

AUDIT COMMITTEE

14 September 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) P Judge, A Rice-Thomson.
Observers: S Pelham.
Apologies: D Jennings, S Reid (EY), A Thomas (KPMG).
Secretary: S O'Donnell (Secretary), M Ritzmann (Assistant Secretary).
In attendance: Dr S Corbett [AC20/11], A Dunlop [AC20/06], J Embley [AC20/09], Professor P Francis [AC20/06 onwards], S Kenny (EY), Professor G Marston [AC20/09 and AC20/11], D Monnery [AC20/06 onwards], M New [AC20/11], S Newitt, C Partridge (KPMG), E Pritchard [AC20/09], Professor J Reast [AC20/11], Professor A Wathey, J Wilson [AC20/11].

MAIN ITEMS DISCUSSED/DECIDED ON AT THE MEETING

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| 1. | <p><u>Introduction, Meeting Record, Reporting and Context</u>
 08 June 2020 Committee Meeting Summary Minutes [AC20/01]
 The Committee confirmed the Summary Minutes as an accurate record of its meeting held on 08 June 2020 subject to one amendment to the External Audit Plan 2019/20 Agenda Item [AC19/68]. In considering the Going Concern risk, the audit would assess whether the University had a sustainable cash flow for 12 months beyond the date of signing of the accounts rather than the accounting period end.</p> <p>Summary Action List/Matters Arising [AC20/02]
 The Committee considered progress in the implementation of previously agreed actions. A number of actions had been delayed due to COVID-19, the recent cyber incident and the capacity and bandwidth challenges that has arisen as a result. Such actions were being reprioritised and progressed.</p> <p>Committee Terms of Reference and Membership 2020/21 [AC20/03]
 The Committee considered its Terms of Reference and membership for 2020/21 following the reappointment by the Board of Governors of a number of its members. The Committee:
 [i] endorsed the terms of reference agreed by the Board of Governors at its meeting on 24 February 2020 as appropriate for 2020/21, subject to any further changes arising from Nominations Committee discussions and their review against the recently published Committee of University Chairs (CUC) Higher Education Audit Committee Code of Practice and update (as appropriate) ahead of the next Committee meeting;
 [ii] noted that the Committee membership, including the total number and skill set of Committee members would be subject to review by Nominations Committee to ensure the necessary level and balance of skills following the departure of the Committee Chair and the current Co-opted Board Committee Member in February 2021.</p> |
| 2. | <p><u>External Audit 2019/20</u>
 External Audit Status Update (including IT Audit Actions Follow Up) [AC20/04]
 The Committee considered progress against the external audit plan 2019/20 and the outcomes of the follow up of prior year IT recommendations. The interim audit controls work had been completed and no significant control deficiencies were noted. Signed copies of documents it had not been possible to review due to COVID-19 would now be reviewed as part of the year end testing. The follow up of IT recommendations had confirmed that management had progressed and closed all outstanding audit recommendations. Due to the ongoing cyber incident, the audit had been provisionally delayed by a period of four weeks. When information would be available for audit would continue to be monitored. Work would be undertaken both internally and through the audit to confirm the completeness, accuracy and validity of core financial system information. Contingency plans were in place in this regard.</p> <p>Key Accounting Judgements and Areas of Audit Focus [AC20/05]
 The Committee considered an update on the external audit findings arising from the 2018/19 external audit, all of which had been completed and the approach taken by Finance to areas of judgment, estimation and particular audit focus for 2019/20. Pensions and holiday pay accruals were highlighted as two key areas:</p> |

despite the high level of uncertainty around Pensions, this was not yet impacting on disclosures in the Accounts but this would be kept under review; holiday pay accruals had increased since last year but the underlying drivers (e.g. COVID-19) were considered reasonable. With regards to Going Concern, potential mitigations, should they be required, included the University's existing external financing arrangements and the Covid Corporate Financing Facility (CCFF), the latter of which would be considered by Employment and Finance Committee and the Board of Governors. **The Committee:**

