

Audit and Quality Committee

| | |
|------------------------|--|
| DATE / TIME / VENUE | 1030, Thursday 14 May 2020, via videoconferencing (Google Meet) |
| PRESENT | Frances Morris-Jones, External Governor (Chair) Anne Lambert, External Governor Paul Myers, External Governor |
| IN ATTENDANCE | Vicky Bruce, Financial Controller (for Min 68) Ian Dudley, External Auditor, Deloitte LLP (excluding Mins 61 and 64) Professor Graham Galbraith, Vice-Chancellor Andy Hornby, External Auditor, Deloitte LLP (excluding Mins 61 and 64) Dr Rinat Khusainov, Staff Representative Tim Lee-Lewis, Student Governor Lorna Raynes, Internal Auditor, RSM LLP (excluding Mins 61 and 64) Brent Schwartz, Health and Safety Manager (for Mins 62.5 and 67) Darrell Sturley, Interim Director of Information Services (for Min 69) Peta Tattersall, Faculty Manager (for Min 62.4) Paul Thomas, External Auditor, Deloitte LLP (excluding Mins 61 and 64) Louise Tweedie, Internal Auditor, RSM LLP (excluding Mins 61 and 64) Emma Woollard, Executive Director of Finance |
| SECRETARIAT | Adrian Parry, Executive Director of Corporate Governance Annette Mills, Head of Governance Services Jemma Keys, Senior Governance officer |

Private Session

The External Governors, the student governors, staff representative, and the external and internal auditors held a private session before the start of the main meeting which commenced at 1030 hours.

Tabled paper: Agenda Item 12, Aide Memoire for Cyber Security Presentation.

To accommodate the logistics of the meeting, some agenda items were taken out of order.

56. Welcome, Quoracy and Apologies

- 56.1 Due to the COVID-19 pandemic, this meeting would be conducted remotely via videoconferencing. Members were reminded of the protocols for virtual governor meetings.

- 56.2 The Chair welcomed Ian Dudley, External Auditor, Deloitte LLP to the meeting.
- 56.3 There were no apologies for the meeting.
- 56.4 The meeting was confirmed as quorate and no members declared any conflict of interest.

57. Minutes

The minutes of the meeting held on 24 February 2020 were confirmed as an accurate record.

58. Matters Actioned Since the Last Meeting or Under Continuing Consideration

Action was reported on one item that was covered later in the agenda.

59. Matters Arising

There were no other matters arising from the minutes.

60. Chair's Action

- 60.1 The Library had requested trial access to DART (Deloitte Accounting Research Tool).
- 60.2 DART provided online access to technical literature which included accounting standards which were tailored by region; access to the Deloitte guidance and interpretations; and access to Deloitte publications such as surveys, benchmarking, analysis, corporate reporting.
- 60.3 Committee noted this was a permissible service for audit clients.
- 60.4 The Chair of Audit and Quality Committee had approved the request for a subscription to DART under delegated authority on 25 March 2020 following consultation with the Executive Director of Finance by email correspondence.
- 60.5 The Committee endorsed the Chair's action taken under delegated authority.

61. Audit Tender Update – confidential

62. Internal Audit

62.1 Internal Audit Progress Report: Committee received an update on progress against the internal audit plan for 2019/2020 from Louise Tweedie, RSM LLP. The progress report provided a factual summary of progress to date. In discussion the following points were noted:

- (i) A number of internal audits had been scheduled for later in the academic year which was normal practice. The auditors continued to work remotely to deliver the audits which would inform the annual report.
- (ii) There were some proposed changes to the internal audit plan.
 - a) The IS Cloud Migration Arrangements and Strategy Implementation Framework would be deferred.
 - b) It had been previously agreed by the Committee that the meeting room utilisation framework would not be included as part of the 2019/20 internal audit plan.
 - c) Two new internal audits would be added to the internal audit plan for 2019/20. The inclusion of lessons learned from the implementation of the SITS system followed a request from the Board of Governors in January 2020. Review of TRAC was at the request of management as this area had not been subject to internal audit review for a number of years and three-yearly reviews were considered good practice.
 - d) The workload planning audit had been deferred due to staff being unavailable as they were making a critical contribution to other priority areas, such as online teaching. This audit would be replaced by a review of the Nursery, which could be completed remotely, as preparation for the likelihood of an OFSTED inspection in the near future.
 - e) The Committee agreed the changes to the internal audit plan for 2019/20.
- (iii) It was noted that RSM were aware of an increased incidence of fraud activity, particularly where governance and compliance processes had needed to adapt quickly in response to the COVID-19 pandemic. Guidance on tackling fraud related to the pandemic specifically within the education sector was available on RSM's portal.

