

THE UNIVERSITY OF MANCHESTER

AUDIT COMMITTEE

9 September 2019

- Present:* Mr Colin Gillespie (Chair)
Mrs Ann Barnes
Mr Robin Phillips (item 7 onwards)
- Apologies:* Ms Erica Ingham
Mr Trevor Rees
Mr Richard Young, UNIAC
- In attendance:* President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Director of Finance
Interim Director of Finance
Director of Compliance and Risk (item 9 onwards)
Financial Controller
Head of Information Governance (item 8 (a) (iv) only)
Mr Steve Clark, EY LLP
Mr Richard Tyler, EY LLP
Ms Silla Maccario, UNIAC
- Secretary:* Deputy Secretary

1. Declarations of interest

Noted: there were no new declarations of interest. David Soutter, Interim Director of Finance, who would take over from Steve Dauncey on his retirement later in the year was welcomed to the meeting.

2. Terms of Reference and Membership

Received: current terms of reference and membership of the Committee

Recommended:

(1) That the terms of reference be adopted, subject to an amendment to clause 1 to confirm, for the avoidance of doubt, that the Committee kept under review the University's risk management, control and governance arrangement's on behalf of the Board.

(2) That, to more accurately represent the remit of the Committee, it be renamed the Audit and Risk Committee.

Action: Deputy Secretary

3. Annual Programme of Work

Received: the annual programme of work (noting that the annual meeting of Committee and officers reviewed and evaluated performance of internal external auditors, considering reappointment as and when required).

4. Minutes of the Meeting held on 17 June 2019

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

5. Matters arising

i) Clinical Trials Unit

Noted:

(1) Further to item 9 (5), the minute reflected the fact that it had been nine years since the University was subjected to a Medical and Healthcare Product Regulatory Agency Good Clinical Practice inspection and it was only subsequent to this inspection that the University has taken on sole-sponsorship of clinical trials and developed quality processes to provide sponsor oversight.

(2) The question raised about assurance of a regular and robust cycle of review of compliance in other areas. In previous years, Risk 10 (failure in governance/legal compliance) had been unpacked and there was a substantial schedule of activity and review which provided assurance in relation to this risk.

6. Update from President and Vice-Chancellor

Received: a verbal update from the President and Vice-Chancellor

Reported:

- (1) The continued uncertainty in relation to Brexit and the heightened risk of “no deal” since the change in administration. The University continued to offer advice and support to its students, staff and partners/collaborators. The specific risk of underwriting European research grants was currently receiving attention and more generally, the review of the “no deal” Brexit Risk Register was nearing completion.
- (2) There had been no reference to implementation of the findings of the Augar Review of post-18 education funding in the recent government Spending Review.
- (3) The Universities and Colleges Union (UCU) had balloted its members for industrial action in relation to pay and pensions. The ballot will run from 9 September to 30 October and will be disaggregated so each institution will be polled separately.
- (4) Student recruitment had generally been very strong and the University was on course to meet overall target numbers.
- (5) The new student residential development in Fallowfield, Unsworth Park, had been officially opened. It comprised 1,122 ensuite bedrooms in eight blocks of self-catering student flats; the first 729 rooms were now open, with the remaining 393 rooms ready in December.
- (6) The search for a joint venture partner for the ID Manchester North Campus development would be formally launched later in the week.
- (7) External resource and expertise had been sought to review a new Radiochemistry research facility and very helpful advice had been obtained.
- (8) The University had risen one place in the Shanghai Jiao Tong ranking (Academic Ranking of World Universities) reaching its highest ever position of joint 33rd. The University remained ranked in the 51st to 60th category in the Times Higher World Reputation Rankings and was eighth in the UK.
- (9) The University had been named as University of the Year for Graduate Employment by the Times Higher (announcement embargoed until 20th September)
- (10) The Global University Engagement Summit and the World 100 Conference were taking place on campus this week.

- (11) Global political events (e.g. political protest in Hong Kong and the situation in Kashmir) and the need to be mindful of any potential tension on campus, and the increased likelihood of protest in relation to climate change.
- (12) As reported to previous meetings of the Committee and the Board, work to ensure compliance with export controls legislation and regulations was ongoing; provision for potential financial impact of consequent delays in realising income had been made (£3.2 million).

