



AUDIT AND RISK COMMITTEE

A meeting of the Audit and Risk Committee was held on 31 October 2022 Council Chamber and via Microsoft Teams at 10:00-13:00hrs.

Agenda

1. Closed session for Audit and Risk Committee members only
2. Welcome and Declarations of Interest
3. Minutes of the Meeting 26 September 2022 (AUD/22/66) and Matters Arising
4. Terms of Reference and Objectives
 - a. Update following Council consideration of the proposal to extend role of Audit Committee to Audit and Risk Committee (AUD/22/67)
 - b. Updated 2022/3 Audit Committee objectives (AUD/22/68)
5. Draft Annual Financial Statements:
 - a. -Draft Annual Report and Financial Statements to 31 July 2022 (AUD/22/69)
 - b. Value for Money Report (AUD/22/70)
 - c. The External Auditors' Highlights and Management letters in respect of the University's Financial Statements for the Year Ended 31 July 2022 (AUD/22/71)
6. Annual Report of Audit Committee 2021/22 - Final Version (AUD/22/72)
7. Internal Audit:
 - a. Progress Report (AUD/22/73)
 - i. Final audit reports from 2021/22 plan - Payroll (AUD/22/74)
 - ii. IT Third Parties (AUD/22/75)
 - iii. Industrial Partnerships (AUD/22/76)
 - b. Final report and opinion 21/22 (AUD/22/77)
 - c. Progress with plan for 2022/3
8. Risk Management
 - to note: the risk register will be discussed at the special meeting arranged 17 November
9. International Student Strategy
10. UPP
11. Cyber Security Review
12. Chair's Closing Remarks
13. Closed session for Audit and Risk Committee members only

Members:

- Independent Member - Nicholas Cheffings (Chair)(NC)
- Independent Member – Graham Cole (GC)
- Co-opted Member- David Dupont (DD)
- Co-Opted Member – Simon Enoch (SE)
- Independent Member -Alison Reed (AR)

In Attendance:

- Mike Shore-Nye - Registrar and Secretary
- Nathan Burden - Director Exeter IT (item 11)
- Andrew Connolly - Chief Financial Officer
- Tracey Tuffin - (minutes)
- Joe Wall- Deputy Director Finance
- Christopher Lindsay - FSP Lead for Compliance, Governance and Risk
- Michael Wykes - Divisional Director, University Corporate Services
- Kate Lindsell - Assistant Director (UCS), Compliance and Risk
- Ben Lawlor - Insurance, Audit and Risk Manager
- Ali Breadon - PWC
- Catherine Bru - PwC
- Rees Batley - KPMG
- Jane Chafer - Executive Director of External Engagement and Global (Item 9)
- Andrew Johnson - Assistant Director HR (Item 7a)

ACTIONS and deadlines from the October meeting

Agenda Item	Action	Responsible Officer	Deadline
5 Action 5.1	Update the internal auditor opinion based on the current year opinion.	Assistant Director of Finance	04 November 2022
5 Action 5.2	Edit the University Annual Report to add balance to the positive statements, including compromises made to achieve results this year, and the challenges ahead.	Chief Financial Officer	04 November 2022
5 Action 5.3	Review the mortality expectation calculations for the USS and ERBS pension policies for the annual report 2022/23	Chief Financial Officer	October 2023
5 Action 5.4	Provide the next KPMG inflation report when available	Rees Batley, KPMG	TBC
7 Action 7.1	Provide the missing feedback forms from final reports at the February meeting	PWC	February 2023
7 Action 7.2	Move the context clarifying the major improvement opinion closer to the heading to provide at a glance assurance	PWC	04 November 2022
8	Expressions of interest requested from the Committee to join review Risk Report 1 at the special meeting to be held on 17 th November	All	Complete
13 Action 13.1	Amend the wording in the Audit Committee Annual Report cover sheet and recirculate	Chris Lindsay	Complete
13 Action 13.2	Amend the risk section of the University Annual Report to include contemporary risks that are fundamental	Chris Lindsay	Complete
13 Action 13.3	Need to investigate the increase in student cases in order to identify underlying causes.	Divisional Director of UCS	TBC

1. Closed session for Audit and Risk Committee members only

Notes not recorded for this item.

2. Welcome and Declarations of Interest

2.1 The Chair welcomed members, officers and representatives from KPMG and PWC. No guest PVC was available for this meeting. The chair welcomed KPMG and PWC representatives and noted the successful re-appointment.

