

BOARD OF GOVERNORS

AUDIT AND QUALITY COMMITTEE

1500, Wednesday 15 November 2017, Room 0.32, Unit 1, St Andrew's Court

MINUTES

Present: Dr Peter Bunyan, External Governor (Chair)
Frances Morris-Jones, External Governor
Paul Myers, External Governor

Secretariat: Adrian Parry, Director of Corporate Governance
Annette Bourke, Head of Governance Services

In attendance: Sue Barratt, External Auditor, Deloitte LLP
Liz Bartle, Deputy Director of Finance (up to and including Min 19)
Fiona Bell, Director of Estates and Campus Services (Min 23)
Professor Graham Galbraith, Vice-Chancellor (Excluding Mins 16 to 20.1)
Roisin Gwyer, University Librarian (Min 24.1)
Professor Paul Hayes, Pro Vice-Chancellor (Education and Student Experience) (Min 26)
Andy Hornby, External Auditor, Deloitte LLP (up to and including Min 24.1)
Jenny Humphreys, Staff Representative
Mark Readman, Chair of Finance Committee (by telephone for Min 19)
Paul Thomas, External Auditor, Deloitte LLP (up to and including Min 24.1)
Bernie Topham, Chief Operating Officer (COO) (for Mins 20.2 to 24.2)
Emma Woollard, Director of Finance (excluding Min 24.1)

Committee received a presentation from Roisin Gwyer, University Librarian, on Value for Money in the Library (Min 24.1 refers).

PRIVATE SESSION

The External Governors, the staff representative, the external and internal auditors held a private session before the start of the main meeting at 1500 hours.

To accommodate the availability of some members, some agenda items were taken out of order.

16. WELCOME, QUORACY AND APOLOGIES

- 16.1 Committee welcomed to the meeting Mark Readman, Chair of Finance Committee (by telephone) and Liz Bartle, Deputy Director of Finance, who would assist Committee in the discussion of the Financial Statements.
- 16.2 Committee welcomed Andy Hornby, External Auditor, Deloitte LLP who would be taking over from Sue Barratt, External Auditor, Deloitte LLP as the senior partner for the University.

16.3 Apologies were received from external Governor: Mark Greenwood.

17. MINUTES

The minutes of the meeting held on 27 September 2017 were confirmed as a correct record subject to the following amendments:

(i) Correction of a typographical error in the post meeting note for minute 2 amending 'was' to 'were'.

(ii) An amendment to minute 9.3 as follows:

“The Committee received and noted the Risk Assurance Map from Adrian Parry, Director of Corporate Governance. The Committee noted that a number of the assurances on the map dated back to the academic year 2012/2013 and agreed that audit data more than three years old should no longer be included as reassurance. *RSM should keep the matter under review to determine whether these audit areas should feature in future audit plans.*”

18. MATTERS ACTIONED SINCE THE LAST MEETING OR UNDER CONTINUING CONSIDERATION AND MATTERS ARISING

18.1 Action was reported on seven matters: three were for note; and four items were covered later in the agenda. In particular the following point was noted:

(i) The Pro Vice-Chancellor (Research and Innovation) had requested a report by 15 December 2017 from the Faculty of Technology relating to information for the recent Research and Innovation Framework audit.

18.2 There were no other matters arising from the minutes.

19. UNIVERSITY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 JULY 2017

Committee received the financial statements under a covering report from Emma Woollard, and the management letter prepared by the external auditors. The financial statements had been reviewed by Finance Committee at its meeting on 14 November 2017. The statements were consolidated statements of the University and had been audited by the external auditors.

19.1 Mark Readman, Chair of Finance Committee, introduced the statements and confirmed that Finance Committee had discussed in detail the consolidated statements at its meetings on 10 October 2017 and 14 November 2017. The statements had been produced under current accounting standards and there were no transition issues.

19.2 Emma Woollard, Director of Finance, presented the financial statements which showed a surplus of £6.8 million. Committee noted that the income for 2016/2017 was 4% higher than the previous year, due largely to an increase in the amount received in tuition fees. Committee also noted that expenditure for 2016/2017 was 7% higher due to the accounting depreciation treatment of the Langstone site. Depreciation was

expected to increase during the next few years as the University invested in new and current buildings and charged accelerated depreciation on a limited number of buildings it will be seeking to demolish or dispose of as a result.

