
Meeting: AUDIT AND RISK ASSURANCE COMMITTEE

Date and Time: Wednesday 01 April 2020 at 11 am

Venue: Virtual via Zoom

Present:

Mr Tim Ford

Chair

Mr A Bayliss

Appointed member

Mrs Christine Gibbons

Lay member of Council

Mrs Charlotte Moar

Lay member of Council

Mr Steve O'Donoghue

Appointed member

In attendance:

Dr Mark Ellis

PwC

Mr Simon Fenne

Deputy Director of Finance

Mr Tom Stanton

Head of Internal Audit

Professor Ian White

Vice-Chancellor and President

Mr Martin Williams

Director of Finance

Attendance for specific items of business only:

Dr Nicky Kemp for Minutes 1573 - 1575

Director of Policy, Planning and Compliance

Secretariat:

Emily Commander

Head of Strategic Governance

Clare Henderson

Secretary

Apologies:

Professor Dot Griffiths

Lay member of Council

1573 DECLARATIONS OF INTEREST

No declarations of interest were made.

1574 RISK MANAGEMENT DISCUSSION: COVID-19

1. Financial Risks

The Director of Finance outlined the risks and actions as follows:

- The University had taken action to preserve cash: suspension of recruitment, guidance on procurement for essential purchases only, and monitoring of cashflow to ensure loan covenants were met
- A Financial Sustainability Group had been established to review immediate actions, forward planning for next year and the recurrent impact arising from the Covid-19 situation
- The University was planning around different scenarios for student recruitment.

2. Wider University Overview

The Vice-Chancellor paid tribute to the Director of Finance and the Director of Policy, Planning and Compliance and their teams for their hard work. He outlined the response of the University to the Covid-19 situation:

- There had been a move to provide online lectures and resources to students. Assessment planning was ongoing though promised regulatory guidance was still awaited to inform decision-making.
- Actions had been taken to ensure the welfare of students on campus, the majority of whom were BME students. This included provision of free food and ensuring points of contact.
- The University was concerned to position itself well for next year. It was running virtual open days – a postgraduate open day taking place concurrently with this meeting. The uncertainties for 2020/21 were immense in terms of student numbers and the associated impacts. Any imposition of student number controls would disadvantage the University and other research-intensive universities. It was important to ensure that short-term measures in this interim period did not have a detrimental effect on the longer term operations.
- Cashflow was a priority for the Executive's attention. The University did not have in place Nomination Agreements on the same scale as other universities who were consequently facing significant liabilities. The cashflow position was manageable for the immediate term.
- Two large projects, IAAPS and School of Management, were continuing but had been impacted by the Covid-19 restrictions.

3. Committee Discussion

Members of the Committee put questions to the Director of Finance and

the Vice-Chancellor. In their replies, the following points were made:

- In terms of meeting loan covenant requirements, cashflow management was a priority. To this end, there was ongoing monitoring of the operating cashflow/service cost ratio. The service costs were relatively fixed but operating cashflow was dependent upon student recruitment. Conversations with banks would be opened on the loan covenants so that the banks understood the University's position. It would only be in the most challenging scenarios that the University might breach its covenants and this was not the University's expected outcome. Sector based contacts had indicated that most banks would be accommodating but it was not expected to be easy to agree any concessions with the EIB (European Investment Bank) due to the Brexit position.
- Guidance had been issued on 'essential' recruitment and spend: for recruitment via the University's homepage and for expenditure to budget managers via the online financial systems. Already the volume of requisitions had dropped.
- In response to a question on change management expertise, the Vice-Chancellor noted that Department reporting was being focussed around current impact on operations, with new ways of looking at performance and service delivery. At the moment, academic staff were engaged in online delivery of teaching, reviewing assessment options and supporting key services including the NHS and local authority. The Curriculum Transformation project had been deferred pending new streamlining and reconfiguration of the services in this area. The Director of Finance reported that the Financial Sustainability Group would identify the areas for focussed attention and the approach to the next planning round would be reformulated. A new Chief Operations Officer (Mr Keith Zimmerman) would take up post on 6 April 2020 and his input to leadership decisions would be critical.
- It was noted by a member of Council that communications by the University had been very good in comparison with other institutions and it was likely that those universities that communicated well and maintained the excellence of their teaching provision throughout this difficult period would be successful in preserving their attractiveness to new students.
- It was reported that Council would be discussing benchmarking at its meeting on 23 April 2020 to improve its understanding of this useful tool.
- The Director of Finance explained the anticipated lost income figure of more than £20 million in the current year as due to
 - the final tranche of the student accommodation payment for rooms that were unoccupied not being collected, amounting to £6.6 million;
 - lost summer conference and language school income;
 - lost pre-sessional course income; and
 - income lost because of the closure of the STV and retail outlets.At this point in time, there was no expectation that tuition fee

income would be repaid because teaching was continuing online. The 2020/21 academic year presented many uncertainties in terms of income because it was difficult to forecast student recruitment including the extent to which overseas recruitment would be impacted.

