

AUDIT COMMITTEE

09 September 2019 - Doha Meeting Room, Pandon Building, City Campus West

CONFIRMED SUMMARY MINUTES

Contact Susan O'Donnell, susan.odonnell@northumbria.ac.uk, Secretary to the Board of Governors, with any queries about these Summary Minutes.

The meeting was preceded by a closed meeting with Committee Members and the representatives of internal and external audit.

Present: A Corfield (Chair), D Jennings, N Pope.

Apologies: P Moran (KPMG), S Kenny (EY), S Reid (EY), A Rice-Thomson, C Vaulks (KPMG), D Warcup.

Secretary: S O'Donnell (Acting Secretary), M Ritzmann (Assistant Secretary).

In attendance: Professor P Francis, D Jackson [AC19/16], Professor G Marston [AC19/10, AC19/14-15], D Monnery, S Newitt, Professor A Wathey, N Wright (EY).

MAIN ITEMS DISCUSSED/DECIDED ON AT THE MEETING

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| 1. | <p><u>Introduction, Meeting Record, Reporting and Context</u></p> |
| | <p>Summary Action List/Matters Arising [AC19/02]</p> |
| | <p>The Committee considered progress in the implementation of previously agreed actions and noted the ongoing effort across all Board Committees to reduce the number of historical and outstanding actions. The Committee confirmed the actions in the Holding Bay as completed for release from the Summary Action List and that the June 2016 Lessons Learned Review needed to be concluded, progressed through the internal audit of Competition and Markets Authority (CMA) Compliance in 2019/20 and drawn to a close through a discrete piece of work and/or another Lessons Learned exercise as appropriate. It was confirmed that the Annual Value for Money (VfM) Report 2018/19, due to be presented to the November 2019 Committee meeting should align with the Office for Students (OfS) approach to VfM.</p> |
| | <p>Committee Terms of Reference and Membership 2019/20 [AC19/03]</p> |
| | <p>The Committee considered its Terms of Reference and Membership for 2019/20 and was asked to recommend any changes for onward review by Nominations Committee and Board of Governors' approval. It was reported that no major changes had been made compared to 2018/19 and revised Audit Committee guidance was awaited from the OfS in Autumn 2019 following the removal of the OfS Audit Code of Practice from the Terms and conditions of funding for 2019-20. The Committee highlighted minor changes and corrections required to its Terms of Reference and confirmed that it should be assumed the Audit Code of Practice as per the Terms and Conditions of funding for higher education institutions for the period to 31 July 2019 continued to apply pending receipt of any advice and confirmation from the OfS to the contrary (as highlighted on the OfS website). The Terms of Reference, incorporating tracked changes of the minor corrections highlighted and the outcomes of the pre-meeting, should be provided to members for further review and comment by circulation and subsequently brought back to its 04 November 2019 meeting for final approval.</p> |
| 2. | <p><u>External Audit 2018/19</u></p> |
| | <p>KPMG Contract Considerations* <i>RESERVED BUSINESS – Discussions excluding the representatives of the internal auditors, EY</i> [AC19/04]</p> |
| | <p>The Committee considered the External Audit Contract Considerations paper prepared by KPMG. The Committee confirmed that whilst there was no representative of the external auditors, KPMG, in attendance at the Committee meeting, it was satisfied with KPMG's responses to the four questions posed by the Committee at its 07 June 2019 meeting in relation to: [i] the approach to maintaining audit quality, [ii] the approach to agreeing non-audit services, [iii] audit Engagement Lead rotation</p> |

and [iv] proposed external audit fees. It was confirmed the Chair would have a follow up conversation with the KPMG Audit Director in due course.

External Audit Status Update [AC19/05]

The Committee considered the External Audit Status Update, which detailed progress against KPMG's audit cycle and timetable and provided a status update on the 2018/19 external audit. **The Committee noted that the audit, finalisation of the draft financial statements for onward transmission to KPMG and the work on the front end of the financial statements was progressing in line with the overall timetable, including the timings agreed between the University and KPMG.**

Key Accounting Judgements and Areas of Audit Focus [AC19/06]

The Committee considered an update on: [i] the audit findings arising in 2017/18 and how these had been mitigated in 2018/19, [ii] areas of significant judgement, estimation and audit focus for 2018/19, linked to the 2018/19 external audit strategy/plan in the case of the latter and [iii] the request to endorse the critical accounting judgements and estimates disclosure within the Annual Report and Financial Statements for 2018/19. The paper also highlighted the impact that Brexit would have on the Annual Report and Financial Statements, requiring additional disclosure and an additional paragraph added to the audit opinion given by KPMG. **The Committee endorsed the content of, and proposals within, the paper and confirmed that it should be clarified whether Brexit implications would see a change to either KPMG's external audit opinion or the external audit report more generally, through a change to the Basis for Opinion section.**

