

THE UNIVERSITY OF MANCHESTER

AUDIT AND RISK COMMITTEE (by video conference)

16 September 2020

Present: Mr Colin Gillespie (Chair)
Mrs Ann Barnes
Mr Robin Phillips
Mr Trevor Rees

Apologies: Ms Erica Ingham

In attendance: Ms Caroline Johnstone (Chair of Finance Committee)
President and Vice-Chancellor
Registrar, Secretary and Chief Operating Officer (RSCOO)
Chief Financial Officer
Head of Tax and Financing
Director of Compliance and Risk
Director of Human Resources (Items 1-5)
Financial Controller
Mr Steve Clark, EY LLP (items 1-12)
Mr Richard Young, Uniac
Ms Sue Suchoparek, Uniac

Secretary: Deputy Secretary

1. Declarations of interest

Noted: there were no new declarations of interest.

2. Terms of reference and membership

Received: current terms of reference and membership

Resolved: that the current terms of reference be confirmed, noting that a further review against the model terms of reference in the CUC Code (see item 11 below) will take place.

3. Annual programme of work

Received: the Committee's annual programme of work.

4. Minutes

Resolved: that the minutes of the meeting held on 8 June 2020 be approved.

5. Matters arising

i) HR Leavers Process and Staff Overpayments

Received: further to item 6 ii) (2) in the 8 June 2020 minutes, the Uniac progress report (see item 8 (1) below) included a follow-up review of the previous review of leavers access to University systems after departure, alongside a review of risks associated with salary overpayments to University staff through the payroll. The audit reviewed the underlying reasons

for staff overpayments and considered the roles of schools, departments and central services in relation to this area

Reported:

(1) The report had identified significant room for improvement in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.

(2) Management were concerned about the report findings. The Director of Human Resources had produced a report which included an updated action plan, with some implementation dates brought forward (this was circulated to the Committee after the meeting). Addressing the issues highlighted in the report required action from leaders and budget holders across the University community, and was particularly important given the current broader financial position.

(3) The Senior Leadership Team would receive an update on progress in October and Uniac had scheduled follow-up work in December to review actions and provide a report to the January 2021 Committee meeting. Uniac recognised the positive engagement and willingness of relevant staff (a number of whom were relatively new in post) to address issues raised.

Action: Uniac/Director of HR

(4) The report highlighted the importance of robust and seamless interaction between cognate processes. The implementation of an Access and Identity Management System would automate removal of leavers from all relevant systems on departure, removing the need for a manual check of systems against leaver reports.

(5) There was a likely need to write off some debt referenced in the report, given its age.

(6) The University was taking a robust approach to claiming back overpayments as soon as they were identified.

6. Report from President and Vice-Chancellor

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

Reported:

(1) The Board and co-opted Committee members had been updated on a regular basis on the developing undergraduate admissions situation following reversal of previous guidance and confirmation from the Government and Ofqual that students would be awarded A levels on the basis of centre assessed grades.

(2) All students who had met the conditions of their offer had been offered places, although some students in clinical subjects had been asked to defer until 2021 because of insufficient clinical placements. Just over 7,000 Home/EU students had confirmed that they had accepted a place (this was 2% above target, inclusive of the 5% tolerance permitted under the now discontinued student number control and additional places which the University had been granted); there were some outstanding offers in clinical areas, given late confirmation of funding for clinical placements. The University had received one legal challenge in response to a decision to defer the offer of a place.

(3) Numbers of postgraduate taught and international students were not yet known and would be crucial to the overall financial position. The situation for international students was complicated by potential quarantine requirements and travel issues (on the latter, it appeared likely that dedicated flights for Chinese students would be commissioned). Responses to a survey of international student intentions, indicated that at least 75% intended to attend in person.

(4) In relation to campus reopening, the University was ensuring robust safety measures to enable safe return to campus (including the requirement for two metre social distancing, face coverings, extra cleaning and hand sanitising) and investment to facilitate this. The University had committed to the provision of at least two hours face-to-face teaching per

week (either in laboratories or small group teaching). Timetabling for higher than expected Home/EU numbers and the need for social distancing was a significant logistical challenge; the potential for additional, external space was being investigated.

(5) Messaging to students would be extremely important, with clear emphasis on expectations of student behaviour both on and off campus in order to protect themselves, their family and friends, NHS and the local community. This had been reinforced at recent meetings with the Mayor of Greater Manchester, local authority representatives and the police and messaging would include reference to sanctions for students who do not adhere to rules on safe behaviour; this was particularly important given the local context, with the majority of Greater Manchester boroughs subject to enhanced restrictions.

