

AUDIT COMMITTEE

8 June 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, A Rice-Thomson [AC19/68-80].
Observers: Dr R Blackman-Woods, S Pelham.
Apologies: S Reid (EY).
Secretary: S O'Donnell (Secretary), M Ritzmann (Assistant Secretary).
In attendance: A Dunlop [AC19/74], J Embley [AC19/75], Professor P Francis, S Kenny (EY), Professor G Marston [AC19/75], D Monnery, S Newitt, C Partridge (KPMG) [AC19/64-78], Dr D Poole [AC19/70], E Pritchard [AC19/75], Professor J Reast [AC19/78], M Sanghera (EY) [AC19/64-74], A Thomas (KPMG) [AC19/64-78], Professor A Wathey [AC19/64-79].

MAIN ITEMS DISCUSSED/DECIDED ON AT THE MEETING

1. Introduction, Meeting Record, Reporting and Context

Preliminary Items: Chair's Opening Remarks [Oral Report]

The Chair, on behalf of the Committee, expressed recognition of the work being done across the University and that led by both the Vice-Chancellor and Chief Executive and wider University Executive, in response to the unprecedented circumstances brought about by the COVID-19 pandemic.

Summary Action List/Matters Arising [AC19/67]

The Committee considered progress in the implementation of previously agreed actions. Several actions had not been completed to deadline and this was predominantly attributed to COVID-19 and the resulting capacity constraints and need to prioritise. Such actions would now be reprioritised and progressed. **The Committee requested a note be circulated to confirm any residual issues arising from the historical Student Loans Company action that still needed to be progressed through the University's wider Competition and Markets Authority (CMA) work; and noted the confirmation that a report related to the action on the development of a Value for Money (VfM) action plan aligned to the University Strategy and embedded in the annual planning round, would be brought back to the Committee's September 2020 meeting, or as part of the annual VfM report to the Committee's November 2020 meeting, once the student recruitment position had crystallised.**

Vice-Chancellor's Horizon Scanning [Oral Report]

The Vice-Chancellor and Chief Executive reported on sector wide matters and the implications of these for the University. Whilst the immediate crisis had now passed, bandwidth challenges in terms of prioritisation and capacity would continue on a tapered basis for some time, including restarting the University's activities and student recruitment, both of which posed challenges and risks to the sector as a whole. **The Committee noted that the University Recovery Group were focussing on practical considerations in response to COVID-19, and the Board of Governors, Board Sub-Group and more widely, University Executive, were also reviewing University Strategy priorities, in terms of what could and should be stopped, started, changed or reimagined.**

2. External Audit

Audit Plan 2019/20 [AC19/68]

The Committee considered the External Audit Plan for 2019/20. Materiality had been set at a level consistent with 2018/19, however, this would be revisited at the year end should there be any significant variations in revenue relative to forecasts. Going concern was a significant risk that the audit was required to consider and had increased for all universities given the unprecedented levels of uncertainty in the wider economic environment, driven by COVID-19 and Brexit. This would include an assessment of whether the University had a sustainable cash flow for 12 months beyond the accounting period end, as well as any potential financial cliff edges in the medium/longer term. However, the revised UK auditing standard for going concern that was applicable for periods commencing on or after 15 December 2019 would not be formally adopted early for the 31 July 2020 year-end. **The Committee noted that there were a range of scenarios for 2020/21 to articulate to the next Employment and Finance Committee and Board of Governors meetings, including potential implications for the University's banking covenant.**

Non-Audit Services for Potential VAT Savings [AC19/69]

The Committee considered the proposal to engage KPMG for non-audit services related to VAT recovery. The work would involve an initial assessment of the potential to reduce fuel and power costs by obtaining a higher percentage at the reduced rate of 5% compared to the standard rate of 20%. The University, alongside KPMG, had considered the potential threats to independence and objectivity in addition to the guidance provided within the University's own Policy on the engagement of the external and internal auditors for non-audit work and were satisfied that sufficient controls could be put in place to mitigate against these threats, and this engagement was appropriate. Given KPMG had engaged with the British Universities Finance Directors Group (BUFDG) and Her Majesty's Revenue and Customs (HMRC) to develop an approach that was acceptable to HMRC, performed this exercise with the majority of universities in the region and the appropriate procurement process had been followed, this gave confidence that KPMG were the most appropriate appointment. **The Committee:**

[i] noted that proposed work was within the scope of the University's Policy on the engagement of the external and internal auditors for non-audit work, which was due to be reviewed and was on the Committee's Agenda Plan for its September 2020 meeting;

[ii] noted that, since the cost was estimated to be low relative to the external audit fee, this should not negatively impact the (perception of) independence of KPMG. Further, the work was not being performed on a contingency fee basis;

[iii] noting the opposition voiced to the proposal due to perceived self-review/interest threats, approved by a majority, the engagement of KPMG for non-audit services related to VAT recovery in principle, but that the position should be reviewed at the end of Phase One of the work, and brought back to the Committee before any further work was committed to, if costs were anticipated to exceed the estimate.

