**AUDIT COMMITTEE MINUTES**

A meeting of the Audit Committee was held on 27 June 2022 Building One, Board Room and via Microsoft Teams at 10:00-14:00hrs.

**Agenda**

1. Welcome and Declarations of Interest
2. Minutes of the Meeting 24 March 2022 (AUD/22/21) and 5 May 2022 (AUD/22/24) and Matters Arising
3. Cyber Insurance Deep Dive
4. KPMG Audit Plan and Strategy for year ending 31 July 2022 (AUD/22/25)
5. KPMG Higher Education Risk Management Benchmarking (AUD/22/39)
6. Internal Audit: Progress Report (AUD/22/26) and Outstanding Internal Audit Actions Summary (AUD/22/31)
7. Internal Audit Reports: Ransomware  (AUD/22/27); Academic Quality (AUD/22/28); Insurance Arrangements (AUD/22/29)
8. Draft Internal Audit Plan for 2022/23 (AUD/22/30)
9. IT Services Report (AUD/22/36)
10. Update of Financial Regulations (AUD/22/32)
11. New Financial Strategy (AUD/22/33)
12. Draft Budget 2022/23 (AUD/22/34)
13. Risk Management Update (AUD/22/35)
14. Draft Planned Agenda Items and Dates for 2022/23 (AUD/22/37)
15. Chair's closing remarks
16. External Audit and Internal Audit Procurement Update (AUD/22/38)


**Members:**

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|---|---|
| Gerry Brown (Chair) | Independent Member |
| Nicholas Cheffings | Independent Member (virtual) |
| Graham Cole | Independent Member |
| David Dupont | Co-Opted Member |
| Simon Enoch | Co-Opted Member |
| Alison Reed | Independent Member (virtual) |


**In attendance:**

| | |
|---|---|
| Mike Shore-Nye | Registrar and Secretary |
| Nathan Burden | Director Exeter IT (items 3-9) |
| Andrew Connolly | Chief Financial Officer |
| Susan Fallon | Interim Deputy Secretary to Council (minutes) |
| Donna Fitzgerald | Deputy Director Finance Services |
| Alex Gerbasi | Pro-Vice-Chancellor Business School |
| Christopher Lindsay | Director of Compliance, Governance and Risk |
| Kate Lindsell | Head of Compliance |

Tracey Tuffin          Risk and Compliance Manager

Alison Breadon          PwC, Internal Audit
Catherine Bru           PwC, Internal Audit (virtual)
Yousef Ghazi-Tabatabai  Associate Director, PwC (virtual)
Duncan Laird            KPMG External Auditor
Isabel Geerlings        KPMG External Auditor (virtual)

**Apologies:**
Rees Batley             KPMG External Auditor
Mathew Elmer            PwC, Internal Audit
Michael Wykes           Director of Policy, Planning and Business Intelligence

**ACTIONS:**

| Agenda item | Action | Responsible Officer | Deadline |
|---|---|---|---|
| 3 | Future update to Audit Committee on the University cyber insurance plans and provision. | Director of Compliance, Governance and Risk | January 2023 |
| 5 | Update to be provided to Audit Committee on Horizon funding risk. | Director of Research Services | 26 September 2022 |
| 7 | Council to have sight of University insurance arrangements. | Committee Secretariat | 8 December 2022 |
| 7 | Post meeting send out details on insurance costs and claims | Risk and Compliance Manager | Completed |
| 13 | The Committee requested that inflation risk (currently under the heading "financial sustainability") is amended to be a standalone risk. | Risk and Compliance Manager | 1 August 2022 |
| 13 | Feed back to the corporate risk owner of the Change in Government Policy risk (#77) that there should be a review of the UKRI global research funding (alternative to Horizon Europe) | Director of Compliance, Governance and Risk | 26 September 2022 |
| 14 | Cyber security to be added to the 2022/23 forward agenda. | Committee Secretariat | 26 September 2022 |
| 14 | Reduce the time between the October and March meetings of Audit Committee in 2022/23 by bringing the March meeting to earlier in the calendar year. | Committee Secretariat | 26 September 2022 |

## 1. Welcome and Declarations of Interest

1.1. The Chair welcomed members, officers and representatives from KPMG and PWC, and thanked the Pro-Vice-Chancellor of the Business School, for joining the meeting.