- A member of Council asked about the support that the alumni community could give. The Vice-Chancellor noted that alumni had an important role in supporting specific groups of students or individuals in difficult circumstances. The Alumni Fund had provided important support to students in hardship and also to academic staff making masks for NHS workers. The Director of Policy, Planning & Compliance reported that alumni had been supporting students on study abroad programmes and placements abroad. In the case of 19 students who could not currently travel home, alumni members were offering assistance.

4. Student Welfare

The Director of Policy, Planning & Compliance reported that student mental health represented a risk area. The mental health and welfare of students on campus, of whom there were 96 undergraduates, would be a priority in the current situation. There was ongoing work to relocate students based in the city onto campus to minimise the impact of isolation and to ensure access to food and services.

5. External Auditor's observations

The External Auditor considered that the University had evidenced good practice with regard to cash management. He recommended ensuring that modelling sensitivities be dynamic for real time operations and include worst case scenarios with associated contingency action plans. He noted a joint statement from FCA (Financial Conduct Authority) / FRC (Financial Reporting Council) / PRA (Prudential Regulation Authority) encouraging Banks and lenders to take account of the lifting of some restrictive measures on their services when responding to potential breaches of covenant arising directly from the coronavirus pandemic. Dr Ellis advised that if the University considered it likely that it would breach its loan covenants then the debt would need to be disclosed as being due in less than one year. Early conversation with the banks was recommended.

6. Internal Audit

The Head of Internal Audit reported that the risk and control environment had been subject to a radical transformation as a consequence of the current situation and his team would reflect on the impact on operational processes within their ongoing audit work. Going forward, business continuity planning would be considered as part of audit investigations as a matter of routine.

The Chair thanked the Committee and Officers for their contribution to the discussions.

1575 RISK MANAGEMENT PROGRESS REPORT

The Director of Policy, Planning & Compliance presented the Risk Management Progress Report from UEB (University Executive Board) (Paper A19/20 – 051).

Dr Kemp reported that business continuity planning around the Covid-19 pandemic was the University's highest priority risk management activity and consequently there was a new Covid-19 Operational Risk Register. She noted that the Silver EMT (Emergency Management Team) was meeting daily to provide oversight of operational needs and deal with tactical matters. The range of activity was set out in the Operational Risk Register and continued to expand as new issues emerged. She reported that one area under review was building closure and whether this should be undertaken to reduce energy costs. Some areas of concern were related to wider external conditions such as bus services impacted by lack of staff or cashflow problems potentially leading to business closure. It was envisaged that the Covid-19 Risk Register would become more detailed over the coming weeks.

In the course of discussion, the following points were made:

- Construction work on the School of Management and IAAPS building had now ceased. However, the 2 West windows replacement work was continuing subject to the supply of windows and no asbestos associated problems arising.
- Insurance cover for business interruption was available through the Universities Mutual Association insurance but the level of cover was modest (c £250k).
- Timeframes for key decision-making could be helpful, especially in an evolving environment, to avoid critical actions being missed.
- The Director of Undergraduate Admissions was keeping up-to-date with emerging plans for revised A' level assessments. Online confirmation and clearing activity would need early IT testing for robustness.

Dr Kemp was thanked for her report.

ARAC **approved** the recommendation to Council that
- no changes to key strategic risks be proposed at this time because of the difficulty in re-calibrating the gross and net risks during this rapidly developing period in the Covid-19 pandemic and
- the development of the new Covid-19 Operational Risk Register be noted.

1576 MINUTES OF PREVIOUS MEETING

The minutes of the ARAC meeting of 29 January 2020 were **approved** as a correct record (Paper A19/20 – 052). They will be signed by the Chair.

1577 MATTERS ARISING

Minute 1567, Internal Audit Report – Doctoral College.

To give an indication regarding sources of funding for Postgraduate Research students, the Head of Internal Audit reported that, for new starters in 2019/20, 75 are funded by Research Council Training grants, 53 are funded by University of Bath funds, and 32 from other sources.

1578 STANDING ITEMS OF BUSINESS

1. Governance Updates

It was noted that governance updates had been placed in the Document Library (ARAC Reading Room) on Convene:

- Update from the OfS on Covid-19 (17/03/20)
- English HE 2019: OfS annual review
- Disabled Students' Commission to help remove barriers preventing disabled students from accessing and succeeding in HE and having the best experience during their studies (09/03/20).

