

## COURT

## Minutes

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|------------------------|--|--|
| In the Chair:          | Dame Frances Cairncross  | Date of Meeting: 19 January 2017   |
| Present also:          | Ms Lucy Conan<br>Professor Patrick Corbett<br>Mr Diarmuid Cowan<br>Mr Amos Haniff<br>Mr Grant Innes<br>Professor Julian Jones<br>Professor Isabelle Perez<br>Ms Jane Queenan | Professor John Perkins<br>Ms Dorothy Shepherd<br>Ms Jandy Stevenson<br>Mr Tony Strachan<br>Professor Ian Wall<br>Mr Graham Watson<br>Ms Rio Watt |
| Officer in attendance: | Ms Sue Collier<br>Professor Bob Craik<br>Ms Ann Marie Dalton-Pillay<br>Professor Gill Hogg   | Mr Andrew Menzies<br>Professor Garry Pender<br>Professor John Sawkins  |
| Others in attendance:  | Ms Lorna Kirkwood-Smith (minutes)  |  |

### **M17/44 APOLOGIES**

Apologies were received from the following members: Ms Tracey Ashworth Davies, Ms Pamela Calabrese, Ms Trish Gray, Ms Morag McNeill, Mr Andrew Milligan, Mr Tom Stenhouse and Professor Richard Williams, and from the following, who were invited to be in attendance: Professor Ammar Kaka and Dr Gillian Murray.

### **M17/45 MINUTES OF THE PREVIOUS MEETING**

The Court approved as an accurate record the minutes of the meeting of the Court held on 9 December 2016.

### **M17/46 DECLARATION OF INTERESTS**

The Chair of Court invited declarations of interest from members. No declarations were received.

### **M17/47 MATTERS ARISING**

There were no reported matters arising.

### **M17/48 REPORT FROM THE JOINT MEETING OF THE AUDIT AND RISK AND FINANCE COMMITTEES (Paper Ct4/17/125)**

The Court received and discussed a report of the joint meeting of the Audit and Risk Committee and Finance Committees which took place on 20 December 2016. The report was presented jointly by the Committee Chairs.

The Court noted that the purpose of the joint meeting had been to consider and approve the final draft of the Annual Accounts and Financial Statements for the year ending 31 July 2016 for onward recommendation to the Court, and to consider supplementary draft subsidiary company annual accounts and reports from the University's External Auditor. At the committees' joint meeting the External Auditor had reported that, while the firm's audit work was substantially complete, one matter remained outstanding in relation to Heriot-Watt Services Ltd. The incomplete work centred on the land value recognised in the entity and a difference in valuation techniques applied to land values in respect of Sports Village, now

held in Heriot-Watt Services Ltd. It had been reported that this issue had no impact on the consolidated group accounts.

The Chair of the Audit and Risk Committee drew attention to a headline statement in the Audit Highlights Memorandum report from KPMG which reported that the firm's testing of the design and operation of controls over financial processes and procedures confirmed that controls relating to financial systems and procedures were, on the whole, designed appropriately and working effectively, and that control improvements (which were reported in the separate Management Report) were required, in particular those relating to research accounting and year-end accounts procedures.

The Chair of the Audit and Risk Committee drew particular attention also to the External Auditor's audit opinion and reporting of significant risks and conclusions which had included, inter alia:

- the work of the External Auditor in assessing fraud risk relating to management over-ride of controls. No matters had been identified which required adjustment and the Auditor had reported "no exceptions";
- in relation to research accounting, a need had been identified for continued focus on the pursuit and appropriate management of old debts;
- no issues had been identified by the Auditor in respect of the accounting treatment of Research and Development Expenditure Credit claims;
- in relation to risks in the area of revenue recognition, following adjustments in the area of research income, no exceptions were found;
- the Auditor's testing of new capital developments had not identified any exceptions; and
- land valuation differences in relation to the Sports Village and Heriot-Watt Services Ltd was under inquiry with surveyors.

The Chair of the Finance Committee drew attention to the consequences of the new FRS 102 accounting standard requirements, and reported that a helpful reconciliation report had been provided by the Director of Finance in the transitional year just passed. The Committee Chair highlighted incongruence between the old and new accounting methods. The transition to FRS 102 had the effect of making the balance sheet look weaker than it would otherwise. However, this year's equivalent underlying surplus of 2.6% of total income, although broadly in line with the sector average, when compared to the University's KPI target of 7%, signalled major challenges ahead. The introductory section provided by the Principal had included acknowledgement of the challenges ahead, balanced against significant achievements in the year and new opportunities to be pursued. The Strategic Report section of the publication had also provided an overall balanced view of performance in the year in the opinion of the Finance Committee. The attention of the Court was drawn to the post balance sheet event of the private placement bond funds received by the University in December 2016, as recorded in the publication. Aside from a sum to be used to repay existing bank loans, an agreed specified amount had been designated as a contribution to the University's capital investment programme. The Court was reminded of the importance of ensuring careful use of the funds designated for investment in the light of the financial challenge to meet budgeted out-turns and evidence of economic headwinds.

The Court noted that the External Auditor had provided guidance to management in summer 2016 on the approach which should be taken to the FRS 102 transition and had subsequently reported that this had not been utilised effectively in all cases. It was explained that this was largely due to previously acknowledged resource pressures in the finance team resulting in some areas of work on the accounts starting late.

**M17/49 ANNUAL REPORT AND FINANCIAL STATEMENTS 2015/16 AND MANAGEMENT REPRESENTATION LETTER (Paper Ct4/17/126)**

- 49.1** The Court received and discussed a draft Annual Report and Financial Statements document for the year ending 31 July 2016 which was presented by the Chairs of the Audit and Risk and Finance Committees.

