

THE UNIVERSITY OF MANCHESTER

AUDIT AND RISK COMMITTEE (by video conference)

9 November 2020

Present: Mr Colin Gillespie (Chair)
Mrs Ann Barnes
Ms Erica Ingham
Mr Robin Phillips
Mr Trevor Rees
Mrs Alice Webb

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
Financial Controller
Director of Planning (item 8)
Interim Director of IT (items 1-3, 5-6)
Deputy Director, Development Services (item 12)
Mr Steve Clark, EY LLP (items 1-13)
Mr Richard Young, Uniac
Mr Ian Musgrave, Uniac (except item 4)

Secretary: 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. The meeting discussed the impact of the pandemic and the very positive and effective response from the President and Vice-Chancellor and her senior team, the lengthy and stressful nature of the current situation and the need to ensure resilience.

1. Declarations of interest

Noted: there were no new declarations of interest.

2. Minutes

Resolved: that the minutes of the meeting held on 16 September 2020 be approved.

3. Matters arising

Noted: a brief report updating the Committee on the following:

- i) roll out of Security Operations Centre
- ii) property insurance.

4. External Audit and Financial Statements

NB: The consideration of the report from the external auditors and approval of the elements of the draft financial statements for which the Audit and Risk 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: A draft Audit Results Report from the External Auditors (EY LLP) on the Financial Statements for the year ended 31 July 2020, 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 draft Letter of Representation in relation to the 2019/20 external audit and the draft Financial Statements for the year ended 31 July 2020 for consideration and to provide context in respect of the external audit.

i) Financial Statements

Reported:

- (1) Not all audit work had been completed, specifically in relation to going concern and post balance sheet events, and therefore the draft audit opinion was not yet included in the draft Financial Statements.
- (2) The Financial Statements were considered complete subject to final internal quality control checks and the possibility of a late adjustment [REDACTED]
[REDACTED] **Redacted – Restricted information**
- (3) The narrative within the front section of the Financial Statements and specifically also note 32, post balance sheet events still needed to be updated to reflect the latest developments in particular around student numbers and securing borrowing.
- (4) The Financial Statements results were consistent with the management accounts and key presentational points to note were set out in the report (this included issues related to the USS deficit recovery plan and the prior year adjustment in relation to the MIB/Garside Building reported to the previous meeting).
- (5) Minor amendments relating to specific details would be amended in the final version and members were invited to advise the Deputy Secretary of any further such issues.

Noted:

- (1) There was a headline reference to a slight increase in borrowing as percentage of income and this might benefit from some further commentary and contextualisation as overall borrowing had not increased.
- (2) There was potential to include reference to the award of an Honorary Degree to Marcus Rashford in the introductory narrative.

Resolved: that the University's consolidated financial statements be approved for submission to the Board, subject to the following:

- [REDACTED] **Redacted – Restricted Information**
- Post balance sheet events update
- Conclusion of the going concern work and related disclosures

Action: CFO

ii) Going Concern review for the Financial Statements

Received: a report setting out the rationale for the conclusion that the University is a going concern.

Reported:

(1) The report had been passed to EY for review and would be updated once the legal arrangements for the covenant amendments and the revolving credit facilities outlined in the report were finalised.

(2) Given the subsidiaries dependence on the University for funding, the going concern basis for the subsidiaries can only be deemed appropriate once the University's going concern is signed off.

(3) At its meeting which had preceded the joint meeting, Finance Committee had confirmed it was content with the revised assumptions in version 4 of the budget.

(4) Although the sector faced significant risks, particularly over the short to medium term, the University had taken the necessary steps to protect against the uncertainty it faces. The University had undertaken financial modelling, considering extreme downside scenarios, and had secured access to funding from the Covid Corporate Financing Facility (CCFF) scheme to manage liquidity requirements until March 2022.

(5) The University was in the process of negotiating 3-5 year Revolving Credit Facilities (RCFs) of up to £250m in order to manage liquidity requirements beyond March 2022. In order to raise these funds without the risk of breaching existing covenants, the University was in the final stages of negotiating covenant amendments with private placement noteholders.

(6) The overall conclusion of the report was that the University had sufficient access to cash to support it during this challenging time and the University continued to be a going concern for the foreseeable future.

(7) On this basis, and noting that EY's work was ongoing, both Finance and Audit and Risk Committees supported the view that the University's financial statements can be prepared on a going concern basis subject to finalising both the Private Placement covenant amendments and the RCFs.

