

CANTERBURY CHRIST CHURCH UNIVERSITY

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON WEDNESDAY 13 NOVEMBER 2019 AT 4.00PM IN THE FREDERIC MASON ROOM AT THE PRIORY

Present: Mr P Fletcher (Chair), Ms S Appleby, Mr J Hills, Mrs P Jones, Mr Q Roper, and Mr S Sutton

In attendance: Mr D Leah (Director of Finance & Chief Financial Officer)
Mrs K Pilgrim (Assistant Director of Finance – Financial Accounting)
Ms A Sear (Clerk to the Governing Body)
Professor R Thirunamachandran (Vice-Chancellor)
Mr R Hewes, KPMG
Mr B Sheriff, Deloitte
Ms E Currie (Governance and Legal Services Assistant)

52. Apologies for absence [Item 1]

There had been no apologies for absence.

53. Declarations of Interest [Item 2]

There were no declarations of interest for the meeting of the Audit Committee.

54. Minutes of the meeting held on 17 September 2019 [Item 3]

The minutes of the meeting held on 17 September 2019 were approved and signed as an accurate record of the meeting, subject to the correction of the date of the DIG meeting at minute 11.

54. Matters arising not appearing elsewhere on the agenda [Item 4]

Members of the Audit Committee noted that they had received hard copies of the papers later than usual this cycle.

55. Financial Reports for Year ended 31 July 2019 [Item 5.1]

The Audit Committee considered the Financial Report for the year-ended 31 July 2019, [Paper M33] by the Assistant Director of Finance [Financial Accounting].

The Chief Financial Officer, who had sponsored the paper, said that the level of materiality, which had been set at £2,100K for the group, had been queried at the Finance and Resources Committee, with a request that this be confirmed as continuing to be appropriate at the meeting of the Audit Committee. He said that the External Auditor had confirmed that it felt that this level of materiality was appropriate. The representative for the External Auditor said that the materiality level was used for statistical purposes and was a guarantee that all items over this amount would be identified; this did not preclude smaller amounts from consideration. The Audit Committee was satisfied with this explanation.

The Chief Financial Officer noted that income had reduced year on year by 3.7%, including a decrease (34.9%) in NHS education contracts as a result of changes to nursing and healthcare professionals funding, which had now become subject to tuition fees, as opposed to NHS payment. The additional income from tuition fees had not fully compensated for this reduction, reflecting a general shortfall in tuition fees and not specifically related to former NHS funded provision.

The fall in year on year income had required in year savings to enable the institution to achieve a surplus position in its management accounts, before year end non cash FRS102 adjustments. An indication of this was the reduction in staff costs, which reflected a 6% efficiency indicator after taking into consideration severance costs and pay awards. Average FTE staffing had reduced from 1584 to 1507 year on year.

The Chair asked if the reduction in staff costs went far enough. The Chief Financial Officer considered that the level had been sufficient for the 2018/19 budget but noted that there were further staff cost savings to be made in 2019/20.

A Governor questioned the level of severance costs, to which the Chief Financial Officer responded that this reflected standard redundancy terms which were contractual obligations, and primarily attributed to the Faculty of Education which had undergone a restructure. In addition, where applicable, severance arrangements had included settlement agreements that were consistent with University policy.

The mid-year budget had forecast a deficit of £878k, however in-year efficiency savings had enabled the institution to achieve a £922k surplus; this was considerably better than the start of the year budget which had been a £79k surplus.

Accounting conventions obliged the University to make adjustments, which had not been considered as part of the management accounts, for accruals such as holiday due but not taken, and research funding reliant on performance measures. The Chief Financial Officer explained that the movements in these provisions can reflect either a positive or negative impact on surplus within the financial accounts.

The Assistant Director of Finance [Financial Accounting] said that non-cash adjustments were made for two of the pension schemes to which the University contributed. The largest of these was the Local Government Pension Scheme for which the University took a share of liabilities on the balance sheet. This was managed using Mercer as actuaries to provide assumptions. Deloitte confirmed the assumptions were within a prudent range.