(6) The University had received over 800 applications for voluntary severance, with the bulk of these from Professional Services staff; numbers were being confirmed but it was expected that approximately 600 staff would leave the University (numbers relating to University of Manchester Conferences Ltd were still to be confirmed).

(7) The applications for the Covid Corporate Financing Facility and the Revolving Credit Facility were progressing and the University was considering access to the government package of funding to mitigate loss of research income (up to 80% of income losses from international students, up to the value of non-publicly funded research activity, 75% through loan, 25% through grant).

(8) The Operating contribution for the year was £41.6m for 2019/20, a £16.5m improvement in underlying contribution from the budget. Depreciation charges were higher than anticipated given a correction (see item 7 (2) (b) below) and accelerated depreciation charges for North Campus, given that the University would cease to occupy the site for research and learning from July 2022.

(9) For the year ending 31st July 2020, the University's surplus was £131.9m after movements in pension provisions, a favourable variance to budget of £99.3m, these figures included income and expenditure that was not part of the University's underlying activity. The £122.8m exceptional pension adjustment related to a reduction in the USS pension provision. Within the statutory accounts this would be a favourable adjustment to pay costs. Actuarial adjustments, related to the UMSS and GMPF pension schemes, of £15.5m were also reflected in the statutory financial statements.

(10) Latest projected deficit for 2020-21 was in the region of £40 million (improvement of £40 million) including projected increase in Home/EU fees and factoring in additional costs and investment arising from higher than anticipated student numbers.

(11) The latest position on the USS pension scheme. Based on the proposals put forward for consultation, the fund's deficit at 31 March 2020 could range from £9.8bn to £17.9bn. The illustrative cost of continuing to offer the current benefits (the 'future service cost') ranges from 29.4% to 37.6% of payroll. When the cost of repairing the deficit is considered, the total contributions illustrated range from 40.8% to 67.9% of payroll.

7. External audit

(i) EY update

Received: a brief verbal progress report from the external auditors, EY.

Reported:

(1) EY had been on site for four weeks and were making good progress; remote working was not causing difficulties with University staff being very responsive (e.g. sharing screens with EY staff, using dedicated EY portal for file sharing etc).

(2) There were no specific issues to report at this stage. Going Concern matters would be addressed in October, once there was a greater degree of certainty about projections. EY

would also review narrative content (see 7 ii) below) to ensure that this provided appropriate coverage of the impact of Covid-19.

Noted: in relation to item 7 (ii) (b) below, EY would review the reasons for failure to detect the omission of the MIB/John Garside Building from the previous year's Financial Statements, but this was likely to be a result of it not being included in sample testing.

(ii) Annual Reporting

(a) Statement of Principal Accounting Policies

Received: a report setting out the proposed updated Statement of Principal Accounting Policies for the financial statements for the year ended 31 July 2020, including more detail that was now required as a result of the COVID 19 pandemic. The policies had been updated to include:

- Additional narrative on why the Going Concern basis of preparation was considered appropriate.
- Narrative to explain the prior year adjustment (see 7 ii) b) below)
- Additional narrative in respect of significant estimates and judgements.

Noted:

- (1) The likelihood of increased debt (both student and commercial) in light of Covid-19
- (2) There was ongoing renegotiation of existing covenants in light of the need to meet conditions for access to further borrowing facilities.

Resolved: to approve the revised updated Statement of Principal Accounting Policies

(b) Prior Year Adjustment

Received: a report providing details of a prior year adjustment to the financial statements for the year ended 31 July 2020 in respect of a building (MIB/John Garside Building) that was found to be omitted from the University's financial records in error.

(c) Corporate Governance Statement

Received: the draft Corporate Governance Statement (typographical errors would be forwarded to the Deputy Secretary).

(d) Public Benefit content

Received: public benefit content (covering the core goals of teaching and learning, research and discovery and social responsibility)

(e) Statement on compliance with the Modern Slavery Act

Received: a statement and supporting materials setting out the University's compliance with the Modern Slavery Act.

Noted:

- (1) The statement contained several references to training and in response to questions, Uniac confirmed that whilst they had reviewed training in relation to specific audits (e.g. equality and diversity and cyber-security) they had not reviewed take-up of training as a specific review.
- (2) A project led by Organisational Development was underway to enable more effective recording and monitoring of take-up of training.
- (3) In relation to the Risk Register, in a number of areas, first line of defence was dependent on training so there was merit in scrutiny of training take-up as a specific topic.
- (4) In relation to categorisation of suppliers into high, medium and low risk, it would be helpful to see previous years' data to enable analysis of trends.