Action: CFO

iii) Subsidiaries report

Received: a summary of the active subsidiaries' results for the year as presented in their draft statutory accounts together with a comparison to prior year and budget. The report included those subsidiaries that were in the process of being closed and had therefore not been audited.

Reported:

(1) The report did not identify any significant audit issues in relation to the subsidiaries and the auditors had not raised any other management report points in relation to the subsidiaries.

(2) The key audit work the auditors need to complete is in respect of the assessment of the University as a going concern. As all the subsidiaries are dependent upon the University for financial support, this going concern appraisal was also critical to them. The audit opinion issued by EY will be dependent upon the outcome of this work and it was likely that the subsidiaries' audit opinion will mirror that of the University's in relation to going concern. (the exception to this were those subsidiaries that were ear-marked for closure and therefore not prepared on a going concern basis).

(3) The subsidiaries risk assessment comprised both inherent and current risk. Factors taken into consideration when assessing inherent risk included for example: operating performance, net asset or net liability position, pension liabilities, complexity of operating

model, existence of overseas offices. Current risk takes account of the mitigations in place, for example: planned closures and restructures of subsidiaries thereby reducing risk and degree of oversight of overseas operations.

(4) The University nominated director for each subsidiary as set out in the report had reviewed and approved the draft financial statements, relevant narrative and the more detailed results analysis.

(5) As a result of the appointment of Robert Fraser as Chief Financial Officer, he will become a director on all the active subsidiaries that are not subject to closure. Stephen Dauncey (the previous Director of Finance) would be removed as Director of those companies that will shortly be going into wind up. This will leave in place one director for each of the entities which were ear-marked for closure as outlined in the report.

Noted: in response to a question, active subsidiaries have specific risk registers but not separate Audit and Risk Committees.

iv) EY draft audit results report

Reported:

(1) EY had substantially completed the majority of its audit work, however its opinion was subject to the completion of internal review processes and consultations, in particular, the key outstanding testing and conclusion on going concern and access and participation disclosures. EY would share its proposed opinion once these were complete. EY anticipated sharing its draft opinion before the consideration of the financial statements by the Board of Governors on 24 November 2020 (noting that an additional meeting of Audit and Risk Committee was scheduled for 20 November 2020).



[Redacted text block]

Redacted -

(13) Conclusions in relation to other areas of audit focus were included in the report and there were no specific areas requiring Committee action or comment.

Noted: Whilst it was not possible to give a definitive answer, EY's assessment based on knowledge of the sector was that, given the circumstances and continued uncertainty, it was highly likely that there would be an emphasis of matter in all University accounts for the year ended 31 July 2020 (with the opinions for some institutions reflecting material uncertainty).

Resolved: that the draft EY Audit Results report and Letter of Representation be noted, and updated versions be presented, at the conclusion of outstanding work, to Audit and Risk Committee on 20 November 2020 and the Board of Governors on 24 November 2020.

(Secretary's note: this was deferred until 20 January 2020, the date of both a joint meeting of Finance and Audit and Risk Committee and the Board of Governors.)

Action: EY

5. Report from President and Vice-Chancellor

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

Reported:

(1) The Board had received an update earlier in the day on the erection and subsequent dismantling of fencing at the student residences in Fallowfield, noting the substantial media coverage and the instigation of an inquiry to understand the full facts of the case.

(2) Student number targets for both home and international students had been exceeded with a consequent positive impact on the budget position; however, there was recognition of the potential for higher than average attrition rates in the current circumstances. Income from catering, conferences, car parking etc would be significantly reduced and there had been some investment in additional staff (e.g. Learning Technologists).

(3) The University's improved recruitment position meant that it would not be able to access the government research support package (Sustaining University Research Excellence).

(4) After an initial peak in the number of Covid cases shortly after students arrived (and before teaching started), the number of cases had now reduced significantly) and were reported on [a daily basis](#).

(5) There was potential for mass testing of students to facilitate return home for the Christmas vacation and discussion on this were ongoing, with government advice expected imminently.

(6) Within the sector the potential for student requests for refunds or rebates was recognised; the Universities Minister had stressed the importance of institutions delivering learning outcomes in a blended/flexible learning approach.

(7) The ID Manchester project (North Campus development) had recommenced and the tender/partner selection was on track; a number of building projects had also recommenced.

(8) The latest Brexit position had been incorporated into the Risk Register (see item 9 below) and the USS pensions position continued to be a case for concern.

