CONFIRMED



**UNIVERSITY OF EXETER**

**AUDIT COMMITTEE**

A meeting of the Audit Committee was held on 29 October 2020 via Teams at 10:00-15:00hrs.

**Agenda**

1 Private Session with the Auditors. This item was for Audit Committee members only
2 Welcome and Declarations of Interest Chair
3 Minutes of the Meeting 22 September 2020 and Matters Arising (AUD/20/60) –
- Complaints reporting (including staff survey update and speak out guardians) –
- Cyber Security action tracking –
- University's Insurance Arrangements Information

4 CUC Code for Audit Committees and the Internal Audit Code Benchmarking (AUD/20/61)
5 Terms of Reference and Objectives (AUD/20/62)
6 Research Cost Recovery
7 Draft Annual Financial Statements:
- The Draft Annual Report and Financial Statements of the University for the year ended 31 July 2020 (AUD/20/63) –
- Draft Annual Report (AUD/20/78)
- Value for Money Report (AUD/20/64)
- The External Auditors' Highlights and Management Letter in Respect of the University's Financial Statements for the Year Ended 31 July 2020 (AUD/20/65)
- Annual Report of Audit Committee 2019/20 (AUD/20/66)

8 Internal Audit Update:
- PWC Annual Report 2019/20 (AUD/20/67)
- UoE Data Sharing Report (AUD/20/68)
- Responding to growing human operated ransomware attacks (AUD/20/76) –
- Internal Audit - IT Resilience (AUD/20/77)
- Data Assurance Update (AUD/20/69)

10 Any Other Business
11 Chair's Closing Remarks

**Part ii Papers**

- Council Finance Sub Committee minutes - 10th (AUD/20/70) and 24th September (AUD/20/71)
- CUC HE Audit Committees Code of Practice (AUD/20/72)
- Information Internal Audit Code of Practice Report (AUD/20/73)
- Information OFS Regulatory Framework (AUD/20/74)
- Information Annual Student Cases Report (AUD/20/75)

**Attendees:**

**Members:**

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

**In attendance**:

| | |
|---|---|
| Heather Ancient | PWC, Internal Auditor |
| Andrew Connolly | Chief Financial Officer |
| Alan Hill | Chief Information and Digital Officer (item 8 only) |
| Jacqueline Hodges | Deputy Secretary to Council (Minutes) |
| Christopher Lindsay | Director Compliance, Governance and Risk |
| Mike Shore-Nye | Registrar & Secretary |
| Professor David Allen | PVC and Executive Dean, Business School |
| Tracey Tuffin | Interim Internal Audit Manager |
| Vicky Sewell | KPMG (items 1-7 only) |
| Duncan Baird | KPMG |
| Heather Ancient | PWC |
| Charlie Martin | PWC |

**Apologies:**
Kate Lindsell   Head of Compliance

**Actions summary:**

| Item | Action Summary | Owner | Progress |
|------|----------------|-------|----------|
| 2 | CIDO and KPMG to meet to resolve differences of opinion on KPMG External Audit report findings and provide an update at the next meeting | Mike Shore-Nye | Update to be provided at the next meeting |

1    **Private Session with the Auditors**

The meeting opened with a private session for Committee members with the auditors, without officers present.

2    **Welcome and Declarations of Interest**

The Chair welcomed members, officers and representatives from KPMG and PWC to the meeting.

No declarations of interest were made.

3    **Minutes of the Meeting 22nd September 2020 (AUD/20/xx**)

Actions from the previous meeting were discussed with the following matters raised -

i. Complaints reporting (including staff survey update and Speak Out Guardians)

▪    The Registrar and Secretary responded to the Committee's request to receive further information on feedback from staff and students in order to inform discussion of emerging organisational health risks.  He confirmed that an item would be presented to the March meeting providing insight into the outcomes of the annual Speak Out Guardians Report, staff survey and pulse survey of students.

ii. Cyber Security action tracking –

▪    The Director of CGR and representatives of PWC discussed the circumstances that had led to internal audit actions having been missed from PWC's tracking system and provided assurance that there was a full understanding of what had gone wrong on this occasion.  A more robust approach was now in place and further review of this would take place as part of the end of year review.

iii University's Insurance Arrangements

▪    The Director of CGR responded to a previous request from the Committee for a granular discussion of the University's structural arrangements for its insurance cover.  As a result of the impact of the pandemic on workload, this work had not yet been completed but would be reported to the March/June Committee meeting.