The Universities Superannuation Scheme adjustment was modelled on the 2017 valuation, with 5% recovery on deficit, which brought the University's provision for liabilities to over £1M, a £500k increase from the previous year. The 2018 valuation had since become available which would have brought the provision back down, however this valuation could not be applied retrospectively. The Assistant Director of Finance noted that the University only had 30 staff enrolled on this scheme, so the impact of this was not as substantive as it would have been for other institutions.

The Assistant Director of Finance also noted the change in treatment of the Capital Grants creditor, from a creditor of less than one year, to a creditor of more than one year. There had been other minor presentational changes to the draft statements, and an update to the Going Concern statement had been agreed with the External Auditor. All changes would be clearly identified when the statements went to the Governing Body on 26 November.

The Chair commented on the substantial adjustment for loss on disposal of tangible assets, which referred to the demolition of Davidson, Lang and Temple buildings, as well as the Chaplaincy and Estates facilities as part of the Estate Master Plan. The Chief Financial Officer said that rubble generated in the demolition was reused in the groundworks of Building 2 in a way that was both financially and environmentally sustainable. The Audit Committee asked that an explanatory note be included in the Financial Statements.

The Chief Financial Officer said that the 'noodle pot' diagram which outlined how student fees were spent was created to promote transparency for students and to demonstrate Value for Money. It highlighted that the student experience was comprised of more than just teaching. A number of institutions published a similar view of how fees were spent on their websites.

RESOLVED:

That the University's Financial Statements be recommended to the Governing Body for approval.

Unitemps Financial Statements [Item 5.2]

The Audit Committee considered a paper [Paper M34] by the Assistant Director of Finance [Financial Accounting] about the Financial Statements for the year ended 31 July 2019 for Medco (CCCU) Limited trading as Unitemps. The Assistant Director of Finance said that Unitemps had enjoyed a good year financially and that the £66k surplus would be gifted under deed to the University, to be used in graduate engagement projects and to support employment opportunities for students.

The Assistant Director of Finance reported that there had been a good level of engagement from students and staff in the year, and that Unitemps had supported the University during a time of organisational change.

The Financial Statements had been subject to independent review by the External Auditor; no issues had been identified and a clean audit opinion would be issued.

RESOLVED:

That the Unitemps Financial Statements be recommended to the Governing Body for approval.

56. External Auditor's Report 2018/19 [Item 6]

The Audit Committee considered the External Auditor's Report to the Audit Committee for the Audit of the 2018/19 Financial Statements, [Paper M35]. The representative from the External Auditor (Deloitte) presented the Report.

The External Auditor noted that they had given particular consideration to the areas of Going Concern and Covenant Compliance in the 2018/19 audit.

The principal areas of consideration were accounting for capital projects, for which there were no significant findings, and management override of controls including journals, accounting estimates and significant one-off transactions for which some commentary had been provided.

The External Auditor highlighted the estimates for the provisions for OfS clawback (£1m) and for Bad Debts (£1.7m). Going forward, the report recommended that the University undertake granular analysis of its historical treatment of Bad Debt, to provide further confidence regarding the level of provision which the external auditor felt had been underprovided. The University had committed to actioning this in 2019/20.

The report also considered that the University had overprovided for OfS clawback.

In terms of covenant compliance, the Chief Financial Officer reported that the University had received confirmation from its agents before the meeting that the covenant monitoring net debt to EBITDA would be increased to a 6.25 ratio in 2019/20. This increase in the covenant would allow the University to not achieve net debt to EBITDA by up to £450k, assuming net debt remained constant. However, subject to the revised budget as recommended by the Finances & Resources Committee being approved at the Governing Body, the inclusion of a further £500k saving in the budget could allow leeway of up to approximately £1m. Formal communication from the legal counsel of the banks was expected within 24 hours, in terms of all three types of loan finance – the Scottish Widows loan, the loan for the Prison, and the revolving credit facility.

The Chief Financial Officer commented that the current covenant arrangements for Net Debt to EBITDA were extremely sensitive to small movements, which was unsuitable for the University. The Vice-Chancellor confirmed that the volatility of this covenant had not been appreciated when the covenants were agreed with lenders. The External Auditor agreed and confirmed that it was reasonably comfortable with the University's position having received confirmation of the covenant reset.