Noted (in response to questions):

(1) There had been no significant increase in attrition rates for undergraduate students in years two and above. Postgraduate recruitment had been variable across the institution, with some areas below target numbers and others significantly exceeding target.

(2) In relation to students in private accommodation, the University worked with accredited landlords through Manchester Student Homes.

(3) There was recognition of the need to work flexibly at present, given multiple pressures and this was reflected, for example in a streamlined Annual Performance Review process.

6. Internal Audit and Internal Control

(i) Uniac Progress Report

Received: the latest Uniac internal audit progress report.

(a) Cyber Security

Reported:

(1) Uniac assesses client cyber security compliance and approaches using the National Cyber Security Centre's (NCSC) '10 Steps to Cyber Security' framework. This is a UK government standard in wide use within higher education and other sectors. Uniac agreed with the Chief Information Officer to cover the NCSC controls on a rolling basis. Uniac IT security-related audits at the University in 2019 covered user privilege management and the Security Operations Centre (SOC). The current review focused on the following:

- Cyber risk management and governance
- Secure configuration and network security

(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 contained recommended improvements and enhancements in the following areas: cyber security strategy: governance and oversight of cyber (in this context, the Committee noted the appointment of Alex Creswell as an advisor to the Committee-see item 13 below): network transformation project: network security-internet content filtering: secure configuration-vulnerability management: end user device management: and Oracle databases

Noted (in response to questions):

(1) The recent cyber-attacks at other universities including Newcastle had taken place while the review was ongoing. Lessons had been learned including the importance of clear and robust messaging and training to guard against phishing attacks and wider roll-out of two factor authentication.

(2) In relation to internet content filtering, there was no indication that the expiry of authority for an exceptional profile permission was indicative of a wider problem.

(3) There has been no specific presentations to the Committee on the dangers of ransomware, but the appointment of Alex Creswell as an advisor had the potential to provide further assurance in this area.

(4) It was not anticipated that the departure of the Chief Information Officer would reduce capability in this area. There was a separate Information Governance team (as part of the Directorate of Compliance and Risk) who worked closely with IT colleagues in this area and, more broadly, the change in leadership would not disrupt ongoing strategic change and transformation.

(b) IT Service Desk

Reported:

(1) The purpose of the review was to assess the effectiveness of the IT Service Desk, which provided first-line assistance to all users including staff and students.

- (2) The report had provided reasonable assurance in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.
- (3) Overall there was reasonable assurance that the Service Desk meets the needs of the majority of IT users and the University. Opportunities to improve the effectiveness of the Service Desk experience included the introduction of a continual improvement process and transparency in the reporting of performance information.
- (4) The prolonged lockdown enforced as part of the Covid-19 pandemic restrictions had required the University to change the delivery of the Service Desk response to a home working model with little notice, utilising the existing technology infrastructure.

(c) Academic Accounts

Reported:

- (1) The review considered the extent of use of individual “academic accounts” (individual allowances provided to academics to support research, teaching and other academic activities that are not directly associated with an externally funded project).
- (2) The review was undertaken in two phases. The first phase considered the different academic accounts in use across the University together with their usage during 2018-19. As a result of the output from Phase 1, Phase 2 focused on one academic account in each Faculty for a more extensive review, considering how these accounts were being used, the policies and procedures available to support academics in their use, whether the transactions were fully aligned with the requirements of the University’s Financial Regulations and Procedures; and the benefits of consolidating the funds and their future use.
- (3) The review was requested by the RSCOO as a result of the findings following a separate internal audit review of academic accounts within one school.
- (4) The report had identified significant room for improvement in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.
- (5) The report noted that considerable spend had been allocated to accounts being used for a variety of expenses. Whilst there was recognition that there will be variable approaches and expenditure across the institution, there was scope for greater consistency.
- (6) The report also noted that Research Support Funds were allocated on an annual basis, to be spent by the end of the year, resulting in a spike in spend levels in the last quarter and an increased risk of poor value for money.
- (7) Where budgets were allocated to accounts, spend was within these overall budgets, although some academics spent in excess and budgets were unclear for certain academic accounts. In addition, there were no specific policies and procedures to support academic staff in their use and for professional services staff in monitoring the costs.
- (8) As a result of the above, management had agreed that there should be rationalisation and greater consistency in the use of accounts, with pooling of some individual accounts

Noted:

- (1) There was no indication that expenditure was outside Financial Regulations.
- (2) There were potential cultural and behavioural barriers to change, as staff viewed these funds as “earned” to support relevant academic and research endeavours and there would be expectation of ready access to pooled funds.

