

# CANTERBURY CHRIST CHURCH UNIVERSITY

## MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON WEDNESDAY 24 FEBRUARY 2021 AT 4.00PM VIA MICROSOFT TEAMS VIDEOCONFERENCE

**Present:** Mr P Fletcher (Chair), Ms S Appleby, Mr J Hills, Ms P Jones 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 C Lambert (Director of Planning and Academic Administration)  
[Item 7 only]  
Ms A Sear (University Solicitor and Clerk to the Governing Body)  
Professor R Thirunamachandran (Vice-Chancellor)  
Ms A Barrington (KPMG)  
Mr R Hewes (KPMG)  
Mr B Sheriff (Deloitte)  
Ms E Currie (Governance and Legal Services Assistant)

### **93. Apologies for absence [Item 1]**

There were no apologies for absence.

### **94. Declarations of Interest [Item 2]**

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

### **95. Minutes of the meeting held on 11 November 2020 [Item 3]**

The minutes of the meeting held on 11 November 2020 were approved and would be signed as an accurate record of the meeting. A Member asked that clarity be provided concerning the response from the External Auditor about when the University should be concerned by its pension deficit. It was agreed that this would be raised again at the appropriate moment in the meeting.

### **96. Matters arising not appearing elsewhere on the agenda including an update from the Vice-Chancellor [Item 4]**

There were no matters arising.

The Vice-Chancellor provided an update on the activity of the University of relevance to the Committee. He said that the third national lockdown which commenced on 6 January meant that only students in 'essential' subjects, for example nursing or teacher training, were permitted to be on campus. All other subjects were presently delivered online. The University had not experienced any significant outbreaks of Covid-19 amongst students or staff, with only one student hospitalisation recorded. As during previous lockdowns, there had been a negative impact on catering, conferencing, and student accommodation income. Positively, the University had performed well in

relation to recruitment, and retention was good. This had enabled the University to offer four week accommodation fee rebates to all students.

The Vice-Chancellor reported that the financial results for the first six months showed the University's operating performance as £4.5M better than budget. The Committee noted that the budget had anticipated that the University's financial performance would be stronger in the first half of the year than in the second. It was projected that the University's year end deficit would be approximately £1m better than budget. This forecast position had enabled the University to reduce the short time working arrangement pursuant to the temporary collective agreement to 90% working from 1 February. He confirmed that short time working would end completely from 1 March 2021.

**97. Strategic Presentation: Deep Dive of Risk 3, 'Failure to ensure the University remains competitive and sustainable in the marketised environment and manage government changes in higher education' [Item 5]**

The Vice-Chancellor said that a regular deep dive of one of the University's strategic risks was a recommendation arising from the internal audit of strategic risk management undertaken in 2020. The Vice-Chancellor was the risk owner for risk 3 'Failure to ensure the University remains competitive and sustainable in the marketised environment and manage government changes in higher education', which was an overarching risk considering the University's medium to long term sustainability. Various ongoing challenges, such as the global Covid-19 pandemic, Brexit and national HE policy had prevented the risk from being mitigated sufficiently to remove it from the high level risk register.

The Vice-Chancellor said that although the University had a medium risk appetite for Financial Performance and Sustainability risks, the residual rating of this risk was still significantly higher than the University's risk appetite. It was projected that this could be brought in line by 2023/24, when the University's strategic investments would be realised and the 18-year-old demographic would increase significantly.

The Vice-Chancellor said that the University's work on recruitment and retention, and the investment in STEHM and KMMS had been positive. The University was retaining students better than in previous years. As 95% of income came from student fees this had an immediate impact on the University's financial position.

The uncertainty around national HE policy remained challenging. Although the Government had made well received announcements about the Teaching Excellence Framework and Post Qualification Admissions, the risk remained that the Government would reduce tuition fees, enforce minimum entry requirements or remove foundation years. The Vice-Chancellor continued to use his professional networks, including UUK and MillionPlus to draw the Government's attention to the harm that would be done by any such changes of policy, especially to the post 1992 Universities and to the diverse student bodies they support.

Positively, recruitment to health subjects had increased, and applications to these subjects were 6.4% up on the same time the previous year. Although there was no student number cap in place, recruitment was limited by the number of placements the University was able to offer. The University Solicitor and Clerk to the Governing Body remarked that the University was working with the local NHS trust and Health Education England to find or develop additional placements, and this work would somewhat mitigate the problem.

