

CANTERBURY CHRIST CHURCH UNIVERSITY

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON WEDNESDAY 11 NOVEMBER 2020 AT 4.00PM VIA MICROSOFT TEAMS VIDEOCONFERENCE

Present: Mr P Fletcher (Chair), Ms S Appleby, Mr J Hills, Mrs 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 A Sear (Clerk to the Governing Body)
Professor R Thirunamachandran (Vice-Chancellor)
Mr R Hewes, (KPMG)
Ms A Sangeeleemootoo (Deloitte)
Mr B Sheriff (Deloitte)
Ms E Currie (Governance and Legal Services Assistant)

44. Apologies for absence [Item 1]

There had been no apologies for absence.

45. Declarations of Interest [Item 2]

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

46. Minutes of the meeting held on 15 September 2020 [Item 3]

The minutes of the meeting held on 15 September 2020 were approved and signed as an accurate record of the meeting, subject to the correction of the spelling of EBITDA on page 5. Members noted the Action Log.

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

There were no matters arising.

48. Chairs Communications

The Chair noted that the Committee now had a vacant position, since the retirement of Mr Q Roper on 30 October. The Chair said that he had greatly valued the contribution of Mr Roper and hoped that the vacancy on the Committee would be filled without undue delay.

49. Update from the Vice-Chancellor [including update from the Vice-Chancellor and the Chief Financial Officer on discussions with the banks]

The Vice-Chancellor provided an update on the activity of the University. He said that the academic year had commenced on the Covid-secure campus using a blended learning approach. Programmes requiring specialist facilities such as laboratories or performance spaces were given priority. The incidence of Covid amongst the University's student body remained low, with only 78 confirmed cases to date; there had been no hospitalisations. Although it was not possible

to be certain it was believed that none of the outbreaks could be traced to on-campus transmission. He said that the University would remain open during the November lockdown, as per Government advice. Government advice on students returning home for Christmas had been received that morning, and the University was considering this advice, as well as plans for the January return. As would usually be the case, certain students would remain on campus over Christmas, such as care leavers and international students.

The Vice-Chancellor said that student recruitment had been good. The budget target of 3600 full time undergraduate students had been exceeded, as had full time Postgraduate Research and Postgraduate Taught targets. Positively, the University had recruited its highest ever number of overseas students, which demonstrated the positive impact of the work of the Dean of International.

The Vice-Chancellor said that the significant risk remained a deterioration of the national situation over the December break. This might impact the return of students, or might negatively impact on student progression due to the obligation to take examinations online.

The first scheduled review of the Temporary Collective Agreement had taken place with UCU. It was agreed that although the University had made the desired cost savings for the first semester and recruitment had been strong, it remained too early to relax any of the measures. The Vice-Chancellor acknowledged the genuine hardship the situation had caused for certain staff, and reiterated that the agreement would continue no longer than absolutely necessary. A further meeting with the Unions was scheduled for December, but no decision on any relaxation of the agreement would be possible until February.

The Vice-Chancellor said that the negotiations with the banks were ongoing. A waiver until end of November had been agreed, in order to progress negotiations around the grant of security and the covenant reset. He said that it was a challenging situation for all parties. The banks recognised the importance of finalising an agreement to inform the External Auditor's ISA 260 report.

Following a question from a Committee member, the Chief Financial Officer confirmed that the potential for relaxation of the Temporary Collective Agreement had been included in the base forecasts shared with the banks.

A co-opted member asked if the University was making full use of the Furlough Scheme. The Chief Financial Officer said that use of the initial Furlough Scheme had been limited mainly to staff in Estates and Facilities. The details of the new Job Support Scheme were currently under consideration by HROD colleagues.

The Chair requested an update on the progress of Building 2 (STEM Building). The Vice-Chancellor confirmed that practical completion had taken place on schedule and the project continued to work to the agreed revised post-Covid timescale and budget. There had been a problem regarding a possible planning breach in respect of air-conditioning units on the roof, which impacted on the sightline of the Cathedral from St Martin's Church. This was due in part to the decision not to proceed with the third wing of the building, and increased air conditioning requirements of rooms used by the Medical School. The University

did not believe it had breached planning restrictions, but was nevertheless fully engaged with Canterbury City Council to find a solution.

NOTED

50. Financial Reports for Year ended 31 July 2020 and Consolidated Financial Statements [Item 5.1]

The Audit Committee considered the Financial Report and Consolidated Financial Statements for the year-ended 31 July 2020, [Paper N39] by the Assistant Director of Finance [Financial Accounting].