(d) Costing of Research Technician Time

Reported:

- (1) The purpose of this audit was to assess the methods and processes used in the Faculty of Science and Engineering and the Faculty of Biology, Medicine, and Health for recovering research technician costs in grant proposals.
- (2) The report had provided reasonable assurance in relation to effectiveness of design, effectiveness of implementation and economy and efficiency.

(e) Global Challenges Research Funding

Reported:

(1) The Global Challenges Research Fund (GCRF) is a £1.5 billion fund that forms part of the UK's Official Development Assistance commitment. It is administered by UK Research and Innovation (UKRI), the UK funding bodies, and the national academies. The University receives GCRF funding through a recurrent grant (part of its quality-related research (QR) allocation) and through competitively awarded research projects.

(2) The audit, requested by the Director of Research and Business Engagement (RBE), sought to provide independent assurance that GCRF funding was managed effectively and in line with funder conditions.

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

(f) Progress Programme Summary and sector updates

Noted: the summary update of programme progress and sector updates

(ii) Internal Audit Report

Received: the final version of the Uniac Annual Report for the year ending 31 July 2020.

Resolved: that the Uniac Annual Report and Opinion be accepted and reported to the Board of Governors (as an appendix to the Audit and Risk Committee Annual Report).

Action: Deputy Secretary

7. Annual Report of the Committee to the Board of Governors for 2019-20

Received: a draft Annual Report of the Committee to the Board of Governors for the session 2019-20.

Resolved: that, subject to minor amendment and clarification, the report be recommended to the Board of Governors for approval.

Action: Deputy Secretary

8. University size and shape: risk appetite

Received: a report providing background for a Committee discussion about the inherent risk in developing and delivering a materially different size or shape for the University, especially at a time of uncertainty.

Reported: the report sought guidance from the Committee on risk appetite, e.g. whether there were other significant risks not highlighted in the paper, were there any "red lines" in terms of risks that would be unacceptable, areas where there was appetite to take risk, given the benefits and value at stake, and whether any specific modelling assumptions should be moderated to de-risk the plan?

Noted:

(1) The Foresight Group was considering future portfolio balance

- (2) Deloitte's engagement as a critical friend was now targeted and focused on specific areas including Brexit and strategic change.
- (3) The major potential impact of any future change in maximum undergraduate fee levels.
- (4) The disruption and turbulence caused by the pandemic provided the opportunity for a step change or reset in some areas, and had already significantly enhanced understanding of what was possible, different ways of working etc.
- (5) The potential to build on earlier work on the concept of compound or accumulated risk.
- (6) The report was a valuable and welcome airing of a crucial issue and a precursor to further consideration that would culminate in consideration at the Board strategy session in July 2021. Addition of some examples, or "straw man" scenarios (building on earlier briefings to the Board on benchmarking against competitor institutions) would be a useful next step.

Action: Director of Planning

9. Risk Register

Received: the latest version of the Strategic Risk Register.

Reported:

- (1) The document was evolving and the latest iteration incorporated comments arising from initial consideration by Planning and Resources Committee, Audit and Risk Committee and the Board.
- (2) The document integrated the former "No Deal" Brexit Risk Register, removing the language of "No Deal" as many of the mitigations were common whatever the outcome of ongoing negotiations.

Noted:

- (1) Noting the iterative process of review and enhancement, it was important in the current climate for the Register to have more regular exposure and scrutiny at the Committee. In this context stability in number and description of risks was important to ensure consistency.
- (2) In the context of earlier discussion, whilst a reduction in maximum undergraduate fees (post-Augar Report review) was considered unlikely, future development would be captured either in Risk 6 (Sustainable Operating Model) or Risk 2 (Regulatory Risk)
- (3) Brexit sub-risk 8.5 (Tax and Finance implications) had an "almost certain" heading and in this context, clarification of overall financial impact would be helpful.
- (4) As the Register evolved, more evidence and supporting information from risk owners was being gleaned and incorporated.
- (5) Members were encouraged to reflect on any omissions or additional comments and feed those into the Director of Compliance and Risk to inform further iterations.
- (6) Satellite entities were considered as part of compilation of the Risk Register but only appeared if issues were material.