A Governor asked the Vice-Chancellor how the University would adapt to a new normal once Covid restrictions had ended. The Vice-Chancellor said the 2021/22 academic year would be treated as a transitional year. Although the pandemic had been hugely disruptive there had been some positive elements, such as the accelerated development of the University's online learning arrangements. New models of learning and working would be considered, both for students and staff. The SMT and Governor Away Day would consider this in depth, if it was possible for this to take place in September.

A Committee Member asked the Vice-Chancellor if the expected rise in unemployment would impact positively on the University's recruitment. The Vice-Chancellor confirmed that this was expected. After the 2008 financial crisis the University had experienced a significant increase in recruitment. It would be necessary for the University to develop programmes which responded to the needs of this demographic, and work was underway in the Graduate College to capitalise on this opportunity by, for example, increasing short course and CPD offerings.

A Committee Member asked if the Government's proposed teacher training hubs were considered a risk to recruitment to education programmes. The Vice-Chancellor confirmed that the Pro Vice-Chancellor and Dean of the Faculty of Arts, Humanities and Education was keeping the situation under review; for the present the potential impact was unclear. The University Solicitor noted that the refreshed website was expected to have a positive impact on recruitment numbers.

The Chair said that he had attended a meeting of the Data Returns Quality Assurance group [agenda item 12 refers] and was content that student data quality was improving. The work of this group to both improve the quality and maximise the value of student data may be demonstrated by improvements in league table results in due course.

**NOTED**

## **98. Financial Reports for the year ended 31 July 2020 [Item 6]**

The Audit Committee considered the Financial Reports for the year ended 31 July 2020, including the Consolidated Financial Statements for the University and its subsidiary company, Unitemps [Paper N67].

The Chief Financial Officer reported that the draft ISA260 report from the External Auditor had been received that morning. He acknowledged that it had been a particularly difficult year to finalise, due to remote working and staff resource constraints both within the University and for the External Auditor,

compounded by the complexity of the University's financial situation. He said that a schedule of all changes made to the Statements since these were considered at the November meeting had been provided to the Committee.

The Assistant Director of Finance said that the operating deficit had increased by £420K, taking the reported deficit from £6535K to £6955K. These changes had been made in response to comments from the External Auditor:

- The decision to expense £320K of expenditure in KMMS, which had previously been accounted for as assets under construction, had increased the deficit by £320K; and
- An increase of £100k in bad debt provision had reduced the value of debtors in the balance sheet by £100k and increased the deficit by £100K;

The Assistant Director of Finance also highlighted an increase in the LGPS liability following in depth discussion with the External Auditor's actuarial team. The inflation assumption increased from 1.80% to 2.20%, causing the pension provision on the statement of comprehensive income to increase from £29M to £42M. This increased the deficit from £54M to £67M. The University had also made changes to its pension provision for experience losses.

In terms of the University's subsidiary company, Unitemps, the changes to the statements were non-material. The commentary had changed, with the insertion of a best practice analysis of KPIs and a Covid-19 Risk Assessment statement.

The Assistant Director of Finance said that the letters of representation to the External Auditor had not yet been prepared, as this was dependant on the External Auditor's going concern opinion. The going concern opinion would not be given until the revised loan agreement had been signed with the University's banks. The version of the statements received today was expected to be the final version, which would be signed once approved by the Governing Body.

A Committee Member asked the External Auditor at what point the University should become concerned about its pension deficit. The External Auditor responded that from a going concern perspective the External Auditor needed to be assured that the University could cover its liabilities for at least the next 12 months. He said that the medium to long term sustainability of a large pension deficit should be considered outside of the context of going concern, and whilst there was not a fixed point at which the deficit became a problem, a larger deficit was more concerning; the balance between the short-term pension liabilities and the long-term pension deficit would need to be carefully managed. The Chief Financial Officer said that a paper on the University's pension strategy would be presented to the June Finance and Resources Committee meeting. He noted the importance of striking a balance between de-risking pensions and attracting a high-quality work force.

A Member asked if the University was satisfied that no impairment charges would be required in the future for the assets under construction. The Chief Financial Officer said that the Broadstairs Campus had been impaired as an asset for resale.

The Assistant Director of Finance said that assets under construction including some significant assets, such as Building 2, were capitalised as at 31 January 2021. The University was working to ensure the building was depreciated correctly from February. The componentisation exercise was underway to determine the life cycles of various pieces of infrastructure equipment. Others assets under construction included the MOSI project, which would bring enormous benefit when completed and was not expected to be impaired. An impairment exercise was undertaken annually in preparation for the External Audit.