2.2 Declarations of interest – none declared

3. Minutes of the Meeting 26 September 2022 (AUD/22/66) and Matters Arising

2.1 The Committee approved the minutes of the meeting on 26 September 2022 (AUD/22/40).

2.2 Updates on the actions from the minutes:

Actions: 26 September 2022

Agenda Item	Action	Responsible Officer	Update
3	An additional meeting of a sub-group of Audit Committee to be arranged for 17 November 2022 to review the first risk report of 2022/23.	Committee Secretariat	Chair requested expressions of interest from independent members to join meeting, and this will be arranged
7	Share a presentation on predicted RPI over the medium to long term.	Rees Batley, KPMG	IKPMG confirmed this had been included in the report
8	Highlight of audits that may result in high-risk verdicts and schedule for earlier in the year. PWC and Mike to discuss offline.	Ali Breadon, PWC, and Registrar and Secretary	In progress
8	Include the work underway to improve culture with business partnering within the opinion.	Ali Breadon, PWC	PWC require assistance in describing this for the opinion. Meeting to be arranged to facilitate this.
12	The PWC opinion to be included in the annual report of Audit Committee.	Chris Lindsay	Wording shared from PWC report.

4. Terms of Reference and Objectives

- a) It was reported that the proposal to extend the role of Audit Committee to an Audit and Risk Committee had been **supported and approved by UEB and Council** (at its meeting on 13 October 2022). Potential issues were raised regarding workload, which will be kept under review. Comments from Audit Committee members from the meeting held on 26th

September 2022 had been incorporated into the version of the paper considered at the meeting of Council, including its annual discussion of risk and setting out the key DA roles. It was confirmed that the focus of Audit and Risk Committee would be on the assurance of risk management processes, not the management of risk itself.

- b) It was reported that the objectives of Audit and Risk Committee had been updated only to take account of the Committees role in understanding risk and seeking assurance of its management. **This was approved by the Committee.**

5. Draft Annual Financial Statements:

- a) **Draft Financial Statements (AUD/22/69).** The latest iteration was provided for review, requesting any comments for the final version, to be completed by Friday 4th November. The following was noted for update:
 - i. Internal Controls Section, reference to the Internal Auditor Opinion. This requires updating to the current year “Major Improvement Required” opinion, with context setting out the narrow focus of the rating and noting good practice elsewhere.
 - ii. The statements should be reviewed for fairness and balance. It was felt that the report reads as a list of achievements without setting out the underlying challenges and associated compromises made over the past few years to make those achievements possible.

The Chief Financial Officer noted that individual sections of the report were delivered by different owners across the University, and that editing had been conducted, but that this would be revisited. It was confirmed that no legal actions were currently being brought against Exeter by students.

Advice was sought from KPMG and PWC as the external and internal auditors on the balance and fairness point. KPMG noted that they had not fed back on this point, and noted that Exeter did have more positive points to state than other clients. They would be happy to review an amended version once completed.

The Committee was content with the agreement to re-edit, and notes that this was not a total rewrite but the addition of an element of balance.

ACTION 5.1 – Joe Wall to update the internal auditor’s opinion based on the current year report.

ACTION 5.2 – Andrew Connolly to edit the report to add balance to the positive statements, including compromises made to achieve results this year, and the challenges ahead.

DD questioned the difference in mortality expectations between the USS pension scheme and ERBS, with USS members longevity being 10% greater than ERBS members. The Chief Financial Officer confirmed that the longevity averages were a University calculation and not provided by the actuary. It was believed that this was linked to the ERBS members being at the lower end of the pay scale and linked to socio-economic stresses. The calculations would be checked and confirmed.

ACTION 5.3 – Andrew Connolly to review the mortality expectation calculations for the USS and ERBS pension policies, and confirm accuracy/notify of any changes.

- b) **Value for Money (VFM) Report (AUD/22/70)**. Provided to Audit and Risk Committee for information and assurance only. None of the information was new to the Committee but had been consolidated from other reports. The Committee noted that the report was very well put together and helpful and asked how well it reflected the views of students, funders and the Government on VFM.

The Chief Financial Officer confirmed that the views of these groups underpinned the report via the NSS Surveys, PRES, and PG Taught Survey, and student continuation rates. Chris Lindsay also confirmed that the OfS regulatory framework was strongly aligned with VFM.

The Committee sought assurance from KPMG and PWC on Exeter's position against comparators. Both confirmed that the report demonstrated competitive performance.

