

CANTERBURY CHRIST CHURCH UNIVERSITY

MINUTES OF THE MEETING OF THE AUDIT COMMITTEE HELD ON TUESDAY 15 SEPTEMBER 2020 AT 4.00PM VIA TEAMS TELECONFERENCE

Present: Mr P Fletcher (Chair), Ms S Appleby, Mrs P Jones, Mr J Hills (from 5pm), 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 (University Solicitor and Clerk to the Governing Body)
Professor R Thirunamachandran (Vice-Chancellor)
Ms E Currie (Governance and Legal Services Assistant)
Ms A Barrington (KPMG)
Mr Hewes (KPMG)

1. Apologies for absence

Apologies for absence had been received from Mr J Hills in respect of the first hour of the meeting.

2. Declarations of Interest

There were no declarations of interest.

3. Minutes of the meeting held on 13 May 2020

The minutes of the meeting held on 13 May 2020 were approved and would be signed as an accurate record of the meeting, subject to the correction of 'considered' to 'consider' at minute 171 (staff recruitment).

4. Matters arising not appearing elsewhere on the agenda

There were no matters arising.

5. Audit Committee Terms of Reference and Membership 2020/21, Work Plan 2020/21 and Compliance Statement against Terms of Reference 2019/20 [Paper N01]

The Committee received Paper N01, the Audit Committee Terms of Reference and Membership 2020/21, Work Plan 2020/21 and Compliance Statement against Terms of Reference 2019/20. The Clerk said that this was a standing item at the first meeting of the Committee in the new academic year to ensure that the Terms of Reference remained fit for purpose. The Clerk said the Terms of Reference had been updated to reflect the Audit Committee oversight of the audit of any subsidiary company. An addition to the Terms of Reference had been made in response to the recently published CUC HE Audit Committees Code of Practice. This insertion made clear that the Audit Committee had oversight of the University's arrangements to ensure (1) the effective management of conflict of interests and (2) the appointment of 'fit and proper persons' to the Governing Body and senior executive positions.

The Clerk said that the Fit and Proper Persons policy was scheduled to be considered by the committee in May 2021 in accordance with the Work Plan. The Work Plan also reflected that the Fraud, Bribery and Whistleblowing Annual Report would be considered in November.

The Chief Financial Officer requested that the Management Control Report be removed from the Work Plan of the November committee meeting, due to the already full agenda and the relatively short time period between the two meetings. The Committee agreed to remove this item.

The Chief Financial Officer confirmed that a paper on the External Audit re-tender process would be brought to the November meeting.

The Clerk said that the Compliance Statement against the Terms of Reference 2019/20 demonstrated that all matters that required attention had been dealt with.

RESOLVED:

That the Audit Committee Terms of Reference and Work Plan 2020/21 be approved, subject to the two agreed amendments to the November 2020 entry on the Work Plan; the addition of the Fraud, Bribery and Whistleblowing Annual Report and the removal of the Management Control Report.

6. Update by the Vice-Chancellor [Oral Update]

The Vice-Chancellor provided an update to the Audit Committee. He said it was positive news that the first cohort of 108 KMMS students had started the new academic year. There had been good recruitment to the School of Engineering and practical completion of Building 2 (STEM Building) had taken place on 14 September 2020, which was ahead of (the revised) schedule. The building would be ready for occupation in January 2021.

The Vice-Chancellor acknowledged that although the financial position remained challenging, the 2019/20 deficit had been smaller than predicted, at £3.22M against the £4M that had initially been forecast. The forecast £4M deficit budget for 2020/21 had been achieved by securing significant savings in both pay and non-pay costs, including a temporary pay freeze and short time working in agreement with the Unions.

Recruitment for the autumn 2020/21 intake had been very good; 3779 firm acceptances were recorded to date for full time Undergraduate programmes against a budget target of 3600. It was expected that the Faculty 'stretched' target of 3855 may also be met. The University had not experienced any significant adverse effects from the Government U-turn on A-level grading, and deferral rates were not materially higher than those in 2019/20. Recruitment to Postgraduate programmes had also been encouraging, with Postgraduate Research very close to and expected to exceed target and Postgraduate Taught at 972 (100 short of target). Postgraduate programmes would continue to recruit on a continual basis, and Undergraduate programmes would be recruiting until 5 October.

