

Audit and Quality Committee

DATE / TIME / VENUE	1500, Wednesday 14 November 2018, Board Room, Room 4.18, St Andrew's Court
PRESENT	Frances Morris-Jones, External Governor (Chair) Mark Greenwood, External Governor (up to including Min 29) Professor Nairn Wilson, External Governor
IN ATTENDANCE	Sarah Arnold, University Records Manager (Min 24) Liz Bartle, Deputy Director of Finance (Financial Systems) (Min 17 to 20) Rebecca Di Pancrazio, Head of Student and Academic Administration (Min 26) Andy Hornby, External Auditor, Deloitte LLP (up to and including Min 33) Dr Rinat Khusainov, Staff Representative Chris Randall, External Auditor, Deloitte LLP (up to and including Min 33) Lorna Raynes, Internal Auditor, RSM LLP (up to and including Min 33) Mark Readman, Chair of Finance Committee (by telephone Min 17 to 20) Emma Woollard, Executive Director of Finance
SECRETARIAT	Adrian Parry, Executive Director of Corporate Governance Annette Bourke, Head of Governance Services

Committee received a presentation from Sarah Arnold, University Records Manager, on EDM (Electronic Document Management) to eRecords (Min 24 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.

17. Welcome, Quoracy and Apologies

- 17.1 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.
- 17.2 Apologies were received from external Governor: Paul Myers; Vice-Chancellor: Professor Graham Galbraith; and Louise Tweedie: Internal Auditor RSM LLP.
- 17.3 The Executive Director of Corporate Governance confirmed that the meeting was quorate and could proceed to business.

- 17.4 Committee noted that Professor Nairn Wilson had been a member of Finance Committee during 2017/18 and was currently a Director of one of the University's Subsidiary companies - University of Portsmouth Services Limited (UPSL).

18. Minutes

The minutes of the meeting held on 27 September 2017 were confirmed as a correct record.

19. Matters Actioned Since the Last Meeting or Under Continuing Consideration and Matters Arising

- 19.1 Action was reported on four matters for note.
- 19.2 There were no other matters arising from the minutes.

20. University Financial Statements for the Year Ended 31 July 2018

Committee received the financial statements under a covering report from Emma Woollard, Executive Director of Finance and the management letter prepared by the external auditors. The financial statements had been reviewed by Finance Committee at its meeting on 13 November 2018. The statements were consolidated statements of the University and had been audited by the external auditors.

- 20.1 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 11 October 2018 and 13 November 2018. The statements had been produced under current accounting standards and there were no transition issues. There were strong systems, processes and controls in place. In the preparation of the accounts, there had been two major topics: accounting for the placement borrowing and the voluntary severance scheme (VSS).
- 20.2 Liz Bartle, Deputy Director of Finance (Financial Systems), presented the financial statements which showed a surplus of £6.8 million. Committee noted that the surplus for 2017/2018 was the same as the previous year, indicating financial stability year-on-year.
- 20.3 The Committee noted that there were additional disclosures required by the Office for Students (OfS): Vice-Chancellor pay ratio in comparison to the median of staff pay and staff severance pay.
- 20.4 The Committee also noted this was the first year of the placement borrowing costs leading to higher cash balances in the accounts.
- 20.5 Accounting for the Private Placement: The external auditors had advised the University that the placement financing should be treated as a non-basic financial instrument. This treatment, for 2017/18, had no impact on the Balance Sheet (or

Income and Expenditure Account) but had required a new Financial Instruments Note in the Financial Statements. For 2018/19 onwards, a separate fair value exercise on the placement would be required and any year-on-year changes in value would be reflected within the Income and Expenditure account. Committee noted that some Universities revalue placement borrowing finance every year, and this has the potential to create considerable volatility.

