



## Audit Committee

### SUMMARY MINUTES AND ACTIONS

2 November 2017

10:00-13:30hrs

Ted Wragg, Northcote, House, Streatham Campus

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Item No.	Title
1	Welcome and Declarations of Interest (AUD/17/57)
2	Minutes of the Meeting of 26 <sup>th</sup> September (AUD/17/58) and Matters Arising
3	Draft Annual Report of Audit Committee (AUD/17/59)
4	Draft Financial Statements: <ul style="list-style-type: none"><li>a) Draft Financial Statement of the University for the Year Endedstate 31 July 2017 (AUD/17/60)</li><li>b) External Auditors' Highlights and Management Letter in Respect of the University's Financial Statements for the year ending 31 July 2017 (AUD/17/61)</li><li>c) The University's Representation Letter (AUD/17/62)</li></ul>
5	Value for Money Report (AUD/17/53)
6	Capital Strategy Risks
7	University Debt Refinance Proposal (AUD/17/63)
8	Internal Audit <ul style="list-style-type: none"><li>a) Updated Annual Plan (AUD/17/64)</li><li>b) Progress Report (AUD/17/65)</li><li>c) Risk and Compliance Officer's Report: Update on Progress with Audit Recommendations (AUD/17/66)</li></ul>
9	Models of Internal Audit Services
10	Tender Process for Internal Auditors (AUD/17/67)
11	Chair's Closing Remarks

**Attendees****Members**

Nicholas Bull Independent Member of Council and Chair  
Alison Reed Independent Member of Council

**Minutes**

Jacqueline Hodges Deputy Secretary to the Council  
Tracey Tuffin Risk and Compliance Officer

**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  
Chris Mundy BDO, Internal Audit  
Nick Eggett BDO, Internal Audit  
Mike Rowley KPMG, External Audit  
Sarah Mitchell KPMG, External Audit

**Apologies:**

Graham Cole, Independent Member of Council  
Judy Hargadon, Independent Member of Council  
Nick Swift, Independent Member – Non Council Member  
David Dupont, Independent Member – Non Council Member

1. **WELCOME AND DECLARATIONS OF INTEREST (AUD/17/57)**

No declarations of interest were raised.

Members were asked to submit any declarations of interest that differed from those recorded to the Deputy Secretary to Council. No declarations were received for the items of discussion for the meeting.

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

The minutes of the meeting of 26 September were approved as an accurate reflection.

The Committee discussed progress with actions from the last meeting

Michael Wykes confirmed that he had spoken to Mike Rowley of KPMG and that an update on best practice with experience of using Cubane would be presented at the next meeting of the Committee.

**ACTION: Cubane update to be provided at the next Audit Committee meeting (Mike Shore-Nye, Michael Wykes)**

Following a query at the last meeting as to whether the internal audit opinion on fraud would be updated following the presentation of the Fraud Response policy and statement, BDO confirmed that a further review had been conducted based on the previous review, and that the opinion of the review remained unchanged.

**Future Finance Progress Update**

Andrew Connolly provided an update on the timing of the T1 system launch. The fundamental issue related to the plan to go live on 1 February 2018 in parallel to implementing the organisational change process. He explained that there were pros and cons to this approach, and the current University position was that this was the right thing to do. Daily checks were conducted to assess whether this remained on target, tasks were under constant review and rescheduled as a live dynamic process. There were seven Go/No Go meetings between now and February, and the risks would be assessed at each stage. BDO were said to be undertaking a review of the decision making structure. Andrew stressed that it was absolutely key that there was a good workable go live situation, and it would not be progressed unless this was the case. The T1 senior management team in Australia were taking this very seriously, and the University was planning and resourcing for a 01 February 2018 implementation.

3. **DRAFT ANNUAL REPORT OF AUDIT COMMITTEE (AUD/17/59)**

The Chair of the Committee led a review of the report, during which the following comments were made:

**Section 5.5 – Phishing:** It was noted that the report stated that actions taken were effective and that systems were controlled. Assurance was sought by the Chair and obtained from Andrew Connolly that this was the case and that controls had been tightened to prevent this from happening again. A small amendment to this section was requested to clarify that the attack had highlighted weakness in process controls as opposed to a system weakness.