- 19.3 Earnings before interest tax and depreciation (EBITDA) had increased this year to £34m as had the Adjusted Net Operating Cash flow (ANOC) at £37m. These figures were used by HEFCE and potential investors. These figures and their increase were positive for the University.
- 19.4 The Committee noted the draft consolidated accounts included all subsidiary companies. The individual accounts were received by each subsidiary's Board. Key points noted in discussion:
- (i) There were three entities related to the Portsmouth Technopole. Work was ongoing to reduce the number of entities.
 - (ii) The ASTA Technologies UK Limited surplus had decreased this year due to a better recognition of costs in the accounts, however the surplus was expected to stabilise and increase in the future.
- 19.5 The Committee noted that for the Local Government Pension Scheme (LGPS) there was an increase in contributions year on year until 2019.
- 19.6 Committee thanked the Director of Finance and her team for the work in producing the Financial Statements.
- 19.7 Committee received the Annual Sustainability Report. Key points noted in discussion:
- (i) The report was a new return for submission to HEFCE. Currently this report was not a mandatory requirement.
 - (ii) The return detailed the EBITDA calculation for the years 2014/15 through to 2019/20 (based on a combination of published accounts data and HEFCE financial forecast returns). A "margin for sustainability" was then calculated.

Committee agreed to RECOMMEND to the Board of Governors the approval of the Annual Sustainability Report for onward submission to HEFCE.

Action: Director of Corporate Governance

- 19.8 The external auditors presented their management letter, and their decisions and conclusions were discussed in detail, noting in particular:
- (i) The financial statements were substantially complete and there were no material issues.
 - (ii) FRS102: The financial statements for the group were prepared under the new Statement of Recommended Practice ("SORP 2015"), in accordance with FRS 102.
 - (iii) Capital Expenditure: the level of disposals in the year was low in comparison to the level of additions.

- (iv) Pensions: Overall the assumptions used to value the University pension scheme represented a reasonable position to adopt.

19.9 On behalf of the external auditors Deloitte LLP, Sue Barratt confirmed the message of the management letter of overall satisfaction with the financial performance and management of the University in 2016/2017.

The External Governors agreed that they did not require University Management to withdraw from the meeting as they had already had the opportunity for a private discussion with the external auditors' representatives at the start of the meeting.

19.10 Committee agreed to RECOMMEND to the Board of Governors the adoption of the financial statements for the year ended 31 July 2017.

Action: Director of Corporate Governance

[**Post meeting note:** The Financial Statements were adopted by the Board of Governors at their meeting of 23 November 2017, min 29.1.8 refers.]

20. INTERNAL AUDIT

20.1 Internal audit annual report 2016/2017: on behalf of the internal auditors RSM LLP, Lorna Raynes presented this report which provided a summary of the work undertaken in the 2016/17 session.

- (i) The auditors' overall opinion was that, for the year 2016/2017, the organisation had an adequate and effective framework for risk management, governance, internal control and economy, efficiency and effectiveness. However, within this overall opinion, the auditors identified further improvements to the framework of risk management, governance, internal control and economy, efficiency and effectiveness to ensure that it remains adequate and effective.
- (ii) Committee discussed the internal auditors' opinion in detail. Members were satisfied that the overall opinion was a fair conclusion. The auditors' overall opinion was accepted by Committee and management.

20.2 RSM Internal Audit work plan for 2017/2018: Committee noted that there had been no changes to the plan. Some timings had been revised in consultation with management to accommodate work and other commitments at the University.

20.3 Health and Safety – Final report: the overall conclusion was reasonable assurance. The final report was issued on 7 November 2017. Committee noted that training was taking place and the records needed to reflect this. There were four medium and one low significance findings which were being addressed.

20.4 Recommendation Follow-up report: Committee noted that progress had been made. It was also noted that the original implementation date and current target date were the same in some instances. The current date should be updated to a future date as appropriate.

Action: RSM LLP

21. DRAFT ANNUAL REPORT OF AUDIT AND QUALITY COMMITTEE

21.1 The University was required each year to forward to the Chief Auditor of HEFCE an annual report on the work of Audit and Quality Committee. The annual report had three appendices:

- (i) Constitution, membership and terms of reference;
- (ii) The internal auditors' annual report;
- (iii) The annual assurance return.

21.2 Committee considered the draft report which would be updated with relevant points following discussion at this meeting and minute references (throughout the report) as appropriate.

21.3 The External Auditors requested paragraph 15 of the report to be amended to reflect the receipt of the strategy for year end of 31 July 2017.

Action: Head of Governance Services

[Post meeting note: The Annual Report of Audit and Quality Committee was amended and the amendments were agreed with the Chair of Audit and Quality Committee prior to inclusion in the Board of Governors agenda papers for 23 November 2017 meeting]

21.4 Committee noted paragraph 49 of the report and confirmed they were content with the assurances that the Committee was required to make on behalf of the governing body.

