

**AUDIT AND RISK COMMITTEE**  
**Tuesday 10 November 2020**

**CONFIRMED MINUTES**

**Present:**

David Willis (Chair)	Simona Fionda	Dr Alix Pryde
Melissa Tatton [to minute 2020.039]	Peter Thompson	

**In attendance:**

Professor Colin Bailey	Rebecca Jones [for minute 2020.036]	Dr Nadine Lewycky
Charles Medley [internal audit]	Jonathan Morgan	Louise Parr-Morley
Janice Trounson	Craig Wisdom [external audit]	

**Apologies:**

Dr Catherine Murray	Julian Reeve [external audit]	Neil Thomas [internal audit]
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**Welcome**

2020.030 The Chair welcomed everyone to the meeting and noted the apologies. The meeting was being held by video conference to ensure the continuation of good governance during the coronavirus pandemic.

**Minutes of the meeting held on 29 October 2020 [ARC2020/21]**

2020.031 The Committee **confirmed** the confidential and non-confidential minutes of 29 October 2020 subject to the following amendment to minute 2020.023:

[a] The Committee discussed whether there was assigned central responsibility for data across the university and whether there was a wider data quality and integrity programme independent of regulatory reporting. This was not in place but a data quality improvement programme (Data+) had been launched to ensure compliance with external reporting requirements as well as delivering improvements to data quality and timeliness that will facilitate the production of more robust and timely management information.

**Matters arising [ARC2020/22]**

2020.032 The Committee **noted** the matters arising from the meeting held on 29 October 2020.

**External audit letter of representation and external auditor's report 2019–20  
[ARC2020/23&24]**

2020.033 The Committee **considered** the external audit letter of representation and external auditor's report 2019–20. The following points were **noted** in the discussion:

- [a] The progress of the audit had been satisfactory and was expected to conclude according to the original timescales. The pandemic had not changed the overall risk profile but additional focus had been put on areas affected by Covid.
- [b] The processes around the recognition of research grant income had been rated satisfactory. No adjustments were identified but a control deficiency regarding the cut-off of research expenditure had been found.
- [c] The auditors had challenged management's decision not to make provision for an inter-company debt from the Malta subsidiary of £5.6m. It was determined that the balance was not material and the absence of provision did not present a risk of material misstatement. This conclusion was reached on the basis of management's cash flow forecasts and the likelihood of receiving the contribution payment from the Maltese Ministry of Health. The auditors considered the decision to not provide for this intercompany balance to be a judgment at the least prudent end of the acceptable range. The Committee was informed that, even if the contribution payment was not received, management expected the debt to be repaid in full but over a longer period. The Committee agreed that this accounting treatment was at the risky end of prudent but were content with the position reached.
- [d] The testing of major capital expenditure did not identify any adjustments or control deficiencies that needed to be raised. The university had cumulatively capitalised design costs in relation to the School of Business and Management project. Despite the initial application for planning permission being rejected, the project would go ahead with a revised planning application as part of a new masterplan for the Mile End campus in spring 2021. Design changes would be needed before resubmitting for planning permission. A portion of the costs incurred to date would therefore not result in future economic benefits to the university and would need to be written off. Management estimated £1.5m of costs that need to be written off and have proposed that these costs be written off in the 2020-21 financial year when the final quantum of the write off would be finalised. This represented an unadjusted item in this year's accounts.
- [e] Having consulted with the internal financial instrument specialist at Deloitte it was concluded that £96.5m of the loan notes were 'non-basic' financial instruments for the purposes of accounting standards. Non-basic financial instruments were required to be held at fair value and for the 2019-20 audit, the university had appointed an independent valuer (Mazars) to calculate the fair value of the relevant portion of the loan notes. The relevant portion of the loan notes were valued at £114.0m as at 31 July 2020 resulting in a fair value adjustment of £6.3m. This adjustment resulted in an increase in the value of the loan notes on the balance sheet and a debit to the comprehensive income and expenditure statement. Having reviewed the

report by the independent valuer, the auditors concluded that the valuation was within a reasonable range of outcomes. There had been good challenge from management on the need to treat a portion of the loan notes as non-basic financial instruments.