**Section 10.7 – UKVI Regulations:** It was requested that this section be removed as it overlapped with other areas of the report. Any information contained not covered elsewhere should be moved to the report of the UKVI audit at section 7.7

**Section 11 – Opinion:**

- The last sentence of section 11.1 should be moved to become the first sentence of section 11.2.
- At section 11.2, the reference to the financial statements should be removed as this is covered elsewhere in the report.
- The wording at section 11.5 was discussed with regard to the statement that the University's value for money arrangements are adequate and effective. It was noted that this is the case for the purpose of the report, however there is always room for improvement.

**ACTION: Update the final version of the report to reflect the proposed amendments (Chris Lindsay)**

The Chair also raised the issue of mandatory training for compliance purposes, asking that it be considered by the Committee at its next meeting, including how the University identified and followed up where staff had not completed mandatory training. Mike Shore-Nye confirmed that work was underway in this area through the Health and Safety Committee, led by Kate Lindsell, Assistant Director of HR (Safety, Health, Wellbeing and Learning and Development).

**ACTION: Discussion on Mandatory Training to be scheduled for the February Audit Committee meeting (Chris Lindsay)**

**DECISION: Subject to the noted amendments, the report was approved for submission to Council.**

**4a. DRAFT FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017 (AUD/17/60)**

The Chair of the Committee led a review of the report, during which the following comments were made:

The Exeter President, FXU needed to be included as a student member of Council alongside the Students' Guild president

It was noted that the Key Performance Indicators (KPIs) set out on page 8, within the Business Review section were not particularly financially focused and were geared toward league tables. Michael Wykes confirmed that these were based on the overarching University KPIs, and were therefore broad and far reaching. Andrew Connolly stated that Exeter is working with other Universities to build a more holistic report based on integrated reporting tools. This will be in place for the report next year. The University KPIs were currently under review by VCEG.

Suggestion was made that the University could become involved in the PwC's Building Public Trust Awards scheme in order to become recognised as a sector leader. The view was shared that Exeter was considered ahead of the game in some areas but was not yet best in class. It was agreed that at this time, the new finance systems should take priority.

It was noted that some University financial statements incorporated multiple pages with regard to risk, defining 10 key risks to the institution. The Exeter report however included half a page on risk, detailing two key risks. Advice from KPMG confirmed that some Universities were

providing information that was not required, and that some were providing useful information in the context of the financial statements. Chris Lindsay confirmed that work was underway to provide focused visibility of the top 10 key risks to the University, and that this could be incorporated within the financial statements in 2017/18.

Andrew Connolly stated that the accounts for 2017/18 would look to best practice rather than simply to compliance. The Committee was asked to endorse a more integrated reporting style, which would be forward focused as well as providing assurance. The report would aim to address and inform stakeholders.

There was a strong steer from the Committee for next year's report to bring in more financial KPIs, and to review FTSE 250 style accounts in terms of priorities, the systems and management resources.

**ACTION: Review best practice reporting amongst FTSE 250 medium-sized businesses to inform production on the University's accounts for 2017/18 (Andrew Connolly/Margaret Laithwaite)**

The Committee noted that a blank paper risk exercise had been conducted by Council, and asked that the output of this session be reviewed by Andrew Connolly and Chris Lindsay to identify whether there was anything to be included in the financial statement.

**ACTION: Consider whether any risks identified through the Council blank paper exercise should be incorporated into the risk narrative in the financial statements (Andrew Connolly/Chris Lindsay)**

Andrew Connolly confirmed he was working with Michael Wykes with regard to KPIs, and with Chris Lindsay with regard to compliance and risk reporting. He added that there was a move underway to a broader, more holistic impression of risk. All of this would be brought into the 2017/18 report.

In relation to the Public Benefits Statement, it was noted that the attainment of under-represented groups should be considered as well as pathways for access.