The Chief Financial Officer, who had sponsored the paper, said that the approval requested from the Committee would be to note the current position, as certain changes might still be required, dependant on the response of the External Auditor's technical team. The Governing Body would receive a finalised version. As a consequence of the current environment, the Chief Financial Officer said that the preparation of the 2020 Statements had been the most challenging he had experienced in his career and he was immensely grateful to the Finance team for their dedicated work.

The Assistant Director of Finance said that the University continued to work through feedback received from the External Auditor.

She noted the reduced income in both catering and accommodation, which was a direct impact of the Covid-19 pandemic. Expenditure was down 3% reflecting cost saving measures put in place to respond to the reduced income in certain areas. The reported deficit was £6.5m. The Assistant Director of Finance explained that this figure, which was larger than the previously reported £3m deficit, included pensions adjustments and holiday accrual as required. A £500k donation from the Garfield Weston Foundation had also been recognised as income in-year.

The Assistant Director of Finance highlighted two new notes. Note 8B, spend on Access and Participation was a new OfS reporting requirement. Note 9B, Tangible Assets held for resale reclassified the Broadstairs Campus and Hall Place. This meant that these properties would not be depreciated further, however, the University had taken an impairment charge on Broadstairs, to bring it in line with the sale value.

The Chief Financial Officer highlighted that on the balance sheet (page 42 of statements) there was an unusual representation of current assets and liabilities, reflecting the £16.6m capital grants received from HEFCE and SELEP towards the costs of the new STEM Building. He said, although the University had met the performance conditions of the grant monies, it could not yet be recognised as income and would continue to be held on the balance sheet pending the bringing of the asset into use. It was therefore shown in the creditors position, per technical advice from the External Auditor. This had then been added back in. Without this adjustment the balance sheet would show a negative net current assets position. The External Auditor had agreed that it was helpful to show this clearly. This enables a clearer understanding for users of the accounts that this sum was not repayable.

The Assistant Director of Finance highlighted that LGPS provision for the year had increased significantly by £30m, due to the revaluation in 2019. Deloitte colleagues were reviewing the appropriateness of this provision.

In response to a question from a co-opted Committee member, the Assistant Director of Finance confirmed that although income from the NHS had dropped this was due to a change in funding for nursing courses, which were now funded via the Student Loan Company (SLC) rather than bursaries. SLC income had increased accordingly.

The Assistant Director of Finance confirmed in response to a question that the University expected to make a small profit on the sale of Hall Place, but not on the sale of Broadstairs. Broadstairs was therefore subject to the impairment charge.

In terms of Hall Place and Broadstairs Campus, a Governor asked if the banks had recognised that these properties could not be used as security. The Assistant Director of Finance confirmed that these properties had been excluded from consideration for security, as had leasehold properties.

The Chief Financial Officer confirmed that the proposed sale of Broadstairs was being progressed by staff in Estates and Facilities. The disposal of Hall Place was expected to complete by July 2021 and the University remained actively engaged with the local planning office in this respect.

In terms of the valuation of properties, the Assistant Director of Finance confirmed that the valuations dated from a valuation exercise undertaken by Strutt and Parker in 2016 (backdated to 2014) as part of the Estate Master Plan preparation. The Chief Financial Officer did not expect the valuation exercise currently being undertaken by Savills as part of the property due diligence would provide values which were greater than these, as Savills were using the 'red book' value incorporating alternative use.

A co-opted member asked if it was possible to modify the date when the University measured the holiday accrual, as for both years there was a positive adjustment. The Assistant Director of Finance explained that the University worked to a 31 August holiday year-end, so the adjustment was only possible at the end of the year. However, reporting facilities for holiday accrual was now significantly better due to new HR and Payroll systems, therefore the reporting was significantly more accurate than in previous years.

A co-opted member asked at what point the University should become concerned about the pension deficit. He asked what could be done about the varying pension costs, which often undermined the University's detailed forecasting. The Assistant Director of Finance said the service cost could be estimated, however the balance sheet value was dependant on the actuaries. The Assistant Director said that because the University did not offer enhanced schemes or early retirement its contributions remained relatively static.

The External Auditor said that the University needed the day to day ability to cover the service costs. If the service cost changed significantly, such as in the event of a global financial crisis, this would be cause for concern. This was a risk of having a large defined benefit scheme. The Auditor would be concerned if short- or medium-term financial commitments were not met. The University's

exposure to pension risk was not unique when considered in the context of the public sector.

