

THE UNIVERSITY OF MANCHESTER

AUDIT AND RISK COMMITTEE (by video conference)
Unconfirmed

15 September 2021

- Present:* Mrs Ann Barnes (in the Chair)
Ms Erica Ingham
Mr Robin Phillips
Mrs Alice Webb
Mr Alex Creswell (advisor to the Committee)
- Apologies:* Mr Trevor Rees
Ms Caroline Johnstone (Chair of Finance Committee, invited to be in attendance)
- In attendance:* Mr Patrick Hackett, Registrar, Secretary and Chief Operating Officer (RSCOO)
Mr Robert Fraser, Chief Financial Officer
Ms Louise Bissell, Deputy Director of Finance
Dr David Barker, Director of Compliance and Risk
Mr Angus Hearmon, Director of IT (items 1-6)
Ms Karen Heaton, Director of HR (items 1-6)
Mr Tony Brown, Head of Information Governance (items 1-6)
Mr Pete Bradley, Head of IT (Technology, Infrastructure and Operations) (items 1-6)
Mr Richard Young, Uniac
Ms Sue Suchoparek, Uniac
Mr Alastair Duke, PKF Littlejohn
- Secretary:* Deputy Secretary

1. Declarations of interest

Noted: there were no new declarations of interest.

2. Terms of Reference and Membership

Reported:

(1) Following recommendations in the Governance Effectiveness Review conducted by Halpin, a review of the Committee's Terms of Reference was underway and would be brought back to the Committee.

(2) This process would include engagement with the new Chair of the Committee and liaison with the Chair of Finance Committee to ensure alignment and complementarity with the revised terms of reference for that committee.

(3) Current membership of the Committee would be amended to include reference to Alex Creswell's role as advisor to the Committee on cyber risk and cyber security

Action: Deputy Secretary

3. Minutes

Resolved: that the minutes of the meeting held on 9 June be approved.

4. Matters arising

a) Staff Overpayments

Received: a report outlining progress made to address the ongoing problem of staff overpayments.

Reported:

(1) Management action taken (including automation of the leavers process) had reduced the scale of the problem and efforts would continue to get the figure as close to zero as possible. There was increased focus on identifying where errors were occurring, whilst noting that future system and process improvements would eliminate individual points of failure.

(2) Subject to final confirmation that there was no prospect of return (and with the exception of a small number of higher value debts), it was proposed that debt that was more than two years old would be written off.

Resolved:

(1) As requested at the previous meeting, the Committee be sent monthly progress reports.

(2) With the exceptions noted above, debts which more than two years old be written off, noting that in such cases the cost of recovery was likely to exceed the debt owed.

Action: Director of HR

5. Annual Programme of Work

Resolved: to adopt the circulated annual programme of work subject to minor amendment.

Action: Deputy Secretary

6. Risk and Assurance Mapping

Received: (the latest version of the Risk Register was available in the Diligent Reading Room; the next planned update of the Register would take place in December 2021)

(1) Risk Assurance Map for Risk 1.1-Cyber

(2) Report from the Director of IT on cyber risk (including outcomes of external review and planned incident exercise)

(3) Assurance Map for Risk 3- Employee Relations

i) Cyber Risk

Reported:

(1) The report from the Director of IT (which included reference to the Risk Assurance Map prepared by Uniac which assessed current risks, controls, mitigation and metrics) was based on prior work, internal expertise and an external Cyber Audit conducted at the request of the Committee in summer 2021.

(2) The report focused on Risks 1.1 (Cyber) and 1.2 (Information Security and Data Protection) and appended to the report was a presentation which formed the key element of discussion at the meeting. In relation to context to the threat, whilst data, technology and process were all key, the people element was crucial

Redacted – restricted information

(3) The delicate balance between provision of sufficient protection whilst not impacting on ability to carry out legitimate activity was recognised.

(4) The report and presentation focused particularly on the fifteen key questions in the National Audit Office document, *Cyber security and information risk guidance for Audit Committees (September 2017)* and included a RAG rating: recommendations to effect necessary improvements were contained in the report and set out separately below. In addition to the information contained in the report, a test of cyber incident response had taken place very recently and was reported verbally to the committee. Assessment of this exercise (for example the speed and efficacy of response to cyber-attack) was ongoing and would be reported to the Committee to ensure visibility and awareness.

Noted:

(1) At national level, the threat of cyber-attack was escalating and the nature of its business made the University (and other educational and health care bodies) particularly vulnerable.

(2) An Organisational Development approach focusing on improving behaviour and culture change was crucial enabling optimal integration of technical and non-technical mitigating actions (e.g. to management of information and data) and the new Head of People and Organisational Development had a key part to play in this work.

(3) There was recognition of the above at senior management level (and that measures to improve cyber-security were not inimical to academic freedom) and this was evidenced by the position of cyber-risk on the overall Risk Register. The Committee was clear that University should tackle and not tolerate wilfully non-compliant behaviour.