1.2. There were no additional declarations of interest.

## 2. Minutes of the Meeting 24 March 2022 (AUD/22/21) and 5 May 2022 (AUD/22/24) and Matters Arising

2.1. The Committee approved the minutes of the meeting on 24 March 2022 (AUD/22/21) and 5 May 2022 (AUD/22/24).

2.2. Updates on the actions from the minutes:

**Actions:** 24 March 2022

| Agenda item | Action | Responsible Officer | Update |
|---|---|---|---|
| 7 | Audit Committee requested a paper detailing the IT capacity and skills gaps and the plan to address these gaps. | Director of IT | 27 June 2022 agenda item 9 |
| 7 | Audit Committee requested the Director of IT Services to consider roles that might need a stronger element of security accreditation. | Director of IT | 27 June 2022 agenda item 9 |
| 9 | The Director of Compliance, Governance and Risk to discuss the high amber rating of the Climate Emergency risk with the risk owner. Audit Committee to receive assurance that the University Strategy risk green rating accurately reflects the level of risk | Director of Compliance, Governance and Risk | Completed |
| 10 | Audit Committee to be provided with detail of what type of posts 'Casuals' are within the mandatory training report before approving the recommendations set out in paper AUD/22/12. | Head of People Development | Details are provided below for assurance |

'Casuals' are staff who are employed on a temporary basis and include the following:

- Academic, Technical and related roles
- Staff who undertake Teaching, Research, Tutoring, Supervision and Marking
- Staff employed just to support Field Trips (Support, Technician, Demonstrator)
- Other Technician, Demonstrator and Lab staff
- Postgraduate Teaching Assistants
- Exam Invigilators
- Translators, Transcribers
- Student Ambassadors and Marshals

- Student Campus Partnerships
- Grand Challenges roles
- Actors

External 'causal' roles include, assessors, facilitators, guest speakers and Lecturers

Professional Services 'casual' roles include:

- Administrative staff employed from our Temporary Resourcing Bank
- IT support staff
- Project Managers, Coordinators, Officers, Assistants
- SID workers
- Interns i.e. Professional Pathways, A2I
- Campus Services roles for events and catering
- Sports Park (swim teachers, sports instructors etc.)
- Library Shelving Assistants
- Stores Assistants

There is a large number of people joining and then leaving these casual roles quickly, often employed for single events like conferences. Line managers, who are responsible for ensuring mandatory training is undertaken, can change quickly.

**Actions:** 5 May 2022

| Agenda item | Action | Responsible Officer | Update |
|---|---|---|---|
| 4 | The Zero Based Budgeting project to be part of the internal audit programme in 2023/24. | Director of Compliance, Governance and Risk | 27 June 2022 agenda item 8 |
| 4 | Digital investments discussion to be on the agenda for Autumn 2022 Audit Committee. | Committee Secretariat | This is on the forward agenda for 2022/23. |

3. **Cyber Insurance Deep Dive**

3.1. Yousef Ghazi-Tabatabai, an Associate Director at PWC whose specialised area is Risk Modelling and Cyber Risk Quantification, provided a presentation to the Committee on the challenges of cyber insurance.

3.2. The Committee discussed the challenge to Exeter and noted that Exeter IT were significantly ahead on demonstrating to insurers that the risk has been assessed and is being addressing; to prevent cyber-attack, and to be able to minimise the impact when something does happen. However, it was noted that organised crime is moving into cybercrime and attacks are getting more sophisticated. The constantly changing threat environment requires the University to constantly upgrade defences to be able to get insurance. Exeter IT is implementing best practice;

3.3. The Committee recommended that the University should get in direct contact with underwriters, as they need to understand the University processes to provide suitable insurance cover at a sensible price. It was noted that there is a reducing number of insurance providers providing cyber

insurance cover, adding to the challenges in this area; and it was recommended that the University sought catastrophe cover.

