

## THE UNIVERSITY OF MANCHESTER

### AUDIT AND RISK COMMITTEE

13 November 2019

<i>Present:</i>	Mr Colin Gillespie (in the Chair) Mrs Ann Barnes Ms Erica Ingham Mr Robin Phillips Mr Trevor Rees
<i>Apologies:</i>	Ms Alice Webb
<i>In attendance:</i>	Dr John Stageman (Chair of Finance Committee) President and Vice-Chancellor Registrar, Secretary and Chief Operating Officer (RSCOO) Interim Director of Finance Director of Compliance and Risk Financial Controller Mr Steve Clarke, EY LLP Mr Richard Tyler, EY LLP Mr Richard Young, UNIAC Ms Silla Maccario, UNIAC
<i>Secretary:</i>	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:** the interim Director of Finance, David Soutter advised that he was a member of the Audit Committee at the University of Gloucestershire.

#### 2. **Membership**

**Reported:** that Alice Webb had been appointed to the Committee but was unable to attend the meeting (at relatively short notice) because of a prior engagement. Other dates were secured in her diary.

#### 3. **Minutes of the Meeting held on 9 September 2019**

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

#### 4. **Matters arising**

**Noted:** matters arising from the minutes were dealt with elsewhere on the agenda.

#### 5. **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 2019, 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 2018/19 external audit and the Financial Statements for the year ended 31 July 2019 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. 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 2019 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 or error, valuation of defined benefit liabilities and assets, accounting for Universities Superannuation Scheme (USS) provision, accounting for valuation of capital development programmes and senior officer emoluments.
- (4) 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.
- (5) Areas to note and highlighted in the presentation of the report from EY included:
  - a) Additional procedures carried out to gain assurance regarding the risk of misstatement in the valuation of the Greater Manchester Pension Fund (GMPPF).
  - b) Revision of overall materiality assessment compared to earlier Planning Report (increased to £11.06 million from £9.95 million).
  - c) Identification of audited differences from the financial statements with an aggregated impact of £1.4 million reduction of the reported total deficit in the Statement of Comprehensive Income, which had been adjusted by management.
  - d) Identification of one revenue recognition adjustment in relation to research deferred income, which had been corrected by management. The account was

deferred and accounted for as a creditor but there were no conditions attached and the correct recognition is as income in the Statement of Comprehensive Income.

e) Identification of two significant unusual transactions, both of which were tested, with the subsequent conclusion that the adjustment in each case was due to the timing of information becoming available to the University. The treatment of both transactions had been agreed.

f) The Statement of Financial Position recognised three material pension schemes: the valuation of assets and liabilities in GMPF and the University of Manchester Superannuation Scheme (UMSS) were identified as a significant risk due to the significant estimation required for the liability figure and the risk of valuation error in relation to the assets. The third material pension scheme, the USS was not identified as a significant risk to the EY opinion as it was accounted for as a defined contribution pension scheme. The provision for USS deficit payments was separately identified as an "other area of audit focus" and reported on separately within the report.

g) There were no issues to report in respect of capital recognition or impairment or senior officer emoluments.

h) There were no significant issues from the audit of subsidiaries to bring to the Committee's attention.

i) The testing of deferred and accrued research income balances found one item for which revenue recognition policies had not been followed and the amount was adjusted for in the financial statements; testing had also found two trivial system generated deferrals that were incorrectly processed.

(6) 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.

(7) Both of the above issues had been identified in the previous year's audit. As the Committee was aware, renewed management action was in train to address i), including communications to managers to emphasise the importance of this matter. Management had decided to tolerate the risk relating to ii), after assessing the potential for adverse impact on service availability and/or recovery.

(8) In referring to the data analytics section of the report, the University's highly effective and efficient approach to journal posting was noted.

(9) There were no concerns relating to the independence of EY in conducting the audit and there was recognition of the need to keep this matter under regular review.

(8) EY declared that the audit had gone well and expressed thanks to the Finance team for their support and engagement with the audit process.

**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**

## 6. Subsidiaries Year End Review

**Received:** a report on the work performed to date in identifying the satellite entities with which the University has a significant relationship.

**Reported:** the report identified a University accountable person, set out the nature of the relationship with the relevant entity; articulated and assessed the risks arising from involvement with the relevant entity and how these risks were mitigated. Three lines of assurance had been identified for each subsidiary which comprise (1) functions that own and manage the risk; (2) functions that oversee or who specialise in compliance or the management of risk; and (3) functions that provide independent assurance i.e. external and internal audit. A further update would be presented to the Committee later in the year. Changes to directorships resulting from the retirement of Stephen Dauncey as Director of Finance were proposed (a number of subsidiaries were due to close).

Redacted – Restricted Information

## 7. Update from the President and Vice-Chancellor

**Received:** a verbal update from the President and Vice-Chancellor on latest developments including Brexit, the General Election, ballots on pay and pensions and impending industrial action by UCU, student recruitment, ID Manchester, the Annual Performance Review process, recent visits to China, Hong Kong and Taiwan, and the United States, recent major awards and recent senior appointments.

