

UNIVERSITY OF EXETER

AUDIT COMMITTEE MINUTES

A meeting of the Audit Committee was held on 30 September 2021 in the Council Chamber, Northcote and via Teams at 10:00-14:00hrs.

Agenda

- 1 Welcome and Declarations of Interest
- 2 Minutes of the Meeting 3 June 2021 (AUD/21/43) and Matters Arising
 - Regulatory documents in the Council Induction
- 3 VC's Report
- 4 University Annual and Accountability Reports:
 - University Annual Report and Financial Statements (AUD/21/44)
 - Lending Covenant Update (AUD/21/46)
- 5 Pensions: USS 2020 and ERBS 2021 valuations (AUD/21/50)
- 6 Student HESA Data Returns:
 - PSLT Feedback (AUD/21/51)
 - Update from responsible officers (AUD/21/51A)
- 7 Draft Annual Audit Committee Report (AUD/21/52)
- 8 External Audit:
 - Update Report (AUD/21/53)
 - Sector Update (AUD/21/54)
- 9 Internal Audit:
2020/21 internal audit final reports:
 - i. Colleges (AUD/21/55)
 - ii. ITDR (AUD/21/56)
 - iii. Graduate employability (AUD/21/57)
 - iv. Student experience (AUD/2158)
 - a) Internal audit annual report 2020/21 (AUD/21/59)
 - b) Update internal audit risk assessment and plan 2021/22 (AUD/21/60)
 - c) Progress report 2021/22 (AUD/21/61)
- 10 Risk Management
 - Risk Management Report (AUD/21/62 and 62A)
- 11 Chair's Closing Remarks

Part ii Papers

- Council Finance Sub Committee minutes:
 - 29th June 2021

Attendees:

Members:

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

In attendance:

Totty Brobyn	Committee Secretariat Administrator (Minutes)
Christopher Lindsay	Director of Compliance, Governance and Risk
Andrew Connolly	Chief Financial Officer
Mike Shore-Nye	Registrar and Secretary
Tracey Tuffin	Interim Insurance, Audit and Risk Manager
Professor Jo Gill	Pro-Vice-Chancellor, Humanities
Joe Wall	Assistant Director of Finance
Alison Breadon	PWC, Internal Audit
Catherine Bru	PWC, Internal Audit
Matthew Elmer	PWC, Internal Audit
Rees Batley	KPMG, External Auditor
Isabel Geerlings	KPMG, External Auditor
Duncan Laird	KPMG, External Auditor
Professor Lisa Roberts	Vice Chancellor and Chief Executive (for item 3)
Michael Wykes	Director of Policy, Planning and Business Intelligence (for item 3 and 6)
Ian Blenkharn	Director of Education and Student Support (for item 6)
Tracey Scotter	Director of Digital (for item 9)

Apologies:

Kate Lindsell	Head of Compliance
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Actions summary:

Item	Action Summary	Owner	Progress
3	The Secretariat to share the slide created by Tim Quine to Audit Committee members.	Secretariat	
3	The strategy delivery review to be brought to the March meeting of Audit Committee.	Secretariat	
8	Assurances that errors had been corrected in data returns to be added to the Annual Report.	Chris Lindsay	
8	Further information to be added to the Annual Report regarding pensions.	Chris Lindsay	
9	High risk areas to be added to the Annual Report of the university.	Andrew Connolly	
9	The Director of CGR to report to Audit Committee members on the overdue audit actions and the progress of these actions.	Chris Lindsay	

1 Welcome and Declarations of Interest

The Chair welcomed members, officers and representatives from KPMG and PwC to the meeting and noted no apologies.

No declarations of interest were made.

2 Minutes of the Meeting 3rd June 2021 (AUD/21/43) and matters arising

The minutes of the meeting of 3rd June 2021 were approved as an accurate record.

