
Meeting: **AUDIT AND RISK ASSURANCE COMMITTEE**

Date and time: **Tuesday 13 November 2018 at 11 am**

Venue: **4 West 3.25**

Present: Mr T Ford (Chair)
Mrs C Gibbons Lay member of Council
Mrs C Moar Lay member of Council
Mr P Troughton Lay member of Council

Professor B Gilbertson, Chair of Remuneration Committee, attended by invitation for items 1461 to 1462 (1)
Dr M Ellis, Partner, and Ms S Mortimer, Manager, PwC, attended the meeting by invitation

In attendance: Professor B Morley * Acting Vice-Chancellor
Mr S Fenne Deputy Director of Finance
Mr T Stanton Head of Internal Audit
Mr M Williams Director of Finance
Ms M C Henderson Secretary

* Professor Morley was present for the business recorded in Minutes 1461 to 1466

ACTION

1460 **DECLARATIONS OF INTEREST**

The Chair invited declarations of interest but there were none.

1461 **HALPIN REPORT RECOMMENDATIONS**

The Committee noted that the Council Effectiveness Steering Group had agreed to the proposed changes relating to amendment of Audit and Risk Assurance Committee's Terms of Reference and that these would be submitted to Council on 29 November 2018 for approval.

The Chair reported on publicity for the two Appointed Member vacancies. It was suggested that Linked-In also be used to advertise the places.

SEC

Professor Gilbertson informed the Committee that he proposed to report on the work of RemCo (Remuneration Committee) and the remuneration report in the Financial Statements. He had been

appointed as Chair of RemCo in February 2018, having experience both as a Non-Executive Director and Chair of Remuneration Committees, including for listed companies. His first meeting of RemCo had been tasked with considering the remuneration package for the new Vice-Chancellor. This meeting had been supported by Peter Smith of Korn Ferry and Richard Brooks, Director of HR. Subsequently Katherine Turner of FIT Consultants had been engaged to assist with recruitment. Jointly with Katherine Turner and Richard Brooks, he would be organising training for all members of RemCo. The new membership included the President of the Students' Union and a staff member (Mr Mesar Hameed).

In response to a question on reporting, the Chair of RemCo said that the minutes of meetings were submitted to Council and that he was present to answer questions. He intended the process and information available to be as transparent as possible. He had aligned the date of decision-making with the national pay review outcomes in September. He considered that there should be greater linkage between RemCo and the Professorial Remuneration Committee, chaired by the Vice-Chancellor (currently Acting Vice-Chancellor), and advised by the Director of HR.

The Committee

- endorsed the RemCo priority for the current academic year of reviewing its Terms of Reference to reflect more clearly its remit and approach to determining remuneration
- proposed clear articulation on the University's web site of policies and criteria relating to remuneration
- recommended documenting the controls applied where salaries were outside the normal scale and / or subject to non-standard contract conditions.

The Acting Vice-Chancellor noted that a review of professorial pay processes at other universities could be undertaken and consideration given to reviewing the arrangements for professorial pay in the light of best practice. However, this was likely to await the arrival of the new Vice-Chancellor.

1462 FINANCIAL STATEMENTS FOR THE UNIVERSITY OF BATH AND EXTERNAL AUDITOR'S MANAGEMENT REPORT 2017/18

The Committee considered Paper A18/19-021:

- (1) University's Financial Statements for the year ended 31 July 2018 (Appendix 1)
- (2) PwC's ISA (UK) 260 Report (Appendix 2)
- (3) Letter of Representation (Appendix 3)
- (4) Accounting policies, estimates and judgements (Appendix 4).

(1) Financial Statements

The Deputy Director of Finance briefly reviewed the financial statements (Appendix 1) drawing attention to the following:

- Historical Cost (HC) operating surplus of £12.5 M as against £8.6 M in 2016/17 and projected outcome of £12.3 M. The improvement compared to budget was due to increased tuition fees, greater salary vacancy savings and some deferral of long term maintenance expenditure which would now be incurred in 2018/19.
- Surplus before gains and losses of £5.7 M as against the £1.3 M deficit in 2016/17
- Revaluation of land and buildings had increased the total comprehensive income in the year by £26.4 M to a surplus of £49.7 M
- A £100 M loan had been received to fund capital investments in line with the University's strategy but the funds had not yet been used, leading to cash and investments standing at £213.2 M as against 122.2 M in 2016/17
- Net debt had increased by £2.6 M to £50.8 M but been offset by an increase in total net assets leading to the gearing ratio reducing to 9.1% from 9.4% in 2016/17.
- The Statement of Equality Objectives would be expanded to evidence how the objectives were being achieved.