62.2 Impact of COVID-19 on Internal Audit

- (i) RSM staff were currently working remotely, and using secure portals to

upload information and data. It was noted that some of RSM's clients were undertaking specific COVID-19 internal audit reviews.

- (ii) It was recognised that paper-based elements of internal audits would not be possible at this time. RSM were proposing that an interim report on the policies and procedures based work would be produced and that a second stage audit of the paper-based elements would be conducted when permitted. An example of this approach at the University was the audit of IT stock. It had been agreed that the policies aspect of this audit would commence and that any testing would be delayed until RSM could visit the site.

62.3 Core Financial Controls: Control Account Reconciliations Final Report: the overall conclusion of the audit was substantial assurance. There were two low level findings around policy and procedural guidance and the order in which the reconciliation of management accounts took place.

62.4 Framework for Stocktake of Fine Art Shop and Lending to Students from the CCI Equipment Store: the overall conclusion of the audit was partial assurance. There were one high, one medium and two low level findings. The Committee received an update from Peta Tattersall, Faculty Manager, Faculty of Creative and Cultural Industries. In discussion the following points were noted:

- (I) The main finding for the art shop was that although there was a regular monthly stocktake in place for high value items, this was not in place for low value items. It was recognised that a monthly stock take for low value items was not necessarily practical. However, it was recommended that consideration should be given to how this could be managed over a period to cover all items to ensure that any losses could be identified.
- (II) Two low priority findings: two items were "written off" from the Art Shop inventory but there was no audit trail to demonstrate formal approval. Similarly, an item had been borrowed from CCI stock and had not been returned but it was subsequently discovered that an extension had been granted but not formally recorded. The processes had been reviewed and clarified to provide a formal and consistent approach to the loan of items and training to ensure compliance with these processes would be provided.
- (III) Progress on the stocktake of the art shop had been impacted by staff not being able to access the building and shop due to COVID-19 restrictions. The Faculty Technical Resource Manager and the Art Shop Manager were leading on the stocktaking process and establishing the plan for implementing the actions. Work on improving processes was continuing and was due for completion at the end of July. However, given the current pandemic, it was recognised that an extension to the date might be required.

62.5 Health and Safety Controls Chemical Storage Final Report: the overall conclusion of the audit was partial assurance. Committee received an update from Brent Schwarz, Health and Safety Manager. In discussion the following points were noted:

- (i) There were two high and two medium findings. All actions were in progress.
- (ii) The COSHH policy was under review and would include coverage in relation to the shelf life, expiry and disposal of chemicals. As part of the COSHH policy, an annual audit program would be launched in conjunction with workplace inspections.
- (iii) The School of Pharmacy and Biological Sciences was reviewing its inventory of chemicals and was procuring a new storage unit.
- (iv) A progress report would be provided to the next Health and Safety Committee in June and to the Audit and Quality Committee on 22 September 2020.

Action: Health and Safety Manager/ Head of Governance Services

- (v) It was expected that all actions would be completed by September 2020, although it was acknowledged that the impact of the COVID-19 pandemic might cause delay.
- (vi) The Committee thanked the Health and Safety Team for being pro-active in the way that this matter had been taken forward.

62.6 Recommendation Follow-Up report: Committee noted that there were still some software issues following an upgrade of the 4Action software. A solution was being worked upon.

63. Progress with Deloitte's External Audit Management Letter for 2018/19 and Update on Preparation for the 2019/20 Year End

Committee received a report from Emma Woollard, Executive Director of Finance. In discussion the following points were noted:

- 63.1 In November 2019, the Audit and Quality Committee had received the external auditors' management letter for 2018/19, which had been issued as part of the annual audit of the University's financial statements.
- 63.2 The letter outlined the key audit risks that had been identified by the auditors which could impact upon the reported results, as well as control observations identified and the management responses to these observations. It was noted that all of the risks identified in the letter had either been actioned or remedial

actions were underway ahead of the upcoming year-end audit.

- 63.3 Early preparation for the 2019/2020 year-end had commenced. It was likely that the audit process would be conducted in a different manner to previous years to reflect the impact of the COVID-19 pandemic. In particular, there would be a greater focus in some areas, including going concern status and information relating to decisions taken as a result of the COVID-19 pandemic. It was anticipated that the audit process would be conducted remotely. The University was in liaison with Deloitte to discuss the requirements for a remote audit.
- 63.4 The University was required to make retrospective adjustments to direct debits that had been set up independently. Although an independent checking process was in place it would be preferable if the processes were such that it did not rely upon retrospective adjustments. The Executive Director of Finance had raised the issue with Lloyds Bank in December 2019. However, as other customers had not reported this to be an issue, this was not viewed as a high priority by the Bank.
- 63.5 The Committee noted the report.