Matters Arising on the Minutes

i. **Regulatory documents in the Council Induction**

Chris Lindsay noted the discussion from the meeting in June in reference to regulatory documents for the Council induction and confirmed that the full suite of documents was now available for Council members.

ii. **Industrial Partnerships**

Graham Cole updated the group on the plans for the Industrial Strategy and noted the agreement with the Vice Chancellor that the review and subsequent paper would be postponed until the new role of DVC Business and Regional Engagement was filled.

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

3 Vice-Chancellor's Report

The Vice-Chancellor (VC), Professor Lisa Roberts, joined the meeting to report her reflections on the past year and the new University strategy.

The University

The transformation of how we support, teach and assess students during the pandemic had been remarkable and would be built upon for the future. This had been visualised on a slide created by Professor Tim Quine, which would be distributed to Audit Committee members.

Closed Minute

Research pivoted to face into the pandemic and the University had become a national beacon of leadership in the area of the Covid 19. The VC added that this year 20 researchers from the University featured in the top 1% most highly cited worldwide. The Reuter's hotlist of top 21 climate scientists included only 5 from the UK, and all were at Exeter.

The VC highlighted the significant improvement of the University's position in global league tables, currently ranking in the top 150 in both the Times (rise of 31 places on last year) and QS world university rankings. The effect of this considerable improvement would be seen in future international recruitment.

Closed Minute

Strategy 2030

The creation of the new University ten-year strategy had seen the biggest engagement and consultation with staff and students in the University's history. An external company were contracted to crowdsource ideas and through a series of three big conversations using an online platform, where more than 85,000 comments were received and analysed. Additionally, experts from the sector and outside the sector, from the UK and abroad, were consulted and interviewed to create 11 thought pieces on University activities to inform the strategy.

The new strategy is due to be launched on October 4th. The process of developing fully costed and prioritised plans began at the UEB Residential in September; measures of success were also in development. The strategy would be subject to regular review. Council was due to be engaged at the end of November on the next steps, with the draft delivery plan being reviewed over the winter and Council and Audit Committee were due to be informed of the outcome in April 2022.

To manage the strategy delivery, a new Strategy Investment and Planning Committee (SIPC) had been established chaired by the VC, to hold responsibility for the alignment of the strategy, resourcing and delivery. This was part of a wider restructuring of the executive management governance structure. SIPC would have overarching responsibility for investment, budgeting, capital and infrastructure planning and investments. Audit Committee would be updated as the year progressed.

Updates from the sector

The VC noted UCU had announced their intention to ballot members for industrial action over the USS pension scheme. The ballots would be disaggregated and run from 18th October to 4th November. Strike action would be of very high risk to the University.

The comprehensive spending review (CSR) is due; the sector had submitted a strong case for continued investment in higher education including £22 billion investment in research and innovation, and maintaining Teaching Grants for the highest cost subjects. It is expected that the Government's response to the Augar Post-18 funding review would likely be part of the CSR. Fee reductions, student number caps, minimum entry requirement, changes to the teaching grant allocation and changes to the student loan system are all potentially part of the CSR.

Sir Paul Nurse, the Director of Crick Institute, had been asked by the Government to undertake a review of the research development and innovation organisational landscape and identify any necessary improvements.

The Committee discussed the impact of the decline in NSS results on the University. It was noted that looking outside the HE sector at businesses that know how to get insight into customer and staff experience would be useful.

Closed Minute

The VC noted that the NSS measured the total experience of the student on and off campus from the moment they arrive to the moment they leave, therefore work was also ongoing with Exeter City and Cornwall Council. The University is also looking at international recruitment objectives, including blended and online learning, and how international students are made to feel welcome when they arrive.

A Committee member noted the mismatch between what was being heard from students and what was reported through NSS, and questioned the University's analysis of the student experience and reporting of it in the Annual Report. The VC noted the need for the University to focus on the fundamentals and support to the large disciplines.