[i] noted the External Auditor's, KPMG's confirmation that there were no additional areas of significant judgement, estimation and audit focus for 2019/20 beyond those listed in the paper and for the reasons described;

[ii] noted that Going Concern was a significant risk for all universities and ensuring a sustainable cash flow for 12 months beyond the date of signing the accounts was key, via the mitigations noted;

[iii] noted that as per its Summary Action List (which referenced Minute 19.74 of the 04 November 2019 Committee meeting), Employment and Finance Committee would provide a note to the Committee summarising its review of the Going Concern Assessment for the 2019/20 accounts;

[iv] noted the wellbeing aspect and duty of care to staff in relation to the holiday pay accrual, in addition to this being a purely financial consideration;

[v] endorsed the proposed disclosure of critical accounting judgements and estimates for inclusion within the Annual Report and Financial Statements for 2019/20 subject to any further recommendations by the External Auditor, KPMG.

3. Internal Audit

Outstanding Audit Actions [AC20/06]

The Committee considered progress in the implementation of previously agreed audit actions. A total of eight out of 37 actions were overdue against their agreed implementation dates. Of the other 29 actions, 16 were reported as fully implemented and 13 were not yet due for implementation. **The Committee:**

[i] whilst acknowledging that some delays in implementing audit actions to agreed timescales were, at least in part, attributable to the cyber incident and/or COVID-19, noted that the limited progress in some of these areas predated this;

[ii] confirmed that all actions, including those with a revised implementation date that was still to be confirmed, should have realistic deadlines and key milestones assigned to provide early warning if actions were not on track;

[iii] confirmed that in exceptional circumstances where it was not possible to complete actions to agreed timescales, mitigating controls should be confirmed and implemented to manage the original and underlying risk(s) in the intervening period;

[iv] agreed that all actions should continue to be monitored via this Standing Agenda Item pending their full implementation, including the aforementioned interim control measures;

[v] noted the confirmation that the Vice-Chancellor and Chief Executive would lead further work with the University Executive to expedite the implementation of all audit actions to agreed deadlines.

Revenue Completeness Internal Audit Report: Management Action Plan [AC20/07]

The Committee noted an update on the action plan in response to the internal audit review of revenue completeness originally reported to the 10 February 2020 Committee meeting. Whilst the audit considered several large income streams, this holistic action plan across each of the University's income streams was intended to address the underlying causes of the issues highlighted by the audit, in all areas, ensuring the completeness and accuracy of all income streams was being monitored and/or a plan was in place to mitigate any risk and improve processes. Each income stream had been Red, Amber and Green (RAG) rated based on the extent of work required to resolve the issues identified. The action plan encompassed both longer term projects to be addressed as part of the enterprise resource planning (ERP) project, and in the short term, quick wins providing benefits in terms of efficiency and effectiveness, some of which had already been progressed. **The Committee noted the confirmation that income stream leads would have responsibility for implementing these actions, with overall progress monitored monthly as part of business as usual activity by the Finance Director, rather than via regular reporting to University Executive and, in turn, Audit Committee.**

Internal Audit 2019/20 Progress Report [AC20/08]

The Committee considered progress against the 2019/20 Internal Audit Plan since its 08 June 2020 meeting. Draft reports had been issued for five of the seven outstanding 2019/20 reviews. Management responses to the three IT based reviews were awaited due to the current cyber incident. The Core Financial Controls closure meeting was scheduled for week commencing 21 September 2020. Of the 43 audit actions tested as part of the follow up review, 38 had been verified as having been fully implemented. For the outstanding five actions, information was awaited from IT Services due to the cyber incident. Discussions with

management regarding the timing of the General Data Protection Regulation (GDPR) were ongoing for the same reason. **The Committee:**

[i] noted that representatives of the External Auditors, KPMG and Internal Auditors, EY would liaise outside of the meeting regarding any of the internal audits and findings therein that were still subject to finalisation and that may impact on the 2019/20 external audit;

[ii] noted that in light of the recent cyber incident, any potential implications for the 2019/20 Internal Audit Annual Opinion should the GDPR review not go ahead as planned were currently being considered internally by EY and both management and the Committee would be kept abreast of developments in this regard. Potential options included a replacement audit or deferral to 2020/21, which would be subject to further discussion with management and approval by the Committee respectively.