In line with the Estates Strategy, the University was working to divest itself of leased properties, such as Rochester House. The use of physical space in the 'new normal' for teaching, learning and support functions would be carefully monitored.

The External Auditor advised that the University needed to finalise the revised loan arrangements with the banks in order to make its going concern assessment. The External Auditor could then report on whether it agreed with the assessment.

The External Auditor reported that the change that they had requested to the KMMS capitalisation was due to differing judgement and did not reflect a factual error; the External Auditor did not consider there to be evidence that all the spend was capital.

The External Auditor had also suggested an increase to the bad debt provision. The University had considered this, and had agreed to make this adjustment.

The External Auditor had no comments on the Unitemps Consolidated Financial Statements.

The Chair said that in respect of the Management override of controls, the areas of difference between the University and the External Auditor were relatively minor. The Chair commented that he considered that the provision for OFS clawback was appropriate, and the bad debt provision to be appropriate.

A Committee Member asked when the University would be able to stop holding a provision for OfS clawback. The Chief Financial Officer said he expected to reduce the provision in the 2020/21 statements as significant progress had been made. The completion of the MOSI project, and the resultant improvements in data, systems and processes would mitigate the risk. The Chair had attended the Data Returns Quality Assurance Group meeting in January, and said that the meeting reassured him that the provision was appropriate. He said the University appeared to finally have the data quality problems in hand.

The Chief Financial Officer said that a statement of management assurance over going concern had been prepared for the external auditor. The medium-term forecasts, as supported by KPMG were favourable when considered alongside the bank covenant requirements. The Chief Financial Officer requested that the Audit Committee recommend the financial statements to the Governing Body for approval, subject to the finalisation and signing of the revised loan agreement.

**RESOLVED:**

That the University's Consolidated Financial Statements be recommended to the Governing Body for approval subject to:

- completion of a signed updated loan agreement with the banks on the basis of the covenants previously shared with the Governing Body; and
- receipt of a finalised letter of representation letter for signing by Governors.

**99. KPI Progress Monitoring Report [Item 7]**

The Audit Committee considered the KPI Monitoring Report [Paper N68] sponsored by the Director of Planning and Academic Administration, who joined the meeting to present her report. She said that the 2019/20 KPIs were monitored by the Academic Board, and aligned to the University's Strategic Framework and its Mission Statement. The Director of Planning and Academic Administration reported that three of the Governor subset KPIs were above target, Postgraduate Taught student numbers, Postgraduate Research Student numbers, and Estates Condition. The overall student numbers KPI was also very close to target.

She reported that nine of the Governor subset KPIs were below target. However, it was important to note that these were mapped against the 2015/16 baseline, and the situation had changed significantly since that time. It was expected that the KPI set would be refreshed when the Strategic Framework was reviewed in the next year. She expected that the categories would remain the same, but the targets and definitions would be adjusted in some places.

The Chair asked if it was possible to get an idea of overall staff and student satisfaction, not distorted by the impact of Covid. The Director of Planning and Academic Administration said that the regular pulse surveys undertaken by HROD gave good insight into staff satisfaction, demonstrating that most staff felt well supported by their direct line managers. Student satisfaction was closely monitored by the Deans of the Faculties. It was not possible to benchmark performance in this area against competitor groups in real time as the KPI monitoring was a retrospective exercise.

**NOTED.**

**100. Department for Education Annual Assurance Report [Item 8]**

The Committee received the Department for Education Annual Assurance Report [Paper N69]. The Assistant Director of Finance [Financial Accounting] said that the University had received a clean audit opinion from the External Auditor, Deloitte, in respect of the Department for Education Bursary Grant claim. The Audit Report had been submitted to the Department for Education within the required timeframe, which had been extended to January due to the pandemic.

**NOTED.**

**101. Internal Audit Progress Report [Item 9]**

The Audit Committee considered the Internal Audit Progress Report [Paper N70], presented by the representative from the University's Internal Auditor, KPMG. The Auditor reported that good progress had been made against the plan for 2020/21. He asked the Committee to consider whether the Business Continuity review, scheduled for Spring 2021, was the best use of resources as the University's business continuity arrangements had been robustly tested by the previous 12 months of the pandemic. The Committee agreed that the review should be deferred, and a reflection exercise undertaken in the future. The Committee would consider if another area could be reviewed in its place. The Committee would feedback to the Internal Auditor on this outside of the meeting in due course. A Committee Member suggested that the use of the University's Estate from a value for money perspective be considered for a future review.