7. External Audit and Annual Reporting

(a) External Audit Update

Received: a report including a dashboard summary of significant accounting and audit matters outlined in the audit plan, providing an overview of risk identification; this provided context of overall audit risks for the verbal update.

Reported: the following areas of focus in relation to potential significant audit risks:

- (1) Fraud in revenue recognition. This included research income and linked expenditure (tested existence and valuation), overseas student tuition fees (tested existence and occurrence), capital grants income and other income (tested occurrence), debtors (risk of recognition in incorrect year). In relation to fraud in revenue recognition, donations and endowments were not considered material and funding body income was not considered to contain risk of fraud in revenue recognition due to its nature.
- (2) Misstatement due to fraud or error. There were no issues from enquiries and processes and no additional or increased inherent risks. Journals, adjustments and estimates had been tested (in relation to the latter this had included focus on pensions estimates and accruals).
- (3) Valuation of pension assets and liabilities. UMSS assets were difficult to value and liabilities were subject to estimation. LGPS assets were subject to estimation and assumption.
- (4) Other areas of focus (not significant) included USS, capital developments and senior officer disclosures.
- (5) Good progress was being made with the audit and processes were working well.
- (6) In response to a question about use of data analytics, this would form part of the ISA 260 letter (report from the auditors to those charged with governance). A substantive rather than a controls approach to testing had been taken, but data analytics had been used or would be used to assess and respond to risk in relation to journals, payroll and income.

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.

Reported: the Corporate Governance Statement reflected review of the recently published Office for Students (OfS) document providing observations on compliance with the 2017-18 accounts direction.

Noted:

- (1) From the appendix to the Modern Slavery and Human Trafficking Statement it appeared that there had been a decline in the proportion of suppliers engaging with supplier action plans. However, this was not the case; the heading "Not Started" meant that there had been some initial engagement with the supplier, albeit this had not yet progressed. Amendments would be made to ensure that this was clearer.

Action: Director of Finance

- (2) There was very good engagement with the process by construction suppliers, whereas the picture was more varied in some other sectors (e.g. IT).
- (3) The University's record in this area (over 1,800 suppliers informing the University of their approach to eradicating modern slavery) compared very favourably to the rest of the sector, with the University being seen as a leader in this area.
- (4) The University would continue its focus on this area ensuring that suppliers understand their supply chains. There was recognition that in some areas, the lack of alternative suppliers meant that terminating a contract would be problematic if there was persistent failure by a supplier to engage.
- (5) Minor amendments to the draft Corporate Governance Statement.

Action: Deputy Secretary

8. Internal Audit and Internal Control

(a) Uniac Progress Report

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

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

(i) HR Leavers Follow-up

Reported:

- (1) The purpose of the audit was to assess the progress made against the management actions agreed in the July 2018 report on Data Integrity-Leavers Process, which was itself a follow-up of a review in January 2017.
- (2) The review had resulted in a conclusion that there were significant opportunities for improvement in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.
- (3) The review findings confirmed that timely removal of leavers' system access remained a persistent issue for the University and the principal cause was cultural and behavioural rather than systemic.

Resolved: given the persistent failure to make improvement in this area, the matter be raised as a matter of urgency with senior leaders, to ensure issues were escalated and addressed.

Action: President and Vice-Chancellor and RSCOO

(ii) Payroll

Reported:

- (1) The audit assessed the risks associated with payments to University staff through the main end payroll in order to provide assurance that management controls were effective and efficient.
- (2) The review had resulted in reasonable assurance conclusions for effectiveness of implementation and economy and efficiency and had identified significant opportunities in relation to effectiveness of design.
- (3) The review had identified significant weaknesses in system design and opportunities for payroll assurance activity to focus on materially important data. This included clearer and

more explicit segregation of duties (noting that no evidence of fraud or inappropriate activity had been uncovered).