In terms of student registration, the Vice-Chancellor reported that close to 60% of returning students had re-registered, with the process starting two weeks earlier than normal to enable more accurate estimates of student numbers. Provided there were no further national or localised lockdowns in the first half of semester one the University would be well positioned in terms of student retention.

The Vice-Chancellor said that the Project 2020/21 Group working with UCU representatives and the Students' Union continued to manage the phased return to a Covid-secure campus. The student 'Clearing process' activity had taken place on campus in August and had worked well. The University, in conjunction with other Kent HEIs, Kent County Council and Public Health England had participated in a simulation learning exercise in how to collectively manage Covid outbreak scenarios, whilst recognising the current relatively low infection rate in Kent.

The Vice-Chancellor provided some further context to discussions with the University's banks surrounding the covenant reset following his briefing sent to all Governors on 7 September. He said that the impact of Covid on the financial performance for 2019/20 meant that it had been recognised for some time that there would be a breach of one of its four covenants (Net Debt to EBIDTA) in that financial year. Additionally, this would also impact on future years' performance against the previously agreed covenants. The University had engaged with early and transparent conversations with the banks about a covenant reset (as reported to the Governing Body on 24 June). The University had been confident that the banks would reset the covenant for 31 July 2020 but on 20 July the University was informed that the banks would require the University to grant 'all in' security in exchange for a reset of the covenants (the current loan agreement being unsecured). As a technical breach of the loan agreement would have occurred on 31 July, that did not allow the University's trustees sufficient time to consider any proposal or appropriately respond. The banks had instead agreed to a waiver of the covenant test date until 30 September.

The Vice-Chancellor said that it was possible that the change in approach from the banks was due to the refusal by the Treasury to underwrite loans given to the Higher Education sector. Many banks had found themselves to be hugely exposed when the recession hit. This was worsened by fears of the impact of Brexit and USS demands to be ranked on a pari-passu footing with any other unsecured creditors of scheme members.

Negotiations with the banks about security options were ongoing and challenging. The University had successfully pushed back on the banks' proposal of security over Hall Place and the Broadstairs campus as these were both due to be sold. Additionally, leasehold properties had now been excluded. The University would consider granting security over available freehold property. The Vice-Chancellor noted that although the loans from the banks had previously been unsecured, there had nonetheless been provisions in place which limited the University's ability to sell its property without agreement from the banks in any case. The University's priority was to reset covenants with appropriate headroom through to 2022/23, which would provide assurance over the University's future years' performance and its ability to deliver on its Estate Master Plan.

The Chief Financial Officer would provide a report to the Governing Body on 22 September detailing the most up to date situation and the next steps to be taken to conclude negotiations. In response to a question from a Governor about longer term projections in line with the Estate Master Plan, the Vice-Chancellor said that forecasts shared with the bank would cover the period to 2026/27 to demonstrate the expected return from investment in KMMS and Engineering courses. He said that a Further Education Skills Review, and a Higher Education Vision Statement which would be published by the Government in the Autumn would also impact on long term forecasts and strategy.

A co-opted Member asked if the executive had sufficient oversight of capital projects, given the size of the capital budget, and whether there was concern about potential overrun or overspend. The Vice-Chancellor responded that despite the impact of the lockdown, Building 2 (STEM Building) would still come in within budget. He said that the Finance and Resources Committee had received a 'lessons learned' paper about overspend and project governance around the construction of Building 1 (Daphne Oram Arts Building). The Chief Financial Officer said the Finance and Legal Oversight Group (FLOG) had been put in place to monitor Building 2 and ensure lessons learned were properly implemented. As part of University-wide cost saving initiatives the Fixtures, Furnishings and Equipment budget had been reduced from £6.5M to a target of £5M, and was expected to come in at around £5.1M. There were not expected to be any further delays to Building 2, and it would open in January 2021.

