

JOINT AUDIT AND FINANCE COMMITTEE

4th November 2021

REDACTED MINUTES FOR PUBLICATION

A joint meeting of the Audit & Finance Committees was held via Zoom Videoconferencing and in person at UCEM, Horizons, 60 Queen's Road, Reading, RG1 4BS on Thursday 4th November 2021 from 12.30-13.50pm to review and approve the External Audit Findings and to review and approve the UCEM Annual Accounts.

Present: Jat Brainch [JB] Honorary Treasurer
Prof. Nick Braisby [NB]
Amanda Clack [AC] Chair of the Board of Trustees
Chris Costigan [CC]
Andrew Hynard [AH]
Alastair Martin [AM]
Prof. Kenny Miller [KM]
Dr Stephen Jackson [SJ] Chair
Ashley Wheaton [AW]

Apologies: Wendy Appleby [WA]
Alex Fraser [AF]

In Attendance: Jane Fawkes (University College Secretary) [JEF]
Lyndsay Hughes (note taker) [LH]
Tim Mills (Director of Finance) [TM]

Richard Bott from Mazars up to item 2.2 only

147 1.1/ DECLARATION OF CONFLICTS OF INTEREST

148 There were no conflicts of interest declared.

149 1.2/ APOLOGIES FOR ABSENCE

150 There were apologies for absence from Wendy Appleby and Alex Fraser.

151 1.3/ TO RECEIVE AN UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS FROM THE 2019-20 AUDIT FINDINGS REPORT

152 TM presented paper 1.3 which provided a list of the recommendations from the 2019-20 Audit Findings Report from UCEM's auditors Mazars and an update on progress with adopting and implementing the recommendations at UCEM.

- 153 TM reported that of the four recommendations, three have been closed. Building People and CSTT are no longer UCEM subsidiary entities and UCEM has adopted and enforced a capitalisation policy. The final recommendation related to unreconciled creditors to the value of £402K. UCEM has investigated this value over the year and it has reduced. The sum represents a balance sheet and cash movement only and has no impact on the Profit & Loss accounts. TM provided assurance that debtors are being managed appropriately.
- 154 The Committee **NOTED** the update provided and that all items raised have been addressed in year.
- 155 2.1/ TO RECEIVE THE AUDIT FINDINGS REPORT FOR 2020-21 FROM MAZARS**
- 156 Richard Bott from Mazars (Auditors) was invited to introduce the Audit Findings Report (paper 2.1).
- 157 The Auditors reported that the audit resulted in no significant items of note and that the audit had gone well from Mazars perspective. Mazar's approach to the audit did not change from the previous year with the exception of using the ESFA's Post-16 Audit Code of Practice' guidance on Apprenticeships.
- 158 The Auditors test management override of controls and the potential for fraud during the audit. The Auditors confirmed that their review of journals and adjustments made in preparation of the financial statements has not identified any instances of inappropriate adjustments being made. The Auditors also confirmed that, based on the work performed, the assumptions used to determine UCEM's proportion of USS assets and liabilities continues to be reasonable.
- 159 The Auditors concluded that the Covid-19 pandemic, from a financial perspective, did not appear to have adversely or materially impacted the going concern status of UCEM. Matters discussed with management as a result of the audit included **REDACTED**, recognition of apprenticeships income (which has been calculated in accordance with previous years and against a robust methodology so it only notable in that it has increased as expected given a further year of accrual) and the Individual Learner Records work (on which it undertook a sample audit and found no issues of concern). There was overall, however, no matters of concern or recommendations to make as a result of the audit of 2020-21 and RB recommended that the Board proceeds to sign the Letter of Representations as presented in the report.
- 160 The Committee commended the UCEM team for an audit report with no findings or recommendations to make, particularly in the context of the Covid pandemic throughout the year in question. RB commented that the UCEM team fully cooperated with the audit and there were no restrictions to Mazars access to the information they needed.
- 161 The UCEM team commented that after a good first year audit with Mazars the audit had not been as smooth this time. RB responded that the Mazars team had suffered from Covid-related sickness and fatigue in prolonged homeworking which may have impacted this.
- 162 The Committee **NOTED** the Audit Findings Report and the absence of any findings or recommendations for the 2020-21 year.

163**2.2/ TO RECEIVE, REVIEW AND PRE-APPROVE THE FINANCIAL STATEMENTS AND ANNUAL REPORT FOR THE YEAR ENDED 31ST JULY 2021**

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The Audit and Finance Committees received the UCEM Financial Statements and Annual Reports for 2020-21 for pre-approval ahead of the full Board meeting on 25th November 2021 (included at paper 2.2/2.2a). The consolidated group accounts will be presented for final approval by the Board on 25th November 2021, following individual AGMs of UCEM Asia Ltd and UCEM Courses Ltd during November.

