

THE UNIVERSITY OF MANCHESTER

AUDIT COMMITTEE

17 September 2018

- Present:* Mr Colin Gillespie (in the Chair)
Mrs Ann Barnes
Ms Erica Ingham
Mr Robin Phillips
Mr Trevor Rees
- In attendance:* President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Registrar, Secretary and Chief Operating Officer Designate
Director of Finance
Director of Compliance and Risk
Financial Controller
Mr Steve Clarke, EY LLP
Mr Richard Young, UNIAC
Ms Silla Macario, UNIAC
- Apologies:* Dr John Stageman (Chair of Finance Committee)
- Secretary:* Deputy Secretary

1. Declarations of interest

Noted:

- (1) The RSCOO advised that his son was employed by EY LLP, but not in an audit capacity. He remained a member of the UniAc Board, a position which would be taken up by the RSCOO Designate on his retirement. The RSCOO also advised that from 1 September 2018 he had become a Trustee Director of USS Limited (he had ceased to be a member of the USS Joint Negotiating Committee from 31 August 2018).
- (2) Mr Robin Phillips advised that his daughter was employed by EY plc, in a non-audit capacity and that EY LLP were auditors of his employer, Siemens.
- (3) The Director of Finance advised that he was a Director of the North West Universities Purchasing Consortium (NWUPC)
- (4) All declarations previously reported to Audit Committee were noted.

2. Welcome to new members and attendees

Noted: Ann Barnes, Erica Ingham and the RSCOO Designate were welcomed to their first meeting of the Committee.

3. Terms of reference and membership

Received: the Committee terms of reference and membership

Resolved: that the amended version (which incorporated changes in the regulatory regime, following the dissolution of HEFCE) be submitted to the Board for approval.

Action: Deputy Secretary

4. Annual Programme of Work

Received: the annual programme of work

5. Minutes of the Meeting held on 4 July 2018

Resolved: that the minutes of the previous meeting be approved (having been reviewed and approved in draft by the outgoing Chair prior to her retirement from the Committee).

6. External Audit

a) The Interim Update Report

Received: the Interim Update Report prepared by the external auditors.

Reported:

- (1) EY had completed their planning procedures and controls (including IT General Controls)
- (2) EY had continued to receive good cooperation from management, in particular in respect of significant risks and other areas of audit emphasis identified in its planning report.
- (3) Based on the scope of completed testing, controls over research income and Purchase to Payment (P2P) were effective in mitigating the risk of material error in the University's Financial Statements.
- (4) From EY's substantive testing of income and expenditure, there were no items to bring to the Committee's attention.
- (5) No significant matters requiring the attention of the Audit Committee had been identified during the audit of subsidiaries.
- (6) **Redacted-restricted information**
- (7) The report highlighted the use of data analytics to enable focus on transactions deemed to have the highest inherent risk.
- (8) EY had concluded that in relation to USS pension obligations, there was no basis to change the assumptions used in the previous financial year (noting that there would be change in the forthcoming year). The Director of Finance reported that the Financial Statements would include an extensive commentary on potential future contingent liability.

Noted:

- (1) In relation to the insolvency of Carillion, financial risk had been mitigated through the successful release of a performance bond; timely award of a new contract for the re-development of residences at Fallowfield and the efforts of colleagues across the University meant the project remained on schedule.
- (2) The Committee would be provided with the proposed wording of the reference to potential contingent liability as outlined above.

Action: Director of Finance

- (3) The view from EY that the University had a relatively mature and robust approach to IT controls and cyber- security, as evidenced by, for example, the introduction of dual factor authentication for staff.
- (4) **Redacted-restricted information**
- (5) There would be further testing of journal entries and journal entry analysis before the audit was concluded.

b) Annual Reporting

Received: the draft Corporate Governance Statement and Public Benefit content, along with a draft statement on the University's compliance with the Modern Slavery Act.

Noted:

- (1) In relation to the draft Corporate Governance Statement, the likelihood that, in future years, the Office for Students would expect providers to address value for money for both the taxpayer and students (in the latter case, addressing, for example, how the University makes use of the £9,250 home undergraduate full-time fee).
- (2) As in last year's financial statements, public benefit content addressing teaching, research and social responsibility would be integrated into the narrative.
- (3) In the section on social responsibility, it may be helpful to add the suffix "Art Gallery" to "The Whitworth" for the avoidance of doubt and to aid understanding.
- (4) The Modern Slavery and Human Trafficking Statement reflected ongoing and proactive engagement and constructive dialogue with suppliers; whilst the sanction of removing suppliers from the approved list remained open, it had not been necessary to use this to date.
- (5) Minor textual amendments and enhancements to the draft Modern Slavery and Human Trafficking Statement.

c) Subsidiaries Audit

Received: a report on the status of the year-end audit of University subsidiaries

Noted:

- (1) As outlined above, the audit of subsidiaries had not revealed any significant issues to date.
- (2) A report on the subsidiary audits would be presented by EY to the Subsidiary Undertakings Sub-Committee (SUSC) on 11 October 2018 and an overview of results would be included in their report to the November joint Audit and Finance Committee meeting.
- (3) Finance Committee would consider a proposal at its meeting on 19 September 2018, to recommend to the Board amendment of its terms of reference to incorporate matters currently considered by SUSC (this would not impact on the SUSC meeting scheduled for 11 October 2018)

7. Internal Audit and Internal Control

(i) Progress Report from the Director of Uniac for the period July to August 2018

Received: the Internal Audit Progress Report for the period covering July to August 2018,

Reported: that Uniac had finalised and completed the seven audits outlined below since the last meeting of the Committee.