A member of the Committee noted that one of the areas of internal audit review was the Industrial Strategy, and queried if that review was appropriate to start now or if it should be delayed. The VC recommended that the review was delayed until the post of DVC Business and Regional Engagement had been filled.

The Chair and VC agreed that the strategy delivery review would be brought to the March meeting of the Committee. The Chair thanked the VC for attending and all her work over the last year.

ACTION: The Secretariat to share the slide created by Tim Quine to Audit Committee members.

ACTION: The strategy delivery review to be brought to the March meeting of Audit Committee.

4 University Finances

University Annual Report and Financial Statements (AUD/21/44) and (AUD/21/44A)

The Chief Financial Officer (CFO) gave an update on the University finances, initially noting the steps taken to counteract the possible decrease in income during Covid, including arranging emergency cash facilities and renegotiating banking covenants. However, he confirmed that while the pandemic had an impact on home and working lives, the University finances had been protected. The University started the year with a projected negative EBITDA, but ended the year with £36 million.

Closed Minute

The Chair congratulated the finance team for the superb financial performance and welcomed comments and questions from the committee.

A committee member queried the overall scale of the extra costs to manage Covid.

Closed Minute

A committee member asked if there was a process in place to analyse what a sustainable amount would be for annual travel costs.

The CFO noted that the University was unlikely to return to the old ways of travel, so costs would be reduced through sustainability policies.

A Committee member queried if progress had been made in the understanding of bottom-line costs in colleges.

The CFO responded that the current financial year had seen the introduction of reporting their full cost surplus and deficit, reporting to Council, operating cash generation (EBITDA) and introducing the concept of operating surplus (EBIT). He added that the new financial strategy would codify that.

Lending Covenant Update (AUD/21/45)

The CFO presented the paper to the committee noting that the University had been fully compliant with the renegotiated lending covenants last year. A lot of time had been spent on investor relations, including visits to the campus.

Closed Minute

A Committee member questioned if we should we be looking at 4-5% inflation, what this would mean for the pension deficit and if we should be renegotiating the covenants.

The CFO noted that the pension liability was sensitive to a number of variables, including staff cost inflation and staff cost growth. While inflation might increase the deficit, if it was accompanied by rising interest rates this could counteract the impact of inflation through a higher discount rate leading to a reduction in the liability valuation.

Closed Minute

5 Pensions: USS 2020 and ERBS 2021 valuations (AUD/21/46)

The CFO updated the Committee on the latest news from the pension valuations.

The Council Standing Committee had approved the UUK proposals to sign up to the schedule of contributions and the deficit recovery plan in the 2020 valuation, which was to become legally binding imminently. This would allow the USS to replace the large increase in contribution levels with a much more modest increase from next month. However, if the valuations were not agreed by February 2022, a number of fall-back provisions would be triggered which would be completely unaffordable by staff and by institutions.

The new deficit recovery plan was set to have an enormous impact on the current year financial statements, with an increase of liability to £200 million. Work will continue with USS, with a strong commitment to develop a low-cost entry solution, which could be launched in April 2022. A governance review of USS was also about to commence.

In the most recent ERBS valuation, the deficit recovery plan would have been on trajectory however the Governments RPI-reform had led to a £16m increase in deficit, partly offset by upside on investment returns and other actuarial assumptions resulting in a net £4m increase to the overall scheme deficit. Subject to Council's approval, a revised deficit recovery plan had been agreed, and

a schedule for the cash flow timing of the deficit recovery, increasing payments to £750,000 a year for the first three years and a further £1.05 million for the last three years, there will be another valuation in 3 years so whether the second increase was needed or not would then be reassessed.

A committee member requested an update on the discussions from the previous meeting around the moratorium of 20 years. The CFO noted that the University had formally responded to the consultation. The sector position was that a rolling 30-year moratorium had been offered, as a high value proposal that ultimately has kept cost increases very low. He added that the cost of leaving the scheme would be enormous and not economically viable.