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TM highlighted some key points to the Committee. Overall, income is up from £15.6M to £16.2M year on year due to increased student income. Bursaries are no longer included in income and have been put into costs with the explanation and definitions for this explained in the accounting policies note in order to be compliant with OfS terminology. Dividends were lower this year primarily due to ongoing Covid-19 uncertainties in the market. Staff costs reduced year on year with an associated reduction in total employees from 245 to 228 year on year due to redundancies and despite benchmarking also taking place in year. There were also substantial cost savings in year due to Horizons being predominately closed, despite investment in a new security system.

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TM also reported that CSTT had been classed as a disposal on 31st December amounting to a £0.5M drop in the accounts, however Building People was not classed as significant enough to be included on the accounts when they left the UCEM group on 31st July 2021. In terms of investments, UCEM has lost £845K in 2019-20 but this recovered by £700K in 2020-21.

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Overall, UCEM made a loss of £1.5M in 2019-20 and this converted into a £1.5M surplus in 2020-21. This result was commended by the Committees though it was noted it is likely to have been largely down to unique circumstances in year and is not forecast to be repeated as sustainable for 2021-22 and beyond. The Committees highlighted the need to divorce top line revenue from the cost base in order to drive a sustainable surplus in the future which will be at the heart of strategic discussions at the Board in the coming year.

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TM highlighted the increase on the Balance Sheet from £18.8M in 2019-20 to £20M in 2020-21, driven by increase in investment portfolio, the capitalisation of the Transform project and End Point Assessment accrued income. TM also highlighted the restricted funds UCEM holds, many of which are reported identically year on year in the Financial Statements. It was agreed UCEM will undertake further work to understand the restricted funds, their intended uses and the current status of each and report back to Finance Committee in early 2022.

ACTION: Undertake further work to understand UCEM's restricted funds, their intended uses and the current status of each and report back to Finance Committee in early 2022. [TM]

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The Committees reviewed the narrative in the Annual Report, given it will go to the Charity Commission in the Board's name. The Committees praised the report as an excellent overview of UCEM and made two minor recommendations to UCEM. Firstly, that UCEM refers to both ESFA as well as Ofsted in the Education section and, secondly, that clarity is provided in the student Outcomes section on the expectations of OfS which are referred to.

170 It was noted that both the Chair and the Principal will be required to sign the Balance Sheet in 2020-21, not just the Chair as in previous years.

171 The Committees thanked all those UCEM staff involved in preparing this comprehensive and detailed annual report. RB of Mazars also endorsed it.

172 The Committees **NOTED** the Financial Statement and Annual Report 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 2020-21 on 25th November 2021.

173 The Chairman thanked RB of Mazars and invited him to leave the meeting.

174 2.3/ TO RECEIVE AND PRE-APPROVE THE LETTER OF REPRESENTATION

175 TM reported that the proposed letter of representation in paper 2.3 will be updated ahead of the Board sign-off required on 25th November 2021 as the auditors have requested an additional sentence be included relative to End Point Assessment.

176 Notwithstanding this one change, the Committees were content to recommend that the Letter of Representation for 2020-21 be signed by the Chair of the Board of Trustees on 25th November 2021 when the full group accounts are approved.

177 2.4/ TO APPROVE THE RE-APPOINTMENT OF MAZARS AS UCEM AUDITORS AND NOVA AS UCEM ASIA LTD AUDIT PARTNER FOR A FURTHER YEAR

178 TM presented paper 2.4 to the Committee on the re-appointment of Mazars as UCEM Auditors and Nova as UCEM Asia Ltd Audit Partner for a further year.

179 REDACTED

180 REDACTED

181 REDACTED

182 REDACTED

183 REDACTED

ACTION: REDACTED

184 The Committee **APPROVED** the re-appointment of Mazars (subject to a satisfactory response to communications to be issued in the next month) and Nova for a further year as UCEM and UCEM Asia Ltd auditors respectively.

185 2.5/ TO RECEIVE AN UPDATED SOURCES OF FUNDING DIAGRAM FOR 2020-21

186 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. TM presented paper 2.5 which provided the data for 2020-21 with comparators to 2018-19 and 2019-20. The key points to note were

that student income increased year on year and that SLC funding also substantially increased.

187 The Committee **NOTED** the sources of funding update and, in particular, the ever-increasing importance of apprenticeship funding to UCEM.

188 **3/ ANY OTHER BUSINESS**

189 The Committee thanked TM and the entire UCEM team for their efforts to conclude the audit process to the tight timescales imposed.

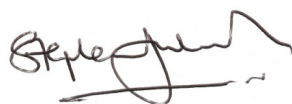
190 There were no other items of business raised.

191 **4/ MEETING CLOSE**

192 The meeting was formally closed at 13.45pm.

193 The date and time of the next Joint Audit and Finance Committee meeting will be Wednesday 9th November 2022 at UCEM, Horizons, Reading, with Zoom remote video link available, to review the draft financial statements for the 2021-22 academic/financial year.

Signed



Name

Stephen Jackson

Position

Chair of Audit Committee

Date

3rd March 2022