and Fraud Policy Statement (AUD/17/45)
6	Criminal Finances Act Part 3 (AUD/17/46)
7	Internal Audit: a) Annual Report and opinion 2016/17 (AUD/17/47) b) Progress Report (AUD/17/48) c) Follow-Up Report (AUD/17/49) d) Strategic and Annual Plan (AUD/17/50)
8	Internal and External Auditors: Procurement and Extension
9	Cyber Security Update
10	Sector Update (AUD/17/51)
11	Risk Management Update (AUD/17/52)
12	Closedown of the University Accounts 2016/17
13	Value for Money Report (AUD/17/53)
14	Data Assurance Update (AUD/17/54)
15.	Chair's Closing Remarks

Attendees**Members**

Nicholas Bull	Independent Member of Council and Chair
Judy Hargadon	Independent Member of Council
Alison Reed	Independent Member of Council
Nick Swift	Independent Member – Non Council Member
David Dupont	Independent Member – Non Council Member

Minutes

Jacqueline Hodges	Deputy Secretary to the Council
-------------------	---------------------------------

With

Andrew Connolly	Chief Financial Officer
Paul Hirst	Insurance, Audit and Risk Manager
Margaret Laithwaite	Deputy Director of Finance
Chris Lindsay	Director - Compliance, Governance and Risk
Mike Shore-Nye	Registrar and Secretary
Dr Michael Wykes	Director of Policy, Planning and Business Intelligence

Apologies:

Tracey Tuffin, Risk Manager

1. WELCOME AND INTRODUCTIONS

- i. No declarations of interest were raised.
- ii. The Chair welcomed members to the first meeting of the year, with particular welcome to Graham Cole and David Dupont as new members.

2. MINUTES OF THE MEETING of 26 SEPTEMBER 2017 AND MATTERS ARISING (AUD/17/20)

- i. The minutes of the meeting of 26 September 2017 subject to minor amendments discussed with the Chair prior to the meeting.
- ii. The Committee discussed the progress of actions from the last meeting. It was requested that the paper log be sent via email to the committee and discussion was held regard the length of papers produced for the meeting. Discussion focused largely on reports from BDO, with agreement reached that this would reduce in future.

ACTION: Circulate the Audit Committee paper log to the Committee via email (Jacqueline Hodges)

- iii. Andrew Connolly confirmed that Gift Aid would be reviewed within the Tax Strategy and made the Committee aware that the Students' Guild would imminently be subject to a HMRC audit. He reassured that there had been no incidents to prompt the review and that the University's Tax Manager was providing support to the Guild to work through requirements.
- iv. It was highlighted that the UKVI arrangements were included in BDO's programme for 2017/18 and that Mike Rowley would provide an update to Council at the Annual Awayday on 23rd November.

a) Uniforum

- i. Mike Shore-Nye and Michael Wykes shared a presentation with the Committee, providing an update on work being undertaken with Cubane to benchmark the effectiveness of Professional Service teams against other participating UK universities.
- ii. The presentation detailed the rational for the work and expectations of how the work would provide valuable evidence to support change within the University. Initial findings were shared and assurance provided about the accuracy of the data gained through the process.
- iii. The Committee discussed the value of the process with Mike Rowley confirming that KPMG also used Cubane when undertaking change and transformation work. An offer to share insight was made.

ACTION: Discuss opportunities for KPMG to share best practice experience of using Cubane with the University (Michael Wykes/Mike Rowley)

- iv. The cost of running the programme was discussed with confirmation provided by Mike Shore-Nye that, although the cost of the programme was significant, it was set against a professional services budget of £100m with considerable benefits anticipated to be gained over a long period, particularly, as an example, in procurement and evidencing a sector-wide case for change.