3. Internal Audit

Outstanding Audit Actions [AC19/07]

The Committee considered progress in the implementation of outstanding audit actions. **The Committee approved the requests and associated justifications to extend the implementation dates of certain overdue audit actions, and confirmed every effort should be made to implement audit actions in line with their originally agreed implementation dates. There was a need for greater rigour around outstanding (and overdue) audit actions and for each overdue audit action, the action owner should prepare an implementation plan for University Executive and Audit Committee review and approval, that clearly set out how the action would be implemented by the revised deadline.**

Internal Audit 2018/19 Progress Report and Q4 Audits [AC19/08]

The Committee considered progress against the 2018/19 internal plan since its 07 June 2019 meeting. Whilst it was planned to present all remaining 2018/19 internal audit reports to this meeting of the Committee, **the Committee noted that:**

[i] the Selecting and Managing Partners audit had three University Executive sponsors given it spanned multiple Pro Vice-Chancellors' portfolios hence the draft report, which did not contain any high risk findings, was subject to ongoing discussion, review and finalisation;

[ii] the draft report arising from the Fundamental Financial Controls internal audit, which did not contain any high risk findings, had been issued for management review.

[iii] the Grants Terms and Conditions audit had replaced the University Matrix Structure audit and draft Terms of Reference had been issued;

[iv] the Estates Masterplan audit had been deferred from 2018/19 due to the University's intention to revisit the plan itself, and would be considered for inclusion as part of the 2019/20 internal audit plan.

Actions Follow Up Internal Audit Report [AC19/09]

The Committee considered the outcomes of the internal audit actions follow up review, to perform validation testing over a sample of internal audit actions previously reported to the Committee by management as fully implemented. This work focussed on all high and medium risk findings and a random sample of low risk findings. Further action to fully address the original audit findings would be confirmed and reported to the November 2019 Committee meeting through the Outstanding Audit Actions standing Agenda Item.

Research and Innovation Services Internal Audit Report [AC19/10]

The Committee considered the Research and Innovation Services (RIS) Internal Audit Report, which had assessed the plans in place to develop the University's Research and Innovation Service, the University's approach to research grant management, the systems in place to help achieve this and whether the Service was sufficiently and adequately resourced to deliver its objectives. The report was rated as high risk and had identified two high risk, two medium risk and one low risk findings. **The Committee noted the management response and actions agreed. The results of the benchmarking exercise were noted,**

comparing the University's staffing levels and research and grant income with other HEIs. Income and staff numbers were not directly proportional and without additional context around these numbers, they could not be used to draw conclusions around departmental structures.

Draft Internal Audit Annual Report and Opinion 2018/19 [AC19/11]

The Committee considered the internal auditors, EY's Draft Internal Audit Annual Report and Opinion 2018/19 pending the completion of the remaining 2018/19 internal audit reviews and that would be presented as final to the November 2019 meeting of the Committee. In EY's opinion, based on work done to date, they had reasonable assurance that Northumbria University has adequate and effective arrangements to achieve management's objectives over risk management, control and governance and economy, efficiency and effectiveness (value for money) arrangements. **The Committee:**

[i] noted EY's confirmation that based on the outcomes to date arising from the three remaining 2018/19 internal audits, it did not anticipate any change to its opinion;

[ii] noted that in the context of the internal audit opinion stating: "While individual reviews identified that there are elements of the system of internal control requiring improvement", it was essential for the Committee to have sight of the outcomes of the Fundamental Financial Controls review to enable it to form a judgement over the internal audit opinion;

[iii] further noted that whilst the internal audit opinion stated: "the overall system of internal control enables Northumbria University to achieve its objectives and manage its principal risks", questioned where this was evidenced as a counter balance in the internal audit annual report and opinion 2018/19, by way of a summary/analysis of the positive audit outcomes. It was confirmed that EY's work was underpinned by evidence of all the controls tested, but reporting was by exception. How this could be factored in to, and made explicit in, the report would be taken back and discussed with the Partner, EY in order to highlight the key work performed and associated outcomes, and how this informed the internal audit opinion.

