

Approved Minutes

THE UNIVERSITY OF MANCHESTER

AUDIT AND RISK COMMITTEE

9 November 2022

Present: Deirdre Evans (Chair)
Ann Barnes
Robin Phillips
Trevor Rees
Alice Webb

Apologies: Alex Creswell, Advisor to the Committee

In attendance: Professor Dame Nancy Rothwell, President and Vice-Chancellor
Patrick Hackett, Registrar, Secretary and Chief Operating Officer (RSCOO)
Carol Prokopyszyn, Chief Financial Officer
Louise Bissell, Deputy Director of Finance
Dr David Barker, Director of Compliance and Risk
Richard Young, Uniac
Sue Suchoparek, Uniac
Joe Johnson, Uniac
Alastair Duke, PKF Littlejohn

Secretary: Mark Rollinson, Deputy Secretary

1. Financial Statements and External Audit

The consideration and approval of the report of the external auditors and the financial statements was conducted in a joint session with members of the Finance Committee (Caroline Johnstone (Chair), Samantha Bronheim, David Buckley, Reinmar Hager, Philippa Hird and Professor Dame Nancy Rothwell).

Received:

- (1) Summary of key points from the Financial Statements
- (2) Draft Financial Statements for the year ended 31 July 2022.
- (3) Going Concern report
- (4) Report to the Audit and Risk Committee and Board of Governors from PKF Littlejohn LLP (PKF) for the year ended 31 July 2022 (the Letter of Representation was appended to the report).

Reported:

- (1) Finance Committee had considered items (1) to (4) above at its meeting earlier in the day and had considered and questioned assumptions and scenarios: detail of this

is included in the minutes from that meeting. Finance Committee was satisfied with information as presented to the joint meeting.

(2) The summary report included a reconciliation of the management accounts to the Financial Statements and, as an appendix, a reconciliation of the University only Financial Statements to the consolidated Financial Statements. The report also included a summary of the position in relation to the Statement of Comprehensive Income (SOI) and the Statement of Financial Position.

(3) In relation to the USS deficit position, it was noted that the Financial Statements contained different sums relating to provision – the charge shown separately on the face of the SOI and the total movement on the provision during the year. This reflected the difference between the impact of the new deficit repayment terms per the Schedule of Contributions (mainly an extra ten years of deficit payments) and other assumptions accounted as part of normal pension costs (e.g. in year contributions being different from prior year, changes to staff pay and numbers) and the in year impact of deficit repayments.

(4) The report also set out unadjusted audit differences (see 10 below), the Going Concern position (see 6 below) and noted that there were no post Balance Sheet events: a full report on subsidiaries would be submitted to the January 2023 meeting. As in the previous year, the report also included a US Department of Education Financial Responsibility Supplemental Schedule: there was a requirement for all UK universities to provide assurance of sufficient financial standing to receive, administer and distribute federal loans to US students, and failure to include could potentially jeopardise that funding (there was potential to engage with the US Department of Education to review this requirement in future).

(5) The draft Financial Statements were subject to the following: completion of outstanding items as outlined in the PKF Audit Findings Report, confirmation that unadjusted audit differences would not be booked and inclusion of the final Audit Opinion from PKF (this would all be complete in the version that would be submitted to the Board of Governors for approval). The Going Concern section under the Statement of Principal Accounting Policies was comprehensive and reflected current University policy: there was scope to reflect on this in future iterations (noting that this was still an area of focus for the Financial Reporting Council (FRC), and the University's policy complied with current FRC recommended good practice). The following comments from members were noted and would be reviewed for potential inclusion in the final version to be submitted to the Board of Governors:

a) The Chair's Foreword and the President and Vice-Chancellor's Review of the Year contained different figure for the cash position, which reflected different bases for calculation and these should be consistent.

b) Further consideration would be given to the description of the risk to international fee disruption and geopolitical disruption contained in the Statement of Principal Accounting Policies section of the Financial Statements. .

c) The acronym PRC should be explained in full (Planning and Resources Committee).

d) The description of the risk relating to trade union and employee relations should be reframed to reflect the updated risk relating to employee value proposition

e) There was reference to a change in classification from a restricted permanent endowment to an expendable endowment: this had been approved by the donor and the Charity Commission and a footnote to explain this was suggested.

