

**JOINT AUDIT AND FINANCE COMMITTEE
9 November 2023**

REDACTED MINUTES FOR PUBLICATION

A joint meeting of the Audit & Finance Committees was held via Zoom Videoconferencing on Thursday 9 November 2023 from 12.30-14.00pm to review, scrutinise and pre-approve the External Audit Findings Report and the UCEM Annual Report and Financial Statements.

Present: Amanda Clack [AC] Chair of the Board of Trustees
Chris Costigan [CC] Chair of Committee
Dr Stephen Jackson [SJ] Vice Chair of the Board
Prof. Michelle Jones [MJ]
Prof. Kenny Miller [KM]
Dominic O'Rourke [DOR]
Graeme Scott [GS] Honorary Treasurer
Ashley Wheaton [AW]

Apologies: Prof. Nick Braisby [NB]
Alex Fraser [AF]
Harps Kaur [HK]
Alastair Martin [AM]
Tim Mills (Executive Director Finance) [TM]

In Attendance: Jane Fawkes (University College Secretary) [JEF]
Lyndsay Hughes (note taker) [LH]
Jim Kerr (Director of Finance Operations) [JK]

Richard Bott and Carol Davey from Mazars up to end item 2.3 only

241 1.1/ DECLARATION OF CONFLICTS OF INTEREST

242 There were no conflicts of interest declared.

243 1.2/ APOLOGIES FOR ABSENCE

244 There were apologies for absence from Alastair Martin, Nick Braisby, Alex Fraser, Tim Mills and Harps Kaur.

245 It was noted that this was the first meeting to be chaired by Chris Costigan in his new capacity as Chair of the Audit Committee, taking over from Stephen Jackson who remains a committee member.

246 2.1/ RECEIVE THE AUDIT COMPLETION REPORT FOR 2022-23 FROM MAZARS

- 247 Ashley Wheaton was invited to give a headline position on the final accounts for 2022-23 and the outturn for the year. He reported that overall UCEM is in great shape with a statutory surplus of £1.26M reported against income of £19M. This includes a further adjustment agreed with the Auditors to reduce income recognition for apprenticeships relative to the End Point Assessment (EPA). AW expressed his thanks to the entire UCEM team for the results delivered.
- 248 Richard Bott and Carol Davey from Mazars (Auditors) were invited to introduce the Audit Completion Report (paper 2.1b).
- 249 The Auditors reported that overall, the audit highlighted that the way UCEM carries out its accounting is well managed. Some areas of control have been strengthened as a result of audit findings which was welcomed. The UCEM team were thanked for working positively and openly with Mazars, despite the additional detailed work the introduction of new accounting standard ISO315 brought about.
- 250 Matters discussed with management as a result of the audit included:
- REDACTED
 - REDACTED
 - Carrying value of holding in UCEM Courses Limited
 - Various control matters (1 high, 2 medium and 1 low), specifically related to the Expenses Policy, though internal controls have now been reviewed and changes implemented to prevent this occurring again.
 - USS Pension Scheme discount rate was challenged but was not material.
- 251 Mazars also confirmed that all matters raised in previous audit reports had been resolved satisfactorily. The only matters now outstanding are the Shinfield Grange valuation, Going Concern and the signature by UCEM of the Letter of Representation.
- 252 The Committee noted that the EPA adjustment reflects just one potential outcome and these actually range from more optimistic to more pessimistic. It is particularly hard to predict given that the options to improve it being put in place by management are often outside of UCEM direct control/influence. It is anticipated this will be debated at each annual audit and UCEM hopes that next year an uplift will be seen rather than the downgrade applied this year.
- 253 With regards to internal control mechanisms, whilst the changes already adopted were welcomed, it was suggested that UCEM should review its Expenses Policy to ensure it is appropriate across the business. UCEM should also review signatory levels across the business in full and prepare a Controls Matrix. GS will support this work.
- ACTION: Undertake a full review of the Expenses Policy and prepare an internal controls matrix. [JEF/JK/GS/CC]**
- 254 The Committee queried the extent to which Mazars investigate fraud during their audit work. Mazars responded that it does feature in their work and their tests are carried out to identify potential fraud but they cannot rule out fraud 100%. Mazars also carry out work similar to the ESFA audit checks on apprentices.
- 255 The Committee also queried why the Horizons cost is carried in the Financial Statements at its 2016 replacement cost value, which today would likely be much greater. The auditors commented in response that UCEM follows a policy of

historical cost accounting. There is nothing to stop UCEM revaluing Horizons, but this means changing to a policy of revaluation and once implemented this could not be reversed. This means UCEM would be obliged to periodically revalue and incur the costs of this. UCEM did impair the value of Horizons and if it wishes to write formally to the auditors to say that impairment is no longer valid it is at liberty to do so.

