

THE UNIVERSITY OF MANCHESTER

AUDIT COMMITTEE

17 June 2019

Present: Ms Ann Barnes (in the Chair)
Ms Erica Ingham
Mr Trevor Rees

Apologies: Mr Colin Gillespie
Mr Robin Phillips

In attendance: President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Director of Compliance and Risk
Financial Controller
Director for the Student Experience (items 1-5)
Associate Vice-President for Compliance, Risk & Research Integrity (item 9)
Director of Human Resources (item 10)
Mr Steve Clark, EY LLP
Mr Richard Young, UNIAC
Ms Silla Maccario, UNIAC

Secretary: Deputy Secretary

1. Declarations of interest

Noted: Erica Ingham advised that her employer, MediaCom, carried out a small amount of work for the University and this should be added to her declaration.

Action: Deputy Secretary

2. Minutes of the Meeting held on 1 May 2019

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

3. Matters arising

i) Composite or Cumulative Risk

Noted: further to item 9 (b) and the specific query about the Major Incident risk descriptor, the reason for lack of entries on the vertical axis was that this risk is not sensitive to any of the other risks ("Major Incident" is purely a disruptor risk).

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. Outside the meeting, confirmation would be sought that co-opted members now had access to Board papers via Diligent and also received the President and Vice-Chancellor's weekly update and the continued need for a verbal update assessed before the next meeting.

Reported:

- (1) The continued uncertainty in relation to Brexit.
- (2) The Augar Review of post-18 education funding had been published and received a mixed reception. There was a general welcome for improving the relative funding position for further education and for the proposed reintroduction of the maintenance loan. However, the proposed reduction in the loan repayment threshold and the extension of the loan repayment period from thirty to forty years were seen as regressive measures, meaning a higher proportion of lower earners repaying debts that would previously have been written off. Given the current national political situation, implementation of the review findings in their entirety was now unlikely with the outcomes of the next government Spending Review being a key milestone. Any proposals to amend the current maximum fee levels would require secondary legislation.
- (3) The May 2019 Board received a further update on the Universities Superannuation Scheme (USS). In addition to the two options previously discussed (i.e a significant increase in both employer and employee contributions or a smaller increase with the proviso of contingent contributions if required) a third option had emerged from USS. This would provide for a slightly higher level of employer and employee contributions than the second option but without the need for contingent contributions on the basis that the next valuation would take place a year earlier (i.e in 2020-21) and was generally accepted to be the least damaging option.
- (4) A further complication was the news that the Pensions Regulator had raised concerns about a recent USS communication to employers and members, in which USS had apparently misrepresented the Regulator's position in relation to discount rates and the need for higher contributions.
- (5) In view of UCU's declared "no detriment" position, there was now increased likelihood of a further UCU ballot for strike action in relation to USS (see also 10 (2) below).
- (6) In an environment where generally costs were increasing at least by inflation and most income sources (apart from international student fees) were static, the current budget round was challenging (although, in-year, overall surplus was likely to be slightly ahead of target). Overall application and acceptance rates for 2019 entry continued to buck the national trend and were very healthy (c20% increase compared to the previous year)
- (7) As reported to the previous meeting, it remained likely that that the two year post study work visa would be reinstated for international students, which would be a boost to international student recruitment.
- (8) Moody's credit rating agency had maintained its "negative" outlook for the University. The assessment of some competitor institutions had improved to "stable", albeit these were starting from a lower rating position than the University, which was AA2 rated. The Moody's assessment noted (*inter alia*) relatively tight operating cash flow margins and liquidity and the Director of Finance was engaged in further detailed discussion with representatives from Moody's.
- (9) The new Alliance Manchester Business School building had officially opened on 12 June and the event had been a great success. The Greater Manchester Local Industrial Strategy had been launched at an event attended by the Secretary of State for Business, Energy and Industrial Strategy and the Mayor of Greater Manchester, held at the Manchester Institute of Biotechnology.

5. Student Lifecycle Project Review-update

i) Proposal for Strategic Change Governance

Received: further to the Uniac review of the Student Lifecycle Project, a report approved by Planning and Resources Committee, a proposal for provision of a framework to rationalise and improve current change governance through the creation of a new Strategic Change Sub-Committee.

Reported: appointments in the Programme Management Office (PMO), including the appointment of a new Director of Transformation, would strengthen the University's change management capacity.