(6) The Going Concern report set out severe but plausible downside scenarios (including with mitigations) and reverse stress test scenarios. The report concluded that, 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 continued to consider the latest base case, severe but plausible downside scenario, current position and trends since the year end. Having

secured a £150m Revolving Credit Facility which has not yet needed to be utilised, the University considered that it had more than sufficient headroom to enable it to continue to operate with confidence. On the basis of the above analysis, for the period to 31 July 2024, it was considered that there was no material uncertainty that the University is a going concern. (Finance Committee would continue to review, on a regular basis, the relative cost and benefit of the Revolving Credit Facility and assess the continued need for it.)

(7) The external audit report from PKF Littlejohn LLP covered key audit risks and findings: these included assessment of key audit risks (e.g. management override, risk of fraud in revenue recognition, valuation of defined pension scheme liabilities, valuation of defined benefit pension scheme assets for the Greater Manchester Pension Fund, Going Concern, related party transactions, accounting estimates, valuation and impairment of property, plant and equipment, valuation of bad debt provision and wages and salaries). Most work outstanding referred to in the report had now been completed and remaining actions would be completed shortly, and none of these were anticipated to impact on the unqualified audit opinion set out in the report.

(8) PKF thanked Finance Department staff for cooperation in preparation of the audit (noting recent strengthening of the team): in the previous year, PKF's late appointment had resulted in some delays, but this year's audit had been more straightforward. Next year, PKF would attempt to complete work as early as possible, noting potential additional internal pressures arising from the Finance Transformation Programme.

(9) Work to date had not detected any significant deficiencies in internal controls (although two other deficiencies were noted) and it was not anticipated that any material issues would need to be reported to the Board. The report also included an update on deficiencies in internal control previously raised (two of the four were resolved and work was in progress to address the other two). The joint meeting was assured that instances of fraud, and management response, were reported to and monitored by Audit and Risk Committee on a regular basis.

(10) PKF's report set out adjusted and unadjusted misstatements, none of which (either individually or collectively) were material and did not impact on PKF's opinion. Three of the six unadjusted misstatements related to pensions accounting: this was in part a result of timing issues and provision of information: this did not reflect any significant concerns about control (it was noted that consideration was being given to outsourcing the pension scheme bookkeeping).

(11) The report included the additional report required given the University's Public Interest Entity status and the draft of the independent auditor's report that would be inserted into the Financial Statements to be presented to the Board.

(12) The draft letter of management representation was appended to the report.

(13) Members were encouraged to submit any additional comments (other than those outlined in (3) above) on matters of detail in the Financial Statements before finalisation.

Agreed: having heard from Finance Committee, to recommend approval of the Financial Statements and related documentation to the Board of Governors (noting pending amendments to the Financial Statements as referred to above).

(NB In relation to the draft Financial Statements, members were reminded that as the University has bonds admitted to the Official List of the UK Financial Conduct Authority and traded on the Regulated Market of the London Stock Exchange, it was required to comply with various rules, regulations and standards. This imposed specific

- a) the approach taken to post-occupancy evaluation and continuous improvement monitoring and
- b) specific aspects for a risk based audit based on the current position (e.g. inception/strategic fit, business case and project initiation, project strategy, university resource and governance/governance support).