A Governor asked if the reset of the net debt to EBITDA covenant was a long term solution or if the University would have to ask for covenant resets each year. The Chief Financial Officer confirmed that this was a 2019/20 solution and the future position would require further discussion with the banks once the OfS Financial Forecasts had been agreed by the Governing Body. However, the Chief Financial Officer said that the University's liquidity had been better than budget which had provided assurance to the banks. The institution was expecting to draw down only £38m of the £47m available credit during 2019/20, reflective of successful grant applications, fundraising and support from the NHS economy. The External Auditor said that the statement of Going Concern was valid for 12 months from the signing date of the statements and would cover only the July 2019 covenant test. However, increased certainty over student numbers and early communication with the banks were all positive factors.

The External Auditor had also considered pension liabilities which had been within the expected range.

The Committee discussed the provision for OfS clawback and agreed that given the relationship with the OfS and the ongoing issues of data accuracy it was prudent to maintain a large provision. The Committee agreed that when considered alongside Bad Debt provisions, the overall provision was largely appropriate. It resolved to support these provisions, while noting the work to be done in terms of managing Bad Debt

The External Auditor confirmed that although it had recommended that the Audit Committee reconsider these provisions, it was content that they remained unadjusted if they were supported by the Committee as they were below the materiality threshold.

The Committee questioned the phraseology of “ask management to correct” and “misstatements”. Both the External and Internal Auditor confirmed that these were terms used sector wide for auditing, and were unlikely to be misinterpreted by the OfS or other interested parties.

RESOLVED:

To recommend the External Auditors report to the Governing Body for approval, subject to the Audit Committee Chair approval of final report; and that the Audit Committee’s support of provisions for Bad Debt and OfS clawback be noted in the Annual Report of the Audit Committee.

57. Internal Audit Annual Report 2018/19 [Item 7]

The Audit Committee considered the Internal Audit Annual Report 2018/19 [Paper M36] by the Internal Auditor. The report had been presented to the Committee at their September meeting, and two minor updates were presented for approval. A sentence contextualising KPI performance against targets had been inserted, as requested by the Committee in September. The GDPR report had been finalised and the opinion “Significant assurance with minor improvements required” had been issued.

The Internal Auditor said that the University was in a strong position but there was always room for further improvement.

RESOLVED:

To approve the Internal Audit Annual Report for submission to the OfS.

58. Data Assurance Annual Report [Item 8]

The Committee received The Data Assurance Annual Report [Paper M37]. The Chief Financial Officer said the report was used to inform the Committee to enable it to give its opinion on the effectiveness of the University’s data assurance systems for the Annual Report of the Audit Committee.

The Chief Financial Officer said that the Data Integrity Group, which he chaired, was one of the means by which the Audit Committee drew assurance on data returns. The Strategic Data Returns Group, chaired by the Deputy Vice-Chancellor, also considered similar issues from a strategic, external reporting angle. Following the retirement of the Deputy Vice-Chancellor, it was planned

that the two groups would be reconstituted into one group. It would be challenging to balance the agenda in terms of strategic, tactical and operational concerns.

Consequently, this new merged group would be supported in its work by the Provider Profile subgroup chaired by the Assistant Director of Finance [Financial Accounting], and the Task and Finish Group, which considered student data quality concerns raised by the OfS. The membership of all these groups would be considered and strengthened with stakeholders from across the University. It was agreed that the Chair of the Audit Committee would be invited to the first meeting of the reconstituted Data Integrity and Strategic Data Returns Group.

The Information Governance Group, which was chaired by the University Solicitor and Clerk to the Governing Body, would remain unaffiliated, as it considered GDPR and Personal Data issues and it was considered important to retain this distinction.

The report proposed an Audit Committee opinion for inclusion in the Audit Committee Annual Report, which concluded that although confidence in the management and quality assurance of data can be provided for the HESA staff and finance returns, the Committee was not yet in a position to provide full assurance over the HESA student data returns.

The Vice-Chancellor drew the Committee's attention to the exchange of letters with the OfS about the missed submission deadline for updates on data quality progress resulting from the July audit visit. The Vice-Chancellor said that the University had missed the deadline by one day and should have requested an extension. The two subsequent OfS submission deadlines (18 November and 2 December) would be met, and the University would work to improve its relationship with the OfS.

