MEETING OF THE AUDIT COMMITTEE  
MONDAY 11 SEPTEMBER 2017  
5th floor boardroom, Senate House, Tyndall Avenue, Bristol BS8 1TH  
14:00-17:00

Minutes –

Present: Dr Mary Bishop (co-opted member), Ms Julie Goldstein (lay member), Dr John Manley (lay member and Vice Chair), Mr Andrew Poolman (University Treasurer and Chair), Mr Ian Robinson (co-opted member, attending via Skype), Mr Andrew Willis (co-opted member).

In attendance: Ms Heather Ancient (External Auditor), Mr Richard Bott (Internal Auditor), Mr Ben Endersby (Internal Auditor), Mr Ian Davies, Mr Andrew Grice (Deputy Finance Director), Mr Robert Kerse (Chief Financial Officer), Dr Anett Loscher (Senior Governance Officer and Secretary), Professor Guy Orpen (Deputy Vice-Chancellor), Ms Lynn Robinson (Deputy Registrar) attending on behalf of Ms Robin Geller.

Apologies: Professor Hugh Brady (Vice Chancellor), Ms Robin Geller (Registrar and COO).

The Chair welcomed all attendees to the meeting, extending a particular welcome to Dr Mary Bishop and Mr Andrew Willis, the Committee’s new co-opted members.

1. Chair’s business
1.1 The Chair informed the Committee that he had agreed with the Registrar and COO, Ms Robin Geller, that she would formally remain ‘in attendance’ at Audit Committee meetings, and that going forward she would physically attend at least those meetings concerned with the University’s Annual Report and Financial Statements. However, the Deputy COO, Dr Darrell Sturley, may attend Audit Committee meetings on behalf of the Registrar as appropriate in future.

1.2 The Audit Committee received and NOTED its terms of reference 2017/18 (AUD/17-18/001). The Committee was satisfied that following significant review in 2016/17, in particular to ensure membership and succession, the Terms of Reference would not need further review this year.

2. Declaration of interests
2.1 The DVC declared his membership of the University Hospitals Bristol Foundation Trust.

2.2 The internal auditors declared an interest regarding item 16 on today’s agenda, appointment of the internal auditor. The Chair moved, and the Committee agreed, that item 16 be considered at the end of the meeting and in the absence of the internal auditors.

3. Minutes of meeting on 2 May 2017
3.1 The Committee received and APPROVED as true and accurate record the minutes of its meeting on 2 May 2017.

4. Matters arising and actions
4.1 There were no matters arising that were not covered elsewhere on the agenda.

*Matters for decision and/or discussion*

5. **Chief Financial Officer’s Update Report**

5.1 **RECEIVED:** paper ref **AUD/16-17/002**

5.2 The Chief Financial Officer (CFO) presented his report regarding the University’s financial performance for the year ended 31 July 2017 and other key financial matters. He drew the following to the Committee’s particular attention:

- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests]

5.3 The Committee **NOTED** the financial performance for the year ended 31 July 2017 and was satisfied that management were taking appropriate levels of action to address areas of underperformance.

6. **Risk update**

6.1 **Mission critical risk update August 2017**

**RECEIVED:** paper ref **AUD/16-17/003**

6.1.1 The Chair reminded the Committee that in the absence of a Risk Committee, the Audit committee had a crucial role to play in informing and monitoring the University’s management of strategic and mission-critical risk. A risk update would therefore come to each of the Committee’s meetings.

6.1.2 The CFO introduced the report and highlighted the following in respect of the risks as articulated in the written report:

- Risk 2 [REDACTED: likely to prejudice commercial interests]
- Risk 3 [REDACTED: likely to prejudice commercial interests]
- Risk 4 [REDACTED: likely to prejudice commercial interests]
- Risk 7 [REDACTED: likely to prejudice commercial interests]

6.1.3 The Committee **NOTED** the risk update and **CONSIDERED** that the changes identified were receiving appropriate scrutiny; the internal auditor confirmed that scrutiny through senior management took place regularly. [REDACTED: likely to prejudice commercial interests]

**Action:** The CFO to review the mission-critical risk register and to amend as per the Committee’s views, in the context of planned changes to the risk management process.

6.2 **Review of the risk management process**

**RECEIVED:** paper ref **AUD/16-17/004**

6.2.1 The Committee received, for information, a report regarding the intended review of the University’s approach to risk management, to ensure it was meaningful and relevant. The intention of this review was to build on existing good practice (recognised by the substantial assurance received in previous annual internal audits) in order to move the University to a
“Risk Enabled” approach, where an enterprise approach to risk management has been developed and communicated.

6.2.2 The Committee NOTED the proposed approach and timetable for the review, and welcomed the intended development of methods through which the Board of Trustees and Audit Committee could then consider what the University’s risk appetite should be and how this might vary depending on the category of risk.

