

## Unconfirmed

### Minutes of University of Exeter Audit Committee Meeting, 8 November 2018

Board Room, Knightley, Streatham Campus

10.00 – 14.00

#### Members present:

Gerry Brown	Independent Member of Council and Chair
Graham Cole, CBE	Independent Member of Council
David Dupont BA (Hons) MBA	Independent External Member of Audit Committee
Simon Enoch LLB	Independent External Member of Audit Committee
Alison Reed ACA	Independent Member of Council

#### Apologies:

Judy Hargadon OBE	Independent Member of Council
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#### Officers in attendance:

Andrew Connolly	Chief Financial Officer
Ken Evans	Pro-Vice-Chancellor and Executive Dean (CEMPS)
Susan Fallon	Deputy Secretary to Council
Alan Hill	Chief Information and Digital Officer
Paul Hirst	Insurance, Audit and Risk Manager
Christopher Lindsay	Director of Compliance, Governance and Risk
Mike Shore-Nye	Registrar and Secretary

#### In attendance:

Charles Martin	PWC, Internal Auditors
Lynn Pamment	PWC, Internal Auditors
Mike Rowley	KPMG, External Auditors
Sarah Mitchell	KPMG, External Auditors

Tracy Costello	CEO, Exeter Students' Guild (item 5 only)
Grace Frain	President, Exeter Students' Guild (item 5 only)

1. Audit Committee held a closed meeting with the Internal Auditors
2. Welcome and Declarations of Interest
  - 2.1. The Chair welcomed Professor Ken Evans Pro-Vice-Chancellor and Executive Dean (College of Engineering, Mathematics and Physical Sciences).
  - 2.2. Members were asked to submit any declarations of interest that differed from those submitted previously to the Deputy Secretary to Council. No declarations were received for the items of under discussion at the meeting.
3. Minutes of the previous meeting 20 September 2018 (AUD/18/59) and Matters Arising

### **3.1.DECISION: That the minutes be accepted as a true record and approved.**

#### 4. Matters arising from the minutes

- 4.1. Attendance at Audit Committee: The Director of Compliance, Governance and Risk updated the meeting that it had been agreed the Director of Policy, Planning and Business Intelligence, the Deputy Director of Finance and the Risk and Compliance Officer would no longer attend all Audit Committee meetings, but would be in attendance for specific items where required.
- 4.2. Future Finance Update: The Chief Financial Officer (CFO) updated the meeting on progress three months after 'go-live' with the T1 finance system. He informed the meeting that the system, which involves very significant business change, was not working as expected and consequently impacting negatively on some aspects of business delivery. The Finance team are holding user focus events, training events, 1-1 meetings with certain academic users and updating the guidance to support the business through this period of change. The team's main aim is to get to a "business as usual" position as quickly as possible, but in the meantime extra resources are being provided to certain parts of the business so that extra time being spent on financial process is not detrimental to core work. This includes focusing resource areas such as Research Services and Penryn and moving the Deputy Director of Finance to focus solely on T1 project work. The College Heads of Finance, who are embedded in Colleges, are also performing a critical role with trouble shooting and providing front-line support to Colleges. T1 have provided good quality additional resource on and offsite.
- 4.3. There is confidence in the project, but it is likely that problems will persist into the new year; but it is felt by the senior team that the system is definitely the right choice for the institution. The interface between T1 and other systems remains a significant and on-going concern.
- 4.4. The Pro-Vice-Chancellor and Executive Dean (CEMPS) informed the meeting that, from a College perspective, there is concern over the lack of detailed financial management information, leading to budget holders being unable to manage their budgets. The CFO assured the meeting that financial management information is being rolled out College by College starting mid November 2018. The CFO assured the meeting that the institutional level management information is available.
- 4.5. The Pro-Vice-Chancellor and Executive Dean (CEMPS) also stated that too much staff time in Colleges is being taken up by the change and that there is a need for strong communications about completion to colleagues. He informed the Committee that the College supports the new system and can see an end to the issues.
- 4.6. The Committee challenged the CFO on the level of stability had been achieved in the project and the extension to dates for achieving business as usual. The Committee asked for

evidence that there is progress and it was agreed that Audit Committee would receive the same weekly updates that are currently being issued to VCEG.

**4.7. ACTION: Audit Committee to receive VCEG's T1 weekly updates.**

4.8. The Committee also challenged the CFO on the timing of reducing Finance staff as part of the broader project. The CFO assured the Committee that whilst people were given notice at the same time as 'go-live', they did not leave immediately and would be working at the University for a further 3-5 months post go-live. Additional sufficient extra resource has been allocated and it was felt that that staffing was not proving a significant issues at the current time.

4.9. The external audit representative asked if the project has adversely affected cash flow. The CFO stated that teaching and research income is flowing at expected rates and that this is substantiated with the levels of cash balances held.