256 The Committee also queried UCEM's Reserves Policy and whether it was sufficient. Mazars responded that whilst charities typically have in place robust reserves policies, none of their higher/further education clients have such a policy due to large fluctuation in pensions which make them impossible to manage. There is no requirement for UCEM to do so. Mazars confirmed that the policy UCEM has approved is more than satisfactory to them.

257 The Committee also queried whether UCEM should have a policy in place for discounting with reference to EPA income. Mazars confirmed that in an ideal world this would exist, but if it were put in place and not followed this would be more problematic than making the one accounting adjustment this currently requires. It was noted that at the current time the sums involved are not material.

258 Finally, the Committee queried the internal control finding raised on the Finance Team members being superusers within the Agresso system which enables them to make changes to the standing data and carries a greater risk of fraud, and whether this is not a responsibility that could be assigned to the IT team. JK responded that three members of the Finance Team are superusers. Whilst ideally such role would sit within IT this is not currently considered practical given the size of the UCEM business. Mazars do not consider this to be a significant issue.

259 The Committee **ACCEPTED** the Audit Findings Report for the 2022-23 year and will recommend it to the Board to approve on 30 November 2023.

260 The Committee thanked Mazars for their comprehensive work to audit UCEM so thoroughly.

261 **2.2/ RECEIVE, REVIEW AND PRE-APPROVE THE UCEM FINANCIAL STATEMENTS AND ANNUAL REPORT FOR THE YEAR ENDED 31 JULY 2023**

262 The Audit and Finance Committees received the UCEM Financial Statements and Annual Report for 2022-23 for scrutiny and pre-approval ahead of final approval at the full Board meeting on 30 November 2023 (papers 2.2a & 2.2b).

263 JK highlighted some key points to the Committee:

- There are some formatting and typographical errors still to be finalised and a clean version will be circulated to the Board before 30 November 2023. JK thanked GS for his detailed comments submitted in this regard. The key issue has been the turnaround time for preparation of the documents. Any further comments on this can be made via email to JEF/JK as soon as possible.
- Mazars also still need to review the final version of the accounts in order to sign them off.

264 The Committee queried why the cash at year end is recorded at £4M when in only June 2023 it was forecast to end the year at £3M. JK explained that this was due to a number of cost lines in the budget which were not spent in the final months of the

year and therefore savings were made. There was also less of a cash drag due to EPA than originally anticipated, though this is forecast to grow substantially in 2023-24.

265 The Committee queried the requirement for submitting this document with the OfS Financial Return on 1 December 2023 and the lack of time available to Trustees to ensure it is satisfactorily reviewed ahead of approval on 30 November. The Board will be given a full week to review the packs ahead of the meeting and should seek to submit any comments in advance of the Board meeting to the University College in order to ensure they can be rectified for final approval to deadline.

266 The Committee also questioned the USS discount rate applied of 4.17% in 2023. Mazars commented that they would have expected this to be slightly closer to 5%. UCEM confirmed that the rate used was taken from USS website but agreed to check this against the rate Mazars say is used by most HE institutions in order to provide the Board with the necessary comfort on the figures in the Financial Statements.

267 Overall, the Committees welcomed the positive results for the year and thanked all the UCEM staff and Mazars involved in the preparation of these documents.

268 The Committees **NOTED** the Financial Statements and Annual Report 2022-23 as detailed, appropriate and comprehensive and were content to **RECOMMEND** the documentation to the Board for sign-off as part of the full group accounts for 2022-23 on 30 November 2023 pending the final checks requested and the correction of formatting and typographical errors already identified.

