

THE UNIVERSITY OF MANCHESTER

AUDIT COMMITTEE

7 November 2018

Present: Mr Colin Gillespie (in the Chair)
Mrs Ann Barnes
Ms Erica Ingham
Mr Robin Phillips
Mr Trevor Rees

In attendance: Dr John Stageman (Chair of Finance Committee)
President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Director of Finance
Director of Compliance and Risk
Financial Controller
Mr Steve Clarke, EY LLP
Mr Michael Green, EY LLP
Mr Richard Young, UNIAC

Secretary: Deputy Secretary

(NB The meeting was preceded by a private meeting between members of the Committee and internal and external auditors only, without officers (except the Deputy Secretary) in which the auditors confirmed their satisfaction with the cooperation received from management and the open and transparent relationship with the University).

1. Declarations of interest

Noted:

- (1) Ms Erica Ingham advised that her employer MediaCom carried out some digital marketing activity for the University.
- (2) Mr Robin Phillips confirmed that his daughter was employed by EY plc, in a non-audit capacity and that EY LLP were auditors of his employer, Siemens (he had recently moved to a new role within Siemens, and was still based in Manchester).
- (3) The President and Vice-Chancellor had recently been appointed as a member of the national, Independent Industrial Strategy Council.
- (4) All declarations previously reported to Audit Committee were noted.

2. Minutes of the Meeting held on 17 September 2018

Resolved: that the minutes of the previous meeting be approved.

3. Matters arising

Received: an update on matters arising from the minutes.

4. External Audit and Financial Statements

NB: The consideration and approval of the Report of the External Auditors and approval of the elements of the financial statements for which the Audit Committee is responsible (namely the public benefit elements of the Financial Review, the Modern Slavery Act Statement and the

Statement on Corporate Governance), was conducted in a joint session with members of the Finance Committee.

Received: An Audit Results Report from the External Auditors (EY LLP) on the Financial Statements for the year ended 31 July 2018, which recorded the key features of the audit to date, and contained details of specific observations arising, the way they had been treated in the Accounts, and the management responses. Also presented was the Letter of Representation in relation to the 2017/18 external audit. The Committee also received the Financial Statements for the year ended 31 July 2018 for consideration and to provide context in respect of the external audit.

Reported:

- (1) The Audit Results Report covered issues arising from the audit work with respect to the financial performance and position of the University, internal controls (including risk management) and audit and accounting issues.
- (2) The joint meeting of Finance Committee and the Audit Committee had reviewed the Financial Statements, suggesting some textual amendments as part of their consideration; in relation to internal control, this included clarification that this was a matter for which the Board had ultimate control, discharging this responsibility through the work of the Audit Committee. As the University was a Public Interest Entity, an extended audit report from EY was included within the Financial Statements.
- (3) EY had substantially completed the audit of the University's Financial Statements for the year ending 31 July 2018 and subject to satisfactory conclusion of a few remaining issues, expected to issue an unqualified audit opinion. EY had no concerns about the quality and acceptability of the Financial Statements in respect of the University's reporting obligations.
- (4) The report included the following areas of audit focus:
 - Risk of Fraud in revenue recognition.
 - Misstatements due to fraud and error
 - Accounting for Pensions Obligations
 - Senior Officer emoluments
 - Donations and endowments
 - Property Plant and equipment-Capital Spend and Impairment
 - Insolvency of Carillion
- (5) Throughout the audit, EY obtained appropriate and sufficient assurance to enable them to conclude satisfactorily on each of these matters. EY found no material matters which needed to be brought to the attention of the Audit Committee in respect of these matters.
- (6) EY had identified one adjusted audit difference in the draft financial statements (£2.9 million) which management had chosen not to adjust. EY's work had identified that the estimated value of University of Manchester Superannuation Scheme (UMSS) fund assets used by the actuary was understated. The Committee noted that EY was content with management's assessment that the impact of this was not material and confirmed that it concurred with this: reference to this would be included in the Letter of Representation.
- (7) In relation to Senior Officer emoluments, EY confirmed that the University was compliant with new Office for Students (OfS) reporting requirements and the content of disclosures was consistent with underlying records. The definition of University median salary would be confirmed in the final version of the Financial Statements to be presented to the Board.

- (8) EY had not identified any significant deficiencies in the design or operation of an internal control system that might result in a material misstatement in the financial statements. The report contained reference to two relevant internal control issues as follows:
- i) Control and recording of staff leavers and updating of financial systems
 - ii) Internal security arrangements for a small number of financial database administrators.
- (9) Both of these had been identified in the previous year's audit. As the Committee was aware, management action was in train to address i) and management had decided to tolerate the risk relating to ii), after assessing the potential for adverse impact on service availability and/or recovery. A third issue identified in the previous year's audit, relating to opening and closing of bank accounts had been addressed and was now closed.
- (10) EY declared that the audit had gone well and expressed thanks to the Finance team for their support and engagement with the audit process.

