

THE UNIVERSITY OF MANCHESTER

AUDIT AND RISK COMMITTEE (by video conference)
Unconfirmed

8 June 2020

Present: Mr Colin Gillespie (in the Chair, items 1-10)
Mrs Ann Barnes (in the Chair, items 11-14)
Ms Erica Ingham
Mr Robin Phillips
Mr Trevor Rees
Ms Alice Webb

In attendance: Ms Caroline Johnstone (Chair of Finance Committee designate)
President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Interim Director of Finance
Chief Information Officer (for item 9)
Vice-President (Social Responsibility) (from items 11 and 12)
Head of Tax and Financing (for item 3 i))
Director of Compliance and Risk
Financial Controller
Mr Steve Clark, EY LLP
Mr Richard Young, Uniac

Secretary: Deputy Secretary

1. Declarations of interest

Noted: the President and Vice-Chancellor declared that she had been appointed as Chair of the Russell Group with effect from 1 September 2020.

2. Minutes

Resolved: that the minutes of the meeting held on 27 January 2020 be approved.

Noted: the minutes of the informal joint meeting with Finance Committee held on 15 April 2020.

3. Matters arising

i) Satellite Entities

Received: a brief update in respect of the satellite entities with which the University has a significant relationship.

Reported:

(1) Work continued to focus on the following objectives: 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) A further update reflecting further work on risk assessment and three lines of assurance would be made to the September meeting.

Noted:

(1) In response to a question about the risk rating of University of Manchester Worldwide (UMW), given the current pandemic, the comment that the subsidiary's purpose related to the funding of international centres and the rating was appropriate, although this would be kept under review.

(2) The importance of providing clarity and detail about the appointment/selection of the Accountable Person for each entity and their level of independence.

(3) The importance of identifying both financial and reputational risks as part of risk assessment.

(4) The need to identify for all entities, the level of dependency on the University for financial support.

(5) Entities should be categorised according to relative significance (from both a financial and a reputational perspective).

Action: Head of Tax and Financing

ii) Role of Information Governance Committee

Noted: a report on the role of Information Governance Committee had been made available in the Diligent Reading Room.

4. Report from President and Vice-Chancellor

Received: a verbal update from the President and Vice-Chancellor covering the University's response to the pandemic as set out at recent Board meetings and briefings (the latter were open to co-opted members of the Committee). This included progress on the staged and cautious approach to campus re-opening, financial scenario planning and related developments, including preparations for budget setting at the July Board and the more recent announcement of the University's student number control limit (6,348). Key areas of uncertainty were student recruitment in 2020-21, the take-up of recently announced staff voluntary measures and the extent of a potential government support package for the sector.

Noted:

(1) In response to a question, there was increased awareness at government level about cyber security and the University continued to liaise closely with relevant government agencies.

[REDACTED]
Redacted – Restricted Information

(3) The University was aware of a potentially heightened risk from Legionella as buildings reopened and water systems were being thoroughly flushed before any reopening.

(4) In relation to estates and capital planning, all expenditure had been paused except where there was contractual commitment. There would be reflection on the longer term impact of the pandemic on the estate, with consequent evaluation of options. There had been initial work on revaluation of the estate, but the realisation of this was dependent on the extent and duration of recovery from the pandemic

5. Internal Audit and Internal Control

(i) Uniac Progress Report

Received: the latest Uniac internal audit progress report.

Reported:

- (1) Uniac had completed sufficient work prior to the pandemic to prepare an annual opinion (although this no longer appeared to be an OfS requirement, the Board had agreed that such an opinion should be prepared) and work that would inform that assessment continued.
- (2) The opinion was likely to differentiate and comment on the University's position up to the date when the impact of the pandemic became serious and the period after (up to the date when the opinion was prepared).
- (3) The approach would enable a pragmatic commentary on both the University's control environment and its response to the recent unprecedented circumstances.
- (4) Uniac had completed the six audits outlined (a to f below) since the last meeting of the Committee.
- (5) The report included an update on the 2019-20 programme with a small number of audits recommended for delay or deferral given reprioritisation following the pandemic.
- (6) The report also included the latest sector updates, noting that these could be circulated between meetings.