**Action: Consider whether amendments were required to the Public Benefit Statement in relation to attainment of underrepresented groups once the newly available information regarding this had been reviewed (Andrew Connolly/Margaret Laithwaite)**

**The following amendments were also requested –**

- That the Community section at page 14 should include reference to the community at Penryn.
- Update the Report from the Chair of Audit Committee at page 16 to include the financial qualifications of the Committee (Andrew Connolly/Margaret Laithwaite)
- Update paragraph two of the Fundraising Standards at page 24 to state "as well as" a number of students as opposed to "including" to avoid confusion that the students may be professional fundraisers

- That the wording with regard to Independent Member of Council expenses should be clarified, as the figure related to expenses claimed back by Independent Members. There could be additional expenditure where, for example, accommodation was booked directly through the University as opposed to paid for and then claimed back by the member. Andrew Connolly would confirm the situation with HEFCE.
- The definition of EBITDA was considered. The University uses its own definition alongside the HE definition. The University EBITDA excludes Service Concession Arrangements. Andrew Connolly confirmed that this is the right thing to do, as including these would make the EBITDA look significantly higher than it is in reality.
- The business route to explain outturn versus budget was discussed. It is not a requirement to include this within the report. Andrew Connolly confirmed that the budget has been explained to Council in detail. The Committee was satisfied with this.

**ACTION: Amend the final version of the statements to reflect the proposed amendments (Andrew Connolly/Margaret Laithwaite)**

**4b. EXTERNAL AUDITORS HIGHLIGHTS AND MANAGEMENT LETTER IN RESPECT OF THE UNIVERSITY'S FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017 (AUD/17/61)**

Mike Rowley of KPMG introduced the highlights and management letter, commending the University for a very smooth audit with no amendments required. The institution was where it should be at this point in the process. The HESES reconciliation completed at the end of October, and there were no points to tidy up. It was noted that no high priority recommendations had been made, and that progress had been made with the recommendations from the previous year.

Updates were provided on the three key risks identified in the Audit Strategy and Planning Memorandum, from which no significant matters arose.

The risks reviewed were:

- a) Variation of Pensions
- b) Fraud risk from Management override of controls
- c) Revenue recognition, including fraud risk

The key accounting judgements for the University were found to be reasonable and within the expected benchmark. Of particular note was the University's controls around receipt of staged payment to the SLC account, evidencing that the financial control team were totally on top of this.

**4c. THE UNIVERSITY'S REPRESENTATION LETTER (AUD/17/62)**

The Committee was satisfied to the letter of representation

**DECISION: The Committee agreed to recommend to Council approval of the statements and letter to Council, subject to the additional risk comments and narrative amendments requested**

**5. VALUE FOR MONEY (AUD/17/53)**

Due to a lack of time at the previous meeting, the Chair had asked for a further discussion on Value for Money (VfM). He noted that Value for Money was difficult to judge objectively, and that the University should be applying the highest standards to it internally and aiming to be the best in class.

Andrew Connolly explained that subsequent to the development of the report and review by Council, HEFCE requirements had changed and the VfM report was no longer a statutory report. In its place, HEFCE required an efficiency return, which was more codified. The VfM report was still produced for the benefit of Audit Committee and of the University. The new efficiency return was an additional annual submission to the regulator, to be submitted at the end of January each year. Due to the timing, this report would be submitted to the Committee retrospectively at its February meeting.

Andrew added that the VfM report was now an internal update for the purpose of Audit Committee to provide an opinion on the University's arrangements for VfM. It was noted that the Office for Students (OfS) would make VfM a condition of entry, and the University would be required to present evidence of compliance. This would be targeted at the individual student point of view and would be all encompassing. Focus was required on this.

**6. CAPITAL STRATEGY RISKS**

Mike Sore-Nye requested that this item was re-tabled for the next meeting of the Committee, for the benefit of members who were unable to attend the November meeting.