Draft Internal Audit Plan 2019/20 [AC19/12]

The Committee considered the internal auditors, EY's draft Internal Audit Plan 2019/20, which consisted of two main sections: [i] reviews that EY were required to undertake in order to provide their Head of Internal Audit Annual Opinion and [ii] a list of potential reviews that had been prioritised by EY in consultation with University Executive at its meeting on 03 September 2019, so as to focus on core controls to a greater extent than in prior years, avoid areas where management were aware internal work was required first and to fit the 2019/20 planned audit days. The Appendix to the plan contained reviews that were considered in its development, but were of a lesser priority through the discussion with University Executive. The cover paper also provided options and a recommendation in relation to the 10 audit days not used in 2018/19 due to the deferral of the Estates Masterplan audit. The internal auditors had confirmed they were content to provide their annual opinion for 2018/19 without the utilisation of these 10 audit days through a replacement audit (for the Estates Masterplan audit) as part of the 2018/19 internal audit plan. **The Committee:**

[i] noted that whilst a standalone audit of payroll had been considered for inclusion in the 2019/20 internal audit plan, it was instead proposed to include this as part of the "required" core financial control review, focussing on the testing of core payroll controls only;

[ii] requested that the draft internal audit plan 2019/20 be updated to include short explanations for the decisions as to why the potential reviews at Section 2 had been selected over those included in the Appendix and vice versa, including where this was due to a matter of timing;

[iii] noted that revised draft internal audit plan 2019/20 reflecting the Committee's feedback and indicative audit timings during 2019/20, would be circulated to the University Executive and, in turn, the Committee for further comment and review outside of the formal Committee meeting cycle;

[iv] approved the recommendation that the 10 audit days not used in 2018/19 be carried forward and utilised in 2019/20 as additional audit days;

[v] noted that the Final Internal Audit Plan 2019/20, inclusive of EY's risk universe, reflecting the Committee's feedback and with the benefit of University Executive and staff input, would be presented to the November 2019 meeting of the Committee for approval.

Internal Audit Charter [AC19/13]

The Committee considered EY's Internal Audit Charter that detailed the internal audit: [i] purpose and mission, [ii] standards and quality, [iii] scope and responsibilities, [iv] protocols and authority, [v] added value as well as: [vi] the role of University management, [vii] key management roles, [viii] report turnaround times, [ix] agreeing internal audit reports and [x] actions follow up. **The Committee welcomed the Charter,**

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| | <p>which provided a solid foundation from which to work and were keen that the internal auditors shared relevant thought leadership materials, and discussed their relevance, with the Committee. Feedback was invited on compliance, areas of challenge, whether things were running smoothly and any request for support from the Committee through the closed session at the start of Committee meetings.</p> |
| 4. | <p><u>Policy Risk and Assurance</u> Health, Safety and Wellbeing Report Q4 2018/19 [AC19/14] The Committee noted the Health, Safety and Wellbeing Report Q4 2018/19, in particular: [i] the completion rates of mandatory health and safety training which for core staff had reduced by 1% compared to the position at the end of Q3, [ii] the status of accident statistics May to July 2019 and University Health and Safety Association (USHA) accident statistics comparison, [iii] the status of health and safety lead and lag indicators, [iv] recent progress made on staff wellbeing and [v] analysis of the sickness absence data for this quarter. The Committee: [i] noted that the target completion rate for mandatory health and safety training was less than 100% owing to the facts that new members of staff had a defined period to complete the training following commencement of employment and training was cyclical, i.e. it had to be repeated at defined intervals; [ii] noted that whilst non-completion of mandatory training could lead to disciplinary action, there had been no instances to date of such action having been taken. It was further noted that, a line manager should not sign off the appraisees' appraisal, unless all mandatory training that applied to them and their role had been completed. The Committee confirmed that disciplinary action should be taken in appropriate cases to ensure compliance with mandatory training requirements; [iii] questioned the absence of dates by when audit actions would be completed by and the plans in place to address these to enable it to confirm whether implementation was on track or overdue in the case. It was confirmed an appropriate approach would be developed to summarise this information, and how actions would be addressed, with a focus towards high risk areas and associated actions; [iv] questioned whether the judgements assigned to audits/reviews and associated actions, e.g. red/amber/green colour codings were reviewed for reasonableness; [v] requested clarity on the follow-up and verification process around external audit actions, i.e. was this independently performed by Imagile or internally by management; [vi] noted the confirmation that the reserve amounts listed against insurance claims were provided by the insurer and this was a provisional amount, pending establishment of liability; [vii] noted the confirmation the University continued to encourage and develop a proactive culture and approach to near miss reporting, which had included the implementation of an electronic reporting system and an extensive awareness campaign as part of its launch.</p> <p>Research Ethics and Integrity [AC19/15] The Committee considered a report that had been prepared for the Committee in response to the Annual Statements on Research Integrity 2017/18 presented to the 26 February 2019 meeting of the Board of Governors, where it was proposed that a 'deep dive' into research integrity governance and controls be reported to Audit Committee. The report set out the University's approach to Research Integrity and Ethics, contextualised by the UK and international frameworks governing research ethics, as well as Northumbria's governance, training, audit and ethical approval processes and requirements. The Committee commended the University's approach to managing Research Integrity and Ethics and acknowledging that the University was compliant with the Concordat to Support Research Integrity, questioned how the University could promote this achievement further, both internally and externally.</p> <p>Insurance Coverage Report 2019/20 [AC19/16] The Committee considered the Insurance Coverage Report 2019/20 to inform its opinion on the adequacy of the University's internal controls and risk management arrangements. The Committee endorsed the helpful insight(s) afforded to it through this annual report to the Committee and: [i] noted the uninsured areas section of the report and the confirmation that whilst it wasn't possible to insure against every risk and eventuality, the University, led through the work of the Insurance Manager, maintained a watching brief over potential risk exposures, including their identification through close working with all faculties and services and the University's insurers and brokers; [ii] noted the confirmation that in the event of any historical safeguarding claims, this would be covered by the University's liability cover.</p> |