7. Counter-Fraud Policy
7.1 RECEIVED: paper ref AUD/16-17/005

7.2 The Deputy Finance Director introduced the revised policy which had been updated to reflect increased fraud risk and activity associated with an increasing level of digital activity, e.g. electronic banking, and to clarify the link with the University’s whistleblowing policy (cf. minutes 9.1ff). The Committee received assurance from the internal auditors that the policy was sufficiently strong/robust to tackle fraud, and from the CFO and Deputy Finance Director that the Counter-Fraud Policy together with other University policies (notably the Register of Interests and the Outside Work Policy) provided an adequate framework to react to fraud by individuals with interests outside the University.

7.3 The Committee ENDORSED the Counter-Fraud Policy.

8. Training for Compliance with Bribery Act 2010
8.1 RECEIVED: paper ref AUD/16-17/006

8.2 The Committee NOTED a report regarding the implementation of training to relevant staff on compliance with the Bribery Act 2010 through an additional training module on MyReview. In the ensuing discussion, it was clarified that while the training was in principle available to all staff, it would be mandatory for those members of staff who through their positions and roles (e.g. in Finance) would have exposure to issues covered by, and who would need to comply with, the Bribery Act 2010.

9. Whistleblowing Policy
9.1 RECEIVED: paper ref AUD/16-17/007

9.2 The CFO introduced the policy, which outlined the procedure to be followed if the University received a concern raised under the Public Interest Disclosure Act 1998. It also defined the responsibility of both the University and individuals in that procedure. In reviewing the policy, as now updated, the concept of a Whistleblowing Officer had been introduced, the procedure and availability of advice to individuals were clarified, whistleblowing had been brought into the normal line management system, and the independence of decisions made under the policy had been strengthened.

9.3 In discussing the policy, the Committee considered that an annual report to the Audit Committee on public interest disclosures would increase the visibility and transparency of the whistleblowing procedure to the non-executives. The Committee further discussed the feasibility of a Whistleblowing Officer altogether outside of the University, to protect in particular the aftermath of any high-profile cases.

Action: The University Secretary to amend the Policy in order to introduce annual reporting to the Audit Committee.

Action: The University Management Team to consider whether an altogether external Whistleblowing Officer would be feasible.

9.4 Subject to the proposed amendment being made, the Committee RECOMMENDED the approval of the Policy to the Board of Trustees.
10. Policy to safeguard the independence of the external auditor

10.1 RECEIVED: paper ref AUD/16-17/008

10.2 Hitherto, there had not existed at the University a policy to safeguard the independence of the external auditor. In light of the University’s procurement of the external auditors’ services for non-audit work, the CFO had developed the draft policy before the Committee. Of particular concern was the perception that the external auditors’ independence could be compromised if fees for non-audit work significantly exceeded those for audit work – the Committee therefore scrutinised and discussed in detail the draft policy’s proposal to set non-audit fee levels at a five-times multiple of the audit fee.

10.3 The external auditor present confirmed that the current external audit fee – perceived by the Committee as relatively low – was appropriate to provide the University with high-quality external audit. The external auditors’ own rigorous process when considering non-audit engagement further ensured ethical conduct. However, the Committee felt uncomfortable with a threshold for non-audit fees set at five times the annual audit fee. It was agreed that a multiple of three times the fees for total recurring audit work was appropriate.

10.4 Subject to the amendment as noted, the Committee APPROVED the proposed Policy to Safeguard the Independence of the External Auditor.

Action: The CFO to amend the draft policy so that the fee for non-audit work was at a three-times rather than a five-times multiple of the external audit fee.

11. Review of arrangements for promoting economy, efficiency and effectiveness

11.1 Value for Money (VfM) Report

RECEIVED: paper ref AUD/16-17/009a

11.1.1 The Deputy Finance Director introduced the report covering the year 2016/17, which had been prepared as part of the Annual Accountability Return to HEFCE, due in December 2017. In the absence of any guidance for the 2017 report, guidance issued for the 2016 report (Circular letter 23/2016) had been used to develop a report that responded positively to the Circular to ensure that the University was at the leading edge of institutions in this area.

11.1.2 The Committee’s discussion clarified that:

- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests]
- [REDACTED: likely to prejudice commercial interests].

Action: [REDACTED: likely to prejudice commercial interests]

11.1.3 The Committee APPROVED, for further consideration by the Board, the VfM report, subject to point 8.3 of the report being amended with additional context regarding ERP.

11.2 Value for Money (VfM) Strategy

RECEIVED: paper ref AUD/16-17/009b

11.2.1 The Deputy Finance Director introduced the Strategy which had been drafted alongside the Value for Money report (cf. item 11.1). The Strategy sought to make the best use of resources to ensure effective delivery of the University’s strategic objectives, including long term financial sustainability.

11.2.2 The Committee CONSIDERED and ENDORSED the Value for Money Strategy.
12. Internal Audit progress report
RECEIVED: paper ref AUD/16-17/010

12.1 The internal auditors presented their third progress report in respect of the 2016/17 year, which summarised the findings of the auditors’ reviews completed in respect of the academic year to date. Since the Audit Committee’s meeting in May 2017, the internal auditors had completed 17 audits. Of these, five reviews had returned an ‘adequate’ assurance rating (Faculty of Arts, Health and Safety, Outward Mobility, Student Union, and Security Review); three reviews had returned a ‘limited’ assurance rating (UKVI Compliance, Business Continuity, and Software Licencing). The remaining nine reviews had returned ‘substantial’ assurance ratings.

