

AUDIT COMMITTEE

2 November 2020 - via Microsoft Teams (including video link)

CONFIRMED SUMMARY MINUTES

Contact Susan O'Donnell, susan.odonnell@northumbria.ac.uk, Secretary to the Board of Governors, with any queries about these Summary Minutes.

Present: J Bromiley, A Corfield (Chair), D Jennings, P Judge, S Pelham, A Rice-Thomson.
Observers: A Porter (AdvanceHE).
Apologies: S Kenny (EY), S Reid (EY).
Secretary: S F O'Donnell, M Ritzmann (Assistant Secretary).
In attendance: Dr S Corbett [AC20/20-25, AC20/31], J Embley [AC20/21], Professor P Francis, Professor G Marston [AC20/18], D Monnery, S Newitt, C Partridge (KPMG), A Thomas (KPMG), Professor A Wathey, J Wilson [AC20/31].

MAIN ITEMS DISCUSSED/DECIDED ON AT THE MEETING

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| 1. | <p><u>Introduction, Meeting Record, Reporting and Context</u>
 Chair's Opening Remarks [Oral Report]
 The Board Effectiveness Review had commenced and the Chair welcomed a representative from AdvanceHE, who would be observing the meeting. In the absence of a representative of the internal auditors, EY, the Committee requested a separate meeting be arranged for Committee members and representatives of both the internal and external auditors to consider the internal audit agenda items.</p> <p>Declarations of Interests [Oral Report]
 The Committee noted two interests declared and how these would be managed.</p> <p>Summary Action List/Matters Arising [AC20/16]
 The Committee considered progress in the implementation of previously agreed actions. The Committee noted that the remaining actions on its Summary Action List were, by and large, relatively current, with a number due to be completed ahead of the Committee's December 2020 meeting.</p> <p>Committee Membership and Terms of Reference 2020/21 [AC20/17]
 The Committee noted the Committee membership changes approved at the 5 October 2020 meeting of the Board of Governors and considered minor adjustments to its Terms of Reference for 2020/21 to reflect the recently published CUC Higher Education Audit Committees Code of Practice. Key changes included clarification of the Committee's responsibility regarding assurance around sustainability, internal controls for academic risk (as an extension of risk management), management of conflicts of interest and organisational culture. The Committee endorsed the changes to its Terms of Reference for 2020/21 for onward submission to Nominations Committee and Board of Governors, noting that clear delineation between the Board Committees was already in place and remained crucial.</p> |
| 2. | <p><u>External Audit 2019/20</u>
 External Audit Status and Progress Update [Oral Report]
 The Committee considered the progress of the external audit, the timetable for which had been delayed by due to the cyber incident. Whilst the audit would not rely on IT, additional checks were being undertaken. The Committee noted that the completion of external audit to the December 2020 timescales remained achievable, and that the University was permitted to finalise the accounts up to seven months after the financial year end. Despite delays which required the completion of system recovery work, no major issues were envisaged. The audit would consider external financial health factors, including the University's bank loan covenants and no issues were expected.</p> |
| 3. | <p><u>Internal Audit 2019/20</u>
 Outstanding Audit Actions [AC20/18]
 The Committee considered progress in the implementation of previously agreed audit actions. The feasibility of the deadlines for all audit actions had been reviewed with Action Owners in light of the impacts of Covid-19, the cyber incident or other material factors. Revised implementation dates had been confirmed where necessary, with agreed action plans and associated key milestones assigned, to support the monitoring of</p> |

their delivery. **The Committee noted the improved progress made on outstanding audit actions and highlighted the need to maintain pace on actions with imminent deadlines and understand any residual or additional risks where audit actions remained outstanding. This would enable the Committee to form a more rounded judgement in assessing whether exposure to a particular risk could be tolerated or not through an extension to the deadline of an audit action. Requests to extend the implementation date of overdue audit actions were approved. It was noted that a wider programme of work intended around Business Continuity and Incident Management would occur in tandem with the planned internal audit of this area.**

Internal Audit 2019/20 Progress Report and Q4 Audits [AC20/19]

The Committee considered progress against the 2019/20 Internal Audit Plan since its 14 September 2020 meeting. A further six reviews had been finalised, including IT Patch Management, Modified Working Arrangements – IT Controls, Non-IT Managed Websites, Core Financial Controls, Staff Mental Health and the Actions Follow Up review. Whilst the Terms of Reference for the GDPR Follow Up review had previously been agreed, the decision had been made to postpone this review until 2020/21 to allow a more detailed review to take place. EY was content that it had undertaken sufficient work during 2019/20 that this would not impact their Head of Internal Audit Opinion. **The Committee noted the position regarding the outcomes of the three IT internal audit reviews, the outcomes of the follow up review and those actions where the management self-assessment and the EY assessment differed and the general direction of travel regarding the overall reporting gradings towards amber (medium risk) and red (high risk) and the implications of this in aggregate for the Head of Internal Audit Opinion. Whilst clarity was required from EY in this regard, it was confirmed that EY graded audit reports in line with the rating of the highest risk finding, regardless of their number.**