NOTED

7. Internal Audit Annual Report 2019/20 and Internal Audit Plan 2020/21 [Paper N02]

The Audit Committee received Paper N02, Internal Audit Annual Report 2019/20 and Internal Audit Plan 2020/21. A representative from the Internal Auditor spoke to the paper.

The Internal Auditor said that the Head of Internal Audit Opinion was 'Significant assurance with minor improvement opportunities'. He said that this rating had been awarded even though three reports (Asset Security, Student Withdrawals Data, and IT Data Security) had received only partial assurance. The Auditor recognised that these were pockets of concern that the University had specifically requested be considered and was proactively working to improve. The emphasis of the work over 2019/20 had been on finance, data quality and risk.

The Internal Auditor said that the strategy for 2020/21 had been discussed with the Senior Management Team (SMT). The Auditor had received feedback that it was important to consider efficient use of staff resources during reviews in 2020/21 as many staff were subject to short time working arrangements; efforts would be made in this respect. The Auditor would undertake eight reviews over the year, and was obliged to review 'Governance Effectiveness', 'Data Quality: Compliance with CMA', 'Financial Controls: Procurement', and 'Operational risk management' in order to give an audit opinion. The Auditor explained the choice of the suite of reviews:

- Governance Effectiveness had been completed over the summer, as agreed by the Governing Body in June.
- Governance and resilience of remote working arrangements considered staff wellbeing. The Internal Auditor reported that this was being widely reviewed across the sector.
- Data Quality: compliance with the CMA had been included to safeguard the University against CMA related enquiries and complaints.
- Cyber Security would pick up on progress and improvements following the review of IT Data Security in 2019/20.
- Business Continuity had been carried over from the 2019/20 plan.
- Financial controls: procurement had not previously been considered.
- Operational risk management would consider local risk management arrangements and how these were escalated when necessary.
- HR recruitment follow up would complete work started in 2019/20 and disrupted by the pandemic, including practical workshops.

A co-opted Member questioned which metrics could be used to assess if the remote working arrangements actually worked for the University. The Internal Auditor said that sector benchmarking would be used.

In case any of the reviews did not go ahead, the Internal Auditor said that the substitute review would have been 'Managing Partnerships'.

A co-opted Member asked why resources were being used to consider recruitment when most recruitment activity had been paused for 2020/21. The Auditor said that it was important to complete the unfinished elements of the previous review. The Chief Financial Officer said this would also consider the efficiency of processes enabled through the investment that has been made in the HR and Payroll system and would support information provided to the Audit Committee with regard to its value for money responsibilities.

The Chief Financial Officer said that there had been recent press articles that reported that cyber fraud targeting universities had increased in recent months. The SMT had been assured by the Director of IT that work was ongoing to strengthen the University's cyber security arrangements in conjunction with HE sector organisations (UCISA and JISC) and following up on recommendations included in the Internal Audit report of this area in 2019/20.

RESOLVED:

That the Internal Audit Annual Report 2019/20 and the Internal Audit Plan 2020/21 be approved.

8. Internal Audit Progress Report [Paper N03]

The Audit Committee received Paper N03, Internal Audit Progress Report. One review had been undertaken.

- Governance Effectiveness was rated "Significant Assurance with minor improvement opportunities" (Amber-Green), which was as expected by management. The Internal Auditor said it had been a very positive report and that they had witnessed a good balance between support and

challenge which was an indicator of successful governance. There were 4 medium and 8 low priority recommendations, which were mainly formalising areas of good practice. A key recommendation was to 'future proof' the approach to appoint and appraising Governors to ensure the board had the skills and experience to meet the evolving needs of the University.

The Clerk to the Governing Body said that the long due dates on some of the recommendations had been put in place to coincide with the timeframe for the work to refresh the University's Articles of Association, which was due to take place over the course of the 2020/21 academic year.

A co-opted Member asked what benefit a Senior Independent Governor (SIG) would have for the Vice-Chancellor. The Vice-Chancellor said that although the relationship between the Executive, the Chair and the Governing Body was currently very good, if this were ever to deteriorate, having the SIG in place would be a helpful resource.

Recommendations about sharing chair approved minutes and the treatment of for information papers would be discussed by the Governing Body on 22 September. The Vice-Chancellor said it was important not to conflate the responsibilities of Governors and the Executive, in terms of speaking to papers.