Resolved: To approve the deferral of audits as outlined in the 2019-20 programme update.

(a) Student Experience Programme (SEP)-follow up

Reported:

- (1) The review was a follow-up to the audit of the Student Lifecycle Project completed in January 2019.
- (2) The review indicated that there had been significant improvements to programme governance, with the reconfigured Strategic Change Office playing a crucial role (for example in establishing Gateway Reviews and independent challenge as part of that process). However, given the scope and complexity of the change programme, risks and challenges remained.
- (3) It was important to retain focus on academic engagement and monitoring of benefits realisation.

Noted:

- (1) The SEP had paused in the light of the pandemic and the Programme Board would determine the optimal time for a resumption. As a result benefits realisation might take place over a longer timeframe.
- (2) It would be helpful for the Committee to see a summary of programmes which had been halted or delayed.

Action: Deputy Secretary

(b) UKVI: Foundation Programme

Reported:

- (1) The audit sought to provide assurance that the controls and systems in place for international student admissions to foundation programmes and subsequent engagement monitoring were effective, efficient and compliant with UKVI requirements.
- (2) The report provided reasonable assurance conclusions for effectiveness of design,

effectiveness of implementation and economy and efficiency.

(c) Post-audit review exercise: Phase 1

Reported: the biannual review had covered nine of nineteen relevant audits from last year's plan and revealed satisfactory progress on completion of actions.

(d) Travel

Reported:

(1) The audit (carried out pre-Covid, and all non-essential travel had now ceased) sought to provide independent assurance that the University's Travel Management System, Key Travel, was being used in accordance with the University's Travel Policy and that any leakage (i.e. non-system bookings) was kept to a minimum. The audit also addressed the monitoring of health and safety issues for staff who travel on University business.

(2) The report provided reasonable assurance conclusions for effectiveness of design, effectiveness of implementation and economy and efficiency.

(3) The report noted scope both for further rigour in addressing areas of non-compliance and improvements in aspects of the performance of Key Travel.

(e) Manchester Engineering Campus Development (MECD)

Reported:

(1) An independent assessment was requested by the Chair of the Board, following receipt of a letter from academic staff outlining concerns surrounding research laboratories, academic offices and the overall space budget.

(2) The review had focused on research laboratories and the space budget (the issue of academic office space had been followed up by university management).

(3) The report and management response had been submitted to the meeting of the Board on 18 March 2020.

(4) Uniac had concluded that there were no systemic flaws in the methodology and processes deployed on the project.

(5) The report had highlighted issues and potential enhancements which might also have served to reduce some negative response to the project; in particular, the changes in heads of school and project deputies had not helped with continuity, engagement within schools and consistency across schools.

(f) Unannounced cash count

Reported: an unannounced cash count had taken place on 22 January 2020 and had found no concerns. One action had been agreed.

(ii) Development of the 2020-21 Internal Audit Programme

Received: a report outlining proposed approach to development of the 2020-21 Internal Audit Programme.

Reported:

(1) In light of the current fast-changing environment and risk position, Uniac proposed agreeing audits for the next four to six months. This would enable monthly assessment of relevance and relative priority and ensure a flexible and proactive approach.

(2) Following consultation with senior University staff, an initial short-term programme would be circulated to the Committee by the end of June for comment and ultimate approval.

Work would then be carried out later in January 2021 to develop a programme for the remainder of the academic year.

(3) The above approach would enable alignment with the revised approach to capturing and recording strategic risk (see item 8 below). Key areas of focus in the current challenging environment as identified by Board committee chairs were: financial sustainability, staff and student wellbeing, teaching outcomes/academic quality, research outcomes, regulatory compliance and cyber security.