**Closed Minute**

3.4. It was noted that Ransomware insurance is within the University's full cyber policy, covered loosely by a statement within the policy. It was suggested that management consider a gold exercise for a ransomware attack.

3.5. The Executive agreed that further education with the Senior Leadership Forum and the new Faculty leadership was essential to understand the risk cybercrime is to the University.

3.6. The Committee agreed that cybercrime is the highest risk to the University, and whist Exeter has cyber insurance which many universities do not, relying solely on insurance cover to mitigate the risk is not adequate.

3.7. **ACTION: Update to Audit Committee on the University cyber insurance plans and provision.**

4. **External Audit: KPMG Audit Plan and Strategy for year ending 31 July 2022 (AUD/22/25)**

4.1. Duncan Laird presented KPMG's audit plan, noting that the timelines set are manageable and the audit would be very similar to previous years. He stated there is low risk to the University as a going concern due to the large cash balances, but they will consider this in reviewing the budget and financial plans. He stated that the auditors would be looking at the budget and the inflation risks; as well as the risk with suppliers and their ability to deliver due to inflation pressures.

4.2. The Committee discussed ESG reporting (which would not be part of the external audit) and the aim to increase this within the annual report for 2021/22. Whilst it is acknowledged the University has not previously reported on each element separately the aim would be to bring it together in the 2021/22 Annual Report.

4.3. The Committee discussed access and participation expenditure and the external auditors assured the Committee that the University has good processes to capture the information, which is audited. Additionally, the auditors review the outcomes report the University makes in this area, that is fair and balanced.

5. **KPMG Higher Education Risk Management Benchmarking (AUD/22/39)**

5.1. KPMG provided this benchmarking and noted that Exeter's top risks are similar to those in other Russell Group universities. It was noted that inflation was not in the data as it has only recently been included in Exeter's risk register. KPMG noted that risk has to be contextualised for each university and how much mitigation effort is needed for each area.

5.2. **ACTION: Update to be provided to Audit Committee on Horizon funding risk.**

**6. Internal Audit: Progress Report (AUD/22/26) and Outstanding Internal Audit Actions Summary (AUD/22/31)**

6.1. Ali Breadon provided a report to the Committee stating there are three overdue actions which they have received a through response from management on the progress of.

6.2. The Director of Compliance, Governance and Risk provided an update on the outstanding internal audit actions which had reduced from eleven to three since the last Committee meeting.

6.3. The Director of Compliance, Governance and Risk informed the Committee that the University culture towards internal audit actions had become more positive, with increased awareness of the importance and value of internal audit and the value added actions. He noted Audit Committee had been key in that change. However, he stated that workload pressure remains significant in the University and causes challenges with progressing internal audit actions in a timely manner.

6.4. The Register and Secretary informed the Committee that he intends to do a full review with each of the new Professional Services Divisional Directors on internal audit actions, training and other compliance issues on a regular basis, which will continue to ensure focus on internal audit actions.

6.5. The PVC of the Business School noted that from September there will be more business as usual (post pandemic and restructure) which will enable time and effort into internal audit actions and quality management. She also noted the new leadership, recruited through the restructure process, have a greater understanding of the needs of the University as a business.

**7. Internal Audit Reports**

7.1. Ransomware (AUD/22/27). It was noted by the internal auditors this is rarely issued as lower than high risk report for the Higher Education sector. The internal auditors, on the request of the University, went into this area very thoroughly. The issue noted was around resources to be able to move forward at pace; however the management response and timescales was considered reasonable given the skills shortage and ongoing staff recruitment. The Director of Exeter IT noted that the level of detail in the report was much appreciated. He stated that progress was dependant on recruiting to certain roles, which HR had worked to adjust the offer to make it attractive. He also noted to the Committee the complexity of a new IT offering and post pandemic provision; and therefore the complexity for closing all the internal audit actions.

7.2. The PVC of the Business School informed the Committee that the Senior Leadership Forum had all been involved in a session to understand what could happen in a cyber-ransom situation and how it would affect the academic endeavour. She offered to connect the Director of Exeter IT with the Degree Apprenticeship team to consider how the University could develop talent from within.