ACTION: **Ahead of Board approval, check the USS discount rate used in 2023 against the more commonly used rates and assure the institution it is using the most appropriate rate. [JK/AW]**
and
Complete all formatting and typographical updates required to finalise the documents [JK/JEF]

269 **2.3/ RECEIVE AND PRE-APPROVE THE LETTER OF REPRESENTATION**

270 The draft Letter of Representation was presented to the Committees for consideration (paper 2.3). Mazars confirmed it is a standard letter with the exception of the comments on EPA.

271 The Committee commented that the Letter of Representation as currently drafted is relevant to companies and not to UCEM as a higher education, charitable institution. Mazars agreed to update this accordingly. The Committee also requested the wording be amended on EPA to reflect the range of potential outcomes and be less definitive in the assumptions UCEM is making at this time. The Committee also requested that the reference to Covid 19 be deleted as it is no longer relevant.

ACTION: **Update the Letter of Representation with the requests made by the Committee. [CD]**

272 The Committee queried the requirement to report on Energy and Carbon will become necessary. Mazars confirmed there is no timescales currently. The Committee suggested UCEM should look into undertaking this reporting sooner rather than later given its ambitions to be the world's most sustainable university.

- 273 The Committees were content to **RECOMMEND** that, pending the changes requested being made, the Letter of Representation for 2022-23, as provided in paper 2.3a, be signed by the Chair of the Board of Trustees on 30 November 2023 when the UCEM accounts are given final Board approval.
- 274 The Chair thanked RB/CD of Mazars for their attendance and invited them to leave the meeting.
- 275 2.4/ CONSIDER THE RE-APPOINTMENT OF MAZARS AS UCEM AUDITORS AND NOVA AS UCEM ASIA LTD AUDIT PARTNER FOR A FURTHER YEAR**
- 276 REDACTED
- 277 REDACTED
- 278 REDACTED
- 279 The Committee **PRE-APPROVED** the re-appointment of Mazars for a further year as UCEM auditors – final approval to re-appoint will be requested of the full Board of Trustees on 30 November 2023.
- 280 REDACTED
- 281 The Committee **APPROVED** the re-appointment of Nova for a further year as UCEM Asia Ltd auditors.
- 282 2.5/ RECEIVE AN UPDATED SOURCES OF FUNDING DIAGRAM FOR 2022-23**
- 283 At the 2018 joint meeting of the Audit and Finance Committees, the members reviewed a breakdown of sources of funding that UCEM students use to fund their studies. The Committee requested that this data be re-presented annually to review how it may be changing over time. JK presented paper 2.5 which provided the data for 2022-23 with comparators to prior years. The key points to note were the overall growth in student income and that UCEM’s proportion of income from apprentices continues to grow, moving from 40% in 2021 to 60% in 2023.
- 284 It was commented that Audit Committee had reviewed the UAL entity at its meeting earlier in the day and had noted the importance of the Hong Kong market within the overall B2C student income was some 25%. Further profitability analysis of different types of students and programmes would be useful to see at Finance Committee, particularly as apprentice students are all funded at different rates.
- 285 The Committees **NOTED** the sources of funding update and, in particular, the ever-increasing importance of apprenticeship funding to UCEM.
- 286 3/ ANY OTHER BUSINESS**
- 287 The Committee thanked the entire UCEM team for their efforts to conclude the audit process to the tight timescales imposed by the OfS reporting requirements.
- 288 The Committee **NOTED** that Alastair Martin’s term of office as a Trustee of UCEM would end on 30 November 2023 and that as a result he would be leaving this Committee. He was thanked for his contributions over his six-year term in absentia.

The Committee also **NOTED** that Harps Kaur would be leaving UCEM in December 2023 and would therefore no longer serve on this Committee or as Staff Trustee.

289 There were no other items of business raised.

290 4/ MEETING CLOSE

291 The meeting was formally closed at 13.38pm.

292 The date and time of the next Joint Audit and Finance Committee meeting will be Thursday 7 November 2024 via Zoom video-conferencing, to review the draft financial statements for the 2023-24 academic/financial year.

Signed



Name Chris Costigan

Position Chair of Audit Committee

Date 23 May 2024