Core Financial Controls Internal Audit Report [AC20/20]

The Committee considered the Report which sought to provide assurance over the key financial controls. The University's financial control environment, systems, processes and controls were also re-assessed to confirm (or otherwise) whether the updated processes and controls had been suitably designed and continued to operate effectively in response to the impact of Covid-19, including staff with responsibilities for financial controls moving to a remote working operating model. The report was rated as medium risk. **The Committee noted that the vast majority of the systems reviewed through the audit were RAG rated as Green and controls were deemed to be operating effectively, which was a reassuring outcome given the turbulent year, due to additional emphasis on controls which managed any increased risks.**

Staff Mental Health Internal Audit Report [AC20/21]

The Committee considered the Report which had assessed the University's overall approach to managing staff mental health and wellbeing. The report was rated as medium risk and had identified one medium risk and one low risk finding. **The Committee noted the strategic nature of the medium risk finding concerning a lack of an overarching and integrated Staff Mental Health and Wellbeing Strategy and the confirmation that the action plan and associated milestones supporting the Strategy's operational delivery already existed via Business Outcome plan concerning Wellbeing. Both the Business Outcome and associated plan were in the process of being reviewed and would ensure a clearer approach that aligned to the Student Health and Wellbeing Strategy.**

Actions Follow Up Internal Audit Report [AC20/22]

The Committee considered the Report which had focussed on all previous internal audit recommendations self-assessed by management as fully implemented or superseded during the year in order to verify their status. Of the actions followed up, the fully implemented or superseded status assigned by management was confirmed by EY in the vast majority of cases with a small number of actions either categorised as implementation in progress or superseded. **The Committee noted the outcomes of the follow up review and those actions where the management self-assessment and the EY assessment differed and these would be reviewed and reported on at the Committee's December 2020 meeting.**

IT Patch Management Internal Audit Report [AC20/23]

The Committee considered the Report which assessed arrangements relating to the University's IT Patch Management Policy, including levels of communication and awareness and controls for ensuring alignment with recognised industry practices. The report was rated as high risk. **The Committee noted the report.**

Modified Working Arrangements – IT Controls Internal Audit Report [AC20/24]

The Committee considered the Modified Working Arrangements – IT Controls Internal Audit Report. The audit had focussed on risks arising from the changes to working arrangements due to Covid-19 and in particular, amendments to Financial and IT procedures, processes and controls, as a result of these changes, with it deemed appropriate for the Financial aspects to be covered as part of the wider Core Financial Controls review. The report was rated as high risk. **The Committee noted that whilst it was appropriate for management to disagree with audits points on occasion, the extent to which this was evidenced through this particular internal audit report needed confirmation from both the audit sponsor and EY that this was appropriate and it was clear what action was required to be undertaken.**

Non-IT Managed Websites Internal Audit Report [AC20/25]

The Committee considered the Non-IT Managed Websites Internal Audit Report, which had reviewed a sample of websites to provide assurance over the governance, control and IT security arrangements supporting University websites that were created and managed outside the control of IT Services. The report was rated as medium risk. **The Committee noted that whilst management agreed with the audit findings and the recommendations made were considered to be sensible, the wider strategic point concerning the need to ensure that such websites were governed by IT Services had not been drawn out sufficiently through the internal audit report, and that this strategic point was suitably addressed as part of the University's IT Strategy as a priority area.**

In respect of the three IT Internal Audit Reports collectively, the Committee highlighted the need for further management reflection on the risk appetite regarding the risks highlighted and the associated resource implications, in light of the cyber incident. It noted the confirmation that management would revisit all three of the IT internal audit reports ahead of their presentation back to the Committee's December 2020 meeting (or sooner, if possible), with updated management actions and timescales as appropriate.