Noted:

- (1) As reported to the previous meeting, 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 was likely to be change in 2018/19, i.e. an increase in both the deficit and the cost of the future accrual). This was appropriately presented in the Financial Statements.
- (2) The University's response to the Universities UK (UUK) consultation on the USS Joint Expert Panel recommendations had been approved by Finance Committee and signed off by the Chair of the Board on behalf of the Board. The response indicated support for the JEP proposals and the increased risk therein on a short-term, time limited basis only, in order to create space for the Trustees and Joint Negotiating Committee (JNC) to consider further reforms to the scheme.
- (3) A recent High Court judgment on equalisation of pension benefits potentially affected all Defined Benefit schemes (the overall impact on all UK pension schemes was estimated at £15 billion). The judgment would not impact on this year's Financial Statements, and might be appealed but would require a post balance sheet briefing note (disclosure at note 31 to the accounts).

Resolved: That the EY Audit Results report and Letter of Representation be accepted and reported to the Board of Governors and subsequently submitted to OfS.

Action: Deputy Secretary

5. **Statutory Audit of University subsidiaries**

Received: An overview on the subsidiary audits included by EY within their Audit Results Report.

Reported:

- (1) For the UK entity audits, the auditors had not raised any significant issues and this was reflected in the EY report to Subsidiary Undertakings Sub Committee (SUSC) on 11 October

2018. An overview of the results was included in the EY Audit Results report. The report also updated the Committee on the position relating to overseas subsidiaries.

- (2) EY had not raised any management letter points in respect of the subsidiaries.

Noted:

- (1) Following its meeting in October 2018, SUSC had been disestablished and its remit subsumed within the Finance Committee terms of reference.
- (2) Finance Committee and Investment Sub-Committee would in future provide robust scrutiny and oversight of all subsidiaries, related entities and investments.

6. Internal Audit and Internal Control

(i) Uniac Progress Report

Received: the Internal Audit Progress Report for the period covering September to October 2018.

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

(a) Review of the Disability Advisory Support Service (DASS)

Reported:

- (1) The review focused on student use of the Disability Advisory Support Service (DASS), part of the Directorate for the Student Experience. A network of disability coordinators in Faculties and Schools play a key role in the delivery of the service to students and had therefore been included in the audit, although not part of DASS.
- (2) The review had resulted in reasonable assurance outcomes for effectiveness of design and significant opportunities for effectiveness of implementation and economy and efficiency.

Noted:

- (1) To address issues highlighted in the review, the report identified management actions to define a suite of KPIs and service levels, and to strengthen the monitoring of complaints, to ensure service standards and develop a more coordinated approach.
- (2) The new Director of Campus Life was in the process of re-shaping the division to allow greater collaboration and joint working across each of its service areas and enable better mental health student support. A system improvement had been requested as part of the Student Lifecycle Project.
- (3) Users of the service had doubled in number (3,000 to 6,000) over the past ten years; reasons for this included earlier detection of learning disabilities in schools and greater willingness of students to refer themselves to the service.

(b) Review of Construction Partnering Framework (CPF) Social Responsibility Key Performance Indicators (KPIs)

Reported:

- (1) The audit sought to provide assurance that the systems and processes used to manage and monitor performance relating to the CPF Social Responsibility KPIs are operating efficiently and effectively.
- (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: there were opportunities to develop a more integrated and coordinated approach.

(c) Annual Post Audit Review Exercise 2017/18

Reported:

- (1) As part of the annual audit programme, Uniac undertake a general post audit review exercise, to inform the annual opinion and to provide assurance that agreed management actions captured within finalised Uniac audit reports have been implemented by the appointed responsible officers. The majority of the recent (2017/18) audit reports, including actions that have not yet expired at the time of the follow-up exercise, will be reviewed in the 2018/19 post-audit exercise.
- (2) Of the 137 actions, Uniac verified that 123 had been fully implemented, 12 were in progress or updated with revised implementation dates (for legitimate reasons, such as, in several cases, change in responsible officers), and two actions had been superseded by changed circumstances. The overall implementation rate was 90%, which was above the University's average for prior years.
- (3) The review concluded that substantial progress had been made by the University in implementing agreed management actions. The high rate of implementation demonstrated that auditees take implementation of agreed actions seriously and that the actions agreed were generally appropriate.

(d) Internal Audit Programme 2018-19 Progress Update

Received: a summary of the progress against the programme of internal audits for 2018-19 previously agreed by the Committee.