21.5 Committee agreed to recommend that the report be adopted by the Board of Governors' meeting on 23 November 2017.

Action: Director of Corporate Governance

[Post meeting note: The Annual Report of Audit and Quality Committee was adopted by the Board of Governors at their meeting of 23 November 2017, min 30.4 refers.]

22. ANNUAL FRAUD AND FINANCIAL IRREGULARITIES REPORT– **confidential minute**

23. STATUTORY MAINTENANCE/REGULARISED TESTING

Committee received an oral update from Fiona Bell, Director of Estates and Campus Services. The following key points were noted in discussion:

23.1 The internal audit had been carried out by the previous Internal Auditors BDO LLP in 2015/2016.

23.2 Management had some concerns that the report was not a fair representation of the work done within the Estates team over the past two years. In management's opinion the audit had not tested compliance as five of the six recommendations were not directly related to statutory testing. Committee however concluded that if auditors found problems outside their original remit they should bring them to the attention of the Audit Committee.

- 23.3 The Director of Estates and Campus services confirmed that the University was totally compliant and there were 79 different requirements governed by legislation that were assessed on a monthly basis.
- 23.4 Many of the recommendations in the audit report were related to recording items in the planon system once the system had been upgraded. This upgrade had been delayed.
- 23.5 There was an internal audit on Responsive Maintenance scheduled for March 2018.
- 23.6 It was agreed that RSM LLP and the Director of Estates and Campus services would discuss and agree the outstanding actions and associated target dates.

Action: RSM LLP/ Director of Estate and Campus Services

24. VALUE FOR MONEY (VFM)

- 24.1 Committee received a presentation from Roisin Gwyer, the University Librarian on VFM in the Library, with a particular focus on the procurement of e-journals. Key points noted during discussion were:
- (i) Around half the Library budget was spent on resources, i.e. books, journals and software. E-journals constituted 93% of journal spend.
 - (ii) There were two types of e-journal subscription, either one payment for the total electronic output of a publisher or individual subscriptions. Cancellation of subscriptions depended on the type of subscription.
 - (iii) The Library gathered information from a number of sources to ensure the right e-journals were purchased.
 - (iv) It has been agreed that there would be 2% savings this year and 3% savings next year on journal subscription costs.
 - (v) Open access had created some disruption in the current market for publications.
- 24.2 Committee also received a paper from Bernie Topham, Chief Operating Officer on a new requirement from HEFCE for an annual efficiency return. Committee agreed that since time did not allow for consideration of the draft return in committee it would comment on the return by electronic circulation before its submission to the Board meeting to be held on 24 January 2018.

Action: Chief Operating Officer/ Director of Corporate Governance

25. PREVENT

Committee received the draft monitoring report from Adrian Parry, Director of Corporate Governance. In discussion the following points were noted:

- 25.1 This was the second annual report for submission to HEFCE on the University's delivery of its Prevent Duty. The report reflected the HEFCE monitoring requirement and the duties placed upon the University by the Counter Terrorism and Security Act 2015.

- 25.2 The report demonstrated that the University had given careful consideration to its Prevent duty, over the last year whilst balancing this duty with other legal duties to protect freedom of speech and academic freedom.
- 25.3 The University had a formally constituted Safeguarding Board that ensured the Prevent duty was aligned with its broader responsibilities for the wellbeing of its students.
- 25.4 The University had an external speaker's policy that had been used to consider two external speakers during the course of the year. Neither had been prevented from speaking.
- 25.5 The University had not had cause to refer any staff or students for Prevent-related issues.
- 25.6 The University had delivered 1,374 training and information sessions during the reporting period.
- 25.7 Committee noted that the content of the report might have some minor refinements in the lead up to submission.
- 25.8 Committee agreed to recommend that the report be endorsed by the Board of Governors at its meeting on 23 November 2017.

Action: Director of Corporate Governance

[Post meeting note: The Prevent Duty annual report was agreed by the Board of Governors at their meeting of 23 November 2017, min 33.7 refers.]

26. ACADEMIC QUALITY ASSURANCE

Committee received the Academic Quality Assurance report from Paul Hayes, Pro Vice-Chancellor (Education and Student Experience). The final report would be submitted to the Board of Governors on 21 November 2016 for approval. In discussion the following points were noted:

- 26.1 This was the second Academic Quality Assurance report. HEFCE required the Board of Governors to confirm that they had received a report that gave them confidence in the continuous improvement of the student academic experience and student outcomes and the reliability of degree standards. The report would provide the basis for the assurance return to HEFCE.
- 26.2 Committee agreed to recommend to the Board that the full report be adopted by the Board at its meeting on 23 November 2017.