The remainder of the actions from the last minutes were considered completed or covered in items on the day's agenda.

4    **CUC Code for Audit Committees and the Internal Audit Code Benchmarking (AUD/20/61)**

The Director of CGR explained that two documents had recently been published which had previously been discussed by the Committee, the CUC Code for HE Audit Committees and the CIA Internal Audit Code of Practice.  This had prompted a need to review Audit Committee's Terms of Reference to ensure they aligned with best practice as set out in the Codes.  It was explained that the Committee had discussed its role as the conscience of the organisation and the Terms of Reference and Objectives for the Committee's work were being discussed in order to identify how they needed to be amended to reflect this principle.

The Committee discussed the elements of the Codes and commented there was strong evidence of compliance, independence, and effectiveness.

**5**    **Terms of Reference and Objectives (AUD/20/62)**

The Director of CGR noted that at the previous meeting, the Committee had reviewed its terms of reference in the context of the CUC and CIA Codes and changes had been proposed as a result. The changes had been made to ensure the terms of reference were clearer about members' roles and the Committee's powers to better align governance, academic representation and core duties towards value for money, economy, efficiency and effectiveness, underlying conscious of the institution and continuous improvement.

The amendments aimed to articulate more clearly duties with regard to financial authority and demonstrate the culture of risk management to ensure it was strengthened and aligned to good practice, policy, procedures and regulation and the adequacy of management information made available to the Committee in order to fulfil its duties. An additional objective had also been included regarding the Committee's role in the response to the pandemic.

The Committee welcomed the revisions and discussion was held regarding the role of the Committee, its business cycle and emphasis given to the key responsibilities within its powers. It was agreed that a further informal discussion should take place to enable the Committee to discuss its role, the outcomes of which would be reported to the next meeting.

**6**    **Research Cost Recovery**

The Assistant Director - Research Finance joined the meeting and provided an update on progress since a presentation from the CFO and DVC (Research & Impact) the previous year on the cost of research vs income received as research funding. It was highlighted that -

- there had been a slight increase in recovery rates, attributed to the positive impact of increasing overhead rates on research
- a gap was still evident in the amount of investment in research made and costs recovered compared to the University's peer group
- a new process was in place to analyse match funding and this was being closely monitored with indications that it was working well
- research funding applications were approved by the DVC (Research & Impact) and a core facility working group had been put in place to support the delivery of further improvements
- support was being given to ensure clearer and better quality and costing of applications for research funding
- additional areas of focus included research data storage to better enable recovery against new research data
- The incoming Vice-Chancellor intended greater focus too on identifying the measurable qualities of research such as outputs and future income opportunities, which added a new dimension to make sure value for money was achieved.

The Chief Financial Officer added that good progress had been made with academic colleagues engaging with the agenda to address the issues. The lengthy leads time meant improvements took time to show in financial data and some current work could not be changed, but it was anticipated that improvements would start to show through in future reporting.

The Committee discussed the presentation and noted the high proportional costs in research intensive disciplinary subjects. It was noted that this was a focus of the work by the DVC (Research & Impact) to bring greater insight to these areas to improve efficiency and utilisation and improve cost recovery. Benchmarking cost by discipline with peer universities was discussed but it was confirmed that no official data existed to undertake this analysis. The representation of income

generation from research activities within figures presented was challenged but it was explained that costs were also being analysed in parallel with teaching and total cost recovery analysis too, and from this it was possible to establish a clearer view of overall performance.

Representatives from PWC confirmed that progress was being made and was strategically heading in the right direction.

**7      Draft University Annual Report and Financial Statements**

- The Draft Annual Report and Financial Statements of the University for the year ended 31 July 2020 (AUD/20/63) –
- Draft Annual Report (AUD/20/78)
- Value for Money Report (AUD/20/64)
- The External Auditors' Highlights and Management Letter in Respect of the University's Financial Statements for the Year Ended 31 July 2020 (AUD/20/65)
- Annual Report of Audit Committee 2019/20 (AUD/20/66)

The CFO presented a suite of documents to support Audit Committee's scrutiny of the financial report.  He thanked members for their comments in feedback to the previous version of the last report which had been circulated via email following the last meeting.

The report was to be presented to Council on 19th November for final approval.