b) Future Finance

- i. Andrew Connolly provided an update to the Committee on the Future Finance project. He noted that the project was very complex and was set to go live on 1st February 2018. The IT system was said to be in the design phase, with phase one completed.
- ii. Size and shape of the finance function was being considered, with the aim of bringing together finance functions. Phase two of the project would focus on organisational design. It was anticipated that Exeter would be at the expensive end of the cost function when benchmarked.
- iii. He explained that although delays to date had had consequences overall, it had however enabled a reset of the contract with Technology 1 on the University's terms. The initial plan had been to go live with systems in August, followed by the HR process. Despite the delay, it had been decided not to delay the launch of the HR consultation in January and it was expected that impacted staff would leave in July. The decision had been taken after careful consideration of the pros and cons, with maintaining staff morale and motivation to deliver the project being identified as key to its overall success. Andrew clarified that finance staff had been living with the uncertainty of headcount reductions for three years and it was anticipated that further delays to the HR process would have a negative impact on staff and overall delivery.
- iv. On the technical delivery, Andrew explained that he had weekly phone calls with Technology 1 who were now providing additional resource. He added that previous delays had been caused by Technology 1's struggle to scale up but they had since been working closely together to resolve these issues. Benefits would be incorporated into the business plan from 18/19 onwards but it would not be possible to deliver benefits in 17/18. He confirmed that the situation was being managed with Mike Shore-Nye and work was being undertaken to push down on cost.
- v. Some Committee members urged caution about trying to deliver the technical solutions at the same time as managing a major HR process, with the view also expressed that although tricky, there were ways to manage the complexities of the parallel approach.
- ii. Clarification was provided that it was anticipated that headcount would be reduced by 30 FTE, reducing the cost base of the finance function by 20%. Most posts closures would be at the lower end of the grade scale where currently significant levels of inefficiency existed.

ACTION: Discuss the timing of the system launch and HR process through Dual Assurance Finance and Investments (Andrew Connolly, Alison Reed)

c) Audit Committee Effectiveness Review

- i. Chris Lindsay confirmed that a process to measure the effectiveness of Audit Committee meetings would commence in the Spring and report back to the June meeting of Audit Committee and July meeting of Council.

ACTION: The Audit Committee Effectiveness Review to be scheduled into forward plans for the respective meetings (Jacqueline Hodges)

3. **TERMS OF REFERENCE FOR THE AUDIT COMMITTEE 2017/18, INCLUDING ANNUAL PLAN OF BUSINESS (AUD/17/42)**

- i. The Committee reviewed the Terms of Reference and approved the proposed amendments as detailed in the paper. It was requested that the Dual Assurance lead for Finance and Investments also be made an ex-officio role on the Committee in line with the arrangements for the Dual Assurance lead for Risk.

DECISION: Audit Committee approved the revised terms of reference, subject to the addition of the Dual Assurance lead for Finance and Investments also being made an ex-officio member.

4. DRAFT ANNUAL REPORT OF THE AUDIT COMMITTEE (AUD/17/43)

- i. Chris Lindsay introduced the paper and explained that it was a core compliance document for HEFCE. The version presented was a first draft, prepared for discussion and feedback ahead of approval at the next meeting.
- ii. The Chair noted that good progress had been made with the following up of audit actions and on IT. The Committee commented on several typographical errors and updates required to the declarations of interest of Committee members. It was reported that a final version of the report would be shared with Council at the December meeting.

ACTION: Incorporate comments into a final version of the report to be presented for approval at the November meeting of Audit Committee. (Chris Lindsay)

5. FRAUD RESPONSE PLAN (AUD/17/44) AND FRAUD POLICY STATEMENT (AUD/17/45)

- i. Andrew Connolly discussed the Fraud Response plans, explaining that the discussion aimed to provide the opportunity for the Committee to review the current plan and policy. He noted that the plans had been enacted in the last year in relation to the theft of money from the Cashier's Office and had worked well.
- ii. Committee members asked how the plans compared to those of other universities and whether there was any sharing of best practice or intelligence about incidents between institutions. Andrew explained that incidents of fraud over £25k had to be reported to HEFCE and he received numerous emails from banks and financial institutions sharing information about incidents of fraud.

DECISION: The Committee approved the Fraud Response Plan and Fraud Policy Statement

6. CRIMINAL FINANCES ACT PART 3 (AUD/17/46)

- i. Margaret Laithwaite discussed a new piece of legislation due to come into effect from 30th September 2017. She explained that the legislation introduced a new offence of facilitating tax evasion which would apply to activities both in the UK and abroad. The University had an obligation to inform, educate and monitor compliance to ensure that staff were fully aware of legal requirements.
- ii. The Committee received a paper outlining actions required to be undertaken by institutions. The Chair enquired whether by the end of the year, a process would have been completed to establish what the University was required to do. It was explained that the working group would be undertaking a risk assessment and processes such as training and rules of engagement around the Bribery Act would be used as a template to guide requirements and approach.