(5) Intelligence from a Committee member about potential concerns in relation to sourcing cobalt and lithium.

(f) Subsidiary external audit update

Received: a brief update on the status of the external audit of the University's subsidiaries for the year ended 31 July 2020.

8. Internal Audit and Internal Control

(i) Uniac Progress Report

Received: the latest Uniac internal audit progress report.

(a) School Review: School of Medical Sciences

Reported:

(1) The purpose of the audit was to provide independent assurance that the financial and administrative processes, controls and systems within the School of Medical Sciences (SMS) were robust and adhere to the University's Financial Regulations and Procedures. Uniac undertakes a school review every year, rotating annually between the faculties. SMS was selected for review this year from the Faculty of Biology, Medicine and Health at the request of the Head of Faculty Finance since the School has some major income streams other than tuition fees and had not been subject to a school review for some time.

(2) The report had identified significant room for improvement in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.

(3) The report noted concerns about use of procurement cards and frequent travellers' credit cards, excessive retrospective orders, risks surrounding the number of staff employed on annual contracts and agency costs. A follow-up audit would take place within six months.

Action: Uniac

(b) Pension Arrangements: Pension Saver

Reported:

(1) The University opened the Pension Saver Scheme (the 'Pension Saver') on 1 January 2019 for any support staff in grades 1 to 5 following the closure of the University of Manchester Superannuation Scheme to new entrants as at 31 December 2018. The audit sought to provide independent assurance that the administration by the University of the Pension Saver was operating effectively and efficiently and that processes were in place to ensure accurate and timely payment of pension contributions. The audit was requested by the Finance Directorate due to it being a new scheme for the University.

(2) The report had identified significant room for improvement in relation to effectiveness of design and provided reasonable assurance in relation to effectiveness of implementation and economy and efficiency.

(3) The report had identified scope for improved segregation of duties and removal of initial payroll errors; these issues were not material and measures were being taken to address them.

(c) Escape of Water

Reported:

(1) The report related to risk management measures taken to mitigate escape of water given significant increase in annual insurance premium for building and contents insurance.

(2) The report had identified significant room for improvement in relation to effectiveness of design and provided reasonable assurance in relation to effectiveness of implementation and economy and efficiency.

(3) The diverse causes of escape of water damage require a University wide response and the establishment of a task and finish group was proposed to assess the risks that the University faces. The Group would oversee a prioritised action plan to reduce the risk of damage and to demonstrate to insurance companies that the University was satisfactorily addressing this issue.

(d) Post-Audit reviews

Reported:

(1) Uniac had completed two follow up exercises during the year and a separate one covering three finalised IT reviews. The second follow up (which covered seven reviews and all related actions) concluded that satisfactory progress had been made. Outstanding actions will be covered as part of the next exercise.

(2) In relation to the three IT reviews (IT Modernisation, the Security Operations Centre and Privilege Management (for which the Audit Committee received a full response from the Chief Information Officer earlier in the year)) satisfactory progress was being made. However, a number of the actions were complex and, for some, completion dates were not yet due. Uniac would re-visit these areas in six months to confirm full completion. **Action: Uniac**

Noted: the previous meeting had been advised that the Security Operations Centre covered about 20% of applications with plans to roll out further and the Committee asked for an update on roll-out. **Action: Deputy Secretary/Uniac**

(e) Data Assurance: Graduate Outcomes Survey (GOS)

Reported:

(1) The audit considered the accurate and timely submission of the HESA GOS Return which was a condition of registration with the Office for Students (OfS).

(2) The report provided reasonable assurance in relation to effectiveness of design and economy and efficiency and significance assurance in relation to effectiveness of implementation.

(f) Board Assurance: Office for Students ongoing registration conditions

Reported: completion of the Board Assurance Framework outlining three lines of assurance (primary accountability, internal oversight and independent assurance) in relation to the OfS ongoing Registration Conditions.

(ii) Draft Internal Audit annual report

Received: the draft internal audit annual report

Reported: in the absence of any explicit OfS guidance on the contents of a draft internal audit annual report, the report referred to internal audit coverage of the following areas: OfS ongoing registration conditions, risk management/Board assurance, internal control and value for money. Appendices confirmed coverage and conclusion grades (and definitions) and audits deferred or cancelled as agreed by the Committee.