A Governor asked if safeguards were in place to ensure that the institution did not miss future OfS deadlines. The Vice-Chancellor responded that the Finance team had implemented automatic triggers to ensure regulatory payment deadlines were not missed. In terms of the data audit, there was an action plan in place to respond to the data audit. This was monitored frequently by Senior Management. He said that the University was committed to investing in staffing to provide the planning and records team with the necessary expertise and capacity.

RESOLVED:

To approve the report and the Audit Committee opinion for inclusion in the Audit Committee Annual Report.

To note the merger of the Data Integrity Group and the Strategic Data Returns Group.

59. Draft Audit Committee Annual Report [Item 9]

The Audit Committee considered the Draft Annual Report of the Audit Committee 2018/19 [Paper M38] by the Governance and Legal Services Manager.

Following discussion the following amendments were agreed:

- the Internal Audit assurance levels table should reflect the complete audit opinion;
- the date should be changed in section 4, from 2018 to 2019;
- in section 7, “considered” to be changed to “considered and noted with concern”; and
- the inclusion of a section highlighting Audit Committee member attendance at BDO breakfast seminars to remain informed about the latest developments.

In addition, the report required updating following receipt of a final version of the ISA260 from the external auditor.

RESOLVED:

That subject to the amendments above and subsequent circulation to Committee members, the report be approved for submission to the Governing Body.

60. Modern Slavery Act Statement [Item 10]

The Audit Committee considered the Modern Slavery Act Statement [Paper M39], from the Chief Financial Officer. The statement was required by the Modern Slavery Act 2015 for inclusion in the Financial Statements and publication on the website.

The statement had been considered and approved by the Sustainability Strategic Management Group, who had requested the inclusion of a statement to make clear the University’s condemnation of morally bad practice given the University is a ‘values based’ institution.

The Statement set out the University’s commitments and actions to ensure compliance with the Act. The Chief Financial Officer said that particular care had been taken with procurement practices, to ensure, as far as is practicable, there was no inadvertent exploitation within the supply chain. The investment policy had also been considered and the University required statements of ethical practice from its banks.

In response to a question from a Governor about instances of modern slavery at the University, the Chief Financial Officer said that an area of potential concern could be the exploitation of vulnerable students. The Vice-Chancellor said there had been no logged cases to date.

RESOLVED:

To recommend the statement to the Governing Body for approval.

61. Internal Audit Progress Report and Technical Update [Item 11]

The Audit Committee received the Internal Audit Progress Report [Paper M40].

The Internal Auditor said that the schedule for 2019/20 had two planned changes: the Student Accommodation report would come to the May 2020 Committee meeting, instead of the February meeting; and the IT and Data Security Audit Report would come to the February 2020 meeting, instead of the May meeting.

The GDPR report had been finalised and had received an Amber-Green rating of significant assurance with minor improvements required. The Internal Auditor confirmed that no Green ratings for GDPR had been issued to any of its audit clients in 2018/19. An assurance level of Amber-Green reflected the University's good practice in an area that was inherently high risk. The main recommendation concerned the Information Asset Register (and the related Records of Processing Activity). Four medium and 5 low priority recommendations had been made.

The Internal Auditor had considered compliance of third party suppliers, DPIA processes and data breaches and found that internal procedures had been followed correctly.

The Committee welcomed this report, which demonstrated that progress in difficult areas was possible. The Committee and the Clerk thanked the Information Governance Manager and the Data Protection Officer for their dedicated work in this area.

NOTED

62. Audit Assurance – Teachers' Pension Scheme 2018/19 [Item 12]

The Audit Committee considered a paper [Paper M41] by the Assistant Director of Finance [Financial Accounting] about the Audit Assurance for the Teacher's Pension Scheme. The Assistant Director of Finance said this was a straightforward assurance review completed by Deloitte. The differences noted in the report were due to a banding issue, which reflected the timing of refunds from members, however she confirmed that all contributions had been paid accurately.

