

UNIVERSITY OF GLASGOW

Audit Committee

Minute of Meeting held on Wednesday, 4 November 2009
in The Dean's Meeting Room

Present:

Dr Paul Brady, Mr Hamish Guthrie, Ms Margaret Manson, Mr Neil Menzies, Ms Elizabeth Simpson (Vice-Convenor), Mr Kevin Sweeney (Convenor)

In attendance:

[REDACTED] (Ernst & Young), [REDACTED] (Ernst & Young), Mr Robert Fraser (Director of Finance), [REDACTED] (Deloitte & Touche LLP), [REDACTED] (Deloitte & Touche LLP), [REDACTED] (Deloitte & Touche LLP), Mr David Newall (Secretary of Court), The Principal, Mr David Ross (lay member of Court), Mr Robert Speir (Group Financial Controller), Ms Paula Vinaccia (Clerk)

AUDIT/2009/12. Welcomes

The Convenor welcomed Mr David Ross who was attending the meeting as an observer.

AUDIT/2009/13. Minutes of the meeting held on 1 October 2009

The Minutes were approved as a correct record.

AUDIT/2009/14. Matters Arising

Internal Audit Status Update (Audit/2009/04)

At the previous meeting the Committee had requested clarity on action proposed by management and timescales in response to Audit recommendations. Internal Audit commented that the detailed reports provided the required clarification but that this had not been communicated to the Committee. It was agreed that this would be reported and reference would be made to management actions rather than prior recommendations thereby clarifying responsibilities.

AUDIT/2009/15. Internal Audit Update

Internal Audit reported that 8 of the 102 recommendations made in 2008/09 were rated Priority 1, compared to 14 the previous year. Improvements were noted in the core financial processes reviewed though the structure and management of IT continued to be an area of weakness. Internal Audit had continued to work with the University in taking forward risk management in particular with regard to the processes involved. Focus would be placed on embedding and enhancing communication of those processes.

Internal Audit confirmed that the University had an adequate framework of control in place regarding the systems reviewed and subject to implementation of the recommendations.

Since the last Audit Committee meeting in October 2009 work had been carried out in the areas of IT Network Security and Data Handling. Three reviews from the 2008/09 plan remained to be finalised, that is Research Grants and Contracts, Estates Maintenance and Court Governance and they would be reported at the next Audit Committee meeting. The key points noted were as follows:

Review of Data Handling

Internal Audit had reviewed the methodology, framework and ownership of data handling and concluded that some work was required in order to reach a satisfactory level of control which included: the establishment of a central data handling policy; mandatory staff training; and, clearly assigned responsibilities.

Follow Up of 2007/08 Network Security Review

In 2007/08 Internal Audit had assessed the University's controls over network security infrastructure, systems and hardware. A follow-up review concluded that further improvements were required but progress was hindered by the decentralised nature of IT support services. The Committee noted that this issue would be considered in the current restructuring discussions, and the Principal suggested that Audit Committee should therefore aim to revisit this around May 2010. The Convener agreed that this would tie in with the Committee's plan to meet with the Director of IT.

Follow Up on Prior Recommendations

Internal Audit concluded that out of 190 outstanding recommendations, 43% had been fully implemented, 39% partially implemented and 18% not implemented. Whilst a review of outstanding recommendations per year indicated a year on year reduction in the total number, full implementation one year forward should be in the range 50% – 75%. It was noted that implementation of some recommendations was reliant on significant system developments and restructuring within the University. Internal Audit agreed that future update reports should include an explanation of the reason for specific recommendations.

The Committee agreed the revised 2009/10 Internal Audit Plan which included a review of Endowments and Estates Acquisition and Disposal.

AUDIT/2009/16. University Financial Statements

1 Review of the University Financial Statements for the Year ending 31 July 2009

The Group Financial Controller pointed out that there had been a minor prior year adjustment relating to the inclusion of Strathclyde Pension Fund as a defined benefit scheme under FRS 17. The Committee noted a £5.3m operating surplus which, whilst £1.6m ahead of the original budget for 2009, was £1.6m less than the previous year position; and a cash balance of £60.4m, a decrease on £6.7m on last year's figure.

Factors impacting the financial statements included: a reduction in the market value of endowments from £120.5m to £102.5m although dividend income had grown marginally; an increase in the pension liability of £7m resulting in a net pension liability of £66m; a salary increase of 3% in May 2008 and another 5% in October 2008 due to the national wage settlement; a reduction in interest receivable due to reduced deposit interest rates; notional charges on the pension opening position resulting in a decrease of £2.8m on the pension credit to the Income and Expenditure Account; continued investment in Estates with £47m towards Capex projects funded by £29m of capital grants, mainly from the Funding Council; this included the purchase of a new residence at £14.5m.