Resolved: to endorse the approach as approved by Planning and Resources Committee, noting that this would enable a single, holistic view of change underpinning the new five year Strategic Plan, once adopted. **Action: Director of Planning**

ii) Summary of operational progress

Received: a brief update which summarised a more detailed operational planning paper to be considered by the Change and IT Projects Sub-Committee.

Reported:

(1) The Project Board had been strengthened, enabling a more strategic approach, with more clearly articulated and integrated focus on benefits; the report included a schematic assessment of benefits against the original business case which indicated delivery of a "silver" experience with scope to enable a path towards a "gold" standard.

(2) The first SLT workstream relating to student recruitment, marketing and communications would go live on 1 July and there had been extensive preparation and user testing with operational users.

(3) The internal audit plan for 2019-20 included a further review of SLP; Uniac noted that the report addressed the areas of governance, role of the PMO and benefits realisation which had been key elements of its earlier review.

6. Internal Audit and Internal Control

(a) Draft Internal Audit Annual Plan 2019-20

Received: the proposed internal audit plan for 2019-20, which outlined the balance between strategic risk assurance, compliance and internal control, IT and information related audit and data audit and the iterative process of consultation (with both senior management and committee members) that had informed its compilation.

Reported:

(1) Further to discussion at the previous meeting (see item 6 in May 2019 minutes), the entities suggested for review (University of Manchester Worldwide and the Students' Union) had both been subject to relatively recent review. As a consequence, alternative entities had been proposed for review, University of Manchester Conferences Ltd (which would be reviewed in the current year's programme) and the Royce Institute (in 2019-20); there would be engagement with Royce Institute governance before the latter review was implemented.

(2) There was scope to flex the plan in-year to adapt to changing circumstance or specific requests and this had also been done previously.

Resolved: that the internal audit plan for 2019-20 be adopted.

Action: Uniac

(b) Uniac Progress Report

Received: the Internal Audit Progress Report for the period covering May to June 2019.

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

(i) IT Modernisation Programme

Reported:

- (1) The audit's purpose was to review the IT Modernisation Programme which was established in 2017 with the aim of strategically aligning IT Services, providing improvements in customer focus, cost transparency, responsiveness and innovation.
- (2) The report identified actions in relation to user communication and engagement, Faculty and School engagement, benefits realisation and some lessons learned in relation to contract and supplier management and negotiation.
- (3) The review had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

Noted: the establishment of the new Strategic Change Sub-Committee would strengthen governance as the programme progressed, and creation of the new Director of Transformation post would enable sharpened focus on benefits realisation.

(ii) Manchester Museum and Whitworth Art Gallery Review

Reported:

- (1) The review sought to provide assurance that the financial and administrative processes, controls and systems within the Manchester Museum (the Museum) and the Whitworth Art Gallery (WAG) were operating effectively and efficiently and that they were aligned with the requirements of the University's Financial Regulations and Procedures.
- (2) The review had focused on financial management and monitoring, appropriateness of expenditure incurred, timely recognition of income, asset management (capital, equipment and heritage assets) and management of any potential conflicts of interest.
- (3) The review had identified some areas for improvement (including in relation to communication and training) but no issues of significant materiality. Areas of good practice had also been identified (for example, a new Ethical Sponsorship Policy).
- (4) The review had resulted in reasonable assurance conclusions for effectiveness of design and economy and efficiency and for effectiveness of implementation.

Noted: appropriate safeguarding measures for volunteer staff were in place at both institutions.

(iii) Maintenance Services Unit (Estates) Follow-Up

Received: an update on progress to date on implementation of recommendations arising from a review in 2017-18 to assess the efficiency and effectiveness of the Maintenance Services Unit. The report identified completion of five of twelve agreed actions, with six still in progress and one needing to be addressed because of a change in circumstances.

Reported: the area would be revisited as part of a full review of value for money for small works in the 2019-20 Plan.

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

Received: an update on progress against the 2018-19 plan, which now included the entity review of University of Manchester Conferences Ltd as referred to above (see 6 (a) i)).

Noted: a number of reviews were at fieldwork or planning stage, with others completed and with sponsor for review and all would be concluded by audit year end.

(d) HE sector Update

Received: the latest Uniac sector update which included a critique of the UUK draft framework to support the development of value for money statements and an initial assessment of the implications of the recently published Augar review.

7. External Audit

(a) External audit approach to 2018-19 audit

Received: an oral progress report from EY on the audit of the 2018-19 accounts, which was on track with no concerns to report.