[Post meeting note: The Academic Quality Assurance report was noted and endorsed by the Board of Governors at their meeting of 23 November 2017, min 31.5 refers.]

27. MODERN SLAVERY ACT 2015

Committee received an updated Slavery and Human Trafficking statement that had been prepared by Karen Eastaff, Procurement Manager and Claire Dunning, University Solicitor.

Key points noted during discussion were:

- 27.1 Committee noted that the Modern Slavery Act 2015 required organisations (and subsidiaries) with a turnover of more than £36m to produce and publish an annual slavery and human trafficking statement. The statement should be published within six months of the financial year end.
- 27.2 In the last year the University had gathered information about the practices of its suppliers and drafted questionnaires to find out more about the practices of its top 25 suppliers. The University now used a pre-qualification questionnaire to ensure new supplier compliance with the Modern Slavery Act and was working through contracts to ensure that they included appropriate clauses to combat modern slavery. Training had also been sourced and the Procurement Team would complete this training by the end of 2017.
- 27.3 Over the next 12 months the University would develop an explicit Anti-Slavery and Human Trafficking Policy; and look at how legal and fair labour costs could be factored into processes so that suppliers who used slave and bonded labour could be avoided.
- 27.4 Committee agreed to recommend the statement to the Board for approval at its meeting of 23 November 2017.

Action: Director of Corporate Governance

[Post meeting note: The Slavery and Human Trafficking Statement was agreed by the Board of Governors at their meeting of 23 November 2017, min 34.6 refers.]

28. NON-AUDIT SERVICES PROVIDED BY EXTERNAL AND INTERNAL AUDITORS

- 28.1 Committee noted the annual report on audit fees paid to, and additional services purchased from, the external and internal auditors in 2016/2017. Committee confirmed that the additional payments were at an appropriate level and presented no risk of compromising the auditors' independence.
- 28.2 Committee noted planned non-core audit services to be provided by the internal and external auditors during the course of August to October 2017. Committee confirmed they were appropriate and would not compromise the auditors' independence.
- 28.3 Committee noted the statement of independence for the external auditors had been included within the management letter (Min 19) and for the internal auditors in their annual report (Min 21).

29. ANNUAL REPORT ON STUDENT COMPLAINTS

Committee received the University's Student Complaint Report for the 2016/2017 session, together with the OIA's report on complaints it had received from University of Portsmouth students in the calendar year 2016. These reports were submitted annually to Academic Council. Key points noted during discussion were:

- 29.1 The total number of complaints received has increased from 98 in 2015/16 to 131 in 2016/17. The advent of tuition fees and increased marketization had made students more demanding and more inclined to complain.
- 29.2 Information from the OIA on the number of complaints it had received from University of Portsmouth students in the calendar year 2016 showed an increase from the previous year, although the University remained below its sector average benchmark for the number of complaints that were found to be justified.
- 29.3 Committee noted the report.

30. THANKS

Committee noted that this was the last meeting that Sue Barratt from Deloitte LLP would attend as the Audit Partner for the University. Sue Barratt joined the Committee in September 2011 and had been an audit partner of the University for over six years. Committee thanked Sue Barratt for her contribution and wished her well with her future endeavours.

31. RISK MANAGEMENT

Committee received a paper from Adrian Parry, Director of Corporate Governance on an upcoming review of the corporate risk register which sought preliminary views from the Committee. The following key points were noted in discussion:

- 31.1 The risk register has grown significantly in the last two years from 7 to 33 pages. It had started with six overarching strategic risks and now there were nine. There were 11 sub-risks and now there were 28.
- 31.2 KPIs could be linked to the risks but it should be recognised that each KPI could impact on more than one area of risk.
- 31.3 The number of controls cited in the register have grown significantly and one option to consider to reduce the size of the register was to only have the top five controls that are being used as these would have most impact.
- 31.4 Committee agreed to comment on a draft of the revised register in due course before its adoption is recommended to the Board.

Action: Director of Corporate Governance

32. HEFCE CIRCULAR LETTERS

Committee noted the full list of HEFCE publications and circulars could be found on the HEFCE website at: <http://www.hefce.ac.uk>.

32.1 Annual accountability returns 2017:

<http://www.hefce.ac.uk/pubs/Year/2017/CL,362017/>

32.2 Assurance statements about quality and standards from accountable officers for 2017-18: <http://www.hefce.ac.uk/pubs/year/2017/CL,372017/>

33. DATE OF NEXT MEETING

The next meeting would be on Wednesday 15 February 2017 at 1500.

34. DELEGATION OF AUTHORITY TO CHAIR

Committee agreed to delegate authority to the Chair to take action on audit business before the