**7. UNIVERSITY DEBT REFINANCE PROPOSAL (AUD/17/63)**

Andrew Connolly provided an update on the University's refinancing proposal, which was focused on three key points:

- a) The Times HE (THE) had published an article which stated that the University's debt was the 6th highest in the sector. This was misleading, as the THE data included long term commitments in addition to banking debt.
- b) HEFCE regulation of sector borrowing had changed. The regulator had now adjusted for various interest and investment. The debt ceiling threshold at which an institution must seek consent from HEFCE prior to further borrowing had increased as a result. Under the previous arrangement, the University was above the threshold and required consent to borrow. Under the new arrangement, the University was below the threshold by £56m, and had therefore been released from the obligation to seek consent.
- c) To provide an overview of the reasons for the refinancing proposal to improve cash flow, and set out how this may be achieved.

The Committee sought assurance from Andrew Connolly that the University would remain compliant within the new HEFCE arrangements. Andrew confirmed that the University finance strategy debt cap was set at 3 times EBITDA at net debt. We were currently at 1.5 times EBITDA, and were forecast to increase to just below 3 times EBITBA. There was confidence that we would remain compliant.

The refinancing proposal included a move to repaying loans over 25 to 40 years. Within 7 years the cash balance would be recouped. There will be an early cost saving on interest payments, which would eventually flip over to a cost. The £8m saving on cash repayment will recoup the point at which interest payments carried a cost. External advice had been sought to enable interest rate rises to be factored in. there was a good level of understanding of market conditions, enabling the finance team to plot current and forecast position. There was a need to move quickly to complete the transaction before conditions changed.

There were no further questions, and the Committee was satisfied that the proposal should be taken forward. Andrew Connolly confirmed that this should be in place by the next meeting of the Committee, at which a further update would be provided.

**8a. INTERNAL AUDIT UPDATED ANNUAL PLAN (AUD/17/64)**

Chris Mundy of BDO provided an update on amendments made to the Annual Internal Audit Plan based on comments received at the previous meeting of the Committee. The overall opinion of the report was unchanged, however some minor amendments had been made. This included:

- That minor updates had been made to audit outcomes at pages 5 and 6 of the report, based on additional reviews completed.
- That outstanding information had been obtained from ESI, and the report would be presented to the Committee at the February meeting.
- That the requirements for the Transformation audit had been revisited, and the review would be completed over a couple of days within the 2017/18 programme to bring to a close.
- It was noted by the Chair of the Committee that the statement on page 7 confirmed that the University had demonstrated an improvement in the monitoring and rate of clearance of audit recommendations across 2016/17. There was also a statement that a significant number of outstanding and overdue recommendations remained, which required maintained focus. This was considered against the statement in the Annual Report of Audit Committee, and agreed that the two were aligned.
- That appendix iii of the report compared Exeter to other institutions, and showed that the University had a high number of red and amber recommendations. This was considered as evidence that the University was asking the right questions to make improvements where they are required.

**8b. INTERNAL AUDIT PROGRESS REPORT (AUD/17/63)**

Chris Mundy of BDO provided an update on progress with audit reviews. This included:

- At page 4, amendments to current planned reviews were noted with regard to:
  - a) The planned November review of financial controls was to be deferred until the new system was in place
  - b) An independent review of the processes of collating TRAC data had been added to the plan
- It was noted that the review of the Development and Marketing of New Programmes had identified that 4 out of 5 new programmes did not have dedicated marketing. The Committee considered whether this was a cause for concern. It was confirmed that the issue lay with academic assessment as opposed to business assessment.

**Action: A follow up review of the Development and Marketing of New Programmes to be completed in January 2018. (Chris Lindsay/BDO)**

- The schedule of audits and proposed reporting dates to the Committee were presented on pages 6 to 8 of the report. Chris Mundy pledged to assess to see whether any time could be saved from the planned days to avoid an incremental increase.
- Paul Hirst questioned whether the identification within the reports of design versus effectiveness gave an accurate view of the status of recommendations. For example, a high priority recommendation relating to effectiveness would not necessarily be as



significant as a high priority recommendation with regard to design. The opinion provided at previous audits in the same area should also be referred to when scoping new audits.