**Noted:** the Office for Students had recently issued guidance to students affected by industrial action, highlighting potential recourse to the Office of the Independent Adjudicator should students be unhappy with the institutional response. The University was assessing the potential for claims for compensation as part of its risk assessment and mitigation activity.

## 8. Internal Audit and Internal Control

### (i) Uniac Progress Report

**Received:** the Internal Audit Progress Report for the period covering September to October 2019.

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

### (a) Cyber Security-Management of Privilege Access

**Reported:**

- (1) The purpose of the Cyber Security (Management of Privileged Access) audit was to provide assurance that risks relating to the management of user accounts at the University were managed effectively and efficiently. The audit had concluded that there were significant opportunities for improvement in relation to effectiveness of design, effectiveness of implementation and economy and efficiency. This was part of a rolling process of cyber security reviews. The current identity management system was a bespoke solution, dating back to the early 2000s, and there was a lack of formal documentation resulting in knowledge gaps. There was a lack of defined approval process

**Information**

- (2) The Cyber Security audit identified significant opportunities for the University to improve the control framework in place for the management of user privileges associated with Active Directory and the identity management system. The report noted that granting external users elevated privileges (and privilege management in general) required a governance process to be implemented and that extending the University's two factor authentication security over the network login process for this category of user should also be considered. There was ongoing work within the IT Networks Team to implement a new Identity Management System, but the scope of this did not currently cover privilege access management.
- (3) Management acknowledged the observations and risks outlined in the audit report and the Chief Information Officer would review further to consider, cost and plan the scale of work to mitigate risks (which would include assessment of relative priorities). The Committee asked that this response, including an action plan to address issues raised in the review be brought to the next meeting of the Committee on 27 January 2020.

**Action: Chief Information Officer**

**(b) Athletic Union**

**Reported:**

- (1) The audit of the Athletic Union had been requested by the Directorate for the Student Experience (DSE) to provide assurance that the component University sports clubs of the Athletic Union were operating appropriately, safeguarding the health and safety of their members and that expenditure in this area was appropriate. The audit had concluded that there were significant opportunities to improve the effectiveness of design of management controls on the oversight and regulation of the relationship between the clubs part of the Union and the University. Reasonable assurance conclusions were reported with regard to control implementation effectiveness and efficiency/economy.
- (2) In response to the review, the University will undertake a review of the existing legal relationship with the clubs of its Athletic Union and consider adopting a more formal approach which better defines expectations, with implementation of a new framework and approach from the start of the 2020-21 academic year. In the interim, shorter term mitigating actions had been identified.

**Action: Director for the Student Experience**

**(c) Student Data Management**

**Reported:** The audit sought to provide an independent assurance opinion that the University has effective quality assurance processes in place to ensure that student data is fit for purpose, accurate and complete. The audit had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

**(d) IT Security Operations Centre**

**Reported:** The purpose of this audit was to provide assurance to the University on the effectiveness and efficiency of its IT Security Operations Centre (SOC), including the extent to which the relevant risks were being managed, and the benefits of the SOC were being realised. The SOC performs continuous prevention, detection and reporting of IT security threats and incidents. The audit had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

**(e) Student Fees, Payments and Refunds**

**Reported:** The audit sought to provide independent assurance that the University has effective and efficient mechanisms in place to manage the collection and processing of postgraduate (PG) student fee payments and refunds for both postgraduate taught (PGT) and postgraduate research (PGR) students. The audit had resulted in reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

**(f) International Payroll**

**Reported:** the audit sought to provide assurance that the University has adequate processes in place to manage its overseas employer tax and social security obligations where such risks may arise. The audit had resulted in reasonable assurance conclusions for effectiveness of design and effectiveness of implementation and a substantial assurance conclusion for economy and efficiency.

**Noted:** whilst the procedure for determining the extent of any overseas employer Payroll obligations the University may have was effective, there was scope to tighten the approach to authorising individuals to work overseas ,noting the risk that there was a level of risk that staff (for example visiting lecturers or advisors) might be working overseas without the knowledge of their HR partner. Links to the travel risk assessment protocol would help to mitigate this risk. There was guidance for staff on the complexity of international tax regulations.

**(g) Alliance Manchester Business School (AMBS) Academic Accounts (Advisory Review)**

**Reported:**

(1) The audit considered if the financial and administrative processes for income and expenditure on AMBS reserve and research allowance accounts were operating effectively and efficiently and were fully aligned with the requirements of the University's Financial Regulations and Procedures.

(2) The advisory report made four key observations with recommendations to improve the School's overall compliance with the University's Financial Regulations and Procedures.

**Noted:** although the review had only considered AMBS, some of the observations were potentially applicable across the institution.