Professor Gilbertson presented the Remuneration Report (page 32). He drew attention to the approach to remuneration and work to review remuneration policy and procedures. The basis for key decisions and actions taken in 2017/18 were noted. It was agreed that the final paragraph relating to the former Vice-Chancellor should be moved.

Chair
RemCo and
DDoF

Professor Gilbertson was thanked for his report, after which he withdrew from the meeting.

A member of the Committee proposed that there should be a reference in the section on Risks and Future Prospects (page 13) to the role of the Audit and Risk Assurance Committee changing with effect from the 2018/19 academic year, as noted elsewhere in the Financial Statements, and considered that the list of risks identified should be extended, encompassing both external and internal risks and in line with the risks articulated on the Risk Register. The current method of publishing both Financial Statements and separate Annual Review was agreed to need further consideration.

UEB

The Committee congratulated the finance team on their work on the Financial Statements.

(2) PwC ISA (UK) 260 Report

Dr Ellis presented PwC's report to the Committee (Appendix 2). He reported that most of the outstanding documents had been received and PwC expected to issue an unqualified audit opinion. He drew attention to the following:

- The surplus of £5.4 M before gains and losses in SOCI (Statement of Comprehensive Income) and the operating 'cash' position of £41.9 M, noting the four contributing areas

Teaching and Research, Research Grants and Contracts, Other Services Rendered and Residences and Catering, of which Teaching and Research was the most significant due to postgraduate student recruitment and academic fee rises of £15.1 M. However, he cautioned that income from academic fees might in future years be offset by rising inflation and higher USS contributions. Continuous review of efficiencies was essential.

- The Balance Sheet showed an increase in tangible fixed assets of £47.5 M of which additions and assets under construction totalled £45.5 M. This figure of £47.5 M reflected asset revaluation and increase in market value. The revaluation of approximately one-quarter of the University's estate had been closely scrutinised and was considered to be satisfactory to meet relevant requirements and guidance.
- A new International Reporting Standard with regard to Leases would affect the Balance Sheet entries once adopted into the next SORP (Statement of Recommended Practice), notably operating leases for student accommodation would increase assets and liabilities.
- Staff costs as a percentage of income should be subject to continued monitoring, though the note on page 12 would be amended for an inaccuracy. Research grant and contract income remained below the benchmarking group average.
- With regard to key audit risks, the financial stability of the University was contingent on complying with covenants. A recent EIB (European Investment Bank) communication had issued revised covenants to management, at least one of which was a new metric and included pension schemes in the definition of net indebtedness. The Director of Finance confirmed that the University was reviewing its position and consulting with other universities pending re-negotiation of the covenants. He confirmed that the EIB loan agreement had a frozen GAAP (Generally Accepted Accounting Principles) clause so in the event that the University could not agree new covenants with the EIB, then the existing covenants would remain. This would be an administrative burden for the University but would ensure that there was no increase in the likelihood of a breach of the loan covenants. PwC indicated that they would amend their report with this clarification.
- With regard to pensions, the testing of employee data used in actuarial calculations had been restricted by GDPR (General Data Protection Regulation) provisions. The consequences of the outcome of the Lloyds Banking Group GMP (Guaranteed Minimum Pensions) case might have an impact on pension assumptions, and Dr Ellis recommended a post-Balance Sheet note on the outcome of this. He noted that the outcome of the USS 2017 valuation would be an increase in costs through higher contributions.
- Derivative investments were used across the Sector but an interpretation that US private placements were 'embedded derivatives' should be resisted because these transactions

PwC

DDoF

were basic financial instruments. However, senior accountants in Finance had exercised judgement in this respect and this should be recorded within the Accounting Policies.

DDoF

The Committee noted that the issue of access management for applications (Agresso, iTrent and SAMIS) remained unresolved but work was on-going to address amendments being undertaken to databases currently without an audit trail.

A member of the Committee asked about monitoring of cash levels. The Director of Finance explained that the Finance Committee received reports on cash flow for each year to July 2021 at each meeting. Bank balances were monitored on a weekly basis.

(3) Letter of Representation

It was confirmed that the University Executive Board (UEB) had reviewed the statements in the Letter of Representation (Appendix 3) so that the Audit and Risk Assurance Committee could reassure Council that it might go ahead with confidence and authorise the Chair to sign the letter.