A co-opted member asked the External Auditor what further work would be required for the University to achieve a Going Concern position. The External Auditor said that it would be necessary to agree the covenant reset with the banks, in order to establish what measures the University would be assessed against. The key question was whether the University would remain compliant with its lending terms, and how this would interact with the Financial Forecasts.

A Governor asked if the External Auditor would expect to see covenants reset to July 2022. The External Auditor said the minimum period he would require to give a Going Concern opinion was 12 months from the signing of the accounts, so July 2022 would be a sensible position. A shorter timeframe would not preclude a Going Concern position but would necessitate a different narrative.

The Committee acknowledged that they could not approve the statements in their incomplete form, however they endorsed the position. The Committee agreed that if the statements changed significantly the Committee would want to meet again to reconsider. If the statements did not change significantly it would be sufficient to share a schedule of changes with the Committee by email. The Clerk to the Governing Body confirmed that email approval would be acceptable from a governance viewpoint. The Chief Financial Officer noted that the Governing Body would place reliance on the due diligence undertaken by the Committee to approve the statements.

The Chair and the Committee thanked the Finance team for their hard work in challenging circumstances. The Chief Financial Officer acknowledged the cumulative challenges of environmental uncertainty and its effect on forecasting, short time working, and working from home for staff.

RESOLVED:

That the Committee would reconsider the statements when a final version was available.

Unitemps Financial Statements [Item 5.2]

The Audit Committee considered a paper [Paper N40] by the Assistant Director of Finance, 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 income was down 25%, due to the impact of the Covid-19 pandemic. The statements showed a £15k deficit. The Assistant Director of Finance said that given the challenging circumstances this was an acceptable position. It was noted that external income had increased in year but internal income had been significantly impacted by the pandemic.

The Unitemps board had received and approved the statements the previous week. A statement about risk and uncertainty would be inserted in relation to Covid-19 before final approval by the Governing Body.

RESOLVED:

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

51. External Auditor's Report 2019/20 [Item 6]

The Audit Committee considered the External Auditor's Report to the Audit Committee for the Audit of the 2019/20 Financial Statements, [Paper N41]. The representative from the External Auditor presented the Report.

The External Auditor said that the primary consideration was the University's Going Concern position. He acknowledged that the list of incomplete matters was longer than he would like, and said that it was presently a challenging working environment.

The External Auditor highlighted the main areas of risk:

- Accounting for Capital Projects. Testing on spending had been undertaken and no significant issues had been identified.
- Management override of controls. This was an area of judgement on provision for OfS clawback, bad debt and dilapidations. The University's provision for OfS clawback was slightly larger than the External Auditor considered necessary. The provision for bad debt had increased from the previous year but was still lower than the External Auditor thought appropriate, due mainly to the age of the debt. The provision for dilapidations was prudent. The aggregate of these provisions was though within a reasonable range.
- Defined benefit pensions liabilities. Discussions with actuaries were ongoing. This was expected to be finalised shortly. The External Auditor commented that it was a challenging environment in which to make judgements and estimates in this respect.
- Accounting for KMMS. Testing was still in progress on the amounts that had been capitalised. This was challenging due to KMMS being a joint operation with the University of Kent.
- Access and Participation expenditure. The External Auditor said that the scope of OfS reporting requirements had changed, and the review of this had now been finalised.
- Medco (CCCU) Ltd. There were no significant matters to note.

The External Auditor confirmed that the impact of Covid-19 had been considered in the report.

A Governor asked the External Auditor to provide an update on KMMS capitalisation. The External Auditor said that £1.5m had been capitalised. This was under consideration by the External Auditor because much of the spend had been recorded by the University of Kent and the University had recorded the numbers in a different way from its own internal project accounting.

A Governor asked if the potential impact of Brexit had been considered and how this might impact on planning for 2020/21. The Vice-Chancellor confirmed that the Brexit risk to Building 2 had decreased significantly when practical completion took place. The decline in EU student recruitment had been factored into forecasts, and would be compensated by an increase in non-EU international recruitment. The University had also supported European staff to get settled status where possible. The final potential risk, to movement of staff and students in the event of gridlock around the Port of Dover, was somewhat mitigated by the requirement for many staff to work from home during the

Covid-19 pandemic, which was expected to continue until February at the earliest.

The Vice-Chancellor acknowledged that it had been a challenging year for financial reporting. The Governing Body meeting would be on 24 November, and papers would be circulated on 17 November. There remained many outstanding items to be finalised in a short period if this deadline was to be met. The Chair said that although the going concern position and compliance with covenant parts of the report were dependant on the outcome of the bank negotiations it was important that other matters be finalised. There were more matters outstanding than he expected to see at this point.