(iii) Review of UKVI Compliance (Students)

Reported:

- (1) The audit sought to provide assurance about the extent to which the University has effective and efficient arrangements in place to comply with the Home Office regulations for sponsorship of non-EEA (European Economic Area) students studying in the UK
- (2) The audit focused on two separate areas, with gradings provided for each area:
 - a) For the UKVI Tier 4 Confirmation of Acceptance process (CAS) and processes supporting the Academic Technology Approval Scheme (ATAS), the review provided substantial assurance in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.
 - b) For attendance and engagement monitoring, the review provided reasonable assurance in relation to effectiveness of design and effectiveness of implementation and had identified significant opportunities for improvement in relation to economy and efficiency.
- (3) The University was in the early stages of piloting a new attendance monitoring system, with a view to using it across the institution and the relevant Regulation (XX) was also under review. Once implemented, this would address the concerns about the greater need for standardisation in relation to information capture and escalation processes.

(iv) Information Governance (ongoing compliance with GDPR)

Reported:

- (1) The purpose of the audit was to provide assurance on the effectiveness and efficiency of the University's information governance processes, particularly the extent of staff knowledge and compliance with best practice in relation to data security.
- (2) The review had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency and concluded that overall the University's approach to information governance was effective.
- (3) The review report was accompanied by a separate report from the Head of Information Governance, updating the Committee on the GDPR preparedness report submitted to the Committee in April 2018. The latter report noted that, since completion of the Uniact report, in August 2019, the University had launched OneTrust, an online system that helps to simplify GDPR compliance by making it easier to record and track risks relating to information management.

Noted:

- (1) In relation to access to specific systems (beyond core facilities available to all staff) those was authorised by relevant departments as required; this helped to mitigate risk and ensure appropriate segregation of duties.
- (2) OneTrust was an "off the shelf" system which the University would be implementing in a comprehensive fashion (e.g to record subject access requests, Freedom of Information requests, to store data about information assets, data breaches etc).

(v) School review (School of Arts, Languages and Cultures (SALC))

Reported:

(1) The purpose of the audit was to provide independent assurance that the financial and administrative processes, controls and systems within SALC adhere to the University's Financial Regulations and Procedures.

(2) The review had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency

(vi) Quality Management for Animals (Scientific Procedures) Act Compliance-Biological Sciences Facility (BSF) unit.

Reported:

(1) The purpose of the audit was to provide assurance that internal controls for quality assurance in the BSF were operating efficiently and effectively.

(2) The review had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

(vii) Post Graduate Research (PGR) student and Post-Doctoral Research Assistant (PDRA) training

Reported:

(1) The audit sought to provide assurance on the effectiveness and efficiency of the University's processes to ensure adequate professional and career development training of PGR students and early career research staff (PDRAs).

(2) The review had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

(viii) Entity Review: University of Manchester Conferences (UMC) Limited Strategic Decisions

Reported:

(1) The Committee had requested entity reviews as part of the annual programme and the review had covered UMC Limited as a wholly owned subsidiary of the University. The audit assessed the robustness and governance of the strategic decision-making process relating to the future activities for UMC and Food on Campus outlets.

(2) The review had resulted in substantial assurance conclusions for effectiveness of design, and economy and efficiency and a reasonable assurance conclusion for effectiveness of implementation.

(ix) UK Research and Innovation Funding Assurance Programme (UKRI FAP) Follow-up Audit

Reported:

(1) The UKRI FAP consists of a periodic programme of visits to provide assurance that public funds awarded for research were properly safeguarded and used for intended purposes.

(2) The UKRP FAP audit report in April 2017 had provided limited assurance but since then the University had agreed and implemented an action plan to address issues identified by UKRI and a follow-up review by Uniac in April 2018 had provided substantial assurance in

relation to progress of issues raised in the FAP. The purpose of the latest audit was to provide further assurance on the University's progress in this area.

(3) The review had resulted in substantial assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

(b) 2019-20 progress update

Received: an update on progress against the 2019-20 plan.

(c) HE sector Update

Received: the latest Uniac sector update which included a briefing on information governance standards, a review of lessons learned from recent governance failures and an outline of training offered for non-executive/lay members of governing bodies.

(d) Draft Internal Audit Report and Opinion

Received: the draft Internal Audit Report and Opinion from Uniac, for the year ending 31 July 2019.

Reported:

(1) The report provided Uniac's opinion on the adequacy and effectiveness of the University's internal control, risk management, governance and value for money arrangements and its arrangements for ensuring the accuracy of data returns to external bodies.

(2) For each of the areas outlined above, there were four possible grades of opinion.