**8c. RISK AND COMPLIANCE MANAGER'S REPORT: UPDATE ON PROGRESS WITH AUDIT RECOMMENDATIONS (AUD/17/66)**

The Risk and Compliance Officer provided an update on ongoing audit recommendations, working towards the next review of recommendation follow up to be conducted by BDO in January 2018. The format of the report was provided as an overview of high level numbers in accordance with the previous request of the Committee.

Due to the short amount of time between the September and October Audit Committee meetings, very little had changed and a full update was to be provided at the February meeting. There were no outstanding recommendations of a high priority, and the total number of recommendations that were due to be completed and verified by the February meeting was 22.

**9. MODELS OF INTERNAL AUDIT SERVICES**

Paul Hirst provided a presentation on three potential models of delivery for Internal Audit Services for the consideration of the Committee. These were:

- 1) Out sourced – whereby the internal audit function was entirely bought in via an accredited audit and assurance service. Costs for this option were subject to market conditions, and would incur further costs for tender and management. There was also an irrecoverable VAT aspect.
- 2) In house – whereby the internal audit function was entirely conducted by University employed staff. Costs for this option could be comparatively lower, however recruitment of appropriate skillsets would be a hurdle.
- 3) Co-Sourced – whereby the internal audit function was shared between dedicated University staff and an outsourced accredited audit and assurance service. This would provide a balance of institutional and accredited auditor knowledge. Reporting lines within this option may become blurred.

**DECISION: The Committee confirmed that the preferred option would be to continue with an out sourced internal audit delivery.**

**10. TENDER PROCESS FOR INTERNAL AUDITORS (AUD/17/67)**

Informed by the agreement to continue with an out sourced internal audit function, Paul Hirst provided an update on the work underway to prepare for tender. He explained that next year marked the end of a 4 year term for the current internal audit contract with BDO.

Paul had spoken to other Universities for a view on their approach, and had looked at brokers. The next step was to work with Procurement to redesign the approach to tender from the ground up. The steps in this process were:

- a) Identify key stakeholders and what they needed from the process
- b) Identify examples that we had of good and bad practice to enable an effective tender
- c) Set out our questioning methodology – what would we ask, and how would we ask it?

Paul noted that the University needed to ask questions that drew out answers that reflect how the auditors operated on the ground.

In explaining the process, Paul said that once tendered, the three highest scoring bidders would be shortlisted. The next stage would consist of question and answers sessions to probe on how they would take forward the performance of audits. This session would include senior management and their audit team, so that the University could meet the people who would actually be conducting the assignments and attending Audit Committee.

An indicative timeline was provided, which led to the tender document being run from March 2018, and a proposal for the decision to be made and contract signed by June 2018.

The opinion of the Committee was that the term of the contract should be 4 plus 4. It was considered that the current contract arrangements of a maximum of 4 years meant that the tender was reached just at the point that the auditors had got to grips with the institutional requirements. It was also the case that options for accredited auditors in the area were limited, and that if the term was too short we would end up cycling between companies.

The tender scoring was also discussed, with a requirement to balance qualitative scoring in addition to cost. If cost became the overriding factor, we would be limited to 2 or 3 companies to choose from.

**ACTION: Present the request for proposal (RFP) document at Audit Committee for review once developed. Discussion should also focus on a list of audit and assurance services that the University would be willing to consider as part of the contract (Paul Hirst)**

It was noted that the questions asked of the auditors should not be restricted to HE matters, although we should be satisfied that they understand the vocabulary and complexity of the market. Care should be taken with the Procurement team to ensure that the specification of the contract was exactly as required.

The Committee questioned whether it should also see the reports for FXPlus audits. Andrew confirmed that FXPlus had processes in place to review audits via the Board, and that with an annual turnover of £20m, it was not proportionate that Audit Committee should also review them.

## **11. CHAIR'S CLOSING REMARKS**

The Chair noted that an interview had been conducted for a new independent external member of Audit Committee. The interview had gone well, and had been referred to Nominations Committee. It was hoped that the new member would be in place by the February meeting of the Committee.