Representatives from KPMG provided a commentary on the external audit work undertaken on the statements and report and highlighted –

- Work was largely completed in regards on testing
- A wider conversation was ongoing in relation to access and participation data as new requirements had been introduced during the year. KPMG were informing a sector wide approach. Whilst this did not immediately impact on Exeter, it could potentially filter down to the University when providing an opinion on required testing
- Work was still ongoing internally within KPMG to finalise the required opinions to inform KPMG's assurance position in relation to the approval of the accounts. It was not anticipated that the University would receive any significant representations.

**DECISION: Audit Committee recommended the approval of the Annual Report and Financial Statements 19/20 to Council**

**8      Update from the Internal Auditor**:

**i.      PWC Annual Report 2019/20 (AUD/20/67)**

Representatives of PWC provided a high-level summary of consistent themes from audits undertaken during the previous year.  It was noted that the audit plan had been approved at the start of the year and had undergone significant change due to the subsequent impact of the pandemic.  Page 11 of the report was highlighted, demonstrating the common themes and conclusions.

Credit was paid to the work of PWC by the Chair in delivering the University's internal audit function.

### ii.     University of Exeter Data Sharing Report (AUD/20/68)

Representatives from PWC noted areas of good practice identified within the report, highlighting –

- All policies and procedures were in place making standards clear
- Robust systems were in place for IT systems widely used across the University and a strong relationship existed between IT and the Information Governance team to manage sharing within the University's major IT systems
- The Information Governance team worked as an enabler to process information for the University rather than acting as a hindrance

Committee members raised queries on the scale of processing by budget holders outside of the systems in place and it was confirmed there was a significant volume. The risks associated with approval of corporate credit card spend in T1 were discussed and assurance was provided that a second line of defense was in place within the finance team to identify any issues.

Credit was paid to the IG team and Exeter IT, who had driven significant improvement to the robustness of processes and procedures in place.

### iii.     Internal Audit - IT Resilience (AUD/20/77) and Responding to growing human operated ransomware attacks (AUD/20/76

Representatives from PWC presented the findings from the report and explained that it had been an agile review with its focus prompted by the increased use of the virtual learning environment (ELE). The following points were covered in the summary -

- The review sought to work through 5 risk areas and had been welcomed internally.
- The considerable work undertaken by Exeter IT in mitigation of these risk areas was highlighted; including the roll out of over 600 laptops to facilitate remote teaching, the rollout of Teams and the provision of more out-of-hours support
- PWC acknowledged that the review had been undertaken at a time when the department was under immense pressure resulting from the rapid digital response required as result of the Covid pandemic
- A full audit of ELE would be undertaken with in the Audit Plan for the next academic year.

The Committee discussed the findings of the report and queried the impact on data loss where IT systems targeted by a ransomware attack. It was confirmed that the worst case scenario would be a loss of the previous 24 hours of teaching data. The Committee expressed confidence in this position but stressed the urgent need for disaster recovery plans to be in place and to continue the work to increase resilience.

IT capacity management was discussed, and it was highlighted that significant investment was being made to increase capacity in the short term to support teaching requirements through the coming term. It was explained that whilst this approach reduced the immediate associated risks, the solution was expensive and a more cost effective solution was required in the longer term.

The Committee queried what steps would be required in order to get to the desired position. Representatives from PWC explained that focus was on the IT systems that linked to T1 and SITS, noting there had been difficulties during implementation which had been subject to a full IT

environment review in the previous year. The current year's observations had taken place as a follow-up lighter touch review of documentation and evidence that controls were operating effectively.   It was clarified that in the previous year, super user permissions had been allocated to a large group of people and whilst this had now decreased with T1, issues remained around the operations of some of T1 and SITS IT controls.

**ACTION: CIDO and KPMG to meet to resolve differences of opinion on KPMG External Audit report findings and provide an update at the next meeting (CIDO/PWC)**

9       **Chair's Closing Remarks**

The Committee discussed the presentation by Simon Enoch on Cyber Security and forthcoming follow-up discussion at Council's December meeting.

The Registrar & Secretary provided a briefing on the latest position within the University with regards to its pandemic response.  This covered case numbers within staff and students, personal risk assessments, mitigation of transmission risks, support provided to self-isolating students, management of behavioural issues with the student community, and testing provision.

Audit Committee members expressed their gratitude to the University's leadership involved in the response and recognised that hard work and commitment shown to maintaining the student experience during an incredibly demanding time.

No other business has been raised.