Draft Audit Committee Annual Report 2018/19 [AC19/17]

The Committee considered the first draft of its Annual Report 2018/19. It was reported that the outcome of a recent UKVI audit was positive. Whilst this outcome had been provided verbally, formal confirmation in writing was awaited. It was anticipated the letter from UKVI confirming the outcome and no issues had been identified would be received in October 2019. **The Committee provided feedback on changes and corrections required to the first draft of its Annual Report 2018/19 and noted it would be finalised for the Committee's November 2019 meeting following conclusion of the 2018/19 internal and external audit fieldwork and receipt of the final reports and associated opinions, and the receipt of replacement guidance in Autumn 2019 from the OfS following the removal of the Audit Code of Practice.**

East Midlands Strategic Commercial Unit: Exceptional Approval Request and Lessons Learned [AC19/18]

The Committee noted, in line with the provisions of paragraph v3 of the Financial Regulations, the University diverted from the standard approvals which would otherwise have been required to submit a tender to the East Midlands Strategic Commercial Unit (EMSCU) at short notice and that in response, a number of process improvements were planned in order to ensure that the number of required diversions from standard approvals was minimised. **The Committee noted that whilst planning ahead for such events was key, this was an exceptional case and therefore did not give it undue cause for concern. It was confirmed that this did not, technically, constitute an override of the Financial Regulations, given that a specific provision within the Financial Regulations was followed.**

Reportable Incidents Summary [AC19/19]

The Committee considered an update on Reportable Incidents as at 30 August 2019. No new reportable incidents had occurred since the last meeting of the Committee, however an update was provided in relation to the previously reported incidents. **The Committee noted the confirmation that the University needed to review its reportable incident classification and reporting process more widely.**

Strategic Risk Dashboard [AC19/20]

The Committee noted the University's Strategic Risk Dashboard showing the University's significant risk areas. It was reported that: [i] in response to feedback from Committee members at the June 2019 meeting, additional explanation had been provided to define "Projected Risk Rating" and a short key to explain the "Direction" field had been added to the end of the Dashboard in the form of a key and [ii] whilst it was originally intended to update all Strategic Risks for submission to the Board of Governors meeting on 30 September 2019 and the process was currently underway, due to reduced capacity within the Governance Services Team, an increased workload caused by the Governor Recruitment exercise and certain items that require immediate attention, it has been agreed that the full Register update would be conducted in advance of the February 2020 Board of Governors meeting, i.e. move to an annual update from February 2019, with interim updates carried out in-year to confirm that planned mitigations had been implemented. **The Committee confirmed that the "deadline" date against the related Business Outcomes and Key Controls against each risk should be changed to "target" date. Where the "deadline" was now in the past, the related Business Outcomes and Key Controls were still written in the future tense. It was confirmed that this was due to the aforementioned resource constraints and resulting inability to follow up and determine whether risk owners had completed their actions.**

Committee Agenda Plan 2019/20 [AC19/21]

The Committee considered its Agenda Plan for 2019/20 and future meeting agenda items. **The Committee noted some items were dependent on the revised OfS Audit Committee guidance that was due in Autumn 2019 following removal of the OfS Audit Code of Practice from the Terms and Conditions of funding for 2019-20. The OfS requirements for the Transparent Approach to Costing (TRAC) Return 2018/19 had now been confirmed, including the removal of the Committee's ability to retrospectively confirm compliance with the TRAC requirements post the 31 January 2020 submission deadline. Whilst this would be discussed further at the November 2019 Committee meeting, given the timing of the Committee's meetings in 2019/20, this would have to be facilitated by written resolution outside of the Committee meeting cycle.**

Michael Ritzmann,
Assistant Secretary to Audit Committee
23 September 2019