4. Policy, Risk and Assurance

Health, Safety and Wellbeing Report Q4 2019/20 [AC20/09]

The Committee noted the report for the period May to July 2020. Following consideration of the Health and Safety Policy at the 15 June 2020 Employment and Finance Committee meeting, this was being updated to reflect the feedback received prior to review by the Health, Safety and Wellbeing Management Group and, in turn, University Executive. Other key points of note included: [i] an update on the University's response to COVID-19, including the work of the Recovery Group on a remobilisation plan to gradually increase the amount of work taking place on campus in line with business requirements, [ii] statutory compliance had fallen below target due to non-completion of portable appliance testing (PAT), which had been deferred, [iii] a decrease in the average completion of mandatory health and safety training compared to the previous quarter, [iv] recorded staff absences for the period, which had declined, but noting that this most likely related to changes in working practices over this period and [v] ongoing work to support colleagues with their physical and mental wellbeing. **The Committee:**

[i] confirmed the need to continue to focus on, and take steps to ensure, that all staff completed mandatory training given the importance of Health and Safety;

[ii] noted that work was ongoing with line managers, including through the production of relevant guidance, to best enable them to support colleagues' return to campus given the different approaches required to cover the full spectrum of colleagues' circumstances;

[ii] requested confirmation as part of the Q1 2020/21 Health, Safety and Wellbeing Report whether the statistics presented that highlighted a downward trend in the number of accidents was primarily attributable to the lack of activity on campus rather than changing staff and student behaviours.

Insurance Coverage Report [AC20/10]

The Committee noted an annual report on the University's insurance arrangements, to help inform its overall opinion on the adequacy of the University's internal control and risk management arrangements. In a period of significant upheaval, primarily resulting from the COVID-19 pandemic, the paper identified that risks continued to be managed whilst improvements and developments were also ensuring that the approach kept pace with the changing environment.

Reportable Incidents Summary [AC20/11] **RESERVED AND LEGALLY PRIVILEGED*

The Committee considered the update on Reportable Incidents as at 11 September 2020.

Strategic Risk Register Update [AC20/12]

The Committee considered the revisions proposed to date to the University's Strategic Risks as part of ongoing work by University Executive ahead of their review at the Board of Governors meeting on 05 October 2020. A new risk, focussing on the COVID-19 pandemic, had been created with existing risks amended to reflect the impact of the pandemic, as well as other factors impacting on the risks. **The Committee agreed to provide any detailed comments and feedback on the Register back to the Secretary via email.**

Committee Agenda Plan 2020/21 [AC20/13]

The Committee noted its Agenda Plan for 2020/21, which included items deferred from the September 2020 meeting to either an extraordinary meeting in October 2020 (the exact date of which was still to be confirmed) or the 02 November 2020 meeting. In the case of the latter, an extraordinary meeting either later in November or December 2020 would subsequently be required in respect of those Agenda Items that would ordinarily be the subject of consideration at the November meeting. **The Committee noted that the timing and scheduling of Committee meetings during the remainder the current calendar year would be confirmed in due course following confirmation from the Office for Students (OfS) regarding applicable submission deadlines, and confirmation of the timetable for review and approval of the Financial Statements.**

Deviation from the Financial Regulations for IT Purchase [AC20/14]

The Committee noted a paper on a recent deviation from the standard approval routes within the Financial Regulations, in line with paragraph four of those Regulations and which had been subject to advance authorisation of the Vice-Chancellor and Chief Executive, with the Chair of the Board of Governors, Chair of Employment and Finance Committee and Chair of Audit Committee being consulted as required. **The Committee confirmed it understood why the deviation from the standard Financial Regulations was appropriate in this case and recognised this specific provision within the Financial Regulations was used in exceptional circumstances only. The Committee would be kept abreast of the outcomes in this particular instance.**