There had been two reviews undertaken since the last report:

- Compliance with the Competition and Markets Authority (CMA) and Advertising Standards Authority (ASA) had received a Green rating (significant assurance). The Internal Auditor said very few green ratings had been awarded in this area across the sector, and this reflected the hard work of the University. The four recommendations were all low priority and involved fine tuning processes. There was no risk of non-compliance.
- Governance and resilience of remote working arrangements had received an Amber/Green rating (significant assurance with minor improvement opportunities). There were two medium and two low priority recommendations. The regular pulse surveys were an area of good practice, but it was noted that it was important to close out the feedback loop. The Committee remarked that a great deal of change had taken place over a short period. The Internal Auditor said that the rating was consistent with the HE sector, which overall had adapted extremely well to the working requirements of the pandemic.

In terms of areas which had previously received Amber/Red ratings, it was noted that a review of Cyber Security would be considered at the May meeting, and that Student Withdrawals was addressed as part of the institutional project to improve data quality.

**NOTED**

## **102. Internal Audit Recommendations – Management Control Report [Item 10]**

The Audit Committee considered the Internal Audit Recommendations – Management Control Report [Paper N71]. The Chair acknowledged that some slippage in this area was an inevitable consequence of short time working and other Covid restrictions. The Assistant Director of Finance said that 18 actions had been closed. Of the 27 open actions, 18 had had the target date revised, and 9 actions were not yet due. It was positive that good progress had been made against the actions from the IT Data Security Review and the Student Withdrawals review. The final outstanding Health and Safety action had also been completed, which closed that review. The Assistant Director of Finance

expected that staff capacity to progress actions would improve with the end of short time working arrangements.

**NOTED.**

**103. Risk Management – Termly Report of the Vice-Chancellor [Item 11]**

The Audit Committee received the Termly Risk Management Report of the Vice-Chancellor [Paper N72]. The University Solicitor and Clerk to the Governing Body said that the High Level Risk Register had been reviewed by the senior management team and updates had been received in respect of most risks. It had been proposed by the Director of Planning and Academic Administration that Risk 7, Incomplete and Inaccurate Student Data be downgraded to an amber risk, and monitored at a local level. The Committee approved the removal of Risk 7 from the High Level Risk Register.

The University Solicitor and Clerk to the Governing Body said that the Building 2 Risk Register showed only one red residual risk, which was concerned with the planning approval for the rooftop plant. She said that discussions were ongoing with the local planning authority in this respect.

It was noted that Governance and Legal Services staff continued to provide support and training to departments and faculties, to ensure that a full suite of local risk registers were in place.

A deep dive of Risk 5, Failure to meet recruitment targets impacted by pandemic, would be presented at the May Audit Committee meeting, by the Director of Marketing and Communications.

**NOTED**

**104. Minutes of the meeting of the Data Returns Quality Assurance Group on 26 January 2021 [Item 12]**

The Audit Committee considered the minutes of the meeting of the Data Returns Quality Assurance Group (DRQAG) held on 26 January 2021 [Paper N73], by the Chief Financial Officer. It was noted that the proposal to downgrade the risk of incomplete and inaccurate student data had now received support from both SMT and the Audit Committee (minute 103 refers). The Committee noted that there was still some vulnerability due to the continued use of the old student records system, QL in 2021.

The Chief Financial Officer reported that the OfS would no longer require the Annual Report of the Audit Committee, or the Internal Audit Annual Report to be submitted. It was not yet clear if this was a temporary situation, or whether this would remain the case in following years.

**NOTED**

**105. Any other business [Item 13]**

The Vice-Chancellor reported that the Chairs Committee would consider the membership of the Audit Committee at its meeting on 4 March. There was one Governor vacancy, and the two co-opted Members had both served more than two terms of office. Further discussion in relations succession planning was required.

**106. Confidentiality [Item 14]**

The Audit Committee agreed that discussion about the bank loan negotiations would be kept confidential from the minutes.

**The Vice-Chancellor and the Internal and External Auditors left the meeting.**

**\*See restricted minutes.**

**107. Date of next meeting**

Wednesday 12 May 2021 at 4pm

The meeting closed at 6.07pm.