- iii. Committee members noted that the changes constituted a major risk and offered advice that specialist companies with expertise in these areas existed who would be able to undertake an audit and produce useful reports advising on the management of such risks.

7. INTERNAL AUDIT

a) Internal Audit Annual Report and Opinion 2016/17 (AUD/17/47)

- i. Chris Mundy provided commentary of the report, explaining that it aimed to mirror the University's own Annual Report, providing details of outcomes and assurances given through internal audit work undertaken over the year. He noted that a final version of the report would be presented at the November meeting.
- ii. He drew the Committee's attention to specific areas of the report, highlighting the breadth and scope of the work and number of days of audit undertaken as stated on page 4 of the report. The Committee also noted that fewer substantial opinions had been given over the course of the year compared to the previous year and there had been no areas of no assurance.
- iii. High level recommendations were also lower than 2016/17 and Chris committed to including benchmarking against opinions across the sector in the revised version of the report due to be presented at the November Audit Committee meeting. Improvements on the clear rates of recommendations were noted with some issues still to resolve, but the position overall said to have improved.
- iv. The report also noted that effective risk management, controls and governance arrangements were in place with no systemic themes of weakness identified. On Value for Money, enough evidence had been found to demonstrate sufficiently effective assurance. A further update on this would be provided at the November meeting however it was not anticipated that this would reduce within that period.
- v. The Chair commented that the assurances given did not appear to set the bar very high. Chris Mundy explained that it was not possible to give absolute assurance and that the audit work aimed to give broad brush assurance that there were no pockets of inefficiency.
- vi. The Committee queried areas of the report. Members noted that it had not been possible to provide assurance on fraud and whether this would be reconsidered given the policy and statements received earlier in the meeting. Chris agreed to review the position again ahead of the November meeting.
- vii. Members also asked whether the high level summary demonstrated that the design and effectiveness of internal controls had weakened since the previous year. Chris Mundy agreed that there was a slightly worse outturn than 2016/17. It was agreed that the benchmarking data to compare trends within other universities would be shared at the November meeting to establish whether this was a sector-wide issue.

ACTION: BDO to review Fraud assurances and include sector benchmarking data in the final version of the report to be presented to the November Audit Committee meeting (BDO)

(b) Internal Audit Progress Report (AUD/17/47)

- i. Chris Mundy highlighted areas of the report for the Committee, noting that although good practice had been identified in relation to fraud plans, codes of conduct and anti-money

laundering arrangements, low levels of staff awareness had been identified in relation to their role in fraud, bribery and money laundering risks.

- ii. Andrew Connolly confirmed that Bribery Act training was being updated and the criteria for who was required to undertake the training was being revised. Revised Gift and Hospitality guidelines were also due to be presented to VCEG in July for approval.
- iii. The Committee asked whether mandatory training formed part of the appraisal process. It was confirmed that managers received a regular report, however part of the challenge in achieving completion targets was the degree of staff turnover and change. The Chair shared the view that mandatory training should be completed as part of the induction process on the first day.
- iii. Chris Mundy commented that it had been the fourth review of training and development and progress to date included a work in progress framework for academic staff, however more work was required for non-academic and members of the professional services.
- iv. No major issues were identified at a college level, although comment was made that more clarity was required on the NSS action plan for the Business School.
- v. Chris Mundy drew the Committee's attention to p.5 of the BDO progress report, which outlined proposals for additional audit work. He explained that a request had been made to look at how the University was responding to Prevent agenda in order to demonstrate the effectiveness of the implementation of policies. Planning had commenced on this work but the Committee's approval was required to go ahead.
- vi. Chris Lindsay offered the view that compliance with Prevent was working well. He noted that a process had been undertaken during the previous year and no fundamental issues had been identified by HEFCE. The aim of the work was to provide assurance that the right events were being covered by event policies and colleagues understood which events had Prevent requirements. It was explained that whilst compliance overall was considered to be fine, an additional level of assurance regarding delivery on the ground was required to provide greater visibility.
- vii. ITC assurance, TRAC Review and changes to the review timetable were also noted in the report. On TRAC, the Chief Financial Officer noted that TRAC had not been reviewed for a few years, however no problems were anticipated.

DECISION: The Committee approved the proposed reporting changes including undertaking a review of how the University was meeting its responsibilities under Prevent, the priority areas for the ICT themed assurance and an assurance review in relation to the University's TRAC processes. The deferment of the review of controls around the use of contractors and staff engaged with personal service companies was delayed until later in 2017/18.