Noted:

(1) In response to a question, student retention had not been the subject of a specific audit for some years; it formed part of the Uniac “audit universe” and could therefore be considered for inclusion in future activity.

(2) In relation to financial sustainability (section in D in OfS Registration Conditions) and notwithstanding the work carried out by Deloitte as critical friend and trusted advisor to the Board, and its more limited ongoing role, there was scope to augment future Uniac involvement in this area and this would form part of further discussion with the Chair and the RSCOO.
Action: Deputy Secretary/Uniac

(iii) Internal Audit Programme: August 2020 to January 2021

Received: the previously circulated internal audit programme covering the period until January 2021.

Noted: further discussion about prioritisation of the Programme.

Resolved: that further discussions about relative priorities take place with the Chair, RSCOO, Chief Financial Officer and Uniac, taking into account the following:

(1) Noting comments in relation to financial sustainability in 8 (ii) above, the potential to combine planned audits relating to income growth and diversification and workload allocation models to provide greater assurance in relation to efficacy and efficiency of the planning process.

(2) Prioritisation of the planned review of frequent travellers’ credit cards and purchasing cards.

(3) The potential need to review debtor provision.

(4) Review of priority given to planned audit of space utilisation and use of laboratory space.

(5) Determination of which School to select for review.

(6) Whether any other audits scheduled for 2021/22 should be accelerated.

Action: Deputy Secretary/Uniac

(iv) Summary of internal investigatory work

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

Noted: one of the reports related to suspected unauthorised use of a purchasing card; an investigation was underway and process changes had already been agreed. In response to a question, the Committee was advised that 226 purchasing cards had been issued and 47 of these were currently live. 278 frequent traveller credit cards had been issued and the vast majority (270) were still active.

9. Risk Register

Received: the revised University strategic risk register. The revised format had been approved by the Board at its meeting on 4 September 2020 and detailed comments from both the Board and the Committee would inform the next iteration of the Register. The next version would reference the separate no-deal Brexit Risk Register which was in the process of being updated. Members were encouraged to send any detailed comments to the Deputy Secretary.
Action: Deputy Secretary/Director of Compliance and Risk

10. Satellite Entities

Received: a brief report on the status of the satellite entities and three lines of assurance review.

11. CUC Audit Committees Code of Practice

Reported: the Committee of University Chairs published a revised [Code of Practice](#) for Audit Committees in June 2020.

Received: a report providing an assessment of current University practice against the eight elements of the Code.

Resolved: in relation to a specific issue referred to in the Code, the Committee was content with the current arrangement whereby the Chair of Finance Committee attended occasionally as an observer. The Committee encouraged a reciprocal arrangement, with occasional attendance by the Chair at Finance Committee. (NB Secretary's note: meetings of Finance Committee in 2020-21 scheduled as follows: Wednesday 7 October 2020, 10 am; Monday 9 November 9 am; Wednesday, 20 January 2021 at 10am; Wednesday, 21 April 2021 at 2pm; and Wednesday, 23 June 2021 at 10 am.)

12. Update on Property Insurance (and other insurance matters)

Received: a report updating the Committee on significant changes to insurance costs and arrangements and actions to effect improvements in 2020-21.

Reported:

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED] **Redacted – Restricted**

information

Noted:

(1) Details of insurers for specific elements of cover as outlined in the appendix to the report would be confirmed and relayed to members.

[REDACTED]

[REDACTED]

[REDACTED] **Redacted – Restricted information**

At this point, Steve Clark from EY left the meeting

13. External audit tender

Received: an update on the external audit tender for the year ending 31 July 2021 and thereafter including the scope of the audit and timeline of the tender process.

Noted:

(1) Comments about the award criteria weightings proposed in the paper (specifically in relation to cost and the need for the criteria to include environmental and social considerations).

(2) There was a need to clarify the extent of Committee involvement in the appointment process, given that formally, the Committee recommends appointment to the Board.

(3) The clarification day set out in the schedule would include provision for presentations from shortlisted providers.

(4) Whilst not directly applicable in the HE context, it would be helpful to review the Financial Reporting Council notes on good practice in relation to audit tenders.

(5) The Chair would seek confirmation of his independence given his previous employment by, and receipt of an annuity from, a potential bidder.

Resolved: University staff involved in the tender process would meet to reflect on issues raised and confirm arrangements with the Chair.

14. Dates of remaining meetings in 2020-21

Noted: dates of remaining meetings in 2020-21.