Noted:

(1) It was vitally important that in the short term, the programme focused on key areas of control and that it reflected the extremely dynamic and volatile nature of the current situation.

(2) The design of the programme should recognise the need for agility and response at speed to changing conditions. This should be consistent with changes in risk profile and, as far as possible, enable review of the effectiveness of totality of measures taken to address the crisis as well as specific, individual elements.

Resolved: that Uniac prepare a short-term (4-6 month) internal audit programme in the first instance, after consultation with relevant senior staff, for review and ultimate approval by the Committee.

Action: Uniac

iii) Summary of internal investigative work

Received: a summary of the internal work undertaken in relation to suspected frauds and irregularities.

Reported:

(1) There has been recently identified suspected fraud not covered in the report which was currently under investigation.

(2) None of the issues were of sufficient materiality to report to OfS, although one had been reported to the relevant funder.

6. External Audit

i) EY approach to the 2019-20 audit of financial statements

Received:

(1) A report setting out the approach by EY to the 2019-20 financial statements.

(2) The report set out audit scope, approach, levels of materiality and timeline.

(3) The report outlined identification of the following risks and areas of focus, and whether there was a change in risk and focus from the previous year:

i) Misstatement due to fraud or error- no change in risk classification or focus.

ii) Risk of fraud in revenue recognition-no change in risk classification. Change in focus included:

a) Research income, particularly the accrued and deferred income balances at the year end. The impact of Covid-19 was on potential increased estimation at year end and increased risk in completeness of deferred income compared to the prior year.

b) Tuition fees, specifically overseas students with variable rates and courses crossing the financial year end.

c) Capital grant income classification and recognition of performance conditions.

d) Other income.

iii) Going concern- increase in risk classification and focus

The impact of the changes in the economic environment and the uncertainty in the medium term as a result of the global pandemic increase the risk that short and medium term financial strategies and conclusions relating to sustainability are subject to considerable change and estimation. As a result there was therefore an increased likelihood of an “emphasis of matter” in the financial statements (albeit there was still a significant amount of time until sign-off).

iv) Valuation of defined benefit pension scheme liabilities- no change in risk classification. Change of focus included:

The valuation of defined benefit liabilities was underpinned by significant estimates and judgements. Additionally, the Greater Manchester Pension Fund (GMPF) financial year end was not coterminous with the University year end. This resulted in additional estimation to roll forward balances. There was therefore an increased risk of misstatement and error in these balances.

v) Valuation of defined benefit pension scheme assets – Greater Manchester Pension Fund (GMPF) -no change in risk classification. Clarification included:

The risk of misstatement due to estimation was increased in the GMPF assets as the actuary is required to roll forward the scheme assets from the reported GMPF year end to the University financial year end. The assets of GMPF included around £5bn of hard to value assets, including investment property, as at 31 March 2019 and EY anticipated a similar volume of hard to value assets at 31 March 2020.

vi) Valuation of University of Manchester Superannuation Scheme (UMSS) pension scheme assets. Reduction in risk: the UMSS year end was coterminous with the University financial year end. The asset investments had no hard to value (“Level 3” Fair Value Classification) assets as at 31 March 2019, which reduced the risk of estimation error. EY would reassess the risk when the current year asset analysis as at 31 June 2020 was known.

vii) Accounting for the Universities Superannuation Scheme (USS) provision- no change in risk classification or focus.

ix) Property Plant and Equipment – Valuation and Impairment- no change in risk classification or focus

x) Trade Debtors-valuation of bad debt provision: increase in risk classification and focus. The valuation of trade receivables, and specifically the provision for potentially uncollectable debts, was an estimate in the financial statements. The impact of Covid-19 on the wider economy and viability of potential debtors increased the risk and work was to be undertaken on the provision.

xi) Senior officer disclosures- no change in risk classification or focus.

xii) New OfS disclosure requirements- new area of focus. The University will be required to include two new notes within their financial statements in relation to both sources of grant and fee income; and expenditure incurred on the University’s access and participation plans. EY was required to include specific reference to these notes in the audit opinion. The accounts direction also requires incorporating the changes to the Higher and Further Education Statement of Recommended Practice (SORP) which were effective from 1 January 2019.