(b) External Audit Management Letter: Action Plan

Received: a further update on outstanding actions from the 2017-18 External Audit Management Letter, specifically the Human Resources Leavers Process and ensuring timely removal of access to financial systems.

Reported:

- (1) There continued to be areas where staff behaviour was resulting in non-compliance with the process (including an instance where a leaver had access to systems after their leaving date).
- (2) HR Business Partners continued to reinforce required practice with managers and Uniac would carry out further testing and report on this in September

8. Statement of Principal Accounting Policies

Received: for information, updated Accounting Policies for the year ended 31 July 2019. Substantive changes related to treatment of intangible assets (capitalisation policy for software costs incurred) and of insurance proceeds. EY were comfortable with the changes.

9. Research Compliance Committee Annual Report

Received: the annual report from the Research Compliance Committee.

Reported:

- (1) The Research Compliance Committee sets standards and ensures that the University fulfils its obligations to comply with the range of statutory, regulatory and policy requirements outlined in the report.
- (2) As reported to the previous meeting of the Committee, discussions with government and government agencies in relation to application of export controls legislation and regulations was continuing. The University was developing measures to ensure an effective export compliance programme.
- (3) [REDACTED]
[REDACTED] **Redacted – restricted information.** The importance of ensuring due process and rigorous scrutiny of proposals was emphasised.
- (4) The Export Control Joint Unit (part of the Department of International Trade) had over 60 applications for Academic Technology Approval Scheme certificates pending and this was beginning to have an operational impact on projects etc.
- (5) Given that it was almost a decade since the previous review, the University had commissioned external specialist consultants to conduct an audit of oversight of clinical trials, including the robustness of the service provided by Manchester Clinical Trials Unit. The audit had identified areas for improvement and additional resource requirements, but none of a serious nature.
- (6) Recommendations of the audit were being addressed and would be reported to the Committee in due course.

Action: Associate Vice-President for Compliance, Risk and Research Integrity

10. Risk-Industrial Action

Received: a report setting out the current position in relation to the significant impact of potential industrial action and the mitigation in place to reduce impact. The report outlined sector-wide and local issues

Reported:

- (1) The trade unions had rejected the overall national pay round offer of a 1.85% increase and were currently consulting with their members.
- (2) The UCU “no detriment” position in relation to USS meant that the University would be in a trade dispute, with a ballot for strike action or action short of a strike likely to take place in September. Industrial action would result in cancellation of lectures and an adverse impact on the student experience.
- (3) At local level, focus was likely to be on any staffing changes arising as a consequence of transformational change programmes; there were no further changes planned to the local University of Manchester Superannuation Scheme until the next valuation.
- (4) Mitigating actions including a contingency planning group, staff communications (particularly in relation to the complexities of the USS position) and ongoing dialogue with the trade unions was outlined in the report. The importance of timely and effective communication was a learning point from the most recent round of industrial action in early 2018.

11. Compliance audits-summary

Received: for information, a summary of recent compliance audits. Future reports would be submitted to the Committee every six months.

12. Resubmission of 2017-18 TRAC Data

Received: for information, notification of resubmission of 2017-18 TRAC data. Resubmission had been requested by the Office for Students to exclude actuarial adjustments.

13. Procurement and Student Value for Money 2019 report from Higher Education Procurement Association

Received: for information, the above named report which included a University of Manchester case study.

14. Public Interest Disclosure report

Received: a report from the Deputy Secretary advising of the conclusion of a matter raised under the Public Interest Disclosure (PID). As reported to the previous meeting, the RSCOO 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 exercised the right under the PID Procedure to refer the matter to the Chair of the Board for consideration. After careful consideration as outlined in the report, the Chair was satisfied that the decision of the RSCOO was appropriate and had followed a proper process complaint with the PID Procedure.

15. Dates of meetings in 2019-20

Monday 9 September 2019 at 2.00pm (with pre meeting for members of the Committee and officers only at 1.30pm)

Wednesday, 13 November 2019 at 2.30pm (preceded by joint meeting with Finance Committee 1.00pm and pre meeting for members of the Committee and auditors only at 2:00 pm)

Monday, 3 February 2020 at 2.00pm

Monday, 8 June 2020 at 10.00am (followed by Update and Development Session)

(NB Meeting previously scheduled for 11 May 2020 now cancelled; four scheduled Committee meetings in 2019-20)