

THE UNIVERSITY OF MANCHESTER

AUDIT COMMITTEE

1 May 2019

- Present:* Ms Ann Barnes (in the Chair)
Ms Erica Ingham (from item 5)
Mr Trevor Rees
- Apologies:* Mr Colin Gillespie
Mr Robin Phillips
Director of Finance (usually in attendance)
- In attendance:* President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Director of Compliance and Risk
Head of Tax and Financing
Financial Controller
Mr Steve Clark, EY LLP
Mr Richard Tyler, EY LLP
Mr Richard Young, UNIAC
Ms Silla Maccario, UNIAC
- Secretary:* Deputy Secretary

1. Declarations of interest

Noted: all declarations previously reported to Audit Committee: there were no new declarations of interest.

2. Minutes of the Meeting held on 5 February 2019

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

3. Matters arising

i) Office for Students (OfS) audit of 2016-17 research income informing 2018-19 quality-related charity support funding: response from OfS

Noted: further to item 6 in the previous minutes, the response from OfS which indicated satisfaction with amendments made and that the audit was now closed. UniAc had provisionally scheduled a review of implementation in Q1 in 2019-20.

ii) Student Lifecycle Project (SLP)

Noted: further to item 7i) of the minutes, an update on progress would be made to the June 2019 meeting.

4. Update from President and Vice-Chancellor

Received: a verbal update from the President and Vice-Chancellor to ensure that co-opted members were fully apprised of key, recent developments (co-opted members now also had access to Board papers via Diligent and also received the President and Vice-Chancellor's weekly update).

Reported:

- (1) The continued uncertainty in relation to Brexit. Recent press reports that EU students would be charged international fees when Britain left the EU reflected external legal advice received by the University.
- (2) The date of release of the Augar Review of post-18 education funding was uncertain, although there was speculation this might happen later in May. Reports continued to suggest that there would be a reduction in the fee cap, with the Treasury making up some or all of the consequent funding gap.
- (3) The current budgeting round was making provision for significant increase in pension contributions. At a national level, further discussions involving the USS Trustee and Pension Regulator were ongoing.
- (4) Ongoing discussions with government and government agencies in relation to the application of export controls legislation and regulations. Further discussions were scheduled later in the month and issues included categories of visa for international visitors and the scope of the legislation and regulations.
- (5) The University continued to buck the national trend with significant increases in applications for 2019 entry (overall increase of 12% on last year: 10% home, 20% international). Acceptance rates also showed a significant annual increase (24%).
- (6) Following tabling of a parliamentary amendment, there was now a strong possibility that the two year post study work visa would be reinstated for international students, which would be a boost to international student recruitment.
- (7) The University had performed very well in a recently published Times Higher League Table measuring impact based on University's work towards the United Nations Sustainable Development Goals (first amongst European universities and third in the world).

Noted:

- (1) Confirmation from EY that, when considering the sector as a whole, the University was in a relatively good financial position. A number of institutions were facing significant financial challenge and the increased exposure to pension liability was exacerbating this.
- (2) Differential adverse impact of a reduction in the fee cap on STEM subjects and research intensive institutions had been highlighted by the University in representations on this matter. The review was likely to highlight a gap in current post-18 skills based provision and there was speculation that it would recommend a potential cap on entry grades.
- (3) There had been recent press coverage of the use of non-disclosure agreements (NDAs) in the sector. The University did not enter into NDAs although it did enter into settlement agreements when payments were made in excess of statutory redundancy payments (e.g. voluntary severance arrangements) and these agreements were subject to mutual confidentiality clauses.
- (4) In relation to Huawei, the University regularly assessed its position, informed by contact with relevant national and international agencies and on the basis of this interaction, there was no reason to discontinue existing arrangements.

5. Transparent Approach to Costing (TRAC (T)) Return

Received: the University's TRAC(T) results summary, covering the return submitted to the Office for Students (OfS) in February 2019. The return had been approved by the Chair of the Committee to ensure submission by the required date and was reported retrospectively to the Committee.

Reported:

- (1) The headline figure was **Redacted – restricted information** increase in cost per student, i.e. by **Redacted – restricted information** per FTE, to a total of **Redacted – restricted information** per FTE, as total OfS student numbers had remained virtually static.
- (2) Overall subject related costs had increased by **Redacted – restricted information** as a result of an increase in cost base, a change in time allocation and change in classification of some costs (most significantly, inclusion of previously excluded Nursing costs) as articulated in the report. Detail per HESA cost centre was set out in the appendix to the report.

Noted:

- (1) The return was based on sampling of academic time and there were some areas of ambiguity (e.g. overlap between teaching and research in relation to undergraduate research projects). Cohort size and the nature of the programme also impacted on the return.
- (2) Benchmarking (from 2016-17) was based on a HEFCE data peer group (details were not known to the University).

Resolved: the TRAC(T) return submitted to OfS was supported and endorsed.