Draft Interim Internal Audit Plan 2020/21 [AC20/21]

The Committee considered the draft Interim Internal Audit Plan 2020/21. In order for the Plan to remain agile in the context of the changing risk environment, including in response to the cyber incident and Covid-19, the interim plan identified four key reviews to perform prior to the January 2021 Audit Committee meeting based on the current risk profile of the University. These reviews were: Business Continuity, Core Financial Control, Actions Follow Up and UKVI. The appendix detailed a list of proposed reviews which could be considered for inclusion in the updated Audit Plan to be presented to the January 2021 Audit Committee, that considered the risk profile of the University at that time. **The Committee noted the confirmation that the GDPR Follow Up review deferred from 2019/20 to 2020/21 needed to be included in the appendix of potential reviews given an audit in this and related areas was high on the University agenda for later in 2020/21. It confirmed its agreement with the Interim Plan approach that could be flexed in-year to respond to the changing risks as these evolved, and approved the Interim Plan 2020/21.**

4. Policy, Risk and Assurance

Financial Regulations Review [AC20/27]

The Committee considered the Financial Regulations approved by Employment and Finance Committee (22 September 2020) given it had a legitimate interest in this area through its role in the oversight of the financial controls of the University. The review process had involved a wide-ranging update of the Financial Regulations which had been significantly reduced in length and moved to a principles based approach. The way in which the principles of the Financial Regulations were being implemented had also been documented as a single reference source for colleagues, to provide clarity on implementation, including signposts to other Finance Policies and would continue to be updated as required. **The Committee noted the report.**

COVID-19 External Funding Requirements – Covid Corporate Financing Facility (CCFF) Application [Oral Report]

The Committee noted an update on the University's Covid Corporate Financing Facility (CCFF) Application in order for the University to maintain its liquidity due to unforeseen events, if required.

Draft Audit Committee Annual Report 2019/20 [AC20/28]

The Committee considered the first draft of its Annual Report 2019/20, noting that a final draft would be brought back to the Committee's December 2020 meeting for recommendation of the report to the Accountable Officer, and for onward Board of Governors approval. Some of the items included in the draft report needed to be fleshed out and/or were subject to confirmation but were inserted as a placeholder for review prior to the final version of the report. **The Committee noted the confirmation that the University was no longer required to submit an Audit Committee annual report to the OfS, but that it remained**

a key part of its infrastructure, facilitating reflection on its work over the last 12 months through bringing together all the different strands of this work in a single report.

Committee of University Chairs (CUC) Higher Education Audit Committees Code of Practice [AC20/29] The Committee considered the new Code of Practice, published on 13 June 2020 and noted that the previous HEFCE Code had been temporarily adopted by the OfS. Responsibility had now transferred to the CUC following a short period where the OfS appeared to remove its adoption of the Code. Whilst there was no mandatory requirement for institutions to follow the Code, it continued to provide the most comprehensive set of good governance arrangements for audit committees in the HE environment. The Code continued to be based on the principle of “apply or explain”. **Given the slight changes from the previous Code, the Committee welcomed the intention of the Governance Services Team to conduct a formal assessment of the University’s compliance with the Code prior to the January 2021 Audit Committee meeting.**

Updated Policy on the Engagement of the External and Internal Auditors for Non-Audit Work [AC20/30] The Committee considered the draft Policy, noting that a final version reflecting Audit Committee and University Executive feedback would be brought back to the Committee in December 2020 for approval. The previous Policy required updating and to reflect the general direction of travel across all industry sectors that the types and levels of non-audit services were becoming increasingly restricted. The draft Policy adopted a more principles based approach. The safeguards and associated control processes set out in the Policy and the Committee’s independent oversight of its application, sought to ensure such an impairment did not materialise. **The Committee confirmed that in bringing proposals to it for consideration/approval, a clear business case supporting the appointment of either the external or internal auditor for a particular piece of non-audit work was key, including an assessment of alternative providers. The final Policy should clarify the chronology of the steps in the process, for example, at which point in the process a proposal was considered by the Committee relative to the point at which the external or internal auditor was approached in relation to the work.**

Reportable Incidents Summary [AC20/31] *RESERVED AND LEGALLY PRIVILEGED
The Committee considered the update on Reportable Incidents as at 27 October 2020.

Strategic Risk Dashboard [AC20/32]

The Committee noted the current Strategic Risk Dashboard and progress on updating the Strategic Risk Register. Whilst the conclusion of the latest review was the suite of Strategic Risks remained largely accurate and relevant overall, a range of recommended amendments were approved, including; a new risk relating to the COVID-19 pandemic and existing risks had been updated to reflect the impact of the pandemic, as well as other factors impacting on risks. **The Committee noted that in light of the recent cyber incident, more detailed coverage could be given to IT Business Continuity risks within SRR008 and/or SRR011, which would be considered as part of the full review of risk SRR011, already intended. This would be completed ahead of the 23 November 2020 Board of Governors.**

Committee Agenda Plan 2020/21 [AC20/33]

The Committee noted its Agenda Plan for 2020/21 and future meeting Agenda Items, which included its additional December 2020 meeting. This meeting would cover items delayed by the cyber incident and the external audit work required on the 2019/20 Accounts. **The Committee confirmed that in keeping with prior years, it wished to retain the informal meeting involving Committee members, Finance Director and representatives of the external auditors, KPMG to discuss the Financial Statements ahead of their formal consideration at its December 2020 meeting.**