- [f] The auditors expected to be able to give an unmodified opinion upon conclusion of the audit. The process had gone well given the circumstances and the auditors thanked the university's Finance team for their cooperation.

#### ***External audit letter of representation***

- [g] There were no new representations in this year's letter that were not standard. There were two non-standard representations around Malta and the capital costs in relation to the School of Business and Management project that had also been included last year.
- [h] The Committee said that the presence of £1m of fixed assets on the register which had been disposed of, while below the materiality threshold, indicated that there might be an issue with the control environment. The asset count had been paused because of Covid and would be completed in due course. The response of the control environment to Covid had been positive and there was nothing within the scope of the external audit that had been a cause for concern.
- [i] It was suggested that the representation on cyber security should differentiate between the core and local systems to reflect the improvements made on cyber security which had been reported to the Committee throughout the year. As the audit was focused on identifying risks in relation to financial fraud and local systems did not hold HR, student or financial data, this was considered not to be a concern. The Committee said that, given the audit was focused on financial fraud rather than the efficacy of local systems, it did not represent a risk in the context of the audit.
- [j] The Committee asked for, and received assurances from the President and Principal, on behalf of the Senior Executive, the Interim Finance Director, on behalf of the Finance team, and the Chief Governance Officer and University Secretary, on behalf of relevant parts of Professional Services, that there was no reason the Committee could not recommend the letter to Council for signing.

#### **Audited Financial Statements 2019–20 [ARC2020/25]**

- 2020.034 The Committee **considered** the Annual Report and Financial Statements for 2019–20. The following points were noted in the discussion:

#### ***Accounting estimates and judgments***

- [a] Accounting for the USS deficit obligation was based on the last valuation in 2018. There would be a positive movement in this year's accounts which was expected to reverse next year once the 2020 valuation was completed. USS had supplied the accounting technique which was the same across the sector. The two main drivers were forecast headcount growth and salary growth. The university had continued with 2% for salary growth and had not

made any adjustments on staff numbers in relation to Covid, whereas other universities had made assumptions based on flat or low salary growth and attrition of staff. The Committee was content with the assumptions that had been made in relation to the pension provision.

- [b] As noted above, £96.5m of the loan notes were treated as non-basic financial instruments. As non-basic financial instruments, the loan notes were measured at fair value in the Financial Statements with any movement in value recognised through the consolidated statement of comprehensive income and expenditure.
- [c] Bad debt provision had increased year on year. The estimates and associated assumptions used to make this provision were based on historical experience and other factors that were considered relevant and were in accordance with the bad debt policy. However, due to the impact of Covid the overall specific provision has increased as the risk of potential default by both companies and individuals has risen. The provision was modest given our turnover.
- [d] All outstanding legal claims as at 31 July 2020 had been considered and a provision made where it was probable that payment would be made and the amount of the claim can be reliably estimated. Consequently costs of £48,750 have been accrued (£29,000 at 31 July 2019).
- [e] The university had accrued partner grant payments of £2.75m due to the Alan Turing Institute. The Institute had indicated a desire to change the partnership model and this would result in a significant reduction in the financial cash contribution expected from each university partner. It was management's judgment that the accrual should remain in place until there is a new agreement.

### ***Revised Annual Report and Financial Statements***

- [f] The Committee said that it was not clear from the paragraph on USS pensions why the liabilities had reduced. The narrative was provided as an industry standard by USS and the British Universities Finance Directors Group.
- [g] The narrative on financial outlook had been updated to reflect the Committee's feedback. The Committee agreed that it was a more accurate representation of the university's financial outlook.
- [h] The Committee asked whether it was right to remove the risk related to industrial action from the Principal's statement as it was the second largest risk to the sector after the pandemic. The risk was largely operational, and while there would be some financial risk attached to the industrial action, it was difficult to quantify at this time. The impact on students varied between Schools as the numbers of staff participating in strike action differed. The Committee said that they would agree with the decision made by the Executive about whether to include this as a risk.
- [i] Since the drafting of the narrative, the consortium savings assumptions had come through and this had contributed to procurement savings of 5.5% of non-pay, thereby exceeding this year's target.