The External Auditor said that the delay was not unexpected and that OfS, and many other regulators, had recognised the challenge involved in finalising accounts and financial statements, extending its deadline accordingly. There were significant pressures on both finance teams and audit teams sector-wide.

The Chief Financial Officer provided an update on the negotiations with the banks to reset the covenants. The financial forecasts to 2022/23 had been presented to the banks. He confirmed that the University was repaying all debts as agreed, but the banks wished to see a more aggressive approach to reduction in net debt.

NOTED.

52. Data Assurance Annual Report [Item 7]

The Audit Committee received the Data Assurance Annual Report (Paper N42) sponsored by the Chief Financial Officer. The Chief Financial Officer noted that the Data Integrity Group (DIG) had been superseded by the Data Returns Quality Assurance Group (DRQAG), which would be made clear in the report.

The main issue the report considered was confidence in student data integrity. Whilst the new admissions system had gone live on SITS, student records were still held in the old system (QL) for a further year.

The report provided an overview of progress following the OfS audit of student data and the Internal Audit report on Student Withdrawals. The report also referenced the Internal Audit report on Data Security. The report stated that the Audit Committee and Senior Management Team could not yet have full confidence in student data. The Chief Financial Officer said that questions of student data quality linked back into judgements on the level of provision for OfS clawback.

Student data was also addressed by the HESA Returns Integrity Group (HESARIG). The development of a student engagement dashboard would be used to monitor real time data on student engagement. This would both improve the student experience, by using early warning signals to flag students who were not engaging with their studies, and improve data accuracy on the last date of engagement, to properly manage student withdrawals.

The Chief Financial Officer said that the Chair of the Audit Committee would attend a meeting of DRQAG in 2021.

A co-opted member asked for it to be made explicit that it was the HESA RIG group that had provided assurance to the DIG/DRQAS (page 167 of pack).

The Chair said it was disappointing that student withdrawals data still contained inaccuracies but lessons had been learnt and progress was being made. Although the University could not yet have complete confidence in its data quality, the Committee had confidence in the approach adopted.

RESOLVED:

To approve the Data Assurance Annual Report 2019/20.

53. Draft Audit Committee Annual Report [Item 8]

The Audit Committee considered the Draft Annual Report of the Audit Committee 2019/20 [Paper N43] by the Governance and Legal Services Manager.

The Chief Financial Officer said the report, which was a summary of the work of the Audit Committee over 2019/20, would be submitted to the OfS once approved by the Governing Body. The section on the External Audit Report would be populated once the External Audit Report had been finalised.

RESOLVED:

That subject to the addition of the External Audit Report, the report be approved for submission to the Governing Body.

54. Modern Slavery Act Statement [Item 9]

The Audit Committee considered the Modern Slavery Act Statement [Paper N44], by 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 Assistant Director of Finance highlighted two narrative additions to the statements: the work of the chaplaincy with the Salvation Army to combat modern slavery and human trafficking, and the student and staff human chain around Augustine House, promoting the University's stance against modern slavery.

A co-opted member asked how the University would respond if a student was involved with Modern Slavery. The Assistant Director of Finance confirmed that a student victim of modern slavery would be protected under the University's safeguarding arrangements. A student's involvement in perpetrating human trafficking or modern slavery could be addressed by invoking the Student Disciplinary Procedures.

In response to a question from a Governor, the Assistant Director of Finance confirmed that the procurement team conducted due diligence when tendering or retendering. The Internal Auditor said that this would be considered in the upcoming internal audit of procurement processes.

In respect of Building 2, the compliance of the supply chain with the Modern Slavery Act had been thoroughly considered, in cooperation with the contractor, Gilbert Ash. In addition, the University had proactively ensured that contractors on the Building 2 site were appropriately cared for during the first national lockdown. The UK Border Agency had also audited the Building 2 site to check for compliance with employment legislation. The UK Border Agency found no breaches of the law.

RESOLVED:

To recommend the statement to the Governing Body for approval.

55. Internal Audit Progress Report and Technical Update [Item 10]

The Audit Committee received the Internal Audit Progress Report [Paper N45] by the Internal Auditor. The Internal Auditor said that the field work was complete for the audit of Governance and resilience of remote working arrangements. The scope had been agreed for the audits of Data Quality: compliance with the Competition and Marketing Authority, and Cyber Security. The report also included a technical update on consideration of Covid-19 for Boards and Audit Committees.