6. Satellite Entities Review

Received:

- (1) A report setting out work performed to date identifying the satellite entities with which the University has a significant relationship.
- (2) The work had focused on naming a University accountable person, setting out the nature of the relationship with the relevant entity; articulating and assessing the risks arising from involvement with the relevant entity and how these risks are mitigated.
- (3) Key to the work had been identification of the three lines of assurance comprising:
 - functions that own and manage the risk;
 - functions that oversee or who specialise in compliance or the management of risk; and
 - functions that provide independent assurance i.e. external and internal audit.
- (4) The University was involved with many different entities and therefore the work was on-going with an update to be presented to the Committee later in the year.

Noted:

- (1) The report included an assessment of both inherent and current risk, noting that risk assessments were dynamic and dependent on a number of variables.
- (2) Recent development at North West e-Health (including change in key personnel, sign-off of audit, award of new contracts and improved cash flow) were likely to improve the current risk rating.
- (3) There were now fewer subsidiaries than previously and some were planned for closure
- (4) Discussions were ongoing with Uniac regarding the identification of entities for more detailed review; it was suggested that a potential approach would be to include a subsidiary or significant associate with high inherent risk (e.g. University of Manchester)

Worldwide) and another entity with high inherent risk where the University is not a shareholder or a member but has an interest (e.g. University of Manchester Students' Union). Details would be finalised in liaison with Uniac outside the meeting, with an update provided to the June meeting.

Action: Head of Tax and Financing and Uniac

- (5) Some entities were awaiting review but the majority of these were low risk.
- (6) Follow up action would focus on entities with medium or high current risk rating.

7. Internal Audit and Internal Control

(a) Uniac Progress Report

Received: the Internal Audit Progress Report for the period covering February to April 2019.

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

(i) Compliance with IR35 legislation

Reported:

- (1) The audit's purpose was to provide independent assurance that the University has effective and efficient processes to ensure compliance with IR35 legislation, introduced by HMRC in April 2017. Where the rules apply, workers engaged by the University through an intermediary pay employment taxes in a similar way to employees. The legislation applies specifically to the public sector and universities where engagement is through Personal Service Companies (PSCs); limited companies that are typically directed and owned by the person contracted for the work. Failure to comply with IR35 can lead to HMRC interest and penalties levied on any monies owed.
- (2) The review had concluded that there were significant opportunities for improvement in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.

Noted:

- (1) Testing had identified instances of gross payments made to PSCs, before they were known by the University to be PSCs but after the legislation came into force in April 2017. In addition, in relation to the Alliance Manchester Business School (AMBS) changes to supplier payments had not been back dated, following a reassessment under the IR35 rules.
- (2) Following the review and advice from external tax advisers, a disclosure would be made to HMRC.
- (3) The University had compiled a comprehensive management action plan to address the exceptions, identify any further exceptions that were not highlighted through testing and make the appropriate amendments to the University's processes to prevent such exceptions from reoccurring.

- (4) All the non-compliant payments identified from testing were made before the supplier was flagged as a PSC and any subsequent invoices were blocked by Accounts Payable from automatic payment and were instead paid through the payroll system, with the appropriate tax and national insurance deductions. This provided positive assurance that the implementation of controls was effective.
- (5) The University had engaged in constructive discussions with HMRC who were aware that Uniac had been asked to carry out a review.
- (6) Uniac had been impressed by the quality of training materials and online information and the targeted approach to training.
- (7) There had been limited time for the implementation of IR35; the University had responded in a timely way but issues had arisen because of inconsistent data set up.

(ii) Student Mental Health

Reported:

- (1) The review sought to provide assurance that the University's systems and processes in place to deal with student mental health problems, leading in extreme cases to suicide attempts, were effective and efficient and adhere to the HE Sector best practice framework, published in September 2018 by Universities UK (UUK).
- (2) The review had resulted in substantial assurance for the outcomes for effectiveness of design and economy and efficiency and reasonable assurance for effectiveness of implementation.

Noted:

- (1) The University's approach adhered to and in some cases exceeded sector best practice.
- (2) Support for students would be enhanced further by the opening of the joint dedicated mental health support facility in conjunction with other Greater Manchester universities and the Greater Manchester Health and Social Care Partnership.

(iii) Student Value for Money

Received: an update on progress to date on a review of student value for money and the role of the OfS. Initial meetings had taken place and a review of published materials and a benchmarking exercise undertaken. A workshop with representation across the University was in the process of being established and this would include input from a recently retired OfS officer.

(b) 2018-19 progress update and development of 2019-20 plan

Received:

- (1) an update on progress against the 2018-19 plan, including some adjustment and re-allocation of resources to reflect changing risks and priorities. The changes were insertion of a UKVI review and an audit of quality processes at the animal facility replacing an audit of preparedness for Teaching Excellence Framework (TEF) at subject level and a review of grant management.
- (2) Progress towards development of the 2019-20 plan, as a precursor to a more detailed report (following liaison with key University staff and the Committee Chair).