**(h) Post-audit reviews**

**Reported:**

(1) The summary of the most recent post-audit review process as set out below:

Year	Reports	Actions	Fundamental	Principal Observations	Other Observations
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			Observations		
2015/16	1	10	-	7	3
2016/17	4	43	3	38	2
2017/18	12	77	-	45	31
<b>Total</b>	<b>17</b>	<b>130</b>	<b>3</b>	<b>90</b>	<b>36</b>

- (2) The overall implementation rate of 80% was slightly below the previous two years; however, all actions arising from older reports (2015-16 and 2016-17) had now been completed or closed and over half the actions in progress or delayed for 2017-18 reports related to two audits, Student Field Trips (seven actions in progress), where implementation was linked to the Student Lifecycle/Student Experience Programme and CRUK-MI (five actions in progress) where a number of actions had not been implemented because of changed priorities resulting from the Paterson Building fire.
- (3) The outstanding issues relating to UMI3 would be reported to the next meeting.
- (4) In future, post-audit reviews would take place every six months instead of annually, to facilitate escalation of delays in implementation.

**(i) Student Value for Money Advisory Review and Benchmarking**

**Reported:** Uniac had facilitated a workshop at the University, including senior academic engagement, to discuss the communication of value for money (VfM) to its students in September 2019. This followed on from an initial report on VfM completed in 2018/19. The objective was to discuss and aid the institution as it develops its VfM strategy. Uniac also undertook a benchmarking exercise which reviewed approaches at peer institutions (and beyond). The full report on this exercise was included in the agenda papers.

**(ii) Progress Update-2019-20 Annual Programme**

**Reported:** progress against the 2019-20 internal audit programme.

**Resolved:** the timing of the Estates Masterplan and Carbon Reduction audits be swapped so that the former takes place in Q4 and the latter in Q3.

**(iii) HE sector Update**

**Received:** the latest Uniac sector update covering higher education risk themes, a risk briefing based on organisations outside the sector and a review of the OfS risk based approach to the Prevent Duty.

**(iv) Internal Audit Report and Opinion**

**Received:** the final version of the Uniac Annual Report and Opinion for the year ending 31 July 2019.

**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

**(v) Summary of internal investigatory work**

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

**9. Annual Report of the Committee to the Board of Governors for 2018-19.**

**Received:** A draft Annual Report of the Committee to the Board of Governors for the session 2018-19.

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

**Action: Deputy Secretary**

**10. Update on Student Experience Programme**

**Received:** A report updating the Committee on management action since the review of the Student Lifecycle Project reported to the February 2019 Committee meeting.

**Reported:** The Director of Transformation was establishing the University's approach to delivering strategic change initiatives. From July 2019, the management of technology, process, people and structural change associated with SLP had been incorporated into a single Student Experience Programme. The wide-ranging nature of the transformation was emphasised; the redesign of the operating model and clearer designation of roles and responsibilities would impact on organisational culture and the way that colleagues from across the University worked together. There was a clear focus on benefits identification and realisation.

**11. Update on the Regulatory Environment: Office for Students and External Returns**

**Received:** a report from the Director of Planning, updating the Committee on the work of the Office for Students (OfS), which had assumed full regulatory powers from August 2019;

**Reported:**

(1) The report included a deep dive for one specific registration condition relating to submission of statutory data returns which indicated the level of granularity required. The report noted that requirements continued to evolve, and consultations were numerous, with regular additional guidance provided by government; this evolving picture brought with it the risk of both under- and over-interpreting the guidance.

(2) There was sector wide concern about the unusually combative and uncompromising tone adopted by the OfS as regulator; the recent letter about a regulatory breach (slight delay in paying an invoice resulting in immediate escalation to the Chair of the Board-the same letter had gone to most providers) appeared unhelpful and disproportionate. At a recent event for accountable officers on OfS monitoring and intervention, the Head of Monitoring and Intervention at OfS had reiterated the OfS commitment to the current approach.

(3) The report noted the clear risk that, at its current scope and budget, regulatory burden that the OfS could not afford would be pushed into the sector with an inevitable consequential increase in university staff devoted solely or principally to compliance.

[Redacted]

**Redacted – Restricted Information**

**12. Procurement; Control and Value for Money**

**Received:** the annual report on procurement, expenditure controls, value for money, compliance and risk management, noting that there was no longer a need to provide a separate report to OfS on Value for Money

**Reported:** Uniac had also produced an advisory report on student Value for Money (see reference above) and in the last month, UUK had produced a report on presenting financial information to students in which the University was cited as an example of good practice.

### **13. Public Interest Disclosure**

**Received:** the latest update on Public Interest Disclosure matters.

### **14. Dates of remaining meetings in 2018-19**

**Noted:**

Monday 27 January 2020 at 11.00am

Monday 8 June 2020 at 10.00am

(Update and Development Session provisionally arranged for Monday, 8 June 2020, following Audit Committee)