Noted: The Chair reported that in response to some emerging concerns about the Student Lifecycle Project (SLP) (specifically relating to potential overspend on budget and achievement of agreed deliverable outcomes) and to provide early assurance of the overall efficacy of the SLP, the scheduled review had been brought forward to Quarter 1; terms of reference for the review had been agreed and meetings were being arranged. Uniac would assess its capability to complete the work in-house after the first round of meetings and determine whether further external expertise was required and report on this matter to the Committee Chair.

Action: Uniac

(ii) HE sector Update

Received: the latest Uniac sector update covering cyber security threats and responses, general sector risk themes and a briefing on risk beyond higher education.

Reported: to supplement the cyber security update, the Committee had received a brief supplementary paper from the Chief Information Officer setting out relevant developments within the University.

Noted:

- (1) Key issues emerging from the Uniac updates were circulated and cascaded within the University (as demonstrated by the response from the Chief Information Officer).
- (2) Greater uptake of artificial intelligence presented opportunities as well as risks.
- (3) The detrimental impact of recent negative press coverage for the sector as a whole
- (4) Recent coverage regarding the potential insolvency of a few institutions within the sector; the impact of this on other providers would depend on the extent of any insolvencies (OfS required institutions to prepare Student Protection Plans in case of institutional failure).

- (5) Uniac was not aware of any other institutions using the concept of compound risk; the University would revisit its work in this area in the next review of institutional and local risk registers.
- (6) Work to quantify the monetary impact of risks emerging from the five year plan considered by Finance Committee would be valuable.

Action: Director of Finance/Director of Compliance and Risk

(ii) Internal Audit Report and Opinion

Received: the final version of the Uniac Annual Report and Opinion for the year ending 31 July 2018.

Noted: the Committee would keep under review the matter of IT/digital experience amongst its membership.

Resolved: that the Uniac Annual Report and Opinion be accepted and reported to the Board of Governors (and appended to the Audit Committee Annual Report) and subsequently submitted to OfS.

Action: Deputy Secretary

7. Annual Report of the Committee to the Board of Governors for 2017-18.

Received: A draft Annual Report of the Committee to the Board of Governors for the session 2017-18.

Reported: The Report had been compiled in a form that was consistent with the Code of Practice, Annex C within the OfS Terms and Conditions of funding for higher education institutions. In summary, the Report advised the Board of Governors that the Committee was of the opinion that reasonable reliance could be placed on the University's internal control systems (including risk management), that arrangements for the production, quality assurance and monitoring of data returns to funding and regulatory bodies was effective and that there were adequate arrangements for securing economy, efficiency and effectiveness.

Resolved: That the Report be recommended to the Board of Governors for approval and onward submission to the OfS.

Action: Deputy Secretary

8. Value for Money

Received: A report on value for money from the Director of Finance

Reported:

- (1) The Audit Committee has a responsibility to provide assurance as to whether the operations of the University take full account of the need to deliver Value for Money. The OfS had not issued any requirements for returns but it is clear that they expect to see greater transparency especially relating to the value for students.
- (2) The report was intended to provide an overview of Value for Money across the University; much of this had previously been presented to either the Audit and/or Finance Committee. New information in the report related to estates and IT provision along with an overview of procurement control and value for money (routinely submitted to the Audit Committee in November). The report also drew out the measures of effectiveness which were covered in the public benefit statement in the financial highlights section of the Annual Report. The topic was also viewed from different perspectives rather than solely that of the University itself.

Noted:

- (1) Whilst Uniforum/Cubane data was a useful benchmarking tool, there were other potentially useful metrics both within and outside the sector.
- (2) The President and Vice-Chancellor and the Director of Finance had written an article for Staffnet setting out how the University demonstrated value, including use of student fees.
- (3) The report noted that the surplus generated by teaching activities was essential as the systemic issues related to research funding required an element of cross subsidy.
- (4) The funding model provided for a proportion of student tuition fees to be used for activities to support widening participation.
- (5) Recognition of the importance of both student and staff satisfaction and, in relation to the latter, particularly staff wellbeing and resilience.
- (6) Some minor textual corrections to the report.

9. European Investment Bank (EIB): Covenant Compliance Report

Resolved: that EY be authorised to carry out work required to submit the covenant compliance report to the EIB.

10. Public Interest Disclosure Report

Received: a report from the RSCOO on the conclusion of the Public Interest Disclosure matter notified to the Committee at the previous meeting. The investigation had concluded that there was no evidence to support the allegations made.

11. Dates of further meetings in 2018-19

Noted:

Tuesday 5 February 2019 2.00pm

Wednesday 1 May 2019 2.00pm

Monday 17 June 2019 2.00pm