(c) Internal Audit Follow Up Report (AUD/17/48)

- i. Chris Mundy explained that the report provided an update on progress since the last report at the February 2017 Audit Committee meeting. It aimed to focus more on exceptions and he noted that 50% of the recommendations had been completed since the last report.
- ii. The Committee discussed the optimum format for information to be presented at meetings. Suggestion was made that the ten recommendations where there has been insufficient

evidence to close should be presented to each meeting, including a note of why they were being tracked. It was felt it was important not to lose the 'big issues' however currently recommendations were so broad that it was impossible to accurately scrutinise.

(d) Internal Audit Strategic and Annual Plan (AUD/17/49)

- i. Chris Mundy presented the report to the Committee noting that the draft report had been discussed at the previous meeting and a final proposed version had been bought back incorporating feedback previously received.
- ii. He drew the Committee's attention to section 4 of the paper, the delivery timetable, noting that BDO had been working with Paul Hirst to ensure the mechanics worked behind the scenes to ensure work happened.
- iii. Rescoping of the ITC review and GDPR were highlighted and the Committee queried whether BDO were satisfied that the plan focused on the areas where there was a significant financial downside. Assurances were given on this point.
- iv. Transformation was also discussed, with a question raised about the difference in review days compared to the original plans. It was clarified that the review had taken in different strands and this accounted for the increase in work days.
- v. Request was made that future presentations of the final report included details on the coversheet of where amendments had been made in response to feedback from the Committee.
- vi. Members also asked how much of the activity was informed by recommendations from the external auditors. Mike Rowley confirmed that no recommendations had been made by KPMG to inform that work, explaining that rules had changed in previous years to mean that internal auditors were no longer able to rely on external work as a source. He clarified that external auditors may review the work of internal auditors but not influence what work they undertake.
- vii. In concluding the discussion, the Chair made the Committee aware that Paul Hirst had recently taken over responsibility for managing the recommendations and communicating with leads.

8. INTERNAL AND EXTERNAL AUDITORS: PROCUREMENT AND EXTENTION

(representatives from KPMG and BDO left the room for the duration of the discussion)

- i. The Committee discussed the provision of external and internal auditor services at the University.

DECISION: The Committee agreed to extend external audit contract with KPMG for a further two years

ACTION: Prepare a letter and send to KPMG to offer the extension of their contract (Paul Hirst)

ACTION: Provide an update at the November meeting on the internal auditors tender process (Paul Hirst)

9. CYBER SECURITY UPDATE

- i. Alan Hill joined the meeting to share a presentation on progress against cyber security audit recommendations. The presentation included details of the cyber essentials work and the

delivery roadmap, highlighting in green where work was underway and in amber where there had been delays.

- ii. He explained that the WannaCry virus attack on the NHS had had the benefit of creating an increase in focus within areas of the University about cyber security which had assisted progress with areas of the work. This focus had however resulted in delays to other areas of the recommendations.
- iii. Committee members asked whether Alan was now comfortable that staff were taking cyber security as an important issue and a priority to deal with. Alan agreed that there had been a change in culture since the NHS incident. A gold exercise had also been run and this had been success in making staff understand how to connect across the University in the event of an incident.
- iv. It was proposed that Council members completed the Information Security training

ACTION: Recommend to Council that all members complete the Information Security training module (Jacqueline Hodges)

10. SECTOR UPDATE (AUD/17/51)

- i. Mike Rowley provided an overview of sector developments at policy and institutional level. He noted that the landscape had changed more in recent months than at any point over the last 25 years. Political and public opinion with regards to fees, the role of government, Vice-Chancellors' salaries, value-add in higher education, the apprenticeship levy, and sustainability of the HE system were highlighted.
- ii. Emerging threats were identified as an increased focus by local authorities on business rate use, the Criminal Finance Act 2017 and off-payroll workers.
- iii. Committee members asked that the risks associated with the delivery of the Capital Programme be discussed at a future meeting.