A Committee member asked if, as the valuation date of March 20 coincided with the low point of equity markets, was there any ongoing feedback from USS on how the deficit was developing? The CFO noted that discussions on whether valuations should have continued, but the USS published evidence on their website, along with interim assessments of the schemes financial position as at 31 March 2021, indicating that the deficit had improved but the cost of providing future benefits had deteriorated, with a net effect of proposed contribution rates not being substantially different compared to the 2020 valuation.

The Registrar and Secretary noted that he had been appointed as a JNC negotiators for UUK.

Closed Minute

The work on the lower cost options, looking at both DB and DC schemes was well advanced and could be in place by April 2022, which could provide savings for employers and employees. Of the 84 employee/employer responses, 83 were fully in support of the change. He added that union negotiators did not formally submit a proposal but they had published proposals very similar to that of the employers in terms of benefit reforms.

The Committee discussed the upcoming UCU ballot.

6 Student HESA Data Returns

The Director of Compliance, Governance and Risk introduced the item to the group following the discussions at the June meeting of the Audit Committee where it was agreed that there needed to be more discussion about data quality assurance at the senior management level and ownership of some of the challenges faced in this area. Ian Blenkharn and Michael Wykes joined the meeting for this item to give their updates as responsible officers.

PSLT Feedback (AUD/21/47)

A discussion was held at the Professional Services Leadership Team meeting on 22nd September on the complexities surrounding the data returns and a subsequent response was crafted and presented to the Audit Committee noting their strong awareness of the impact and need for vigilance. The team also recognised the significant value of the Audit process and the assurance this provided to the executive management and governors.

Update from responsible officers (verbal)

The Director of Education and Student Support (ESS), Ian Blenkharn, noted that he was responsible and accountable for the HESA return. He added that although the findings were serious, he

welcomed the conclusions by auditors and invited the auditors to focus on this area of work following the teams own findings, in order to ensure that nothing was missed. He noted that the process was handled professionally on all sides and findings aligned with what had been put in place already and the response therefore was very quick.

Closed Minute

He added that it was important to note that the University had secured investment to bolster the team in student records, as during the year in question there had been a change in manager and a new Head of Student Records had created the action plan to deliver the changes that were required. The focus was then on spreading out the knowledge that sat behind the HESA return so that many more staff had the capacity to get involved to increase resilience as an institution.

The Director of ESS wished to provide reassurance that the actions had been thoroughly undertaken and that the University was taking the area very seriously and that this area of work was as error free as possible.

The internal Auditor assured the committee that actions had been reported as mentioned and were consistent with the views of PwC.

Closed Minute

7 **Draft Annual Audit Committee Report (AUD/21/48)**

The Director of Compliance, Governance and Risk took the committee through the report which set out the schedule of work undertaken by the committee in the previous academic year, and which would be submitted to Council following scrutiny by the Audit Committee.

The format followed previous years, detailing the meetings, attendees, terms of reference and objectives, including the updated objective to include the University's response to the pandemic. It provided detail on the approach to work to these objectives and the work undertaken in regards to certain key areas within audit, including financial control, risk management, internal and external audit and data assurance. It was noted that any blue text was due to be updated following the release of further information and data.

The final section was to be updated based on the approval of Audit Committee.

The Committee suggested:

- Adding another paragraph to reflect assurances that data errors had been reviewed and there were resources in place to stop this happening again.
- The pension section and the need for further information regarding the risk and the discussion.
- If it would be appropriate to highlight the ongoing work on social mobility.

A representative of PwC added that two areas of the audit code that need further scrutiny were Oversight of Culture and Academic Governance and how the Audit Committee interfaces with those areas. The Director of CGR responded that there had been a fundamental review of culture and that there was input from an academic member at each Audit Committee meeting.

ACTION: Assurances that errors had been corrected in data returns to be added to the report.

ACTION: Further information to be added to the report regarding pensions.