The next meeting of Audit Committee is due to be held on 23 February 2018, at 09:00hrs in the Ted Wragg Room, Northcote House.

### **Actions**

Action (Item reference)	Owner	Progress
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(Item 2) Cubane update to be provided at the next Audit Committee meeting	Mike Shore-Nye, Michael Wykes	Completed – on agenda for February’s meeting
(Item 3) Update the final version of the report to reflect the proposed amendments	Chris Lindsay	Completed – final version of the report presented to December’s Council meeting
(Item 3) Discussion on Mandatory Training to be scheduled for the February Audit Committee meeting	Chris Lindsay	Completed – on agenda for February’s meeting
(Item 4a) Review best practice reporting amongst FTSE 250 medium-sized businesses to inform production of the University’s accounts for 2017/18	Andrew Connolly/Margaret Laithwaite	A working group has been set up chaired by the CFO, to look at embedding integrated reporting into our financial statements.
(Item 4a) Consider whether any risks identified through the Council blank paper exercise should be incorporated into the risk narrative in the financial statements	Andrew Connolly/Chris Lindsay	The risk of cyberattack was added to the narrative, identifying loss of funds, reputational damage and loss of trust. Mitigated by rehearsing response actions, staff training and procedural and technical measures to reduce the likelihood of attack.
(Item 4a) Consider whether amendments were required to the Public Benefit Statement in relation to attainment of underrepresented groups once the newly available information regarding this had been reviewed	Andrew Connolly/Margaret Laithwaite	Yes. This was reviewed and the wording amended.
(Item 4a) Amend the final version of the statements to reflect the proposed amendments	Andrew Connolly/Margaret Laithwaite	Completed
(Item 8b): A follow up review of the Development and Marketing of New Programmes to be completed in January 2018.	Chris Lindsay/BDO	
(Item 10): Present the request for proposal (RFP) document at Audit Committee for review once developed. Discussion should also focus on a list of audit and assurance services that the University would be willing to consider as part of the contract	Paul Hirst	Completed – on agenda for February’s meeting

Decision	Paper Reference
<b>Item 2</b> The minutes of the meeting held on 26 <sup>th</sup> September were approved.	AUD/17/58
<b>Item 3</b> Subject to the noted amendments, the report was approved for submission to Council.	AUD/17/59
<b>Item 4</b> The Committee agreed to recommend to Council approval of the financial statements and letter to Council, subject to the additional risk comments and narrative amendments requested	AUD/17/60, AUD/17/61 and AUD/17/62
<b>Item 9</b> The Committee confirmed that the preferred option would be to continue with an out sourced internal audit delivery.	n/a

**AUDIT COMMITTEE  
REGISTER OF INTERESTS 2017/18**

**Members**

Nicholas Bull	Coats Group PLC (Senior Independent Director); Fidelity China Special Situations PLC (Chairman); Design Museum (Trustee); Conran Federation (Trustee); The Tallow Chandlers Company (Member of Court); Greig City Academy (Honorary Governor); CSM Trust (Trustee)
Graham Cole	Bath University Business School Advisory Committee (Member)
David Dupont	Diabetes UK (Member of Clinical Studies Group); Operation Imprezza (Charity Trustee Director)
Simon Enoch	None
Judy Hargadon	Restorative Solutions – CIC (Non-Executive Director); Dartington Hall Trust (Chair - G Parston (Husband))
Alison Reed	British Airways PLC (Non-Executive Director and Deputy Chairman of British Airways plc), NewDay Ltd (Senior Independent Non-Executive Director, Chairman of the Audit Committee and Risk Committee)
Nick Swift	Camfed (Trustee); East and North Herts NHS Trust (Non-Executive Director)

**In attendance**

Andrew Connolly	UOE Consulting Ltd (Director) Peninsula Innovations Ltd (Director) INTO JV LLP (Board Member) Exeter ISC Ltd (Director)
Paul Hirst	None
Jacqueline Hodges	None
Chris Lindsay	None
Mike Shore-Nye	None
Tracey Tuffin	None
Michael Wykes	None