ACTION: Capital Strategy risks to be discussed at the November Audit Committee meeting (Mike Shore-Nye)

11. RISK MANAGEMENT UPDATE (AUD/17/52)

- i. Chris Lindsay discussed the latest risk management report. He provided a summary of risk management activities that had been undertaken since the last meeting, a risk exercise had been undertaken over the summer with risk owners from across the University.
- ii. The blank paper exercise at the October meeting of Council was discussed with members clarifying that the purpose was to ensure Council fully understood current risks and to check that Council's perception of major risks was consistent with those of the executive.
- iii. Risk reporting was discussed, with query raised as to whether progress had been made in controlling the volume of risks marked as red. Chris Lindsay confirmed that the new reporting format aimed to get closer to addressing the issue.

12. CLOSEDOWN OF THE UNIVERSITY ACCOUNTS 2016/17 PROGRESS UPDATE

- i. It was agreed that this item would be removed from the standing items of business as it related to a historic issue within finance that had long since been resolved.

DECISION: The closing down of the University Accounts will be removed from the standing item of business.

13. VALUE FOR MONEY REPORT (AUD/17/53)

- i. Andrew Connolly explained to the Committee that changes had taken place with regards to HEFCE requirements on VfM reporting. Due to shortness of time at the meeting, it was not possible to discuss the report in depth however the Committee stated that members were of the opinion that the University had an adequate and effective approach to value for money.

DECISION: The Committee agreed that adequate systems and process were in place to ensure value for money.

ACTION: A fuller discussion on Value for Money to be scheduled for the next meeting (Andrew Connolly)

14. DATA ASSURANCE UPDATE (AUD/17/54)

The Committee noted the report.

15. CHAIR'S CLOSING REMARKS

- i. The next meeting of the Audit Committee was scheduled for 2nd November 2017 at 10:00hrs.

THE FOLLOWING PAPER WAS NOTED:

- Vice Chancellor's Report to Council July 2017

Action (Minute reference)	Owner	Progress
Circulate the Audit Committee paper log to the Committee via email (Item 2)	Jacqueline Hodges	Circulated with meeting papers and available on Boardpacks.
Discuss opportunities for KPMG to share best practice experience of using Cubane with the University (Item 2a)	Michael Wykes	
Discuss the timing of system launch and HR process through Dual Assurance Finance and Investments (Item 2b)	Andrew Connolly/Alison Reed	Update to be provided at the 2 nd November meeting
Audit Committee Effectiveness Review to be scheduled into forward plans for the respective meetings (Item 2c)	Jacqueline Hodges	Completed
Incorporate comments into a final version of the report to be presented for approval at the November Audit Committee meeting (Item 3)	Chris Lindsay	Completed
Review Fraud assurances and include sector benchmarking data in the final version of the report to be presented to the November Audit Committee meeting (Item 7vii.)	BDO	Update to be provided at the 2 nd November meeting
Prepare a letter and send to KPMG to offer the extension of their contract (Item 8)	Paul Hirst	Completed
Provide an update at the November meeting on the internal auditors tender process (Item 8)	Paul Hirst	Included on the agenda for 2 nd November meeting
Recommend to Council that all members complete the Information Security training module (Item 9)	Jacqueline Hodges	To be built into work around the implementation of the GDPR
Capital Strategy Risks to be discussed at the November Audit Committee meeting (Item 10iii.)	Mike Shore-Nye	Included on the agenda for 2 nd November meeting
A fuller discussion of Value for Money to be scheduled for the next meeting (Item 13)	Andrew Connolly	Included on the agenda for 2 nd November meeting

Decision	Paper Reference
<p>Item 3i. Audit Committee approved the revised terms of reference, subject to the addition of the Dual Assurance lead for Finance and Investments also being made an ex-officio member.</p>	AUD/17/42
<p>Item 5 The Committee approved the Fraud Response Plan and Fraud Policy Statement.</p>	AUD/17/44 and AUD/17/45
<p>Item 7b The Committee approved the proposed reporting changes including undertaking a review of how the University was meeting its responsibilities under Prevent, the priority areas for the ICT themed assurance and an assurance review in relation to the University's TRAC processes. The deferment of the review of controls around the use of contractors and staff engaged with personal service companies was delayed until later in 2017/18.</p>	AUD/17/47
<p>Item 8 The Committee agreed to extend external audit contract with KPMG for a further two years.</p>	n/a
<p>Item 12 The closing down of the University Accounts to be removed as a standing item of business.</p>	n/a
<p>Item 13 The Committee agreed that adequate systems and process were in place to ensure value for money.</p>	AUD/17/53