8 External Audit

Representatives of KPMG updated the group on work undertaken since the last meeting.

i. Sector Update (verbal)

It was noted that a full report on work in progress would be brought to the November meeting.

Highlights from KPMG were:

- Successes in data analytics, including the sign off £270 million worth of income from tuition fees analysis
- Research income and the health of the research ledger

It was noted that there had been no significant issues so far.

Conversations had shown a disparity in financial positions between universities, some strong and some not. Notably it came down to how each university presented the data within their reports and with students requesting refunds and the subsequent government review into student fees, a lot of discussion was being had around explaining their position in relation to their own narrative. It was noted, however, that there would be a widening in the sector between those who were financially stable and those who were struggling.

It was stressed that while there had been talks about a reduction in student fees, a headline cut was unlikely but rather they would be eroded over time.

9 Internal Audit:

Representatives of PwC updated the group on work undertaken since the last meeting and particularly focused on the following areas: Internal Audit Reports and the Progress Report.

i. Internal Audit Reports:

- Colleges (AUD/21/35)

The report highlighted one low risk and medium risk and stated that the colleges should focus on

- Allocation of academic personal tutors
- Disability support
- Preparation and scrutiny of budgets.

Closed Minute

The PVC for Humanities added that personal tutor meetings had a pastoral rather than academic focus, to ensure that students were well and happy and to discuss prospects and module choices. She noted that it might be useful to calibrate size of cohort with the issues and that there had been a number of different ways made available for recording these meetings, and it could be that there was some inconsistency across the University.

- **ITDR (AUD/21/36)**

Closed Minute

All of the findings had been agreed and there was a clear plan in place to address them.

Closed Minute

The Interim Director of Digital wished to reassure the committee that these risks were being addressed, and an IT service continuity manager had been recruited.

A committee member noted the time he had spent with the team and added his assurance that actions were being taken.

Closed Minute

The Interim Director added that as a direct consequence they had created a recruitment and retention plan which had been agreed in order to keep the people vital to the University in a crisis and hard to replace. She added that there was also a recruitment plan and a third-party company had been engaged to help with our hard to fill roles.

A committee member queried whether the University was offering retraining in order to do everything we could to hold on to more experienced staff who need further training?

The Interim Director noted that training was being offered training to those who wanted it.

Closed Minute

- **Graduate Employability (AUD/21/37)**

The report was concluded as a low risk. It noted that more of a systematic approach to sharing data was needed.

The Registrar and Secretary highlighted the importance of feedback and management response.

- **Student Experience (AUD/21/38)**

Overall, this was classed as a medium risk with four medium and one low risk findings. The report reflected previous discussions and the amount of work ongoing across the sector over the last twelve months. The key driver was to consider student experience more broadly and as part a longer-term strategy and plan. It was noted the remit of the Student Experience Advisory Board did not focus enough on student experience itself. It would be important to focus on how the University would measure the success of the strategy and how it would communicate feedback.

The Registrar and Secretary noted that the audit had highlighted activities needed to be more targeted, monitored, managed and controlled. The University had relied on having a good

education strategy, but the gap between policy, strategy and implementation on the ground needed to be addressed.

The Interim Director of Digital added that there was a digital product for communication for students and there was a lot of work ongoing in the digital space to find out what students want from their digital experience.

A committee member noted that this had been in discussion for a while and there were not enough mechanisms for collecting the data and working with it clearly.

The Registrar commented that it was an institutional challenge and the communication of module feedback was not translated into a readily usable data dashboard. The pulse surveys highlighted the fluctuation in student contentment throughout the year and during the changes in lockdowns. Insights from student groups were very useful with a lot of specific points raised.

ii. **Internal Audit Annual Report for 2020/21 (AUD/21/54)**

The report noted that Covid had had no impact on the scope of the work carried out by PwC and in a couple of reviews were quite specific on the impact on the control environment.

Across the sector Covid had revealed areas of vulnerability, and as a consequence PWC had issued many more major improvement requirement opinions than in previous years. This year the report had presented a “generally satisfactory with some improvement required” opinion.