NOTED

9. Internal Audit Recommendations – Management Control Report [Paper N04]

The Audit Committee received Paper N04, the Internal Audit Recommendations - Management Control Report. The Assistant Director of Finance said that 12 actions had been closed. A further 45 actions had been reviewed of which 33 actions were progressing and 12 required extensions, mainly due to Covid-19 restrictions.

The Assistant Director of Finance highlighted that the metrics used to measure Student Withdrawals as reported in the Internal Audit report earlier in the year were found not to reflect the standard expected by the Student Loans Company (SLC). The report had provided guidance of 30 days for a withdrawal to be reported from last point of contact, however, the SLC standard is 60 days from last point of contact or engagement with the student. Although this impacted on the original report wording it did not have a detrimental effect on the actions from the report, or the reporting of progression towards these actions.

NOTED

10. Risk Management: High Level Risk Register and Update Report of the Vice-Chancellor [Paper N05]

The Audit Committee received Paper N05, Risk Management Update. The University Solicitor and Clerk to the Governing Body invited the Committee to approve the revised Risk Management Framework and the updated High-Level Risk Register. The Clerk said that in order to provide greater assurance that risk was being managed appropriately, her team had undertaken a significant review

of processes and documentation following the 2019/20 internal audit of Strategic Risk Management. The review had included one to one meetings with all SMT risk owners to overhaul the High-Level Risk Register and consider the expression of their risks. The Clerk's team had also completed the annual Risk Aggregation exercise.

In particular, the High Level Risk Register had been revised to better reflect the impact of controls and key actions on risks. The Risk Management Framework had been updated to reflect the new processes. The Risk Appetite Statement had been reviewed by reversing the colour coding and amending the number scale (from 1-10 to 1-25) to enable a more accurate and visually simpler comparison between a risk's residual rating and the University's appetite for risk in that area.

It was anticipated that the Risk Appetite Statement for Financial Performance and Sustainability in the Risk Management Framework would be revised when covenant negotiations had been concluded, and it was hoped this could be presented to the Audit Committee later in the Academic Year.

The Clerk said that the highest risks remained Risks 3, "Failure to ensure the University remains competitive and sustainable in the marketised environment and manage government changes in HE" and Risk 5 "Failure to meet student recruitment targets impacted by pandemic".

Notable updates to the register were that Risk 7 "Insufficient capacity and capability to deliver changes necessary to realise strategic plan goals and business as usual" had been updated to reflect Project 2020/21 activity; Risk 8 "Incomplete and Inaccurate Student Data" had decreased from 16 to 12 to reflect progress against the data quality action plan; and Sub risk iii of Risk 3 had been rearticulated to better reflect that the risk of a lack of adult nursing placements causing a failure to achieve student numbers was to income, and not to student experience.

A summary of the Major Change Project risks and the Heat Map were included in the report. The Heat Map had assisted SMT in its assessment of Risk 7. Given the Short Time Working measures, the Heat Map had also assisted SMT identify what to "Stop, Reduce or Delay" and in the business planning process.

The Clerk asked the Committee to consider which of the High-Level Risks they would want to receive a deep dive briefing on, as recommended by the internal audit. The Committee agreed that as Risks 3 and 5 were both the highest risks, and had the largest gap between residual rating and risk appetite these would be subject to a deep dive in February and May.

A Governor asked if it would be feasible to look into the issue of retention as part of the Risk 5 deep dive. The Vice-Chancellor acknowledged that the University had both a moral and professional responsibility to promote the success of all its students. However, members agreed that retention was too broad a topic for such a deep dive. The Clerk confirmed that a deep dive would consist of a presentation by the risk owner, to consider whether the risk was progressing as expected, whether it aligned with the risk appetite, and allowed the Committee to challenge and discuss the risk mitigations in depth. The Internal Auditor said that the deep dive would allow the members the

opportunity to challenge whether the Risk Appetite Statement rating was correct for the risk in question.

A co-opted Member said that if the University's response to his challenge regarding the management of Major Capital Building Projects had not been satisfactory, he would have suggested a deep dive into that. The Vice-Chancellor commented that there were no plans for any further major construction projects following the completion of Building 2 (STEM Building).