7.3. The Director of Exeter IT thanked the Audit Committee for their ongoing focus on this area and feeding in their independent experience.

7.4. Academic Quality (AUD/22/28). This was noted by the internal auditors as a low risk report, with processes that are good and efficient. Some minor areas for improvement had been provided. It was noted that academic staff always appreciate any streamlining in this area that is possible; and

that this would be an aim in the new Faculties. The University was undertaking a review of its quality assurance arrangements as part of the transition to the new three Faculty structure, and part of this work included the identification of process improvement aimed at reducing administrative burden.

7.5. Insurance Arrangements (AUD/22/29). This was reported by the internal auditors as medium risk which reflects the importance of insurance across the University and it is that context that is driving the medium risk score rather than any gaps in the University's approach and activity.

7.6. The Head of Compliance noted the value added by this report and recommendations, which would help with building the compliance framework.  She noted the value of the process, which had reinforced existing views about the challenges in the market and the need to build the team to be able look at the future challenges.  She stated the staff time and effort has been in operational matters and they intend to create the time to tackle the strategic and higher risks.

7.7. **ACTION: Council to have sight of University insurance arrangements.**

7.8. **ACTION: Post meeting send out details on insurance costs and claims.**

## 8.   Draft Internal Audit Plan for 2022/23 (AUD/22/30)

8.1. Ali Breadon presented the internal audit plan to the Committee.  She noted that it had been considered by the University Executive Board and the Professional Services Leadership team to agree priorities for 2022/23. She asked the Committee to consider the plan which is presented as a balanced view across the University and to consider the listed items that have not formed part of next year's plan.

8.2. Audit Committee welcomed the focus on cyber security and IT and noted that the commercial operations review is important since the adoption of the Guild's trading activity and associated loses.  The student experience focus on welfare was also welcomed and the Committee **AGREED** the plan.

## 9.   IT Services Report (AUD/22/36)

9.1. The Director of Exeter IT presented this report following a request at the March meeting of the Committee for more details on the IT capacity and skills gaps; and IT roles that might need a stronger element of security accreditation.

9.2. The Director IT outlined the environment the University is facing with cyber security and the increasing targeting of universities by criminals. The University is dealing with a constant attack on its IT; a constant background of incoming phishing; and seeing an increase in domain replication and having to work with the police to take those domains down.

9.3. He noted that since the last Audit Committee the University had engaged a managed service where an expert third party team runs 24 hours a day looking for unusual activity in Exeter's services.

9.4. The Director of Exeter IT informed the Committee that work was underway with HR to increase staff checks in particular roles, to move to the British security standard; this full security check would be undertaken on internal staff also that move into certain roles.

## 10. Update of Financial Regulations (AUD/22/32)

10.1.    The Chief Financial Officer (CFO) provided a brief overview of the updates to the University's Financial Regulations, stating that the update would reflect more accurately practices at the University. This included the move to cashless campuses, the sustainable procurement policy, changes to the purchasing card policy, and the change from Colleges to Faculties.  It also included an enhanced narrative about the University as a charity.

## 11. New Financial Strategy (AUD/22/33)

The CFO informed the Committee that the new strategy had been approved by Council, and is an adjunction to Strategy 2030. He noted the key change is move from EBITDA to financial sustainability as the key strategy and this means a change in the KPI to be EBIT.

**Closed Minute**

11.1.    He noted that whilst it appears to be a minor definition change, the expectation is that the resulting change in behaviour of managers should be more profound, with depreciation having to be considered and the trend on operating surplus – this is expected to have an impact on future business plans.

## 12. Draft Budget 2022/23 (AUD/22/34)

12.1.    The CFO presented the draft budget and future year projections.  He informed the Committee the draft had been reviewed by the Council Finance Review Subcommittee.

12.2.    He noted banks that require five-year financial projections and the Office for Students would receive these five-year projections, updated after the 2021/22 outturn and September's student recruitment.