One area not completed was the ransomware review, due to capacity issues and resourcing requirements, but a report would be brought to the committee in the future.

The Chair requested, with the agreement of the CFO, that it was added to the annual report of the University.

iii. **Updated internal audit risk assessment and plan 2021/22 (AUD/21/55)**

The plan was updated following the discussions at the June meeting of Audit Committee. The content of this year’s plan saw a proposal to bring forward the business planning from 23/24 to 22/23 to look at how the changes in the structure of the business planning team had impacted. The plan also included the consideration of the IT Digital Strategy as part of the review and furthermore planned maintenance was deemed important to be kept in the plan.

The request to add Industrial Partnerships into the 21/22 plan and use the contingency days to inform the review, would now need to be carried out when the DVC for Business and Regional Engagement had been recruited. While it was currently included in next year’s programme, it might now be during Q4 rather than Q2.

Student Welfare had been earmarked for 22/23 as opposed to looking at it in the next twelve months.

A committee member asked if as part of the process of creating a delivery plan for the strategy, we could get a steer on whether the University had the ability to deliver the strategy.

PwC noted that it would need to be an additional item, not included governance.

The Director of CGR stated that this could be incorporated into the annual review of risk management and PwC agreed to the inclusion.

The plan was agreed.

iv. **Progress Report 2021/22 (AUD/21/56)**

With the exception of the ransomware review, 20/21 work had been completed. While PwC was getting started on the new year plan, they were also shifting the timing of the TRAC review and partnerships review, but there was no intention to make any fundamental changes to the review.

Closed Minute

The Director of CGR agreed to provide a full update on progress with the overdue actions at the next meeting of the committee.

ACTION: High risk areas of the plan to be added to the annual report of the university.

ACTION: The Director of CGR to report to Audit Committee members on the overdue audit actions and the progress of these actions.

DECISION: The updated internal audit risk assessment and plan 2021/22 was AGREED.

10 **Risk Management**

i. **Risk Management Report (AUD/21/57 and 57A)**

The Director of CGR presented the Risk Management report to the committee and particularly noted the following risks:

Closed Minute

The report also included information around the response to the risk associated with the pandemic.

He also noted a concern raised by Council, at its meeting in July, around the consistency of scoring red within the college and service thematic risks and that this was being reviewed.

The Interim Director Insurance, Audit and Risk Manager noted that risk report number one for the 21/22 reporting year was in the process of being compiled, and that the timing of risk reporting deadlines were being reviewed. This would allow an extension of the time period between the submission date and the reporting to UEB and Council and thus enable a more in depth analysis and validation of the risk information with risk owners.

Council were due to undertake a risk blank paper exercise on 14th October to review any risks that should be considered, and output from that would be analysed with the other submissions received and discussed at the next meeting of the committee.

The first draft of the report was due to be reviewed at PSLT on 9th November, to enable risk owners to see their risks in full context, then Dual Assurance will scrutinise the report with feedback from PSLT, and amendments would be made with risk owners before an updated report to be submitted to UEB on 18th November and then it would finally reported to Council on 9th December.

A committee member queried whether pressures cost and inflation would impact the University's position in the coming year. The CFO stated that inflation did appear to be increasing, for instance utility costs had already risen. This main risk was how this would feature into future pay agreements and this could pose a risk to future budgets.

Closed Minute

The Registrar and Secretary noted that a reputation management exercise was undertaken a few years ago and recent practice had given the University the experience it needed, but he would be happy to look into a renewed one.

The Director of CGR noted that reputation was on the risk register but was not currently scored at a reportable level. This would be reviewed to ensure appropriate scoring.

7 Chair's Closing Remarks

The Chair noted that the next meeting would take place on 1st November 2021 and thanked the representatives of PwC and KPMG, everyone from the University and the Audit Committee members for their contributions.

No other business was raised.