- 20.6 Pensions: The University has two main pension schemes. The Local Government Pension Scheme (LGPS) and The Teachers' Pension Scheme (TPS). The LGPS is revalued on a triennial basis and the next valuation was due in April 2019. There was a risk that contribution rates would increase again. TPS contributions would increase by 7.2% in September 2019. The University had budgeted for a 2% increase, in line with advice from UCEA.
- 20.7 VSS: the cost impact was c. £3.8 million in 2017/18. Accounting rules stated that any VSS agreements signed before a financial year-end should be accrued into that year's accounts, whether or not the staff had left employment and been paid the severance amount due. VSS had enabled some renewal and refreshment of posts and reinvestment. The increase in staff FTE reflected new and replacement posts agreed as part of the annual strategic and financial planning process. There will be further costs relating to the VSS scheme in 2018/19, which has been budgeted for; however, the majority of the cost fell within the 2017/18 accounting period.
- 20.8 Committee noted that University continued to be appropriately prudent in the valuation of fixture and fittings and older buildings.
- 20.9 The Committee noted that the draft consolidated accounts included all subsidiary companies. The individual accounts were received by each subsidiary's Board. Key points noted in discussion:
- (i) The Finance Committee reviewed the subsidiaries management accounts at each meeting.
 - (ii) During the year the three entities related to the Portsmouth Technopole had been reduced to two entities - Portsmouth Technopole Limited and Technology Enterprises Limited. The Committee noted the combined deficit of £25,000 and asked to be kept apprised of progress in achieving profitable status.
- 20.10 Committee thanked the Executive Director of Finance and her team for the work in producing the Financial Statements. Committee also thanked the Executive Director of Human Resources and his team for their assistance with the VSS calculations and information on the Vice-Chancellor pay and staff median pay ratio, and the Chair of the Finance Committee for his helpful summary.
- 20.11 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) The financial reporting control environment was robust. There was one finding in relation to the classification of the placement borrowing taken out in the year.
- (iii) Pensions: Overall the assumptions used to value the University pension scheme represented a reasonable position to adopt.
- (iv) Tax update: The University was aware of the tax related matters Deloitte had highlighted and work was already underway to these matters. This included, but was not limited to, a recent internal audit of IR35 and work on making tax digital for VAT.
- (v) The University confirmed that all employees received the national living wage as a minimum.
- (vi) In response to a question about the recent announcement by KPMG that it would stop providing non-audit services to FTSE 350 companies, Deloitte confirmed that they also were reviewing their provision of non-audit services to audit clients in the FTSE 350, however this would not impact on the work they conducted for the University. Additional work was approved in advance by the University.

20.12 On behalf of the external auditors Deloitte LLP, Andy Hornby confirmed the management letter's conclusion of overall satisfaction with the financial performance and management of the University in 2017/2018.

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.

20.13 Committee agreed to RECOMMEND to the Board of Governors the adoption of the financial statements for the year ended 31 July 2018.

21. Internal Audit

21.1 Internal audit annual report 2017/2018: on behalf of the internal auditors RSM LLP, Lorna Raynes presented this report which provided a summary of the work undertaken in the 2017/18 session.

- (i) Committee noted that the report was currently in draft as RSM were awaiting the outcome of some final reports. However, they did not expect this to impact on the overall opinion.
- (ii) The auditors' overall opinion was that, for the year 2017/2018, 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.

- (iii) 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.

21.2 Internal Audit Progress Report 2018/2019: 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.

- (i) Committee agreed that there would be a discussion with the Acting Pro Vice-Chancellor Research and Innovation to confirm the timescale for an audit of research and innovation activity.
- (ii) Gender Pay Reporting Compliance: in discussion about whether coverage of pay for ethnic minorities formed part of this audit, it was agreed that RSM LLP could include a question that addressed all minority groups.

Action: RSM LLP

21.3 Recommendation Follow-up report: Committee noted that progress had been made. It was also noted that:

- (i) The original implementation date and current target date were the same in some instances. RSM LLP would check these dates and update accordingly.
- (ii) Conflicts of interest: The Executive Director of Corporate Governance confirmed that he had completed the actions within his remit and would reiterate the updates that were required from the owners of the other policies. Committee agreed if there was no progress on these other policies the owners would be invited to the next Committee meeting to discuss.

Action: RSM LLP

Action: Executive Director of Corporate Governance

22. Draft Annual Report of Audit and Quality Committee

22.1 The University was required to forward to the OfS 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.

22.2 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.

22.3 The Committee requested paragraph 26 of the report to be amended to reflect the University's continued exploration of new approaches to define its risk appetite, by

identifying and reviewing best practice from within higher education and other sectors.

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 26 November 2018 meeting]

22.4 Committee noted paragraph 52 of the report and confirmed they were content with the assurances that the Committee was required to make on behalf of the governing body.

22.5 Committee agreed to recommend that the report be adopted by the Board of Governors' meeting on 26 November 2018.

Action: Director of Corporate Governance

23. Annual Fraud and Financial Irregularities Report– confidential minute

24. Value for Money (VfM)

Committee received a presentation from Sarah Arnold, University Records Manager, on the transition of EDM (Electronic Document Management) to eRecords. Key points noted during discussion were:

24.1 Records Management is critical to Information Governance. The value of Information Governance was not always appreciated. Records Management was about maintaining and proving the authenticity, integrity, reliability and usability of records, which were required for legal, audit or regulatory purposes.

24.2 The EDM system had been audited three times in recent years. A number of activities had been progressed to address these findings including: the development of eRecords built upon the findings of these audits; the reconfiguration and relaunch of EDM as eRecords; the production of an Information Governance Strategy; raising awareness of Information Governance by creating a network of Information Governance Champions across the University and a quarterly newsletter.

24.3 The Committee thanked the University Records Manager for her presentation, acknowledged the importance of EDM for improving data integrity and providing a robust audit capability, and encouraged this work as a matter of importance to the University.