(3) Whilst members were pleased that a review of MECD had now been incorporated into the programme, there was a clear preference for this to include elements of benefits realisation to understand user experience, even though occupancy was relatively recent. This could be facilitated by a staged approach to assess the extent to which benefits had been realised after (for example) 6 and 12 months occupancy (e.g. in relation to design, culture, delivery of vision etc). Members who had visited the building were aware that there had been some adjustments to and compromise of original design following staff representations (including to the Board) and this could form a specific element of benefits realisation considerations. In this context, it was important to note restrictions on part of the building were in place to enable zero VAT rating. Two members of the Committee (Ann Barnes and Alice Webb) advised that they would be available to agree the revised scope for the review outside the schedule of Committee meetings.

Action: Uniac

(4) Confirmation that the full post occupancy evaluation and benefits realisation review for the Alliance Manchester Business School Building should proceed as planned.

(5) Uniac had been asked to consider the feasibility of developing a schedule of all internal controls: Uniac was not aware of any institutions that had compiled such a schedule. Its approach to assessing the adequacy and effectiveness of internal controls was risk based, and as such linked to the Strategic Risk Register (through its “audit universe” it also covered key financial and administrative systems and controls on a periodic basis). The Committee also received assurance on financial and non-financial controls from management and the external auditors.

(6) In view of the above, it was essential that the Strategic Risk Register continued to reflect the most significant risks (noting the link between the Strategic Risk Register and Strategic Plan), and that there was a regular and ongoing process of review to identify any potential gaps. It was also important to ensure that the Strategic Risk Register reflected essential controls (and where, for example, a review related to strategic risk which resulted in recommendations around controls, that these were reflected in the next iteration of the Strategic Risk Register).

Action: Director of Compliance and Risk

(7) The potential for members to assess the embeddedness of risk and understanding of internal controls at forthcoming visits to faculty leadership teams.

(8) Further to 4 (2) above, planning for the deep dive into risk of delivery of the Strategic Plan should involve the Chair of the Committee (noting that the review would be high level, focusing on capability and capacity to deliver).

Action: Deputy Secretary

(9) The briefings included in the report included an analysis of risk registers at 17 UK universities. The sample was from across the sector and it was recognised that the student recruitment risk was more acute in some parts of the sector: for the University, there was a risk of above target recruitment impacting adversely on the student experience. The Chair advised that at a recent sector meeting of other Audit Committee chairs, PwC had emphasised the risk in relation to the student experience (which had overtaken the recruitment risk).

(ii) Draft Internal Audit Annual Report 2021-22

Received: the revised, final internal audit annual report for 2021-22, which reflected minor textual changes to ensure consistency of terminology in relation to the Board Assurance Framework.

(iii) UKRI Funding Assurance Audit Follow-Up

Received: a verbal update on work to address the findings of the UKRI Funding Assurance audit.

Reported: a further visit from UKRI was imminent and requested information had been sent. A full report would be made to the January 2023 meeting. UKRI continued to be very satisfied with the level of co-operation and transparency from the University.

(iv) Summary of Internal Investigatory Work

Received: a summary of internal work undertaken in relation to suspected frauds and irregularities since the last report to the Board in September 2022.

6. Annual Report of the Committee to the Board of Governors for 2021-22

Received: the annual report of the Audit and Risk Committee, prepared for the Accountable Officer (the President and Vice-Chancellor) and the Board of Governors

Agreed: that the report be circulated to the Board of Governors.

Action: Deputy Secretary

7. Modern Slavery and Human Trafficking Statement

Received: Modern Slavery and Human Trafficking Statement which was required by law to be updated annually and to be visible to the general public on the University's website.

Noted:

- (1) The potential for explicit consultation with the Students Union on future iterations.
- (2) There was scope to rationalise the overall number of suppliers and take a more integrated approach to procurement and it was anticipated that the Finance Transformation Programme would result in significant improvements in this area.

Recommended: that the Modern Slavery and Human Trafficking Statement be approved for publication.

Action: Deputy Secretary

8. Anti-Money Laundering Policy

Received: the updated Anti-Money Laundering Policy and current risk assessment, updated to reflect recent legislation and also in response to issues raised by UKRI.

Agreed: to approve the Anti-Money Laundering Policy.