(a) Student Fieldtrips oversight

Reported:

- (1) The purpose of the review was to provide independent assurance that the controls relating to the risk assessment of student field trips and the processes that lead to staff and students being declared fit to take part in them are efficient and effective.
- (2) The review had resulted in reasonable assurance outcomes for effectiveness of design and effectiveness of implementation and significant opportunities for economy and efficiency.

Noted:

- (1) The lack of central oversight had been identified and would be addressed by the Student Lifecycle Project (SLP) and the planned introduction of a student mobility team which would implement actions outlined in the report (SLP was due to go live in October 2019 and the mobility team would be put in place during 2019-20).
- (2) Risk assessment was on a country/region basis and there was close monitoring of staff and students who were in potentially dangerous areas (including those affected by natural disasters). A new Travel Management System would facilitate this process.

(b) Business and Community Interaction Survey (HE BCI) Data Review

Reported:

- (1) The objective of the audit was to review the University's process for managing the compilation and accuracy of data contained within the Higher Education Business and Community Interaction (HE-BCI) Survey. The audit focused on the HE-BCI Survey submitted to the Higher Education Statistics Agency (HESA) in January 2018.
- (2) The review had resulted in reasonable assurance outcomes across the three measures of effectiveness of design, effectiveness of implementation and economy and efficiency.

Noted: further information was awaited on the new Knowledge Exchange Framework and consequently there was potential for changes to the HE-BCI Survey in future years; this and the materiality of HEIF funding (the University achieved the maximum award of £3.8 million in 2017-18) should be considered when prioritising actions agreed against other University-wide initiatives.

(c) Construction Partnering Framework (CPF) Project Audit Review

Reported:

- (1) The audit sought to provide assurance that the Construction Partnering Framework (CPF) was robust, operating efficiently and effectively and supporting the CPF in providing optimal value for money.
- (2) The review had resulted in reasonable assurance outcomes across the three measures of effectiveness of design, effectiveness of implementation and economy and efficiency.

Noted: the review covered the first two stages of the three stage approach to project audit, i.e. Value for Money/financial close and Forensic Review. The third stage of the process is final value for money and forensic review but no projects had completed the third stage at the time of the review.

(d) Mechanical, Aerospace and Civil Engineering (MACE): School Review

Reported:

- (1) The purpose of the audit was to provide independent assurance that the financial and administrative processes, controls and systems within the School of MACE adhere to the University's Financial Regulations and Procedures (Uniac undertakes one school review each year, rotating between the Faculties and MACE had been selected for review this year by the Faculty of Science and Engineering).
- (2) The review had resulted in a substantial assurance outcome for effectiveness of design and reasonable assurance outcomes for effectiveness of implementation and economy and efficiency.

Noted: the review focused on financial controls and compliance with Financial Regulations and Procedures and there were mechanisms to assess and review other aspects of School activity.

(e) Review of Insurance

Reported:

- (1) The purpose of the audit was to provide assurance that the University has effective arrangements to identify insurable risks, procure cost-effective insurance and manage claims.
- (2) The review had resulted in a substantial assurance outcome for effectiveness of design and reasonable assurance outcomes for effectiveness of implementation and economy and efficiency.

Noted: that there was scope to enhance the Insurance Office's central oversight and control over property insurance claims, including whether claims only marginally above the institutional excess should be made.

(f) Internal Audit Programme 2018-19 Outline

Received: a summary of the programme of internal audits for 2018-19 agreed at the July 2018 committee meeting.

Noted:

- (1) The review of entities referred to could encompass subsidiaries as well as other bodies such as associates, jointly controlled legal entities and spin out companies.
- (2) The student mental health review would address matters raised in the recent ministerial letter to universities. An announcement about a Greater Manchester fast track mental health service for students, including universities in the region, was expected imminently.
- (3) Proposed timing of the review of HR Leavers (Q3) would allow time for the new reporting system to be fully implemented and tested.
- (4) The potential for external events (e.g. development of Brexit negotiations, outcomes of the post-18 education (Augar) review and the Office for National Statistics review of the treatment of student loans) to impact on the programme. The University Risk Register would be reviewed later in the year and presented to the February committee meeting and there would be potential to re-visit the internal audit programme in the course of the academic year.
- (5) A group chaired by the Deputy President and Deputy Vice-Chancellor had been established to consider strategic risks and had been meeting for some time. Further work was now being undertaken to look at operational risks that would arise from a "no-deal" Brexit.

(g) Internal Audit Annual Coverage against the Institutional Risk Register

Received: a table setting out audit coverage since 2015-16 against the institutional risk register.