- [j] The Committee **agreed** to recommend approval of the Annual Report and Financial Statements to Council subject to the final changes.

### **Current and forecast financial position to support Going Concern**

[k] *Minute 2020.034[k] is confidential.*

[l] *Minute 2020.034[l] is confidential.*

[m] Deloitte said that going concern was a work in progress and that they were awaiting updated numbers. They were comfortable with the decision and felt that the forecasts, which excluded January starts, were conservative. Finance and Investment Committee had not raised any concerns. The Committee **agreed** to endorse the going concern basis for the accounts.

### **Valuation of the private placement [ARC2020/26]**

2020.035 The Committee **noted** the revised cover sheet for the paper on the valuation of the private placement.

### **Fire, Health and Safety annual report [ARC2020/27]**

2020.036 The Committee **considered** the fire, health and safety annual report for 2019–20. The following points were noted in the discussion:

- [a] The Health and Safety Directorate had to respond rapidly to the pandemic, redeploying resources and adapting skillsets. This resulted in the suspension of planned audits, inspections and training. The Directorate had continued to ensure compliance with high hazard risks alongside Covid risks.
- [b] Containment level 3 checks had been carried out on labs at Whitechapel in December 2019 which enabled research on coronavirus to start quickly in March and April 2020.
- [c] Going forward, the Directorate would continue to support the pandemic response while progressing work on high hazard risks. A management system for the registration and risk assessment of the LASER system had been developed and would be rolled out across the institution. The audit programme would restart with the audit of the Biological Services Unit in the next few weeks. The audit programme would be restructured to prioritise topic audits that affected all areas of the university.
- [d] The pandemic had improved the understanding among Heads of Schools of the need for stronger local ownership of health and safety. The Director of Health and Safety had a direct link into the Senior Executive and could raise issues with the Faculty Vice-Principals if necessary. Culture change was needed in relation to the local ownership and delivery of fire risk assessments. This had been identified as part of the internal audit report on UUK compliance. The follow up on actions from the fire risk assessments had been completed and mechanisms introduced to ensure that risk assessments were kept up to date.

- [e] The Committee said that they were aware of the significant time and resources the university had invested in supporting the mental health and wellbeing of staff and expected to see this feature more prominently in the report. Staff wellbeing was under the remit of Human Resources but there was overlap with Health and Safety.
- [f] The Committee asked what challenges working remotely had presented to the Directorate. The Directorate had had a presence onsite throughout the lockdown.
- [g] The Committee commended the Director of Health and Safety and her team for an excellent job in responding swiftly and effectively to the pandemic.

**Planned internal audit reports: [ARC2020/28]**

- **Strategic KPIs, Part 2**
- **UUK compliance**

2020.037 The Committee **considered** the planned internal audit reports. The following points were noted in the discussion:

- [a] The Strategic KPI, Part 2 report had received an amber-green rating. This was a positive outcome considering it was a new area. Good processes had been implemented in support of the indicator. As it was a composite KPI with 26 data points, each with multiple data sources, it would be challenging to have a set of process controls to ensure completeness without over-engineering. The Committee asked why the data validation recommendation was considered a low priority. The processes were operating as designed but there had not been time to consider what levels of data validation were required to ensure appropriate data quality. The Committee noted that the deadlines for recommendations should read June 2021.
- [b] The internal audit report on compliance with UUK's Code of Practice for the management of student housing had been positive. Due to the pandemic, it had not been possible to conduct a physical verification but the audit had followed the UUK's guidance on suitable proxies. Site visits could be undertaken next year if necessary to follow up on the implementation of recommendations.