- c) **External Auditors' Highlights and Management letter (AUD/22/71)**. KPMG noted that this was a very clean, positive report with no major issues identified, and that they had received very good support from the Finance Team. The status was not yet complete with some minor queries ongoing but these were not expected to have a material impact on the outcome.

The risks reviewed were set out in the report. No change, issues or non-compliance were identified.

Highlights from the report included:

- Valuation of ERBS downgraded from a significant risk based in size and that it is now in surplus. It will be monitored for any subsequent increase in risk.
- Going Concern – downsizing scenarios have been modelled and do not highlight any further risk should this be required. Cash balances give assurance of the going concern.
- Inflation considerations look at cost of living impact on students **and** staff and are factoring into budget. KPMG forecasting reflects the latest thinking on inflation and interest rates.
- There are no new recommendations or control deficiencies this year.
- Previous recommendations are reduced to two in progress and looking really good for IT assurance in future years.

KPMG noted that inflation reports are conducted regularly and can be provided to the Committee as and when they are available.

The Chief Financial Officer noted that the clean bill of health was testament to the quality of the Finance Team undertaking the associated work.

The Committee noted that the inflation rate in the KPMG report at 1.57% looked low based on the current rate. KPMG noted that this was likely a timing issue as the latest report was created early September. The next report would be shared when available.

ACTION 5.4: Rees Batley to provide the next KPMG inflation report when available.

The Committee questioned why there was no indication of impairment charges, particularly with regard to the restructure impairing assets and income generating units. The Chief Financial Officer assured the Committee that there was no evidence of such, but conversely that the bringing together of units had enhanced productivity.

The Committee questioned the number of journals per month, what they were for, and whether they were picked up as part of a process or only via audit. The Assistant Director of Finance confirmed that monthly journals were kept as minimal as possible, and that most related to the correction of items placed on incorrect cost codes. These were investigated to correct going forward.

The Committee commended the improvement in control deficiencies and asked whether this was due to additional work from audit and accounts teams, or improvement in culture. The Chief Financial Officer confirmed that this was a combination of good external audit guidance, and the implementation of the Finance system giving less opportunity for multiple processing methods. The Registrar and Secretary echoed this, noting that implementation had created formal delegation and a tighter control environment. Finance was monitoring to ensure that this did not fall away.

6. Annual Report of Audit Committee 2021/22 - Final Version (AUD/22/72)

The Chair requested a separate session at the end of the meeting with key stakeholders relating to risk reporting. Notes of this discussion are posted at section 13 for the information of the Committee.

7. Internal Audit:

- a) Progress Report (AUD/22/73): A brief update was provided, given that the previous meeting was only one month ago. Work on the 21/22 plan was concluding, and progress was being made with work on reviews for 22/23. A full update on progress and follow up will be provided at the next meeting in February. Three final reports were provided:
 - i. **Payroll** – report status MEDIUM. Two medium findings relating to exception reporting, and to controls around change of bank details. The Assistant Director of HR (Policy and Reward) attended to provide assurance of action underway to resolve. This includes approval for funding to recruit additional resource, and a paper is being delivered to ITSG this month. Some actions have already been closed, and PWC are comfortable with the remaining plan and pace.
 - ii. **IT 3rd Parties** – report status MEDIUM. A high-level overview was provided of the reliance on IT relationships, which also relate to cyber and data protection. The requirement for a clear 3rd Party Management Policy was set out, including contractually binding suppliers to cyber security requirements, and identifying where in-contract checks should also be made. It was noted that some controls are

in place already, but that gaps relating to purchase card holders stepping outside of process should be plugged.

The Committee noted that this was a good idea and stressed that resource and finance would be required to make this happen. The Registrar and Secretary confirmed that the new purchasing card provider enabled almost real time visibility of purchases made. A new purchasing policy was underway, and the development of a new digital systems team within UCS was being looked at to manage areas such as this.

The Committee also noted that this risk is not specified within the risk report as a broader risk relating to technology and systems. Chris Lindsay confirmed that the risk report identifies the key risks to the University via a scoring model, and that this risk does not score at a sufficient level for inclusion. The audit is not marked as high or critical, therefore would not meet the threshold for inclusion in the University Annual Report. *Post meeting note – for information, audits scoring at medium do not in general reflect significant or key risks but may relate to existing risks. The IT Operational risk register has been checked, and this risk is fully set out and linked to the audit outcome. The Divisional Director of IT also attended the meeting, and set out response to this audit. Notes of this discussion are included at item 11.*

- iii. **Industrial Partnerships** – report status MEDIUM: this report focused on IIB due diligence for new partnerships, contracting agreements and investment decisions. There were a few actions to consider, and the management action plan had been agreed.