Resolved: to approve the above changes to the 2018-19 plan.

(iii) HE sector Update

Received: the latest Uniac sector update covering a summary of an event on the regulatory environment held in January 2019 and a commentary on the current HE data landscape.

8. External Audit

(a) External audit approach to 2018-19 audit

Received: a report from E&Y LLP on the proposed approach to the audit of the 2018-19 accounts.

Reported:

- (1) The report outlined key areas of focus and potential risk and how these would be addressed; this included valuation of pension assets and liabilities as a significant risk, requiring increased risk and focus. The increase in risk was a recognition of the value and range of assumptions in the valuation of the scheme assets and liabilities, particularly for UMSS and LGPS.
- (2) Significant risks identified were misstatement due to fraud or error, risk of fraud in revenue recognition and valuation of pension assets and liabilities. Other financial statement risk identified were accounting for capital development programmes, senior officer disclosures and accounting for USS provision.
- (3) Levels of materiality and scope of the audit were set out in the report (noting that, at £7.46 million, performance materiality was set at 75% of group materiality, correcting an error in the version before the Committee).
- (4) The report noted that EY would take a substantive approach to testing; this included a substantive rather than controls approach to expenditure and research income.
- (5) Work on endowments was ongoing but it was not expected that this would be a specific area of audit focus.
- (6) Confirmation had just been received from OfS that there would be no change in the Accounts Direction for 2018-19.

Resolved: the Audit Committee endorsed the approach outlined by EY.

(b) External Audit Management Letter: Action Plan

Received: a further update on outstanding actions from the 2017-18 External Audit Management Letter.

Reported: Human Resources had proposed a number of actions to reduce the instances of staff leavers being entered on the system after their employment end date, with consequent impact on users' access to Finance systems. There were still areas where individual staff behaviours were causing some problems.

9. Risk and the Risk Management Framework

(a) Update from Director of Compliance and Risk

Reported:

- (1) The University had been advised by OfS that following consideration of its accountability and data return and a risk assessment outcome, it had concluded that the University had demonstrated due regard to the Prevent Duty and assessed that the University was not at higher risk of non-compliance with Prevent.
- (2) There was potential for the University to be included in the sample population for an OfS

Prevent Review Meeting.

- (3) The Home Office had conducted a Controlled Drugs audit at Alderley Park (relocation site for Manchester Cancer Research Centre); this had been satisfactory and a further visit (to the Manchester Institute of Biotechnology) was scheduled for June. Relevant facilities were regularly subject to internal audit.

(b) Composite or Cumulative Risk

Received: a report from the Director of Finance and the Director of Compliance and Risk which developed the concept of cumulative or composite risk first considered by the Committee in 2017-18.

Reported:

- (1) The approach enabled meaningful analysis of the complexity of overall risk, rather than looking at individual risks in isolation.
- (2) The matrix appended to the report categorised risks as either “disruptors” (i.e. risks that impact on other risks the most) and “sensitive” (i.e. those risks that are most affected by combinations of other risks).
- (3) Whilst opportunities to mitigate against “disruptors” were generally limited, there was benefit in focusing on impact of such “disruptors” on the more “sensitive” risks.
- (4) “Disruptor” risks were presented net of mitigation and the effectiveness of mitigation was crucial to ensure that impact did not become worse than initially evaluated.
- (5) The most significant “disruptor” risks included disruptive industrial action, discretionary income, changes in research funding and USS pension risks. The most significant “sensitive” risks included discretionary income, world class teaching and learning experience, research volume and quality, staff recruitment and retention and postgraduate research recruitment.

Noted:

- (1) The Director of Compliance and Risk would provide more detail on vertical line 11 (Major Incident). **Action: Director of Compliance and Risk**
- (2) The analysis was based on the December 2018 Risk Register, presented to the February 2019 Committee. The June 2019 meeting would consider the latest Risk Register and this would remove reference to the risk of uninsured losses from the Paterson Building fire as this had not materialised.

10. Public Interest Disclosure Report

Received: a report from the Deputy Secretary on two matters dealt with under the Public Interest Disclosure (PID) procedure. The first case had now concluded and in an update on the second case, the RSCOO advised that he had concluded the matters referred to were not covered by the Procedure and had been addressed appropriately through other processes and procedures. The complainant had the right under the PID Procedure to refer the matter to the Chair of the Board for consideration.

11. Dates of further meetings in 2018-19 and meetings in 2019-20

Reported: the remaining meeting in 2018-19 would take place on Monday 17 June 2019 at 2.00pm and be preceded by an update and development event. Members’ suggestions for inclusion covered pensions, the Augar Review and Brexit. The agenda would be finalised after consultation with the Chair of the Committee and senior officers.

Noted: dates for meetings in 2019-20 as set out on the agenda.