64. External Auditors' Appointment - confidential

65. External Auditors' Management Plan Year End 31 July 2020

- 65.1 Andy Hornby, Deloitte LLP introduced the plan of the External Auditors for the audit for the year-end 31 July 2020. The following key points were noted:
- (i) It was confirmed that there were no significant changes were anticipated to prior years, except for the impact of COVID-19 on operational matters and the year-end balance sheet.
 - (ii) Deloitte had identified two significant audit risks which would be key focus areas for the 2019/2020 audit. There would be a continued focus upon the appropriate capitalisation of expenditure as the University implemented its Estate Masterplan. This would include consideration of impairment based on the valuation of those assets. The second risk area identified was management override of controls. There would be an increased risk and focus in those areas this year due to the increase in remote working.
 - (iii) A key area of focus for the 2019/2020 audit was the treatment of financial instruments and in particular, the assumptions used by the pension scheme actuary in the calculation of pension scheme liabilities. It was noted that the Office for Students had introduced new disclosure requirements in this area which Deloitte was required to report on.

- (iv) The scope of the audit to be undertaken for Portsmouth Technopole Limited (PTL) had been reduced for this year. Previously the valuation of the Technopole building had been included in the scope for the group accounts. However, it had been determined that this valuation was immaterial to the group as a whole. The statutory audit of PTL would be conducted as usual.
- (v) The COVID-19 pandemic would impact across all areas of audit. It was noted that Deloitte would implement additional procedures in a number of areas including going concern, revenue and impairment of assets.
- (vi) It was noted that Deloitte's risk assessment was a live and ongoing process. Further risk assessments would be undertaken as the year-end approached. Any changes to the risk assessment would be communicated to the Committee.

65.2 Paul Thomas, Deloitte LLP, outlined areas for the Committee's consideration. The following key points were noted:

- (i) Deloitte proposed a materiality level of 2% of forecast total income for the group. Materiality had been set at £5.3m for 2019/2020, which was broadly in-line with the materiality set for 2018/2019 at £5.2m. It was noted that materiality had been based on the University's most recent forecast income and any reduction in forecast income as a result of the COVID-19 pandemic would result in a reassessment of materiality. Any changes in materiality would be communicated to the Committee. Committee agreed that the proposed level of materiality for 2019/2020 was appropriate.
- (ii) Committee noted the overview of the scope of the group audit and was satisfied that the scope provided sufficient coverage of the business.
- (iii) Deloitte had rebutted the presumed significant risk related to fraud in revenue recognition. Previously this had been pinpointed to a risk to the completeness and accuracy of income from international students. Based on their understanding of the University's control environment, Deloitte determined that this was no longer a significant risk for the University.
- (iv) Accounting of capital expenditure had been identified as an area of increased risk in relation to potential material fraud. This was due to the sizeable capital projects and involved significant judgement, particularly over the classification of the expenditure. Deloitte's approach would be the same as in previous years.
- (v) Management override of controls is an assumed risk for all audits in accordance with accounting guidelines. It was not specific to the University

and applied to all organisations.

- (vi) The risk assessments might need to be updated nearer the year end, in line with management's actions and the University's likely financial position from the impact of COVID-19. Some of the areas that might be impacted were: student income; international student recruitment; impairment of non-current assets; potential breach of loan covenants; valuation of non-basic financial instruments, going concern and forecasting; and assumptions used in pension scheme calculations.
- (vii) There was a potential impact on credit risk in respect of the £100m of loan notes that the University had issued during the year ended 31 July 2018. The notes would be accounted for at fair value through the profit and loss account (income and expenditure). It was noted that the University would engage Mazars to perform a valuation in the current year.

65.3 Impact of COVID-19

- (i) The interim Audit would be conducted remotely and would probably take longer than normal. It was also anticipated that the year-end audit would be conducted remotely. Deloitte stated that conducting an audit remotely was more challenging than being on site. However, Deloitte was confident it had procedures in place and the tools available to deliver an audit remotely. Committee noted that Deloitte expected the audit to take longer.
- (ii) In response to a question Deloitte confirmed additional work would be required particularly around going concern and likely volatility in the last quarter of the financial year due to COVID-19. Deloitte stated that previously used audit techniques would not be appropriate and more detailed work would be required.
- (iii) The Committee noted the expectation of management that the cost of the audit would be neutral as both parties would have to undertake additional work to complete the audit. In response Deloitte confirmed their audit approach would be as efficient as possible, however COVID-19 meant that additional procedures would be required.
- (iv) It was noted that some of the risks identified in relation to COVID-19 were specific to the University but many were common across the HE and other sectors. By year-end there would be a wider understanding of the associated risks and more experience of undertaking audits during COVID-19 pandemic to draw upon.