25. Annual Report On Prevent Duty

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

- 25.1 This report provided the draft assurance monitoring report for submission to the Board of Governors on the University's delivery of the Prevent duty.
- 25.2 The Prevent duty was the duty outlined in the Counter-Terrorism and Security Act 2015 that required specified authorities, in the exercise of their functions, to have due regard to the need to prevent people from being drawn into terrorism. The OfS, under the delegation of the Secretary of State, was now responsible for monitoring whether higher education providers were demonstrating due regard for the Prevent duty.
- 25.3 The Committee noted that the OfS had moved to an evidence-based and risk-based approach to its monitoring responsibilities. Instead of a formal report, institutions would submit an accountability and data return to the OfS on an annual basis.
- 25.4 Committee noted that the content of the report might require some minor refinements in the lead-up to submission. In particular, further work was required to collect the required data.
- 25.5 Committee agreed 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.
- 25.6 Committee agreed to recommend that the report be endorsed by the Board of Governors at its meeting on 26 November 2018 as providing reassurance that the University was delivering the Prevent duty.

26. Assurance Statement on Quality

Committee received the Academic Quality Assurance report from Rebecca Di Pancrazio, Head of Student and Academic Administration. This report would be submitted to the Board of Governors on 26 November 2018. In discussion the following points were noted:

- 26.1 The OfS 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 of the reliability of degree standards. The report would provide the basis for the assurance return to OfS.
- 26.2 Committee discussed the findings of the report, and agreed to recommend to the Board that the full report be endorsed by the Board at its meeting on 26 November 2018 as providing confidence in the continuous improvement of the student academic experience and student outcomes and of the reliability of degree standards.

27. Modern Slavery Act 2015 – Review of Statement

Committee received an updated Slavery and Human Trafficking statement that had been prepared by Karen Eastaff, Deputy 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 their subsidiaries) with a turnover of more than £36m to produce and publish an annual slavery and human trafficking statement or a statement that they had no statement to publish. The statement should be published within six months of the financial year end.
- 27.2 This annual statement provided an update on the actions proposed in the University's previous annual statement and set out the steps that the University planned over the next twelve months.
- 27.3 Training for members of the Procurement team was provided via one-to-one briefing sessions with the University Solicitor.
- 27.4 Committee agreed to recommend the statement to the Board for approval at its meeting of 26 November 2018.

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 2017/2018. 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 September to 31 October 2018. 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 20.9) and for the internal auditors in their annual report (Min 21.1).

29. Professional Accreditation - confidential

30. Risk Management

Committee received the Corporate Risk Register and noted that it had been discussed and agreed by the University Executive Board (UEB). The following key points were noted in discussion:

- 30.1 Committee noted that the due date column had been amended to include a definitive date or activity where possible. In addition, the Committee noted three changes to the latest version of the Corporate Risk Register.
 - (i) Risk 2.1: Poor TEF outcomes result in diminished reputation with the consequence that the University's is less attractive to potential students – the inherent risk had been reduced from 8 (amber) to 4 (green) to reflect the fact that the University's TEF rating is known until 2019/20.

- (ii) Risk 2.4: New risk - The Student Protection Plan (SPP) does not adequately protect students' interests with the consequence that they are unable to complete their chosen courses and potentially to pursue their intended careers. This reflected the need to ensure that the Student Protection Plan remained comprehensive and was regularly reviewed to ensure students' interests were protected.
- (iii) Risk 3.4: New risk - Failure to optimise the use of innovation space results in a loss of competitive advantage due to a failure to fully utilise intellectual property and commercial capital. This reflected the need to better promote our innovation centres.

30.2 Following discussion, it was agreed that:

- (i) Risk 2.4: the wording would be reviewed to ensure that primacy was placed on the need to ensure that student interests were addressed, with the Student Protection Plan providing a robust source of mitigation.
- (ii) Risk 5.2: would be expanded to include the adverse impact upon financial costs that might be created if the estate masterplan did not proceed to schedule.
- (iii) Risk 1.1: the Web transformation project would be included under 'Current Controls'.

Action: Director of Corporate Governance

30.3 The Committee noted that many risk scores had remained static for a period of time. The Committee requested that a full review of risk scores be undertaken in advance of the next iteration of the corporate risk register to ensure that it remained a dynamic document.

Action: Director of Corporate Governance

31. Annual Report on Student Complaints

Committee received the University's Student Complaint Report for the 2017/2018 academic year prepared by Samantha Hill, Information Disclosure and Complaints Manager, together with the OIA's report on complaints it had received from University of Portsmouth students in the calendar year 2017. These reports were submitted annually to Academic Council. Key points noted during discussion were:

- 31.1 Student complaints had increased in 2017/18, however the majority of complaints had been resolved informally. There was an increasing trend for complaints to focus upon individuals rather than issues.
- 31.2 Committee noted the report.

32. OfS Publications

Committee noted the full list of OfS publications could be found at:
<https://www.officeforstudents.org.uk/publications/>.

33. Date of Next Meeting

The next meeting would be on Tuesday 12 February 2018 at 12:30.

34. Delegation of Authority to the Chair

Committee agreed to delegate authority to the Chair to take action on audit business before the next meeting if necessary.