In response to a question from a Governor, the Assistant Director of Finance confirmed that they did not receive a certificate signed by the Auditors, as Deloitte preferred to issue a letter of findings, which provided a more thorough and detailed response. The Teachers' Pension Scheme accepted this letter.

NOTED

63. Termly Risk Management Report of the Vice-Chancellor [Item 13]

The Audit Committee received the Termly Risk Management Report of the Vice-Chancellor [Paper M42]. The Clerk to the Governing Body spoke to this paper.

The Clerk said that there had been no new risks added to the High Level Risk Register, but that substantial changes had been made to the existing controls, early warning indicators and action progress columns. Notably, and of particular interest following the Governors Away Day in September, in Risk 3, "Failure to meet student retention targets" a new Main Existing Control had been added relating to the Retention and Success Framework, and a key action had been completed, showing that the Academic Board had approved an Academic Management Information System, in addition, a series of faculty workshops had been delivered on retention, engagement and inclusivity. There was a new Key Action "strategic review of positioning of student transition, orientation and induction with a particular focus of inclusivity". In respect of Risk 6, "Failure to meet student retention targets", there had been substantial updates to separate out controls and key actions towards undergraduate and postgraduate

recruitment. In addition, a new Key Action was inserted in relation to the development of the new "Study Here" section of the University's website.

The Clerk said the High Level Risk Register had also been updated to reflect staffing changes, notably the retirement of the Deputy-Vice Chancellor, and the change to the position of the Deputy Vice-Chancellor (designate). Overall responsibility for international recruitment had moved from the Deputy Vice-Chancellor, to the Vice-Chancellor, with the new Dean of International taking ownership of actions.

The latest Risk Register in relation to Building 2 (the STEM building) was noted by the Committee.

In response to a suggestion from the External Auditor at a previous meeting, the High Level Risk Register had been updated to show the risk appetite for each risk. SMT risk owners were asked to consider the appetite when updating their risks.

The Clerk highlighted the Change Portfolio Assurance Board statement which had been agreed at the meeting of that board on 21 October, at which the board discussed Risk 8, "Insufficient Capacity and Capability to deliver changes necessary to realise Strategic Plan goals" in detail. Actions had been agreed by the Board to triangulate risks identified from the business planning process, major change risk registers and local risk registers.

The Chair invited colleagues to feedback to the Clerk if they had further comments on closer inspection of the risk update.

NOTED

64. Accounting Conventions Update [Item 14]

The Audit Committee considered the Accounting Conventions Update, [Paper M43], by the Assistant Director of Finance [Financial Accounting]. The University was compliant with OfS requirements for 2019 year-end. A new regulatory notice would apply for the 2019/20 statements.

NOTED

65. Annual Statement of the OIA [Item 15]

The Audit Committee received a paper on the Annual Statement of the OIA [Paper M44] by the Clerk to the Governing Body.

The OIA provided a statutory ombudsman service to students to review institutions' decision making processes following a student completing the internal complaints procedure. The annual OIA subscription was approximately £32,000 for which the OIA would investigate 7 cases, after which each case was charged at around £1000. Importantly, OIA evidence was considered as part of the OfS risk assessment, so good engagement with resolving student complaints early in the resolution procedure and with the OIA was vital. The Clerk noted that the OIA's annual statement showed that the University was extremely well placed compared to comparator institutions. The Committee members noted that the

University had demonstrated its commitment to the early resolution of the student complaint.

NOTED

66. Minutes of the meeting of the Data Integrity Group on 17 October 2019 [Item 16]

The Audit Committee considered the minutes of the meeting of the Data Integrity Group held on 17 October [Paper M45], by the Chief Financial Officer. He noted that these minutes were used to inform the Data Assurance Report. The merger with the Strategic Data Returns Group would take place in early 2020 and the final meeting of the Strategic Data Returns Group had taken place.

NOTED

67. Any other business [Item 17]

There were no items of any other business.

68. Confidentiality [Item 18]

The Audit Committee agreed that there were no matters considered in the meeting to be kept confidential from published minutes once approved.

69. Date of next meeting [Item 19]

Thursday, 25 February 2020 at 4pm

The meeting closed at 6.07pm.