65.4 Committee approved the External Auditors plan for the audit of the year end 31 July 2020.

66. Corporate Risk Register

- 66.1 Corporate Risk Register: The Committee received the Corporate Risk Register from Adrian Parry, Executive Director of Corporate Governance. The following points were noted in discussion:
- (i) At the last meeting, the Committee had received an interim corporate risk register that had aligned the risks with the 12 central themes of the new University Strategy. It had been noted at the time that the risks would be refined as action plans for each theme were finalised. However, due to COVID-19, the production of the action plans had been delayed.
 - (ii) Where risks had already been identified, these had been reviewed and where increased levels of risk were evident due to the COVID-19 pandemic this had been recorded. There was a greater prevalence of red and high amber risks. It was noted that the impact of the identified risks had not changed but the likelihood of the risk occurring had increased and this was reflected in the scores.
 - (iii) The most significant risks identified were to home, EU and international recruitment and in relation to the need to offer and deliver a high quality blended learning experience for new and returning students for the 2020/21 academic year.
 - (iv) It was currently impossible to accurately predict the impact of COVID-19 upon student recruitment. It had been estimated that international student recruitment across the sector could decline by 50 to 70%.
 - (v) Committee noted that the new Corporate Risk Register remained a “work in progress” and would require substantial adaptation and revision to take account of the impact of the COVID-19 pandemic and to reflect the content of the action plans that would underpin the delivery of the University Strategy.
- 66.2 Corporate Risk Assurance Map: The Committee received and noted the Corporate Risk Assurance Map from Adrian Parry, Executive Director of Corporate Governance.

67. Health and Safety Quarterly Report

Committee received the Health and Safety Quarterly report prepared by Lynda Martin, Deputy Health and Safety Manager and presented by Brent Schwarz, Health and Safety Manager. The following points were noted in discussion:

- 67.1 The executive summary covered the salient points of the quarterly report.
- 67.2 The Committee noted that the reporting of accidents appeared to be slightly lower than might be expected in a University environment. There also appeared to be a higher number of incidents in the Faculty of Science compared to the other faculties, which may reflect the nature of the activities undertaken in that faculty. The Health and Safety Team was currently focusing on the reporting of accidents and was undertaking activities to raise awareness of the need to report incidents. The Committee welcomed this renewed focus.
- 67.3 The Committee noted the report.

68. Irregularities In Tuition Fee Payments - confidential

69. Cyber Security – Presentation

The Committee received a presentation from Darrell Sturley, Interim Director of Information Services. In discussion, the following points were noted:

- 69.1 The paper on cyber security circulated to members of the Committee on 13 May 2020 provided an overview of cyber security at the University.
- 69.2 The University's approach to tackling cyber threats and the risks posed was to implement a proportionate response. The University was accredited for Cyber Essentials Plus. The University was committed to continuously improving its cyber security performance, upgrading its technologies and ensuring that the appropriate capability and capacity was in place and that this reflected best practice within the sector.
- 69.3 The Committee was shown a live dashboard of day-to-day activities across the University's computer network, including total number of connections currently, those over the previous seven days and failed connections. Use of this dashboard was providing an insight into usage and behaviour of users.
- 69.4 The Committee noted the presentation and expressed thanks for the Cyber Security Aide Memoire submitted.

70. Thanks

This was the last Audit and Quality Committee meeting for external Governor Anne Lambert who retired from the Board of Governors on 31 July 2020. The Committee thanked her for her contribution and wished her well with future endeavours.

71. Items for Note

The Committee noted the following reports:

- 71.1 The University's Prevent Duty;
- 71.2 Information Governance Report;
- 71.3 Clinical Governance Dental Academy;
- 71.4 Quarterly Report Of Non-Audit Services From The Auditors;
- 71.5 Advisory Reports: Quality processes for degree apprenticeships and for reporting to the ESFA and Apprenticeship document review;
- 71.6 Health and Safety Committee Minutes;
- 71.7 Office for Students (OFS) publications.

In particular, the Committee expressed its thanks for the comprehensive nature of the information governance report and wished these to be conveyed to its authors.

72. Confirmed Meeting Dates for 2020/2021

The Committee noted the confirmed meeting dates for 2020/2021:

- Tuesday 22 September 2020 from 1030 to 1300
- Thursday 12 November 2020 from 1030 to 1300
- Thursday 11 February 2021 from 1030 to 1300
- Thursday 13 May 2021 from 1030 to 1300

73. Date of Next Meeting

The next meeting would be held on 22 September 2020 at 10:30.