3. Internal Audit

Outstanding Audit Actions [AC19/70]

The Committee considered progress in the implementation of outstanding audit actions. The Committee's feedback on the report format had been reflected in the paper to streamline and remove areas of duplication arising from changes previously requested. A total of 13 out of 29 actions were overdue against their agreed implementation dates, three of which were now overdue by more than nine months. Of the other 16 actions, seven were reported as fully implemented and nine were not yet due for implementation. **The Committee:**

[i] agreed in principle with the alternative Business Continuity (BC) activity proposed, but wished to retain sight of the action, underlying recommendation and associated risk(s) and hence the action should remain open. This applied to actions arising from internal audit reports more generally. Elements of BC, such as BC systems, were outwith COVID-19 and remained relevant as areas the Committee should receive assurance on during the pandemic;

[ii] confirmed that overdue audit actions should not exceed 12 months or be subject to multiple deadline revisions in the intervening period. Timely completion of all agreed actions was key to managing risks and deadlines should be adhered to. Whilst COVID-19 had delayed progress in some areas, the delay to some actions predated this. It was confirmed that the Vice-Chancellor and Chief Executive would work through the actions with Executive members and accelerate their resolution;

[iii] in response to the action concerning IT security monitoring resource and centralised monitoring of security events and audit logs, requested that additional information on current controls be circulated to Committee in the form of a short formal note;

[iv] confirmed deadlines for actions arising from recently completed audits should be checked to confirm whether they may now be delayed due to the impact of COVID-19;

[v] noted the confirmation that actions proposed for closure due to no longer being relevant and superseded by alternative action would be independently validated by EY as part of their follow-up, to provide assurance to the Committee that this status was appropriate;

Internal Audit Progress Report and Q2 Audits [AC19/71]

The Committee considered progress against the 2019/20 Internal Audit Plan since its 10 February 2020 meeting. Whilst it had been planned to present the interim findings arising from the Core Financial Controls review, some fieldwork elements were incomplete due to outstanding requests with management. The audit would therefore be reported in full and final form to the Committee's September 2020 meeting only. **The Committee noted that there had been a significant delay in finalising the draft terms of reference for the Staff Mental Health review and management comments were still awaited from the Director of HR and OD. Whilst it was confirmed that this was due to competing priorities, the Committee requested that this was prioritised given it, and internal audit more generally, was a key source of assurance for the Committee and represented a significant investment for the University.**

Improvements to the University's Safeguarding Arrangements [AC19/72]

In the context of the findings arising from the safeguarding internal audit report and the corresponding management response, **the Committee noted the improvements planned to the University's wider safeguarding arrangements.**

Safeguarding Internal Audit Report [AC19/73]

The Committee considered the Safeguarding internal audit report. The audit was rated as high risk and had identified a total of seven findings: two high risk, three medium risk and two low risk. The high risk findings concerned Disclosure and Barring Service (DBS) checks within research projects and retention of related documents on the ethics portal. **The Committee noted that several of the management responses included actions with a deadline of May 2020, and requested an update on, and confirmation by circulation that, these actions had been discharged in line with the agreed timescales given they were now in the past.**

The Office for Students Registration Conditions Internal Audit Report [AC19/73]

The Committee considered the Office for Students (OfS) Registration Conditions internal audit report. The audit was rated as medium risk and had identified a total of six findings: two medium risk and four low risk, which were consistent with those arising from similar reviews performed by EY at other institutions.

Competition and Markets Authority Compliance Internal Audit Report [AC19/74]

The Committee considered the Competition and Markets Authority (CMA) Compliance internal audit report. The audit was rated as high risk and had identified a total of four findings: one high risk, two medium risk and one low risk. The high risk finding concerned the "durable medium" information that the University was required to provide to prospective students. **The Committee noted the confirmation that in the short term the University would continue to perform daily checks of information sent, whilst it investigated and benchmarked how other universities met this requirement of the CMA guidance.**

4. Policy, Risk and Assurance

Health, Safety and Wellbeing Report Q3 2019/20 [AC19/75]

The Committee noted the report for the period February to April 2020. The average completion of mandatory training for core staff had seen a slight decrease from the previous quarter. **The Committee noted the improvements required to risk assessments for some research activity, which were being addressed by the central Health and Safety Team in conjunction with Faculties.**

COVID-19: Financial Control Update [AC19/76]

The Committee noted a paper on the impact of COVID-19 on the financial control environment and control activities. The majority of key systems and processes continued to operate effectively. In some instances, this was the result of mitigating actions in areas where the level of risk was considered to be heightened. Expedited development of automated workflows would allow shorter-term mitigation to be replaced with more effective and efficient controls. Additional and independent assurance on the operation of financial controls during this time would be provided via the Core Financial Controls internal audit (due to be reported to the September 2020 Committee meeting), the scope of which had been expanded to include the heightened risk areas. **The Committee noted the full and robust nature of the paper and welcomed the proactive measures underway.**

Reportable Incidents Policy Update [AC19/77]

The Committee considered the University's updated Reportable Incidents Policy, last reviewed in 2012, which had been streamlined to remove duplication and maximise clarity, and updated to reflect changes to external reporting requirements regarding OfS Reportable Events. **The Committee approved the Reportable Incidents Policy and suggested that, as part of the next Policy update for the Committee's September 2021 meeting, the OfS requirements should be integrated into the Policy itself, rather than as a separate addendum.**

Reportable Incidents Summary [A19/78] *RESERVED AND LEGALLY PRIVILEGED

The Committee considered the update on Reportable Incidents as at 03 June 2020.

Strategic Risk Dashboard [AC19/79]

The Committee noted the University's Strategic Risk Dashboard showing the University's significant risk areas. Business Outcomes and key controls, with their related deadlines, required review and re-prioritisation to ensure risks remained accurate in light of COVID-19. An additional risk, focussing specifically on the

implications of the pandemic had been drafted and was being updated to capture the key actions on the University response to these, which was evolving rapidly. **The Committee:**

[i] agreed that the current recovery and planning phase for the next period provided an appropriate point to reconsider the risk landscape through an update of the University's Strategic Risk Register in response to the risks posed by COVID-19;

[ii] confirmed the need to reflect on whether other matters should be referenced in certain Strategic Risks, including matters raised in the Reportable Incidents Summary.