The Committee noted that a new DVC Industrial was in recruitment, and it would be crucial to involve them in this action plan. This role should take a future view on activity in this area with the growth of industrial relations being fundamental to strategy. The Registrar and Secretary confirmed that interviews were underway for this position, and that interviews for the Divisional Director of IIB would take place in the next few weeks.

The Committee noted that internal audit feedback forms were missing from two of the reports and asked whether there was an underlying issue. PWC confirmed that there had been delays with finalising the reports in time for the Committee meeting, and that continued assistance from the University Audit Team would be appreciated to follow up.

ACTION 7.1: PWC to provide the missing feedback forms from final reports at the February meeting

- b) **Final Report and Opinion (AUD/22/77):** The opinion had been updated to clarify the context and to include outcomes from the latest reports. This set out the narrow focus of the major improvement finding and emphasized that other areas of operation were working well. A further update could be made within the next few days to cover improvements being made in culture.

The Committee expressed concern that the descriptor under the major heading still gave the impression of widespread issues. It was noted that the detail section adds the context, but that if scanned, the report would not provide this assurance. It was agreed that the supporting context would be moved into the section closer to the header to resolve.

The Committee also commended PWC in the quality of the report, noting that improvements had been seen and that they were very helpful.

ACTION 7.2: PWC to move the context clarifying the major improvement opinion closer to the heading to provide at a glance assurance

8. Risk Management

It was noted that the review of the current risk report had been deferred to a special meeting on 17th November as an expansion to Audit and Risk Committee. The Chair repeated the request for expressions of interest, which remained an action outstanding from the previous meeting.

Action 8: Expressions of interest requested from the Committee to review Risk Report 1 at the special meeting to be held on 17th November.

9. International Student Strategy

The Executive Divisional Director of External Engagement and Global (EE&G) was in attendance to provide an update on the International Student Strategy.

The Committee noted that a lot has been achieved, but there was some concern that there is further to go. The new DVC Global is under recruitment and will bring significant experience.

A committee member commented that there is a risk that we recruit large numbers of international students, but may not be ready to support them, which could lead to a reduced experience.

The Executive Divisional Director of EE&G confirmed that in addition to the DVC Global post, a Director of Global Student Recruitment was also in train. This was a new role to strengthen the hand of DVC Global and also support the Global and Home Teams. There was a new top to bottom team looking at this area and creating synergies in digital material that can cross both groups.

There was a focus on sustainable recruitment, and in improving diversity. Four UG and Fourteen PG programmes across all Faculties were developed to support international recruitment. Expansion of in-country offices would also support this, as evidenced successfully in Malaysia. The USA market was now also being targeted. In addition, supporting processes were also being developed further:

- a. Improving conversions
- b. Working with external partners QA and UNICREST for increased bandwidth and efficiency

The Committee noted concern with the length of time that it was taking to set up in country offices, and that there are concerns with how international students are dealt with when they arrive. The Executive Divisional Director of EE&G confirmed that international intake this year is just over 35%, and that there was a concerted effort by the International Office, Student Experience, and

Onboarding. Care needed to be taken that it's not just right for international students, but that all feel welcome.

The Registrar and Secretary noted that historically Exeter had been fairly relaxed in this area as we score well in experience for international students. It was acknowledged that there are areas to improve. In country offices are progressing, but as big ticket, expensive items they do take longer.

The Committee also noted that this should be reflected as a risk for the University. We should be lessening the risk from China, improving the student experience, none of this could be seen in the risk report. It was questioned whether a report could be provided on the measurement of the international student experience. Council should have sight of this.

The Registrar and Secretary confirmed that Exeter had been come top in the What Student Awards for international student experience but agreed that a survey focused on this would be useful.

ACTION 9: Chair to pick up offline with David to identify any measurement of international student experience

10. New Residences Preferred Provider

The Committee received an update from the Chief Financial Officer on the preferred bidder for the planned West Park residences project.

The Committee sought assurance that UPP as the preferred bidder for new residences project would not result in an increased risk due to larger volume of provision by one partner.

The Chief Financial Officer noted that there are currently more than 4.5k beds managed by UPP with three separate contracts, each ring fenced to prevent impact of failure on each other. The West Park residences scheme would add a further 1.7k. It is not considered to be a significant risk, and carries benefits:

- A proven track record of delivery of a complex project, compared to the unknown
- An existing positive relationship, leveraged to share savings made by UPP during the pandemic, when they were not contractually obliged to do so

The good relationship is essential, but not at all costs, If an alternative bidder offers a significantly better deal, this would not be sacrificed to remain with UPP.