The Director of Finance led Court members through the draft document, focusing on significant areas of reporting and changes in approach from the previous year's report. The changes were largely driven by the transition to FRS102 and the new Statement of Recommended Practice for Further and Higher Education 2015.

The Chair of the Finance Committee drew attention to the statement of changes in reserves for the year. This showed that of £54.5 million of reserves at the year-end only £27m was unrestricted. He also emphasised the growing risks and impact associated with pension liabilities.

In relation to a risk identified by the External Auditor, the Chair of the Audit and Risk Committee emphasised the importance within the University of sharing appropriate information on the terms and conditions associated with research grants with the Finance Office.

In the course of reviewing the accounts a few areas were identified for minor amendment. It was noted in lines 2 and 3 of page 47 that there were two areas of reporting which ought to be changed as they were misleading. A reference to "representatives" of Senate and Staff – should more appropriately read "elected by"... The statement ought also to make clear that no Court member or Court Committee member has received remuneration or waived any payments in relation to Court / Court Committee duties; the current wording was open to misinterpretation. It was also noted that degree award information should be included against Ms Eloise McNeaney's name on page 66 of the report.

The Court noted that the External Auditor expected to issue an unqualified audit opinion on the 2015/16 financial statements of the University and its subsidiary companies following approval by the Court.

The Court approved the Annual Report and Financial Statements 2015/6 for signing by the Chair, the Principal and the Director of Finance and onward presentation to the Scottish Funding Council.

#### **49.2 Management Representation Letter**

The Court noted and approved a draft Management Representation Letter for signature by the Principal. The letter was to be provided to the External Auditor in connection with its audit of the Group and University financial statements for the year ended 31 July 2016 and included all the relevant assurances that governance and executive responsibilities had been met with appropriate actions and disclosures undertaken. The Court received and noted Management Representation Letters for each of the University's wholly-owned subsidiary companies for sign-off by the Chairs of the respective Boards.

#### **M17/50 ANNUAL REPORT FROM THE AUDIT AND RISK COMMITTEE (Paper Ct4/17/127)**

**50.1** The Court received and discussed a draft Annual Report from the Audit and Risk Committee for the year ended 31 July 2016. The Court noted that, during the period covered by the report, both the internal Auditor (EY) and External Auditor (KPMG) had worked effectively and the Committee agreed that it was satisfied with the adequacy and scope of both functions. The Court was asked to consider the Annual Report of the Committee in conjunction with the Internal Audit Report (Appendix 2) and the External Auditor's Audit Highlights Memorandum and Management Letter (Appendix 4).

The Chair of the Audit and Risk Committee drew attention in particular to the section which provided an overview of Internal Audit reports for the year and the top risks identified. The Chair also emphasised 'Brexit' uncertainties, which would continue to be the focus of great interest by the Committee and the Court over the period ahead.

The Court, on the recommendation of the Audit and Risk Committee, endorsed the continuation of the appointment of the University's External Auditor (KPMG) for a further year.

**50.2 Annual report from the Internal Auditor: 2015/16 (Appendix 2 to the report)**

The Court received and noted the Internal Audit Annual Report for the academic 2015/16 from the University's former Internal Auditor E&Y LLP. The report provided a statement of the internal audit cover for the year reported and a summary audit opinion on the University's control environment and systems of internal control.

**50.3 Internal Audit Plan 2016/17 to 2018/19 (Appendix 3 to the report)**

The Court received and noted an Internal Audit Risk Assessment and Strategic Plan: 2016/17 and 2018/19 report which was presented by the University's Internal Auditor, Pricewaterhouse Coopers LLP. The report set out the risk assessment and strategic internal audit plan for the three year period up to 31 July 2019.

**50.4 Audit Highlights Memorandum and Management Letter 2015/16 (Appendix 4 to the report)**

The Court received and noted an Audit Highlights Memorandum report and Management Letter report for the year ended 31 July 2016 from the University's External Auditor, KPMG. The reports summarised the External Auditor's work in relation to the financial statements of the Heriot-Watt group for the year ended 31 July 2016 and summarised the recommendations identified during the audit process.

**M17/51 UNIVERSITY STRATEGIC AND OPERATIONAL RISK REGISTER (Paper Ct4/17/128)**

The Court received and discussed University Risk Registers including the following which were presented by the Secretary of the University:

- University Strategic Risk Register;
- Campus Risk Register (international); and
- Escalated Operational Risk Register report

The Risk Registers had been reviewed and updated following meetings of the Risk and Project Management Strategy Group, the University Executive, and the Audit and Risk Committee at its meeting held on 24 November 2016. The purpose of the annual presentation to the Court was to provide assurance of the processes in place to manage risk.

The Court noted that the primary risks identified by the University during the period covered by the Annual Report and Financial Statements had been explained within the report.

In response to a question about the reported Risk RES03 concerning international research engagement and mitigations plans through global research transformational initiatives, the Court was advised that at present no financial risks were associated with this risk. The current 'moderate' risk rating had therefore been judged appropriate.

The Court approved the Risk Registers, noting that the Audit and Risk Committee will continue to keep the reported risks under review.

**M17/52 ANY OTHER BUSINESS**

**52.1 SCOTTISH FUNDING COUNCIL: OUTCOME AGREEMENT FUNDING FOR UNIVERSITIES**

The Vice-Principal reported that it was expected that the announcement from the Scottish Funding Council on Outcome Agreement funding for 2017/18 would be released in the very near future. While the potential risks associated with funding in the coming year had been adequately considered there remained a degree of uncertainty about the allocation.

**M17/52      DATE OF NEXT MEETING**

The next meeting of the Court will take place on 3 March 2017.

Signed .....

Date .....