10. Satellite entities and three lines of assurance

Reported:

- (1) Documentation provided to the Committee included a report setting out the three lines of assurance (primary management responsibility, internal monitoring and review and external assurance respectively) for four priority entities (University Innovation Factory, North West e-Health, Henry Royce Institute and Cancer Research UK Manchester Institute).
- (2) As part of the annual reporting and review process outlined in the paper for the September Committee meeting, a commitment was made to present a report on the

University subsidiaries, as satellite entities under University control. The report covered both the year end results and performance against budget where relevant.

(3) Phase 2 of the work included all remaining active subsidiaries as well as those satellite entities that were identified as medium risk.

Noted:

(1) Comments received from the Chair of the Board would be incorporated in the process of iterative review, particularly the need for greater specificity in relation to accountability for second line assurance.

(2) The high risk rating for the Students' Union related to ongoing issues with the Students' Union Superannuation Scheme; the scheme was now closed but there were concerns around increases in deficit contribution which were being reviewed.

11. Procurement; Control and Value for Money

Received: the annual report on procurement, expenditure controls, value for money, compliance and risk management.

12. Blackbaud Data Breach-Update Report

Received: a report providing the Committee with information about a data breach and consequent action, as previously notified to the Board.

Reported:

(1) The University was made aware in mid-July 2020 that a copy of the alumni and supporter database from 2016 held by Blackbaud, the software vendor for the Division of Development and Alumni Relations (DDAR) Customer Relationship Management system, had been compromised by a cybercriminal.

(2) Working with law enforcement Blackbaud paid the cybercriminal a ransom and confirmed the data had been destroyed (Blackbaud had confirmed that all relevant data had been deleted) check with Alex

(3) The University reported the incident to the Information Commissioner's Office (ICO) and conducted its own investigation. The ICO posed further questions to which a response was provided. There had been no further contact with the ICO. *(Secretary's note: correspondence from the ICO subsequently circulated to the Committee confirmed that the ICO would not be taking regulatory action against the University.)*

(4) In addition to data misuse, risk analysis identified potential legal recourse against the University as well as potential reputational and financial risk. Key stakeholders, alumni and supporters were informed and there had been relatively few queries and no outstanding issues. No corporate action was currently being taken against Blackbaud, although a watching brief on developments was maintained.

(5) DDAR had conducted a review of systems security and data processing internally and by contracted third party partners, and IT Services had confirmed that DDAR's established practices were excellent.

Noted:

(1) Although there had been legal cases pursued in the USA, no cases had been brought in the UK and the risk of litigation was assessed as low.

(2) In light of the above, the University should satisfy itself about potential vulnerability of any other externally hosted databases

Action: RSCOO/Interim Director of IT

13. Advisor to the Committee: Cyber-Security

Reported: that following discussion between the Chair of the Board and the Chair of the Committee, Alex Creswell, who is a board-level cyber security and geopolitical risk advisor and takes up a 0.2 FTE appointment in the School of Computer Science in January 2021, had agreed to act as an advisor to the Committee during consideration of cyber-security matters.

Before consideration of the following item, Steve Clark from EY left the meeting; before doing so, he advised the Committee of potential involvement with a third party which might inhibit EY's ability to respond to the tender for external audit services (see item 14 below).

14. External Audit Tender Process

Received: a report setting out the proposed external audit tender process, amended following the views expressed at the Audit and Risk Committee meeting on 16th September 2020, and to ensure that Financial Reporting Council (FRC) best practice was followed as far as practicable. The proposal was circulated to members of the Committee for comment on 15th October 2020 and no substantive comments or questions were received. Additional commentary or explanation since the issue of the original report was highlighted to the Committee.

Reported: before the tender documents were issued, a small number of outstanding issues would be addressed including:

- i) clarification that the committee dates and deadlines for completion of narrative sections of the Financial Statements were indicative:
- ii) confirmation that the tender included UK subsidiaries and that for overseas subsidiaries, the University may choose to appoint different auditors:
- iii) confirmation that the need to declare conflicts of interest related to relevant senior staff of the bidding organisation.

Noted: that the University's status as a Public Interest Entity severely restricted the amount of non-audit related work permitted.

Resolved: to approve the external audit tender process and timeline as outlined in the report and detailed tender documentation appended to the report, noting that the first financial year of the newly awarded contract would be for the year ending 31 July 2021.

Action: Deputy Secretary/CFO

15. Dates of remaining meetings in 2020-21

Noted: dates of remaining meetings in 2020-21 (NB additional extra meeting to receive final EY report on 20 November 2020 at 12.30pm: *Secretary's note, this meeting was subsequently postponed*).