12.2 The Committee CONSIDERED the report, and discussion highlighted the following: [REDACTED: likely to prejudice commercial interests]

13. External Audit
13.1 RECEIVED: paper ref AUD/16-17/011

13.2 The Committee CONSIDERED the report as presented by the external auditors. This report provided an update of the external auditors' work on the 2016/17 audit of the University of Bristol and its subsidiary companies, and provided details of certain minor control weaknesses and resulting recommendations. The auditors did not wish to highlight any issues or matters at this point, and would present to the Committee its detailed annual report and feedback as well as the University’s accounts at the Committee’s meeting in October 2017.

14. SLSP update
14.1 RECEIVED: paper ref AUD/16-17/012

14.2 [REDACTED: likely to prejudice commercial interests].

14.3 NOTING the report, the Audit Committee also considered that:
• [REDACTED: likely to prejudice commercial interests]
• Though the contractor would be retained, work was paused to allow for re-planning and regrouping.
• [REDACTED: likely to prejudice commercial interests]
• [REDACTED: likely to prejudice commercial interests]
• The University was responding to the recommendations made by Deloitte, and in particular had recruited a Programme Manager for SLSP.

Action: The Deputy Registrar, Registrar and CIO to prepare an update report to the Audit Committee in October regarding SLSP recovery and progress.

15. ERP update
15.1 RECEIVED: paper ref AUD/16-17/013

15.2 [REDACTED: likely to prejudice commercial interests]

15.3 The Committee NOTED the progress and status of the ERP project.

17. HEFCE Accounts direction to HE institutions for 2017-18 financial statements
17.1 RECEIVED: paper ref AUD/16-17/015

17.2 The Committee received the NOTED that the accounts direction remained materially unchanged in comparison to the direction for 2016/17, and in particular that there would be no new disclosures for 2016/17 or 2017/18. The accounts direction will inform the preparation of the 2017/18 Financial Statements which are required to be submitted to HEFCE by Monday 3rd December 2018.
18. **HEFCE Memorandum of assurance and accountability**

18.1 **RECEIVED**: paper ref AUD/16-17/016

18.2 In July 2017, HEFCE published a new *Memorandum of assurance and accountability between HEFCE and institutions* (Memorandum). The key change compared to the 2016 Memorandum was the amended definition of an HEI including its related undertakings. The University had obtained from HEFCE further clarification that ‘related undertakings’ relates only to those bodies offering further or higher education provision – with HEFCE stating that the definition is intended to prevent providers from establishing multiple institutions to avoid regulation, maximise funding or manipulate metrics.

18.3 The Committee **NOTED** the amendments to the Memorandum, and agreed with the University’s assessment that these amendments had no implications for the University’s reporting to the regulator.

16. **Appointment of internal auditor**

16.1 **RECEIVED**: paper ref AUD/16-17/014

16.2 The internal auditors left the meeting due to their interest regarding this item, which had been moved to the end of the meeting.

16.3 The CFO introduced the paper. The current five-year internal audit contract with Mazars, who had been providing the service since 1998, expires on 31 July 2018. A draft timetable and process was discussed at the Audit Committee’s February 2017 meeting to ensure that a new arrangement would be in place by that date. The timetable indicated that shortlisted firms would be selected by the end of 2017.

16.4 In considering internal audit arrangements going forward, there are four options available to the University, namely procuring an external provider (the status quo), joining an HE Consortium (of which there are only three nationally), in-sourcing internal audit activity, or a hybrid solution combining in house and external provider. Insourcing the majority of internal audit activity was the CFO’s preferred option due to the potential to increase the annual coverage by internal audit, and to drive better value for money from the service; the current Bristol labour market offered a good pool of high-calibre and suitably qualified potential candidates.

16.5 The Audit Committee considered that insourcing of internal auditing would not resolve the key issue of the auditors’ independence – on the contrary, internal auditors as employees would face not only ‘institutionalisation’ but also implicit employee-employer hierarchies and loyalties, impinging on independence. The advantage of external internal auditors’ exposure to wider sector experience would also be lost if the University chose to insure internal audit services. If the University had concerns about the volume of the internal audit activity it contracted in comparison with its peers, the Audit Committee advised to increase budget and audit days.

16.6 In light of its considerations, the Audit Committee AGREED that the internal function should be retained as an external service. An increase in budget for internal audit activity should be considered.

**Action**: The VC to be advised, and the Board to approve, an increase in budget for internal audit services. Pending the Board’s approval, the CFO to initiate tendering for external internal audit services.

19. **Standing items**

19.1 **i. Equality and Diversity**

The Committee agreed that the business discussed during the meeting had reflected appropriately on matters of equality and diversity.
ii. Communication and Consultation

19.2 The Committee agreed that the business discussed during the meeting had received appropriate discussion and consultation.

20. **Date of next meeting:**
The next meeting was scheduled for **Monday 23 October 2017** at 14:00.