(4) Accounting policies, estimates and judgements

The Committee noted Appendix 4 setting out accounting policies, estimates and judgements.

AGREED to recommend the Financial Statements for 2017/18 to Council for approval.

1463 ANNUAL REPORT ON FRAUD

The Committee noted the fraud reporting statement (Paper A18/19-022).

1464 INTERNAL AUDIT REPORT 07-2017/18: CAPITAL PROJECT MANAGEMENT

The Committee received Internal Audit Report 07-2017/18: Capital Project Management (Paper A18/19-023).

It was noted that the University's arrangements for managing the risks related to capital project management are reasonably effective.

The mapping of the project lifecycle needed be strengthened and a process for recording of project investment benefit needed to be established.

The Committee noted that the IAAPS (Institute for Advanced Automotive Propulsion Systems) and the School of Management new build represented a scaling up of activity and hence the wider risks related to the projects needed consideration alongside the risks related to the capital project. It was reported that Finance Committee would be monitoring the risks associated with these projects accordingly.

1465 **INTERNAL AUDIT REPORT 10-2017/18: FACILITIES
MANAGEMENT – CLEANING AND PORTER PROVISION**

The Committee received Internal Audit Report 10-2017/18: Facilities Management – Cleaning and Porter Provision (Paper A18/19-024).

It was noted that the University's arrangements for managing the risks related to the cleaning and porter provision are reasonably effective.

1466 **INTERNAL AUDIT REPORT 14-2017/18: IT DISASTER
RECOVERY**

The Committee received Internal Audit Report 14-2017/18: IT Disaster Recovery (Paper A18/19-025).

It was noted that the University's arrangements for managing the risks related to IT disaster recovery are reasonably effective. The main management actions related to development of a single overarching IT disaster recovery plan to bring together existing service plans and to development of a business impact analysis / risk analysis for critical systems and infrastructure. It was again commented by members of the Committee that the question of which IT systems were most critical and the impact of the failure of those systems in terms of disruption to services and recovery times was still unclear to the Committee. The Committee was concerned that there was lack of integration and co-ordination between department disaster recovery plans and Computing Services disaster recovery plans. The Head of Internal Audit indicated that actions relating to these elements as highlighted in the report were due for implementation in February 2019.

Further to the agreement at the last meeting to invite the VP (Implementation) and colleagues to provide an update in January on clearance of open audit points and representation of current IT risks on the Risk Register (Minute 1436), it was considered that members of the IT team should instead attend the April meeting in order to allow time for a suitable update to be provided related to the matters of concern as raised in the report highlighted in the paragraph above.

SEC

1467 **ANNUAL REPORTS OF THE AUDIT COMMITTEE AND
INTERNAL AUDIT DEPARTMENT**

The Committee considered:

- (1) Annual Report of the Audit Committee for the year ended 31st July 2017 (Paper A18/19 – 026) and
- (2) Internal Audit Annual Report (Paper A18/19 – 027).

AGREED to recommend to Council the Annual Report of the Audit Committee for the year ended 31st July 2018 for approval and to approve the Internal Audit Annual Report for the year ended 31st July 2018, prior to submission to Council.

1468 ANNUAL PUBLIC INTEREST DISCLOSURE REPORT

The Committee noted the Public Interest Disclosure Report for 2017/18 (Paper A18/19-028).

1469 DATES OF MEETINGS 2018/19

Tuesday 22 January 2019 at 11 am
(This is a change of date from Wednesday 23 January 2019 at 11 am)
Wednesday 3 April 2019 at 11 am
Wednesday 12 June 2019 at 11 am

Meetings will be held in the 4 West Board Room with the exception of the meeting on Tuesday 22 January 2019 which will be held in 4 West 3.25.

1470 PRIVATE MEETING WITH THE EXTERNAL AUDITORS

The Officers retired from the meeting and the Committee met in private with the External Auditors. In this discussion, it was confirmed that there were no issues of concern arising from the audit of the Financial Statements of the University for the year ended 31st July 2018.

The External Auditors commended the University's Finance team but considered that there was scope for further collaboration between the Finance team and IT services to ensure that digital capability was developed to achieve better data integration, analytics and business intelligence.

The Committee considered that it would be appropriate to hold an annual private session with the Internal Auditor without the presence of Officers.

The meeting concluded at 1.40 pm