The split between UoE and UPP for residence management is currently around 50/50. When new accommodation is required again, this should be reconsidered.

The Committee confirmed satisfaction with the response.

11. Cyber Security Review

Nathan Burden, Divisional Director of IT Services, was in attendance to provide an update on progress with the cyber security action plan. This is progressing well, with three actions closed, and the remainder being worked through with PWC. The actions have been incorporated into the wider

cyber security roadmap, overseen by the Cyber Assurance Working Group and reported to the IT Strategy Group (ITSG). Critical findings are the priority to resolve.

A further audit has been completed on IT 3rd Parties, which has been reported separately to the Committee today. A number of existing suppliers will need to move to accommodate new requirements, particularly around disaster recovery and data. There may be some difficult decisions to make with some suppliers. An agreement has been made to work formally with PWC to assist with the disaster recovery work on a consultative basis.

The University has now rolled out its first instance of the network access control environment, which supports multiple audit findings. This is pivotal for cyber controls, and places Exeter ahead of many Universities who do not/will not have this technology. A Security Information and Event Management (SIEM) solution is now in place to identify abnormal activity and alert to potential security issues.

Security checks for staff in key roles have been implemented for new starters in targeted teams, as requested by the Committee. This will be rolled across existing team members from December.

The Committee asked for assurance with regard to network separation and the potential for an attack to spread should an attacker get through. This had been seen within an external organisation, where the attack moved at frightening speed. Assurance was sought on the arrangements in place to protect against this at the University.

The Divisional Director of IT confirmed that there is a basic level of separation currently in place, with a plan to have more advanced segmentation by September 2023. In the interim, we have segmentation for Guest WiFi, the core data centre, and clearly segmented secure data networks. The action plan to improve this area needs to consider access for staff who are also researchers, and to protect the customer experience while also protecting the network.

The Committee asked for detail on the best defence that could be put in place in the interim, and was advised that there are a number of defences, which would require a full and separate session to discuss. One area under review was the information security training, moving to a requirement for an additional mandatory session for staff scoring below requirement. The SIEM solution is also in place to spot issues as they occur, allowing swift action to be taken. The engagement of PWC to assist with the disaster recovery work will also assist. Multi Factor Authentication is in place and also acts as a deterrent to attackers, who are likely to seek organisations that are easier to access.

12. Chair's Closing Remarks

The Chair expressed thanks to Chris Lindsay, who is retiring from the University in December, and was therefore attending his final meeting of the Committee. The work that Chris has completed over the past seven years was commended as being immensely supportive to the Committee, who wished him well.

The Registrar and Secretary also noted that he was hugely grateful for Chris's input and support.

13. Closed session for Audit and Risk Committee members only

Closed Minute

ACTION 13.1 Chris Lindsay to amend the wording in the Audit Committee Annual Report cover sheet and recirculate

Note that the remainder of this discussion related to the risk section of the University Annual Report and Financial Statements, rather than the Audit Committee Annual Report. The Committee was concerned that although the report sets out activity across the 2021/22 academic year, the risk section should be contemporary at the date that the report is approved. The risks stated within the section missed some fundamental risks that were deemed significant if reviewing the current risk landscape. A request was made for the following to be considered:

- IT Third Party Management, and the procurement of digital systems. This should be noted as a key risk, based on discussions with the Divisional Director of Information Technology, and the recent PWC audit outcome of medium.
- International Student Recruitment should be noted as a key risk, due to the intrinsic link to the University strategy.
- Research Funding should also feature, as Horizon and UKRI funding are both at risk. As a Russell Group University, research is fundamental to strategy.

Action 13.2: Chris Lindsay to amend the risk section of the University Annual Report to include contemporary risks that are fundamental

The Committee also sought and obtained assurance that the University is not included in the publicised action being brought by students against 18 Institutions for poor service/experience throughout the pandemic. Alongside this, it was noted that there was an increase in student cases across all categories (although not resulting in action being brought). The Committee asked for assurance that this would be investigated to identify and address the cause. It was noted that reporting of issues has been made more visible and transparent, which was likely to have driven numbers up. The Divisional Director of UCS would interrogate the data to understand the situation.

ACTION 13.3: Divisional Director of UCS to investigate the increase in student cases to identify underlying causes to be addressed.