4.10. Simon Enoch provided an update to the meeting from a BDO conference on Best Practice in Higher Education. He emphasised:

- a) The need to recognise universities as businesses
- b) That the Government will not be bailing out failing universities.
- c) The need to assure that the university is a going concern for future viability.
- d) That income for universities looks very uncertain at the moment due to numerous factors.

**5. Office For Students (OfS) Research - Student Perceptions About Value For Money (AUD/18/60)**

5.1. The CEO and President of Exeter Students' Guild joined the meeting to introduce the OfS/student unions report on student perceptions about Value For Money (VFM), together with the Exeter Guild of Students own research.

5.2. Audit Committee were asked to consider and discuss how the University can incorporate the insight gained from the report into its planning and delivery of the entire student experience. The Guild President reminded the meeting that VFM is one of the main priorities for the OfS.

5.3. In the subsequent discussion, the following points were raised:

- a) To what extent is the University effectively communicating how money is being spent and is there a clearly understanding of what represents VFM to students?
- b) How does the University address areas that students do not want money spent on?
- c) Student's response to resource allocation questions vary depending on year group.
- d) 98% of respondents thought teaching was important, but only 50% think they are getting VFM.
- e) Would a fee reduction bridge the gap between qualitative and quantitative VFM feedback?
- f) A fee reduction could improve or decrease perceptions of VFM depending on the savings the institution would have to make as a result of what would be a significant cut in core funding.
- g) The need for transparency on roles and functions at the University and clarity on how they provide value in terms of delivering the University's strategic priorities.
- h) How VFM issues would be reflected in the subject level TEF.

5.4. The Committee welcomed what had been an extremely helpful presentation and discussion. It was noted that VFM was a key objective for Audit Committee during 2018/19 and there was a need to maintain a strong focus on this important area across the academic year. As part of this work, it was agreed that the PVC of the Business School should be invited to attend the next meeting of the Audit Committee as the senior academic representative to assist further discussion on how VFM can best be defined across the University.

**5.5. ACTION: Audit Committee 1 March 2019 to have an agenda item that the PVC of UEBS would provide an opinion on what VFM means for the institution and how it can be improved.**

## 6. Draft Annual Financial Statements

6.1. The CFO thanked the members of the Committee for their comments previously supplied on the annual report. He asked Audit Committee to recommend the financial statements and report to Council.

6.2. KPMG provided an update on the preparation of the accounts, commenting:

- a) Senior pay reporting will continue to be closely scrutinised. It was noted that Remuneration Committee does extensive bench marking of senior pay and that Exeter is completely transparent about its approach.
- b) With regard to recent pension development which relates to equal pay claims and pension benefits going back to the early 1990s, the auditors have requested the University to consult with actuaries about this issue and if necessary will include a note in the accounts as a disclosure. [Post meeting note – a *Post Balance Sheet Event* disclosure on this issue was included in the 2017/18 financial statements, at Note 29, page 89 of the document].
- c) That files from INTO auditors still need to be considered.
- d) Recommendations around IT and research controls, whilst not a major recommendation, are a control point.
- e) USS provision is adequate; ERBS evaluation is being checked; and a judgement about the loan guarantee position (Science Park) has been included.
- f) The auditors have applied challenge and professional scepticism to the University financial statements, including drilling into 13 years of staff and salary projections and liabilities at the Science Park. Next year with T1 in place, the auditors will be able to do further data analytics and modelling.

6.3. The Committee discussed the USS pension challenges and was updated by the CFO on the current situation and the back stop position if all parties do not agree on a solution. Exeter is supportive of the JEP report and has stated this in its USS consultation response. It was noted Exeter's response the consultation was agreed by Council.

6.4. The CFO outlined the costs to the University of the different USS proposals which vary from £3m to £9m per year. Furthermore there is another valuation due in 2020. The problems and risks to the institution will remain whilst the scheme remains a defined benefit scheme. The Committee discussed other factors and scenarios in the pension debate.

6.5. The Committee requested assurance that there are not bank accounts in Colleges and Services in the University's name that are not known. Whilst there is assurance through the Heads of Finance's professionalism and professional standards, the Committee asked that the CFO conduct an exercise requesting a formal return from each PVC and Director of Service providing assurance that they are not aware of any bank accounts, had not netted off income and expenditure, conformed that all accruals had been properly made in the accounts and similar assurances were collected on financial controls, accounting and disclosures with respect to their College or Service.

**6.6. ACTION: The CFO to issue a 'departmental questionnaire' to PVCs and service directors, as part of the year-end audit, evidencing assurances on basic financial controls.**

6.7. Whilst there is no requirement to provide a statement on viability of the institution beyond 12 months, the Committee requested this was included for reassurance.

6.8. Further commentary on operating cash flow was requested.

6.9. The Committee discussed further amendments and it was agreed that a red line version which tracks changes made to the document at the meeting would be shared with the Committee on 9 November. Further comments could be incorporated if received by 13 November. On this basis, after considering the External Auditors audit report and opinion and their Highlights and Management Letter, Audit Committee recommend the Annual Report and Financial Statements to 31 July 2018 to Council.