**Internal audit annual report and Head of Internal Audit Opinion [ARC2020/29]**

2020.038 The Committee **considered** the Internal Audit annual report for 2019–20 and the Head of Internal Audit Opinion. The following points were noted in the discussion:

- [a] The report had not been substantially updated since the last meeting. The report on KPIs did not change the overall ratings.

- [b] Nine audits had been delivered, providing sufficient coverage to provide the Head of Internal Audit Opinion on finance, governance, risk, data and overall value for money. The Head of Internal Audit Opinion was one of 'significant assurance with minor improvements required'. The work confirmed that there was generally a sound system of internal control designed to meet the university's objectives. The Committee **agreed** that it was reassured by the opinion provided in the report.

### **Internal audit progress report [ARC2020/30]**

2020.039 The Committee **considered** the internal audit progress report. The following points were noted in the discussion:

- [a] The early findings from the review of digital learning were positive. The risk based approach was considered to be robust and comprehensive. There were good examples of learning from previous experiences in relation to E-learning platforms. The governance arrangements were structured and well-documented. There was some variability in levels of stakeholder engagement but learning was being shared as much as possible. The university had responded well and was in a good position having secured external help. The Committee said that it would be useful to see examples of practice in areas of strength and where improvements were required. The Committee said that one of the objectives of the review had been to understand to what extent student feedback was being used to inform online courses for this semester. Student feedback and direct student engagement were being used during the development process.
- [b] The Internal Audit plan for 2020–21 had not been amended since the draft seen by the Committee in June. The Committee confirmed that the plan was still valid. The plan could be revisited later in the year if necessary.

### **Legal compliance report [ARC2020/31]**

2020.040 The Committee **considered** the legal compliance report for 2019–20. The following points were noted in the discussion:

- [a] The Committee had received updates on consumer protection, data protection and the Office for Students (OfS) conditions of registration throughout the year. The update on animal welfare showed that the university's decision to keep research labs open meant that animal welfare had been maintained. The changes in relation to the UK's exit of the European Union would be significant.
- [b] The OfS reporting requirements in relation to the Prevent Duty had been reduced and consisted of key data around training; events; and identifying and reporting cases. Moving events online during the lockdown meant that the university was able to continue promoting free speech. The university made its first referral this year through the Channel Process in relation to a student who was at risk of radicalisation by right-wing extremism.
- [c] An external opinion on the content of the register would be sought this year. The university was looking to reshape internal capacity and capability around legal issues. Existing in-house legal expertise would be drawn

together and capacity on contracts expanded. Legal issues in relation to transnational and research were becoming increasingly complex and this would improve our capacity to deal with a higher volume of contracts. It would also position us as an educated customer of external legal advice. Degree apprenticeships were an emerging area and we would be able to engage with partners in setting up contracts in this area.

### **Audit and Risk Committee Annual Report 2019–20 draft 2 [ARC2020/32]**

2020.041 The Committee **considered** the second draft of the Audit and Risk Committee annual report for 2019–20.

- [a] The Committee had no substantive comments on the draft and any minor points would be shared with the Committee Secretary by email. A finalised draft would be circulated to the Committee for approval following the meeting.

*Action: [a] Members; Committee Secretary*

### **\*Draft agenda for the next meeting [ARC2020/33]**

2020.042 The Committee **noted** the agenda for the meeting on Tuesday 9 March 2021.

## **AOB**

### **Committee membership**

- 2020.043 [a] This was Melissa Tatton’s last meeting of the Committee as she had been elected Vice-Chair of Council. She had been a fantastic member of the Committee having been a co-opted member prior to joining Council.
- [b] Recruitment of a co-opted member with accounting experience was on-going. The Chair and the Chief Governance Officer and University Secretary would be meeting with a potential candidate in the next few weeks. There was the opportunity for the vacancy on the Committee membership to be filled by one of the external Council members recruited this year.

### **Dates of meetings in 2020–21:**

- Tuesday 9 March 2021 at 1500 hours in the Robert Tong Room, Mile End.
- Tuesday 8 June 2021 at 1500 hours in the Robert Tong Room, Mile End.