2. Programme of work

The Committee **noted** its programme of work for the next 12 months (Paper A19/20 – 053). It was reported that the risk presentation by the PVC (International & Doctoral) had been postponed. It was requested that Standing Items of Business include a report from the External Auditor and refer to the Vice-Chancellor's 'update' rather than 'report'.

1579 STATUTS REPORT ON AUDIT POINTS

The Committee received an open audit points status summary as at 23 March 2020 (Paper A19/20 – 052).

The Head of Internal Audit reported that eight points had been closed, including two A grade points relating to IAAPS and IT Disaster Recovery. There were 18 overdue audit points. It was anticipated that there would be some slippage in clearing open audit points in accordance with the timeframes given the current Covid-19 situation. The Internal Audit team would review the relevance of open audit points and take a pragmatic view as to their importance and the urgency for ensuring clearance.

The Committee made the following comments:

- The other grade A point for IT Disaster Recovery remained open and delayed by year. The Head of Internal Audit reported that BIA (Business Impact Analysis) templates had now been agreed and were being tested. However, the Committee expressed concern over the delay and considered that there should be agility in addressing a problem with other steps being taken if the original recommendation could not be implemented in a timely manner. The Vice-Chancellor reported that the longer term view being

developed by the Digital Strategy Group needed to progress alongside short term plans for critical business systems. The Digital, Data and Technology Group would accelerate activity with upgrades to operational systems but the approach to cyber security was undergoing a process of review. It was requested that an overarching view of management objectives and timelines should be provided for this area.

HoIA

- The External Auditor noted that the new working practices brought about by the Covid-19 pandemic had given rise to risks of error and fraud. Monitoring of the new working practices should be factored into the Internal Audit team programme.
- The External Auditor offered PwC support and advice, if required, for ensuring that the Internal Audit programme continued smoothly with remote auditing. The Head of Internal Audit reported that it would be necessary to defer some audits to next year but the majority of audits on the programme would go ahead.

The Committee **noted** the status report on open audit points.

1580 STATUS REPORT ON INTERNAL AUDITS

The Committee considered the report on the progress of audits included in the 2019/20 programme (Paper A19/20 – 055).

The Head of Internal Audit drew attention to the revised dates for the following audit reports:

- Health & Safety
- Timetabling & Space
- Student Disciplinary & Complaints
- Degree Outcomes
- UKVI (Student) – Attendance Monitoring.

Mr Stanton agreed that fraud and error issues should be incorporated into the Payroll & Pensions audit investigation and more generally into audited areas. Any new controls now applicable at this period of transition should also be carefully considered within Internal Audit reports. It was suggested that Mr Stanton remind the University community that the audit team was available to advise on and support the new working arrangements.

The Committee **approved** the revised schedule of audits as set out in the paper.

1581 INTERNAL AUDIT REPORT

The Committee received Internal Audit Report 02-2019/20 Donations and Fundraising (Paper A19/20 – 056). It was noted that the University's arrangements for managing the risks relating to donations and fundraising are reasonably effective.

The Head of Internal Audit noted that the Department of Development and Alumni Relations' (DDAR) due diligence review of individuals and organisations represented best practice. The audit investigation had identified three A grade points. Members of the Committee were pleased to note the proposal to enhance the current reporting to Council. The Vice-Chancellor updated the Committee with regard to arrangements for DDAR since the Director had moved away to a new post:

- The Pro-Vice-Chancellor (International & Doctoral) had become the Acting Director of DDAR and taken strategic leadership of the Department. He had the support of two Deputy Directors (Molly Southwood and Emma Haines) and the Head of Principal Gifts (Stephanie Lear). He was currently conducting a review of the Department.
- The University Executive Board had approved a new Advancement Board, with senior management representation including Deans of Faculty. The Advancement Board would provide the strategic direction for further development of philanthropic and fundraising activities and alumni interactions.
- The University was also giving consideration to setting up a Council Ethics Committee. This Committee would be the appropriate body to provide independent review of donations and avoid the conflict of interest that might pertain to the University Executive Board.

The Committee **noted** the Donations and Fundraising report.

1582 PUBLIC INTEREST DISCLOSURE REPORT

The Director of Finance withdrew from the meeting during discussion of this item.

The Committee **noted** the report of a disclosure made under the Public Interest Disclosure Policy (Paper A19/20 – 057).