12.3.     He noted the budget included the financial envelope for capital investment but not specific items at this stage, other than for new projects in 2022/23.  He also noted that the budget did not reflect the new Faculty business plans yet and there would be work to develop these in the next planning cycle.  However the risk in mitigated by the senior executive remaining relatively static, along with their supporting teams. The budget presented will be the new baseline for Faculties and Professional Services to work within.

**Closed Minute**

12.4.     Inflation and salaries (driven by national pay bargaining) could change, but it is expected to be within manageable parameters.  The budget had factored in more for energy costs and for insurance. The Committee discussed the challenge of national pay bargaining and inflationary pressures on staff.

12.5.    The CFO noted that capital expenditure for next year is high and a big increase on the current year.  There is a risk that the University will not achieve this level of expenditure and this in turn would risk the income generation activities dependant on it.

12.6.    The CFO noted the University income has grown by £75M in one year. Debt servicing costs are fixed on loan notes.  The annual ERBS deficit recovery payment was also fixed until the next valuation.  He stated the University is inside financial covenants, including USS covenants.


## 13.  Risk Management Update (AUD/22/35)

13.1.    The Head of Compliance provided an update to the Committee noting the cyber risk; climate emergency risk; pension costs; and the inflation risk.

13.2.    **ACTION: The Committee requested that inflation risk (currently under the heading "financial sustainability") is amended to be a standalone risk.**

13.3.    She stated there is one red risk, information security.  The team had taken time to understand the risk and plan towards ultimately controlling the risk; aiming for a residual amber rating for this risk.

13.4.    Amber risks were noted including the Future Structures programme which had increased from green to amber. It was noted that there was one new risk that is rated amber, Insurance market failure, that had been escalated to the corporate risk register from the Compliance, Governance and Risk operational risk register.

13.5.    It was noted the report also provided an update on the ongoing management of risk related to the Covid-19 pandemic.

13.6.    The Committee discussed the risk to European research funding, in particular Horizon funding.

13.7.    **ACTION: Feed back to the corporate risk owner of the Change in Government Policy risk (#77) that there should be a review of the UKRI global research funding (alternative to Horizon Europe)**

## 14.  Draft Planned Agenda Items and Dates for 2022/23 (AUD/22/37)

14.1.    The Director of Compliance, Governance and Risk provided a summary of the agenda items for Audit Committee in 2022/23.  The Committee requested that cyber security is added to an agenda; and to reduce the time between the October and March meetings by bringing the March meeting to earlier in the calendar year.

## 15.  Chair's closing remarks to the whole meeting

15.1.    On this his last meeting of Audit Committee the Chair reflected on the importance of the Audit Committee, especially considering the current challenges in the sector and facing the University.  He noted the important role the Committee had and stated it has been his pleasure to work with the Committee and thanked everyone for their participation and support.

15.2.    The Chair thanked the Registrar and Secretary for his leadership; noting the exemplary relationship between the staff and Audit Committee.  He thanked the CFO, noting the strong financial position of the University under his direction. He thanked the Director of Compliance, Governance and Risk and his team for their support in managing the business of the Committee.  He noted the excellent relationship with the external advisors in PWC and KPMG and thanked them.

15.3.    The Chair expressed his thanks to the independent members and the non-council members who have the challenge of knowing and understanding the institution.  He noted the University's good fortune in the quality of its independent members.

15.4.    Graham Cole on behalf of the Committee thanked the Chair for his contribution to University fundraising and the Audit Committee. He noted the Committee had been more focused under the current leadership and it had been a great pleasure to serve on the Committee under the current Chair.

15.5.    The Registrar and Secretary thanked the Chair and noted the Committee had become much more strategic under his chairpersonship; particularly in the area of student experience, Value For Money, and Cyber.  He also stated that he had learnt much in the art of being a Chair from him and was grateful for the constructive challenge provided. He also noted that the profile of the Committee had increased, including the regular briefing at Council, which has helped shape Council's debate.

15.6.    The Chair informed the Committee that Nicholas Cheffings would be taking over as Chair of Audit Committee from 2022/23.

15.7.    The Chair requested PWC and KPMG representatives to depart the meeting.

**16.  External Audit and Internal Audit Procurement Update (AUD/22/38)**

**Closed Minute**