7. Internal Audit Update (AUD/18/64-67)

7.1. The new process for the management of internal audit recommendations (AUD/18/64) was agreed with the addition that where there is a need for escalation that this would be to the Registrar.

7.2. PWC Audit Plan 18/19 (AUD/18/65) was agreed with the amendment that the transformation audit be brought forward from Q3 to Q2.

7.3. PWC informed the meeting that whilst they had been on site and done some field work, they had not formed a holistic view yet. They added it would be incumbent on PWC to prove they are adding value.

7.4. It was noted that VFM reviews had been put into Q4 so that there was time for the OfS view to be slightly clearer so that Exeter's position can become more formed.

**7.5. ACTION: The Committee requested that consideration of a review of utilisation of the University's assets be on the agenda of the next Audit Committee.**

7.6. The North Park Project Assurance Report (AUD/18/66) was noted. The report reviewed the process and not the calculations currently in the North Park business plan. PWC's conclusion was that there was a logical approach to the project but some key points of internal challenge. These included a consistent approach when combining business cases into one, with the same assumptions; a comprehensive sensitivity analysis and some further

recommendations that management have responded to. The follow up work to this will be reported at a future Audit Committee.

7.7. The Committee were keen that Project North Park would continue to be reviewed and feature on future agendas, in addition to the North Park project Board, Council Scrutiny Group and Council.

7.8. The Progress Report (AUD/18/67) was noted. The priorities for the internal auditors are determined by University's risk register and auditor assessment, informed by sector intelligence.

#### 8. Risk update, including update on the Council risk exercise (AUD/18/68)

8.1. The Director of Compliance, Governance and Risk updated the Committee on the risk exercise Council undertook on 18 October 2018. The exercise identified new areas of potential risk, i.e. succession planning and marketisation.

8.2. It was reported that Colleges and Services will be submitting their risk reports this month, which will be submitted in summarised form and for review by VCEG.

8.3. Risk Dual Assurance will report to Audit Committee in March for a deep dive into risk management at the University.

8.4. The institution's mitigation plans for external risks was discussed. It was noted that much of this fell to the Vice Chancellor and, as a result, succession planning becomes more important for risk management.

#### 9. Annual Report of Audit Committee 2017/18 (AUD/18/69)

9.1. The Director of Compliance, Governance and Risk presented the final Annual Report of Audit Committee which was agreed for recommendation to Council.

#### 10. Cyber Update

10.1. The Chief Information and Digital Officer joined the meeting to present to the Committee the work being undertaken by Exeter IT to protect the institution from Cyber-attacks, and the risk environment and challenges for the team. It was noted that phishing emails have increased as a result of the implementation of T1 - sophisticated hackers target businesses when they are in a period of system change as they try to exploit vulnerabilities of staff not familiar with a new purchasing system. State sponsored hacking of research institutions was also raised as a major challenge.

10.2. Currently the team is doing manual reactive work but there are plans in place to purchase an automatic system which operates proactively to threat identification.

10.3. The Committee was concerned with digital backups for the institution; the meeting was informed that Exeter's backup is on tape and regularly tested.

10.4. The IT security team had undertaken two emergency business continuity simulation exercises to prepare for events that the institution will be at risk of no matter how much is spent on protection. The team are also working with JISC (Joint Information Systems Committee for HE) on cyber security at sector level.

10.5. The Committee were assured that there have been no breaches to date that have been reportable under GDPR to the ICO.

#### 11. Chair's Closing Remarks and AOBs

11.1. Future agenda items requested are:

- a) Financial risk with industrial clinical trials.
- b) The procurement savings project, and an opportunity for the Committee to meet the new Head of Procurement.

11.2. The chair thanked the members of the Committee for their attendance, particularly the Pro-Vice-Chancellor and Executive Dean (CEMPS), and also the external and internal auditors.

#### 12. Date of the next meeting

1 March 10.00 – 14.00

#### ACTIONS:

	<b>Action</b>	<b>Responsible</b>
1.	Audit Committee to receive VCEG's T1 updates weekly.	Deputy Director of Finance
3.	Audit Committee 1 March 2019 to have an agenda item that the PVC of UEBS would provide an opinion on what VFM means for the institution and how it can be improved.	Deputy Secretary to Council
4.	All PVCs and Service Directors to provide the CFO with a one page, by exception, report of any financial concerns in their College or Service.	Chief Financial Officer
5.	The Committee requested that consideration of a review of utilisation of the University's assets be on the agenda of the next Audit Committee.	Deputy Secretary to Council
6.	Future agenda item of Financial risk with industrial clinical trials	Deputy Secretary to Council
7.	The procurement savings project and the Committee would like to meet the new Head of Procurement.	Deputy Secretary to Council