There was uncertainty regarding future funding. The Funding Council recurrent grants were likely to decrease given the pressure on public finances. In addition a number of Funding Council grants, totalling c£6m to the University, such as those provided for knowledge transfer, widening access and disabled premium had been consolidated by the Funding Council into the Horizon Fund. Allocations from this fund would be based on government outcomes. Overseas student growth projections within budgets were fairly aggressive and this was an area of high competition. Research volume in 2008/09 had levelled but 3% - 5% income growth had been projected in 2009/10 and

this was not expected to be sustained in future years. There was an increase of 2% on employers' USS contributions in October 2009 from 14% to 16%. The future funding of USS was under review in the sector which may lead to a further increase in contributions. The UGPS net pension liability at July 2009 showed a £64m deficit but was subject to high volatility for example there had been significant movement since March 2009 when the deficit had been calculated at c£90m.

It was noted that there was a great deal of risk in going forward. The Committee thanked the Group Financial Controller for the helpful and informative summary and requested the provision of a similar summary in advance of future meetings.

The Committee suggested the following amendments to the Accounts:

- amend the wording of the Audit Committee Section of the Corporate Governance Statement regarding the Strategic Risk Management Committee.
- amend the pensions section of the Statement of Principal Accounting Policies to include reference to Strathclyde Pension Fund;
- update note 30 to show the pension contributions paid in the year in line with the disclosure in note 6;
- update note 12 to state that external funding was obtained to procure the design archive of Stoddard International plc.

2 *Reports of the External Auditors for the year ending 31 July 2009*

(1) *Audit Results*

The Committee was informed that the agreed audit plan had been completed and a clean position was reported. The Committee noted that External Audit had met with the Principal and Conveners of the Audit and Finance Committees prior to the meeting and were satisfied that there were no major issues of concern.

External Audit commended the University and the Finance Team on achieving a £5.3m surplus and a cash balance of £60m with no debt, in the current climate.

The Committee requested that Internal and External Audit ensure they were satisfied with the treatment and reporting of National Insurance. External Audit confirmed that risks were assessed in relation to work they carry out to ensure there were no conflicts of interest. The Committee queried whether there had been any adjustments during the audit process and the Group Financial Controller confirmed that there had been a reallocation between accrued and deferred income but this had remained within working capital. External Audit confirmed that a materiality level and trend analysis would be applied in assessing any issues of concern.

(2) *Draft Representations by Management*

The document was noted.

(3) *Fee Schedule*

The Committee requested inclusion of prior year figures for comparative purposes.

The Committee thanked the Director of Finance and his team for the high standard of information and commentary to the accounts and congratulated the University on a very positive audit.

AUDIT/2009/17. Draft Accounts of the Subsidiary Companies and University Trust for the year ending 31 July 2009

The Group Financial Controller informed the Committee that the reported loss on the Trust Accounts resulted from a timing issue concerning the receipt of unrestricted funds and their subsequent disbursement to the University.

The Committee queried the power bestowed on the Trust to be more involved in fundraising and it was confirmed that the Trust would not actively fundraise. The Secretary of Court confirmed that the increase in GU Heritage Retail's stock had been driven by a business need.

The Committee otherwise noted the Accounts.

AUDIT/2009/18. Audit Committee Annual Report to Court

It was agreed that the report should include a summary of the areas the Audit Committee would be considering in the coming year such as IT, risk management and pensions. The report should be amended to state that the Committee required a better understanding of the process of risk management rather than reporting a concern regarding risk management. The Report would be redrafted and authorised by the Convener on behalf of the Committee before being presented to the December Court meeting.

AUDIT/2009/19. A Review Under the Public Interest Disclosure Act - Update

The Committee was informed that a complaint had been raised initially with Audit Scotland and then referred to the University. The complaint had been raised under the University's Whistleblowing Policy and the Committee agreed that the correct procedure had been followed.

AUDIT/2009/20. Any Other Business

1 Internal and External Audit Contracts

It was noted that the Internal and External Audit Contracts were due for review in July 2010 and that the Committee would be meeting in this regard with the Secretary of Court and Director of Finance directly after this meeting.

2 Farewell

Ms Margo Manson was demitting her role on the Committee and the Convener thanked her for the valuable contribution she had made to the Committee and the University. The Committee wished her well for the future.

AUDIT/2009/21. Date of Next Meeting

Wednesday, 24 February 2010

*Prepared by: Paula Vinaccia, Clerk to Committee, x.xxxxxxx@xxxx.xx.uk
Last modified on: Wednesday, 11 November 2009*