Noted:

(1) In response to a question, EY was comfortable with its assessment that there was no change in risk classification or focus in relation to Property Plant and Equipment-Valuation

and Impairment although this matter would be kept under review if there was the potential for permanent impairment or diminution.

(2) EY would keep the Committee updated regularly on progress given current uncertainty. The University had been very open and transparent in its discussions with EY and this was welcomed.

(3) In the current unprecedented and challenging environment, with focus on additional areas of risk, work required by EY would be greater than planned and this would have an impact on overall fee level.

ii) EY review: Covid-19 sector impact

Noted: a report from EY on Covid-19 sector impact

iii) Management Letter Action Plan-2019 audit

Received: a report on implementation of recommendations from the 2019 audit management letter

Reported:

(1) The recommended enhancement to the HR leavers process to address the management letter action point (Manager Self Service) had been paused because of reprioritisation following the pandemic.

(2) HR colleagues were investigating alternative mechanisms to effect improvement as outlined in the report and Uniac would be returning to this review as part of follow-up activity shortly. The Committee would receive a further update at its next meeting.

7. Statement of Principal Accounting Policies

Received: a report setting out proposed revised accounting policies for the year ended 2019-20: changes from 2018-19 were tracked.

Noted: as referred to in EY's report above, there would be increased focus on Going Concern but this did not necessitate a change to the accounting policies.

Resolved: to approve the revised accounting policies for 2019-20 as set out in the report.

8. Risk and Board Assurance Framework

i) Revised Risk Register

Received: a revised draft strategic risk register.

Reported:

(1) The design, presentation and content of the register had been substantially revised.

(2) The re-design had taken into account internal and external consultation, including liaison with Uniac. The revised format was simplified and aimed to improve visibility to enable members to understand at a glance, for example, risk owner, current and target risk scores, risk scoring and impact, together with brief risk description and assumptions and mitigations.

(3) The register contained six headline risks as below (noting that content was still under review and evolving and further sub-risks, particularly in relation to the student demand risk):

- Major incident and crisis management (with four sub-risks: Cyber and related risks: Information Security and Data Protection: Recurring and new pandemic: Challenges around zero carbon target)
- Regulatory Risks
- Trade Union/Employee Relations
- Changes in the nature and volume of student demand

- Incompatibility between expectations, ambitions and available resource
- Sustainable business/operating model

Noted:

- (1) The Committee welcomed the clarity of the revised presentation and the incorporation of three lines of assurance.
- (2) It would be helpful to include reference to connectivity and inter-dependence of risk, building on earlier work on cumulative risk.
- (3) The need to ensure that traffic light indicators and other effectiveness measures were consistent and not in conflict.
- (4) It was important to clarify the definition of velocity and ensure that the presentation enabled members to understand whether specific risks were accelerating.
- (5) The register should capture reputational risk as well as financial risk.
- (6) The risk arising from USS was not currently captured explicitly and a suitable home should be found for this.
- (7) It was intended that the risk reporting format at faculty level reflected the revised institutional framework and consideration would be given as to how best to effect this.
- (8) Work on the register was continuing and an updated version would be presented to the meeting of the Board of Governors on 22 July.

ii) Board Assurance Framework

Received: an extract from the evolving Board Assurance Framework (incorporating three lines of assurance) arising from work carried out by Uniac as part of its internal audit activity.

9. Cyber Security

Received: a report setting out the current cyber security risk profile, specific incidents encountered during the Covid-19 pandemic, action carried out to date, action that will continue throughout the pandemic and action planned.