1583 REVALUATION OF LAND AND BUILDINGS

The Deputy Director of Finance presented Paper A19/20 – 058, which set out the risks and mitigations associated with the University's land and buildings accounting policy that requires annual valuations provided by a third party. Mr Fenne reported that the University had a rolling programme of annual valuations. The independent valuer is currently Eddisons Taylor but the contract is due to be re-tendered for the July 2021 valuation. This might result in a new valuer being appointed with the attendant risk that land and buildings valuations might be different from those previously disclosed by the University.

It was suggested that it might be prudent to give consideration to extending the contract with Eddisons Taylor, due to expire in July 2020, for one more year and then run the procurement process for the 2022 valuation.

DoF/DDoF

Council **noted** the report.

1584 ACCOUNTING POLICIES

1. Intangible Fixed Assets

The Deputy Director of Finance presented Paper A19/20 – 059, which set out proposed changes to the accounting policies adopted last year and which will, subject to agreement, be incorporated in the University's Annual Report and Accounts 2019/20. The Terms of Reference of ARAC state that the role of the Committee is to consider whether the University has adopted appropriate accounting policies. Reports on any changes to accounting policies will come from Finance Committee.

In the course of discussion, it was proposed that the Intangible Fixed Assets policy wording should be clarified to avoid it being interpreted as relating to all/any computer software purchases:

- It was noted that the computer software would normally be charged to Operating Expenditure where it is an annual licence payment, not Capital Expenditure. In this instance, however, a significant amount of staff cost was being incurred, along with licence costs, to put in place the digital architecture that was required.
- The new digital architecture would be amortised over 3 – 5 years.

The Committee **endorsed** the new accounting policy for Intangible Fixed Assets, subject to the amendments above. The Deputy Director of Finance will bring back revised wording for the policy to the next meeting in June. Finance Committee will have the opportunity to consider the accounting policies at its meeting on 30 April 2020.

DDoF

2. Pensions

In response to a question on the impact on the asset base of the pensions' revaluation, the Deputy Director of Finance noted that it was expected that the pensions' deficits would grow. In the case of USS (Universities Superannuation Scheme) and the LGPS (Local Government Pension Scheme), the methodology would not change but both would be impacted by the fall in investment returns. USS provision is based on a discounted cash flow using known contribution rates. The LGPS contribution rates had been fixed for three years from 1 April 2020. Both schemes might have to increase contribution rates in future years if investment markets did not return to pre-Coronavirus levels and both schemes had long term investment strategies.

3. Going Concern

It was noted that going concern assessments were a management function but that the FRC (Financial Reporting Council) had issued new guidance recognising the uncertainties caused by Covid-19. This would provide some flexibility when reporting.

1585 ARAC ASSESSMENT OF EFFECTIVENESS

The Committee considered Paper A19/20 – 060, setting out the responses

to the Assessment of Effectiveness questionnaire and themes arising in the Chair's individual telephone conversations with members.

The following points were made:

- With regard to 5 on the summary of the Chair's one-to-one calls, it was agreed that there should be further clarification over the respective roles of ARAC and Finance Committee with regard to the processes of strategic financial planning.
- Where the range of scores fell as low as 2, there should be further time allocated to enhance effectiveness in these areas.
- In general, allocation of responsibilities for oversight needed to be clearer. An assurance map would be a useful tool in this regard, and where management for matters lay outside the scope of Council and Council Committees – such as academic matters – there should nonetheless be effective assurance mechanisms that were reported to Council/Council Committees. The Head of Internal Audit reported that his annual plan included assurance mapping and he would develop this further in line with the Committee's comments.
- It was noted that the Senate Effectiveness Review report would come to Council, after Senate consideration.
- The Head of Internal Audit noted that the audit report on Degree Outcomes had been deferred to the next academic year as the current year was no longer an appropriate time to investigate this area. The Audit Team had been trying to undertake more work in the area of Learning & Teaching to meet the need for assurance.

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The Committee **noted** the report.

1586 BUFDG AUDIT SURVEY

The External Auditor and the Head of Internal Audit withdrew from the meeting at this point.

The Committee considered the results of the British Universities Finance Directors Group 2020 Audit Survey (based on 2018/19 accounts) and accompanying commentary from the Deputy Director of Finance (Paper A19/20 – 061).

The Committee **noted** the report.

1587 PROGRAMME OF MEETINGS 2019/20

The Committee noted the date of the remaining meeting for 2019/20, as follows:

- Wednesday 10 June 2020

The Committee noted dates of meetings in the 2020/21 programme, as follows:

- Wednesday 30 September 2020 *
- Thursday 5 November 2020
- Wednesday 27 January 2021
- Wednesday 31 March 2021 *
- Wednesday 9 June 2021

* These dates are under review to ensure all members can attend the meetings.

The meeting concluded at 1.40 pm