9. Procurement and Value for Money

Received: an annual update on procurement, expenditure controls, compliance, value for money, and purchasing risk management within the University (this formed part of the evidence base referred to in the Committee Annual Report, see 6 above).

Noted:

- (1) Close attention was paid to supplier risk, given current economic turbulence.

(2) The report set out the approach to ensuring Responsible Procurement: this did not currently extend to assessing the carbon footprint of suppliers, but how the University might best address these and other Category 3 emissions was under consideration by the Vice-President for Social Responsibility.

(3) An alternative travel management supplier had been commissioned to alleviate some short-term issues and provide more capacity. The University's principal supplier, Key Travel now had a dedicated University hotline and acute staffing shortages had eased.

(4) The number of suppliers and catalogues on offer on eMarketplace was increasing as a result of the Finance Transformation Programme. The eMarketplace delivered significant benefits, through automation including electronic transmission of orders and payment of invoices.

(5) The infographic focused on Purchase Orders, however the commitment to procure was generally made via a contract (with the Purchase Order following) The Committee therefore requested information on the number of contracts, their duration and an assessment of any single supplier exposure.

Action: Head of Procurement

(6) Contract management was generally effective and efficient and there was increased focus on ensuring comprehensive and integrated contract registers and renewal.

10. Proposed increase to the University's capital equipment threshold

Received: a proposal to increase the Capital Equipment Threshold from £50,000 to £100,000 with effect from 1 August 2023 and to align the N8 equipment reporting requirements with the University's capitalisation threshold (the N8 Research Partnership is a collaboration of the eight most research-intensive Universities in the North of England).

Reported:

(1) The proposed revised accounting policy would include the following from 1 August 2023:

"Individual items of equipment and groups of functionally dependent items costing more than £50,000 are capitalised at cost. All other items are written off to the income and expenditure account in the year of acquisition."

(2) Confirmation from PKF Littlejohn that the proposal had been discussed with them and they were content with it.

Noted: enhancement to recording of assets and controls was being considered as part of the Finance Transformation Programme.

Agreed: to approve an increase of the University capital equipment capitalisation threshold for individual items and groups of functionally dependent items, and including for N8 equipment, from £50k to £100k with effect from 1 August 2023.

Action: Deputy Director of Finance

11. Office for Nuclear Regulation Prohibition Notice: response

Received: a report updating the Committee on the University's response to the Office for Nuclear Regulation (ONR) Prohibition Notice, reported to the Board, and Audit and Risk Committee earlier in the year

Reported:

(1) The ONR had confirmed that the University was in compliance with the Prohibition Notice and that transport of excepted consignments can be resumed. This had been confirmed in a [public notice](#) issued on 24 October 2022.

Redacted – restricted information

(3) A “lesson learned” exercise would be conducted.

Action: Director of Compliance and Risk

12. Academic Governance Assurance Process

Received: a report updating the Committee on the academic governance assurance process, the timetable resulting in Board consideration of the annual academic governance assurance reports for Teaching, Learning and Students and Research and the Committee’s role in that process.

Reported: An additional, one-item meeting of the Committee would be required to enable the Committee to consider the academic governance assurance reports after the Senate meeting on 1 February 2023 and before Board consideration on 22 February 2023 (Board consideration will include a joint session with Senate on the day of the Board meeting). Potential dates for the meeting would be sought as soon as possible.

Action: Deputy Secretary

13. Public Interest Disclosures

Noted: there had been no Public Interest Disclosures since the previous meeting.

14. Committee Forward Agenda 2022-23

Received: the updated Committee forward agenda for 2022-23

15. Dates of remaining meeting in 2022-23

Noted: the following dates for remaining meetings in 2022-23 (additional meeting to be arranged in February 2023 as noted in 12 above)..

Wednesday 25 January 2023 10am	In person
Wednesday 26 April 2023 10am	In person
Wednesday 14 June 2023 10am	Zoom