In response to a challenge from the Chair regarding student data, the Chief Financial Officer confirmed that good progress was being made in respect of improving data quality and it seemed unlikely the OfS would return for any follow up visit in 2020/21, although there was still some work to be done. He said that accurate data greatly improved the student experience and made student engagement easier for the academic community. There had undoubtedly been a marked improvement due to a cultural shift in the attitude to the management and processing of data with the aim of ensuring integrity within the data systems. 'Dashboard' information was consequently more readily available and of improved benefit for the University's management and staff.

NOTED

RESOLVED:

That the Risk Management Framework and High-Level Risk Register be approved.

That Risks 3 and 5 would be subject to a deep dive review in 2021.

11. Committee of University Chairs Higher Education Audit Committees Code of Practice [Paper N06]

The Audit Committee received Paper N06, the CUC HE Audit Committees Code of Practice ('the code'). The Clerk said that the code was considerably shorter and more accessible than the previous CUC Handbook for Members of Audit Committees in Higher Education Institutions. The Audit Committee Terms of Reference had been amended to better reflect the requirements of the code, notably Audit Committee responsibility for considering the arrangements in place to manage conflicts of interest, and other arrangements required by statute and relating to the reputation of the organisation.

The adoption of the new code would be reported in the Annual Report of the Audit Committee and in the Financial Statements.

A co-opted Member asked how the University measured the idea that 'culture is critical' as referenced in the code. The Vice-Chancellor said that tools such as the staff survey were helpful to generate a holistic view of the University's culture. The Internal Auditor said that they were working on a report on staff surveys and the application of 'soft controls' which would be reported to the committee at its February meeting.

NOTED

RESOLVED:

That the Audit Committee adopt the CUC HE Audit Committees Code of Practice.

**12. Annual Statement of the Office of the Independent Adjudicator (OIA)
[Paper N07]**

The Audit Committee received Paper N07, the Annual Statement of the Office of the Independent Adjudicator. The Clerk to the Governing Body said that the report covered complaints submitted to the OIA in 2019. In this period the University had issued five Completion of Procedures (COP) letters, which was significantly below the band average of sixty letters. Four complaints had been received by the OIA, which was also significantly below the band average of 16.5. In 2019 the OIA closed seven complaints against the University, of which two were found to be partially justified, one was not justified, and four were ineligible.

The Clerk said that the University had addressed the lessons learned from the two partially justified complaints, which related to time taken to process a complaint, and irregularities in the Fitness to Practice procedure. The comparatively low level of COP letters and complaints to the OIA reflected the University's commitment to early resolution. Despite this, complaints reaching the Vice-Chancellor stage had increased in 2020, due in part to Covid-19 and a more litigious culture. The Vice-Chancellor said that the University had made every effort to comply with OfS guidance and with its CMA obligations in its blended learning offerings, but there would almost certainly be an increased number of complaints received by dissatisfied students in 20/21.

NOTED

13. Minutes of the Meeting of the Data Returns Quality Assurance Group held on 2 July 2020 [Paper N08]

The Audit Committee received Paper N08, minutes of the meeting of the Data Returns Quality Assurance Group held on 2 July 2020. The Chief Financial Officer said that the Chair of Audit Committee would attend a meeting in due course. He said that the wider membership of the group had enabled a richer quality of discussion and continued focus on the integrity of external data returns. The Assistant Director of Finance chaired a sub-group which focused specifically on the HESA return.

NOTED

14. Any Other Business

The Vice-Chancellor updated the Audit Committee on the OfS clawback relating to data quality in 2017/18. The University had been invoiced for £250k but continued to hold provision for further clawback relating to 2018/19 and 2019/20, although significant improvements had been made to data in those periods. The Chief Financial Officer would discuss the appropriate amount of provision with the External Auditor.

NOTED

15. Confidentiality

There were no matters discussed to be kept confidential from the published minutes.

16. Date of next meeting

The next meeting would take place on Wednesday, 11 November 2020 at 4pm

The meeting ended at 5.51pm.