(4) The importance of assessing any potential incipient threat from the Dark Web.

(5) Given the significance of the University as part of the country's critical infrastructure, the importance of an effective relationship with the National Cyber Security Centre.

(6) There was benefit in the University seeking cyber-security insurance not just to mitigate business interruption, but because it enabled access to remediation services and further mapping and assessment of risk.

(7) The importance of effective prioritisation of risk (and potential use of Artificial Intelligence in this context).

(8) The dynamic and constantly evolving nature of the threat required agility and regular review of response, including external intelligence. In this context, the cyber threat would never be completely "solved" but behavioural and cultural change would help to embed response in "business as usual" activity.

Resolved:

(1) To support funding for the new Cyber Programme required to meet the specific actions set out in the report and below, noting that these requests would be routed via relevant committees.

(2) To support the need identified in the report to complete Part 2 of Network Transformation (potentially as part of IT Modernisation 2) focused on critical controls.

(3) To support the enhancements to the Identity and Access Management Project required to enable actions related to managing user privileges.

(4) To support the funding for the Obfuscation Project needed to manage live data risk in test systems.

(5) To note and support the significant activity underway on Cloud Security and the Cyber Programme needed for backup and recovery in cloud environments.

Action: Director of IT/RSCOO

ii) Employee Relations

Noted:

(1) The Risk Assurance Map from Uniac had been expanded to cover not just national/sector level risks, but workforce related risks related to strategic developments and risks relating to staff support and wellbeing.

(2) The Map represented work in progress, with greater levels of specificity on mitigations and metrics in development; the dynamic nature of this risk was noted, given the continued challenging national industrial relations climate. It was important that mitigations included both inputs and capabilities required to effectively address the employee relations risk.

(3) Uniac was proposing that further work on risk assurance mapping should focus on the risk assurance map for cyber-risk to develop an exemplar which could then be used as a template and model to inform the further development of other maps (such as Employee Relations). It was important that the approach was proportionate and added value, with mature risk assurance maps becoming a live and active tool used by management (and reported to the Committee for scrutiny and comment).

(4) Development of the exemplar to inform further risk assurance maps, impacted on the schedule for deep dive reviews of risk agreed by the Committee in June 2021 but this did not prevent, and should not inhibit, work in parallel to address and mitigate risk (for example, in relation to Employee Relations where industrial action, at a national level, on pay and pensions seemed likely).

Resolved: that further work on the Employee Relations risk assurance map be paused to enable the development of a mature Cyber Risk assurance map as an exemplar (to be brought back to the November Committee meeting), with the agreed structure being used to map Employee Relations and other key risks. **Action: Uniac**

7. Internal Audit and Internal Control

(i) Uniac Progress Report

Received: the latest Uniac internal audit progress report, which contained a summary of audits finalised since the previous meeting of the Committee, an update on assurance mapping (see item 6 above) and some HE sector updates.

(a) Estates and Facilities Helpdesk

Reported:

(1) The review (requested by the Director of Estates and Facilities) sought to assess the operation of the Estates Helpdesk which included the handling of planned and reactive maintenance as well as rechargeable works.

(2) The report had identified significant opportunities for development in relation to effectiveness of design, reasonable assurance in relation to effectiveness of implementation and that current arrangements were not efficient and economic.

(3) As outlined in the review report, concerns about efficiency largely related to the age and lack of functionality of current systems and processes. The report contained recommendations for improvement and this included the potential implementation of a Computer Aided Facilities Management System, noting that Strategic Change Office would be involved in a review of customer relationship management systems.

(b) IR35 Compliance

Reported:

(1) The review of IR35 compliance in 2018 highlighted some areas of non-compliance and resulted in review by the University's tax advisers and consequent enhancements to processes and training. This further audit was a follow-up to assess the robustness of processes in place to ensure effective IR35 compliance: at the request of the Committee, the process in place for the use of individual contractors within IT Services and the extent of compliance with IR35 was also reviewed.

(2) The report noted some enhancements to process and provided reasonable assurance in relation to effectiveness of design and economy and efficiency and substantial assurance in relation to effectiveness of implementation.

(c) School Review: Environment, Education and Development (SEED)

Reported:

(1) The review had been carried out to provide assurance that the financial and administrative processes, controls and systems within SEED were robust and adhered to Financial Regulations and Procedures.

(2) The report provided reasonable assurance in relation to effectiveness of design and substantial assurance in relation to effectiveness of implementation and economy and efficiency. Whilst some areas for improvement were identified, overall the review had found a robust control environment: the School did not currently have a single fixed asset register (local listings were kept) and the Head of School Operations had confirmed that in the future the School will produce a combined record to be held and maintained by the School Office.