Noted:

- (1) The University had recently concluded its consultation about changes to the benefits of the University of Manchester Superannuation Scheme (UMSS) and was considering the outcome.
- (2) University emergency response planning had been tested in both exercise and live situations and work was continuing on the development of an institutional Business Continuity Plan (including areas of risk away from the main campus, e.g. Jodrell Bank and the Dalton Nuclear Institute)

(ii) Draft Internal Audit Report and Opinion

Received: the draft Internal Audit Report and Opinion from Uniac, for the year ending 31 July 2018.

Reported:

- (1) The report provided Uniac's opinion on the adequacy and effectiveness of the University's internal control, risk management and governance arrangements, the University's arrangements for ensuring the accuracy of data returns to external bodies, and on whether the University's activities are conducted economically, efficiently and effectively.
- (2) The report provided separate opinions for internal controls, risk management, governance, arrangements for seeking value for money, and arrangements for ensuring accuracy of data returns.
- (3) There were four possible levels of opinion and in each of the five areas outlined in (2) above, Uniac had concluded that arrangements were "adequate and effective" (the best of the four possible outcomes) and the report provided a rationale for that opinion.
- (4) The report indicated that some reviews were awaiting confirmation of outcome; this work was nearing conclusion and Uniac confirmed that this would not affect the overall opinion.
- (5) The report and opinion was required by the Office for Students (OfS) (as set out its Terms and Conditions of Funding for HEIs) as part of the Annual Accountability Return in December 2018.
- (6) From 1 August 2019, the OfS would no longer require submission of a suite of annual assurance returns. Whilst there was still uncertainty about the expectations of the OfS, it was likely that there would be more focus on scrutiny of published documents and on Boards assuring themselves that control, risk management and governance arrangements were operating appropriately.
- (7) The OfS Regulatory Framework included provision for random sampling and more extensive scrutiny of compliance with conditions of registration which suggested that institutions might wish to maintain continued reliance on existing assurance mechanisms, like the internal audit opinion.
- (8) Notwithstanding this, the lack of an explicit requirement to submit an annual opinion opened up the possibility of focusing on areas other than the five referred to (2) above; this matter should be brought to the Board's attention with the Committee returning to consideration of this at a future meeting.

Action: Deputy Secretary

Noted: that the report and opinion was comprehensive and provided a good and accurate summation of work undertaken and assurances received by Uniac.

(iii) Fraud Response Plan

Received: an updated Fraud Response Plan, with references to the Higher Education Funding Council for England deleted and replaced by reference to the OfS, including relevant OfS terms and conditions of funding.

Noted: that it would be helpful to include reference to the Public Interest Disclosure Procedure in the appendix setting out related documents

Resolved: to recommend that the Board adopt the revised Plan, noting that there are no changes of substance.

Action: Deputy Secretary

8. Funding Assurance Programme (FAP) from UK Research and Innovation (UKRI) (formerly Research Councils UK-RCUK)

Received: a report updating the Committee on the outcome of the follow-up visit following the RCUK visit to the University in October 2016, as part of their Funding Assurance Programme (FAP) audit. (RCUK transitioned to UKRI from 1 April 2018).

Reported:

- (1) The RCUK FAP audit in October 2016 had resulted in an outcome of limited assurance. In July 2018, the University had received confirmation that, further to a follow-up visit, the outcome had been modified to moderate assurance.
- (2) The report provided more detail of agreed assurance recommendations and actions; an immediate, beneficial outcome was cessation of additional regularity checks on financial expenditure statements.

Noted: that National Audit Office requirements meant that the assurance process was stringent and the University had not been alone in receiving an initial classification of limited assurance.

9. Verbal report from the Director of Compliance and Risk

Reported: by the Director of Compliance and Risk

- (1) As noted above, the increased possibility (and implications) of a “no-deal” outcome to Brexit negotiations was under consideration.
- (2) Migration to a new supplier and the introduction of a Travel Management system meant that the previously approved Travel Policy could now be fully implemented.
- (3) The OfS had replaced HEFCE as the statutory body with responsibility for monitoring how institutions were fulfilling their obligation to have due regard to the need to prevent people being drawn into terrorism (the Prevent Duty). The OfS had just published its revised monitoring framework which included a continued requirement to produce an annual report by 1st December 2018. (to be agreed by the Board in November 2018).

10. Dates of meetings in 2018-19

Noted:

Wednesday 7 November 2018 (joint meeting with Finance Committee at 1.00pm: full Committee at 2.30pm (pre-meeting with members of the Committee and auditors only at 2.00pm)

Tuesday 5 February 2019 2.00pm

Wednesday 1 May 2019 2.00pm

Monday 17 June 2019 2.00pm

(The Director of Compliance and Risk and the Financial Controller left before consideration of the following item.)

11. Secretary’s Report-Public Interest Disclosure: Update

Received: a report from the RSCOO on two Public Interest Disclosures.

Reported: Investigations (which had included review by Uniac) into one case (involving an anonymous allegation) had concluded that the allegation was not substantiated. The other investigation had made good progress but was ongoing and a further report would be made to the next meeting of the Committee in November 2018.

Action: Deputy Secretary