(3) In relation to risk management, arrangements for seeking value for money and arrangements for ensuring accuracy of data returns, Uniac had concluded that arrangements were "adequate and effective" (the best of the four possible outcomes). In relation to internal control and governance, Uniac had concluded that arrangements were "mostly adequate and effective" (the second best of the four possible outcomes). In each case, the Committee was satisfied with the rationale for the grading as outlined in the report.

(4) Areas for improvement highlighted in the assessment of internal control related to HR leavers (see 8 (a) (i) above) and compliance with IR35 legislation; the assessment of governance whilst noting examples of strong governance, had highlighted the Student Lifecycle Project as an area where governance could be improved (work to address this including the establishment of the Strategic Change Sub-Committee was noted in the report).

Noted:

(1) It was unclear whether OfS would expect the Internal Audit Opinion to be submitted as part of the annual accountability returns; the University's past practice had been to reference the opinion briefly in the Audit Committee annual report and attach the Opinion as an appendix as part of submission to the regulator. It was suggested that the Committee return to this matter at its next meeting when the position (including the intentions of other HEIs on this matter) might be clearer.

Action: Deputy Secretary

(2) The comment that the need for the final column in Appendix A (headed "Annual Opinion Reference") be revisited as it could lead to the incorrect assumption that some aspects of the Opinion had not been addressed in the audit plan and review work.

Action: Uniac

(e) Summary of internal investigatory work

Received: a summary of internal work relating to suspected frauds and irregularities.

Reported:

- (1) None of the cases listed had resulted in financial loss, although a very recent case (not included in the report) had resulted in minor financial loss (£500). The latter case related to a one-off payment being made on the basis of an unverified e mail notifying change of supplier details (specifics of the case and the process used were both under review).
- (2) Some cases had been reported to the police and this was a value judgment based on the specifics of each case. One of the cases referred to had been referred for further discussion with HR to determine whether further action should be taken against individuals involved.
- (3) The Committee would receive an update at a future meeting. **Action: Financial Controller**

9. Risk and Risk Management Framework

Received: the University risk map and risk registers and underpinning faculty risk maps, which had been approved by Planning and Resources Committee before submission to the Committee.

Reported:

- (1) The commentary provided details of adverse movement and other changes, and the detailed narrative addressed significant sector-wide and University risks.
- (2) As noted above, the specific Brexit “no deal” Risk Register was under review.

Noted:

- (1) Discussion about the risk profile of disruptive industrial action (Risk 19) and whether this should be rated “likely” or “highly likely”. Factors to be considered were the likelihood of achieving the 50% required turnout threshold and, if the ballot resulted in industrial action, the timing and nature of this.
- (2) Risk 21 (uninsured costs arising from fire damage to the Paterson Building etc) could now be more accurately recast as an operational, Faculty level risk, relating to future cost of using the new Paterson Building. There had been a reduction in research capacity (and thus potential income) because of the fire, but this was difficult to quantify.

Action: Director of Compliance and Risk

- (3) Under Risk 5 (failure to grow discretionary income) the £10m contribution from Online Blended Learning shown (to be achieved by 2023) was a net figure. Other universities (e.g. Coventry) had made significant progress in this area; the risk of failure to achieve this target was considered as part of scenario planning.
- (4) Under Risk 14 (risk of loss or reputational damage as a consequence of a successful attack on IT infrastructure) there was reference to a specific threat arising from insecure and unapproved applications and devices. Streamlining of procurement processes helped to mitigate this risk but this was more difficult to achieve, for example, in relation to locally held research budgets (although access to core systems could be restricted).
- (5) Presentation of the data and the report was currently under review, and this would include consideration of potential use of Board Assurance Frameworks.

Action: Director of Compliance and Risk

10. Dates of future meetings in 2019-20

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, 27 January 2020 at 11.00am (replacing previously scheduled date of Monday 3 February 2020 at 2.00pm to allow submission of TRAC returns by 31 January deadline).

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

11. Steve Dauncey, Director of Finance

Reported: this would be Steve Dauncey's last Audit Committee before retiring from his role as Director of Finance. The Committee offered its thanks and best wishes to Mr Dauncey for his contribution to the work of the University and support for both the Committee and the Board.