(3) The internal audit programme provided for two School reviews per year which would ensure visits to all Schools over a five-year period (frequency of reviews had improved in recent years). Selection of Schools for review was based on a range of factors, including income and expenditure and risk assessment and the matrix setting out this process would be brought to the Committee for information. **Action: Uniac**

(d) Follow-up

Reported:

(1) The use of an online tracker and identification of key institutional contacts had facilitated good progress: from 263 actions captured, only 4 (1.5%) were deemed to be outstanding, although a further 23 (8.5%) (including those relating to staff overpayments and academic accounts) had not been completed and extensions had been granted (noting progress made).

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

(e) Electronic Point of Sale (EPOS) Process

Reported:

(1) The advisory review evaluated the potential to adopt catering process maps for all areas that use the EPOS system in the context of a major review of Finance systems.

(2) Actions had been agreed with the Head of Transactional Services and the Head of Finance Systems to take forward agreed points as processes were developed.

(f) Sector updates

Noted: latest sector updates, which included implications for internal audit arising from the BEIS White Paper on Audit Reform (see also item 9 below) which referenced strengthened internal control reporting for financial reporting

(ii) Internal audit report 2021-22

Received:

(1) The draft internal audit report for 2021-22 which offered a commentary based upon Office for Students ongoing conditions of registration and the topics that would be typically addressed in a statement of internal control. The report included reference to matters covered in the CUC HE Audit Committee Code of Practice (i.e. adequacy and effectiveness of the institution's arrangements for risk management, internal control, governance and value for money (which are in line with the previous sector regulators expectations)).

(2) The report concluded that risk management, governance and value for money arrangements were adequate and effective and that internal control arrangements were, on the whole, adequate and effective: in relation to the latter, a number of reviews demonstrated a strong control environment, whilst other reviews noted significant opportunities for improvement (these were mainly in areas where management requested audit focus). The report would inform the Committee's own annual report to the Board.

(iii) Summary of internal investigatory work

Noted: there had been no internal investigatory work undertaken in relation to suspected frauds and irregularities since the previous meeting.

8. External Audit and annual reporting

i) External Audit Planning

Received: the Audit Planning Report from PKF Littlejohn.

Reported:

(1) The report set out the auditor's approach to materiality and key audit risk areas.

(2) Despite the timing of the appointment and some delay in obtaining clearance from the previous auditors, PKF Littlejohn anticipated completion of work in time to enable consideration of the Financial Statements at the joint meeting of Audit and Risk and Finance Committees on 8 November 2021. Regular meetings were taking place with the Finance Team and there were no major issues of concern at present.

(3) In response to a question about potential focus on strategic projects, it was noted that there would be reference to this in different elements of the Financial Statements and that review of governance of strategic projects was included in the internal audit programme.

ii) Annual Reporting: draft information for inclusion in Financial Statements

Reported:

(1) The University's Financial Statements will be presented to Audit and Risk Committee, Finance Committee and the Board of Governors for approval in November. The Corporate Governance Statement and the Statement on Compliance with the Modern Slavery Act were presented in draft form to enable the Committee to comment before formal approval.

(2) Content relating to Public Benefit (addressed through the three University strategic goals) was under review to ensure that it is as focused and streamlined as possible and once finalised, this content would be circulated to Committee members for any comment. The inclusion of the full statement on compliance with the Modern Slavery Act would also be reviewed as there was no requirement to include this in the Financial Statements.

Noted:

(1) The appendix that had been included in previous versions of the Statement on Compliance with the Modern Slavery Act (about understanding and engaging with our suppliers) had been helpful and the Committee commended its inclusion (noting that this would not be included in the Financial Statements).

Action: Chief Financial Officer

(2) Comments on the draft Corporate Governance Statement were welcome (the Chair of Finance Committee had advised that she had suggested enhancements which would be forwarded to the Deputy Secretary).

Action: Deputy Secretary

9. Department of Business, Energy and Industrial Strategy (BEIS) consultation on reforms to audit and corporate governance

Received: a report from PKF Littlejohn providing an overview of the government (BEIS) consultation on proposed reforms to audit and corporate governance, which had run from March to July 2021.

Reported:

(1) The BEIS response to the consultation was anticipated to be in October 2021, but this was still to be confirmed. Direction of travel was likely to be clearer after the BEIS response and the Committee would be apprised of further developments and any necessary consequent action.

(2) Many of the proposals would be enacted through company law and the extent to which they would apply to entities sitting outside that framework (including Public Interest Entities, like the University) should become clearer after the BEIS response.

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11. Dates of meetings in 2021-22

Monday 8 November 2021 2.30pm (Preceded by Joint meeting with Finance Committee at 1.00pm and pre meeting for members of the Committee and auditors only at 2:00 pm)

Wednesday 26 January 2022 10am

Wednesday 15 June 2022 10am

(NB There was a need to schedule an additional meeting of the Committee between January and June 2022 to review the Risk Register: this would be confirmed following the appointment of the new lay member who will take on the role of Committee Chair. This appointment may also result in some adjustment to the above schedule.)