NOTED

56. Termly Risk Management Report of the Vice-Chancellor [Item 11]

The Audit Committee received the Termly Risk Management Report of the Vice-Chancellor [Paper N46], sponsored by the Vice-Chancellor.

The University Solicitor and Clerk to the Governing Body said that there had been a light touch update of the High Level Risk Register by SMT in October. There were now nine high level risks, as the risk of Failure to recruit European Students had been merged with the risk of Failure to recruit International Students, to reflect the change in status of European students post-Brexit. Since the Committee had last considered the Register in September, there had been no new risks or changes to the categories or ratings of risks on the Register.

The Building 2 Risk Register was included in the report and reflected a new planning risk related to the air conditioning units on the roof of Building 2.

The Clerk reported that efforts to ensure a full suite of consistently expressed local risk registers were making good progress.

She reported that the Risk Appetite Statement would be refreshed once negotiations with the banks had completed and this would be brought to the Audit Committee for approval in due course.

The Internal Auditor said that he had noticed a trend in the sector for escalating staff wellness risks to the High Level Risk Register. The Vice-Chancellor firmly agreed with the importance of staff wellness and said that this was captured in the Human Resources local risk register. He said the University took a rigorous approach to personal risk assessments and had adopted a flexible approach to work from home arrangements. The University also used PULSE Surveys to measure staff wellness and attempt to reduce anxiety about returning to campus. He said that for the University this was not currently a high level risk.

NOTED

57. Audit Assurance – Teachers’ Pension Scheme [Item 12]

The Audit Committee considered the Audit Assurance - Teachers’ Pension Scheme, [Paper N47], by the Assistant Director of Finance [Financial Accounting]. The Assistant Director of Finance said that this was an annual reporting requirement. An adjustment of £92.66 would be paid to the Teachers’ Pension Scheme.

NOTED

58. Accounting Conventions Update [Item 13]

The Audit Committee considered the Accounting Conventions Update, [Paper N48], by the Assistant Director of Finance [Financial Accounting]. The University was compliant with OfS and Companies Act requirements for 2020 year-end. From 2019, the Companies Act required companies to report on how the directors had regard to the matters set out in the Companies Act 2006 section 172(1)(a) to (f). This had been included in the Strategic Report.

NOTED

59. Conflicts of Interest [Item 14]

The Audit Committee received a paper on Conflicts of Interest [Paper N49] by the Clerk to the Governing Body. The Clerk said that CUC Higher Education Audit Committees Code of Practice required Audit Committee to have oversight of processes in place to manage Conflicts of Interest. The Audit Committee would then review the Fit and Proper persons policy in the summer 2021.

The University monitored conflicts of interest with an annual self-declaration process and an opportunity for ad-hoc declarations at each meeting. It was agreed that it would be best practice to add the co-opted members to the published Register of Interests.

NOTED

60. Fraud Bribery and Whistleblowing Annual Report 2019/20 [Item 15]

The Audit Committee received the Fraud Bribery and Whistleblowing Annual Report 2019/20 [Paper N50]. The Chief Financial Officer said that there had been two incidents of fraud during the year; a theft in the IT department for which the employee concerned had been dismissed, and an Amazon voucher scheme whereby bots responded to a survey run by an academic in return for a £10 Amazon voucher. The IT security specialist had provided guidance on how to avoid this reoccurring in the future.

In the case of theft of audio-visual equipment in the Faculty of Arts and Humanities in 2018/19, the ex-staff member involved had pleaded guilty in the case which was being heard by the courts at the time. Sentencing was expected before the end of 2020.

Post year-end an allegation had been made against a PhD student, that they had presented themselves as a member of staff and received payment for assistance in submitting PhD applications. The investigation was ongoing supported by the Dean of the Graduate College and a further report would be made to the Audit Committee in due course.

The University Solicitor and Clerk to the Governing Body confirmed that there had been no instances of whistleblowing or bribery in 2019/20. There had been a slight increase in the number of gifts declared on the Gifts and Hospitality Register, which she said was due to training on use of the Register. Anti-Bribery training had also been provided by Governance and Legal Services staff, targeting at-risk areas, including those staff working internationally.

NOTED

61. Any other business [Item 16]

There were no items of any other business.

The External and Internal Auditor left the meeting.

62. Confidentiality

The Audit Committee agreed that the discussion on the tender for external audit services should be kept confidential.

RESTRICTED

END OF RESTRICTION

64. Date of next meeting [Item 19]

Wednesday, 24 February 2021 at 4pm

The meeting closed at 6.15pm.