Reported:

- (1) IT Services were managing the technology risk and had identified additional investment to continue to improve capability. However the most significant elements of risk were those related to people in terms of culture, attitude and training and this continued to be the focus of the Information Governance Office.
- (2) The report outlined specific incidents encountered during the pandemic. The number and sophistication of attacks in the sector was growing and staff awareness and vigilance was crucial and would be supported by rollout of updated training packages. The progressive rollout of Office 365 would mitigate risk and reduce vulnerability and would also enable use of the Teams video conferencing facility. The University was cognisant of higher risk users and applications and was beginning to roll out measures to protect against damaging malware.
- (3) In response to questions, Zoom had made a number of recent enhancements to its security features and measures to restrict access included hosted meetings, the ability to exclude uninvited third parties and password protection.
- (4) Given the heightened nature of cyber security risk, this should form part of the internal audit programme.
- (5) In response to a question, the Security Operations Centre operated in conjunction with CGI covered about 20% of applications with plans to roll out further. Monitoring had enabled early detection of some of the incidents referred to in the report.

(6) Proposals to enhance investment in cyber security were in train and subject to discussion about prioritisation at Information Governance Committee and Strategic Change Sub-Committee.

10. Reappointment of external auditors

Reported: as previously reported to the Committee, the current year was the last in the contractual arrangement with EY (appointment had been for three years initially with extension for a possible three years subject to annual review and the current year was the last of the three year extension period). The Audit Code of Practice provides for market testing at least every seven years, so a one year extension was permitted, and in the current exceptional circumstances was recommended.

Recommended: the reappointment of EY as external auditors for a further year (i.e to include the audit of financial statements for the year ending 31 July 2021). (Secretary's note: following notification from EY after the meeting of a significant increase in audit fees for 2019-20, at its meeting on 22 July 2020, the Board of Governors resolved that a competitive tender exercise for external audit services be undertaken to enable appointment early in 2021.)

11. Research Compliance Committee

Received: the annual report from the Research Compliance Committee (RCC).

Reported:

(1) The annual report from RCC provided assurance to the Committee and to the Board that the University was meeting its obligations to comply with the statutory, regulatory and policy requirements that govern research.

(2) The report included an assurance dashboard, the outcomes of major internal reviews and audits, key risks, new developments and areas of compliance and a focus on the response to the Covid-19 pandemic.

Noted:

(1) Response to the pandemic was placing additional demand in an area where there was already significant demand (and where post-Brexit changes in regulation would have further impact).

(2) Given the University's expertise, the complexity of its operation and the breadth of its activity, there was limited scope for shared activity with other universities. However, there was potential for joint activity in clinical trials, with pooling of resources to produce economies of scale and there had been discussion about this at Health Innovation Manchester.

12. Public Interest Disclosure

Received: a report setting out the conclusions of a Public Interest Disclosure review concluded since the last meeting of the Committee. The individual who had raised the complaint was satisfied that matters had been addressed appropriately and concerns had been addressed.

13. Grant and Funders Audit summary

Received: a report providing details of 29 grant and funder audits completed over the past year.

Reported:

(1) Most of the audits had not raised any issues or concerns. Where there were findings, these were outlined in the report-very few of these were systemic.

(2) One recurrent issue was the difficulty in obtaining contemporaneous timesheets on a consistent basis.

(3) Where issues were identified, feedback and training was given to staff.

14. Dates of meetings in 2020-21

- Wednesday, 16 September 2020 (2pm) (with pre meeting for members of the Committee and officers only at 1:30 pm)

- Thursday 29th October 2020 12.30pm-2.30pm
Joint meeting of Audit and Risk and Finance Committee 11.00am-12.00pm (preceded by Finance Committee). Private meeting of Audit and Risk Committee without officers, over lunch 12.00pm-12.30pm)
- Wednesday, 27 January 2021 (2:00 pm)
- Wednesday 9 June 2021 (2:00 pm)