



## AUDIT COMMITTEE

9 MARCH 2023

### REDACTED MINUTES FOR PUBLICATION

A Meeting of the Audit Committee was held via Zoom video conference from 14.00-16.00pm on Thursday 9 March 2023.

Present:	Mr C Costigan (CC)	
	Mr A Fraser (AF)	
	Dr S Jackson (SJ)	(Chair)
	Prof. M Jones (MJ)	
	Mr A Martin (AM)	
	Prof. K Miller (KM)	
In attendance:	Ms K Deakin (KD)	(for item 2.5 only)
	Mr G Edwards (GE)	(for item 4.1 only)
	Mrs J E Fawkes (JEF)	(UCEM Secretary)
	Mrs L Hughes (LH)	(Note taker)
	Mr T Mills (TM)	(for item 2.3 and 3.3 only)
	Ms L Wilks (LW)	(for item 2.2 only)
	Mr A Youell (AY)	(for item 2.4 only)
Apologies for absence:	Mrs H Kaur (HK)	
	Mr A Wheaton (AW)	

## 1) GENERAL MEETING GOVERNANCE

### 1101 1.1/ DECARATION OF ANY CONFLICTS OF INTEREST

1102 There were no conflicts of interest reported.

### 1103 1.2/ APOLOGIES FOR ABSENCE

1104 There were apologies for absence from Ashley Wheaton and Harps Kaur.

### 1105 1.3/ MINUTES AND THE REDACTED MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 9 NOVEMBER 2022

1106 The minutes of the Audit Committee meeting held on 9 November 2022 (as included at paper 1.3) were **APPROVED** as a true record and signed by the Chair.

1107 The redacted minutes of the Audit Committee meeting held on 9 November 2022 were reviewed and **APPROVED** as a true record and signed by the Chair. They were published on the UCEM webpage immediately after the meeting.

**1108 1.4/ MINUTES AND THE REDACTED MINUTES OF THE JOINT AUDIT AND FINANCE COMMITTEE MEETING HELD ON 9 NOVEMBER 2022**

1109 The minutes of the Joint Audit and Finance Committee meeting held on 9 November 2022 (as included at paper 1.4) were **APPROVED** as a true record and signed by the Chair. They were also approved by the Finance Committee at their meeting on 22 February 2023.

1110 The redacted minutes of the Joint Audit and Finance Committee meeting held on 9 November 2022 were reviewed and **APPROVED** as a true record and signed by the Chair. They were published on the UCEM webpage immediately after the meeting.

**1111 1.5/ MATTERS ARISING FROM THE MINUTES NOT INCLUDED ELSEWHERE ON THE AGENDA**

1112 The summary showing the outcome of actions from the meetings held on 9 November 2022 (paper 1.5) was taken as read with the Committee noting the two actions which remain in progress or deferred until at least the next meeting (assessment of future of UCEM Asia Limited and discussions on risk scenario planning).

**1113 1.6/ AUDIT COMMITTEE TERMS OF REFERENCE AND FUTURE CHAIRMANSHIP**

1114 The Committee reviewed the Audit Committee Terms of Reference V9.01 as presented at paper 1.6a. The proposed changes for re-approval relate to changes in membership– the additions of Harps Kaur (Staff Trustee) and Prof. Michelle Jones (Independent Trustee) – and one clarification between Audit Committee and Board on approval of appointing UCEM auditors.

1115 The Committee **APPROVED** the Audit Committee Terms of Reference V9.01 for finalisation and publication as V10.00.

**ACTION: Finalise and re-publish the Audit Committee Terms of Reference V 10.00. [LH]**

1116 The Committee **NOTED** that the Nominations and Governance Committee had approved a change in Audit Committee chairmanship from September 2023. Chris Costigan will take on the role from Stephen Jackson at that time as part of a broader strategic approach to Board succession planning.

## **2) RISK MANAGEMENT**

**1117 2.1/ REVIEW RISK AT UCEM**

1118 The Audit Committee considers risk at each of its meetings and accordingly reviewed the new approach to risk management and the updated UCEM Risk Register at paper 2.1 and 2.1a which provided an overview of changes in risk profile since the last report to the Committee.

- 1119 JEF (on behalf of HAK who was sick) reported that the new Register and process has been effective in framing discussions on risk in Senior Leadership Team meetings and in integrating risk management into day to day operations. Institutional risks are categorised broadly as strategic, compliance/regulatory, operational, financial and reputational. Strategic risks are broadly related to economic uncertainties (e.g. apprentice recruitment cuts at major employers) and their potential impact on UCEM income, alongside potential changes to apprenticeship levy funding and the ongoing political instability in Hong Kong. UCEM continues to manage risk associated with ESFA compliance. Operational risks are predominantly associated with systems and data. Overall, whilst the register shows red matters UCEM is alert to the risks and is mitigating them wherever possible.
- 1120 The Committee noted that the risks around USS pensions remain red, even post mitigation. This is because UCEM must legally comply with the covenant and the impact of this could be significant financially. It was suggested UCEM could review potential mitigations and how it might limit exposure once more but it was noted the legally binding nature of the covenant, the impossibility of buying the institution out of the scheme and the active management approach to new entrants that UCEM already undertakes. It was noted a further update on USS contributions is anticipated in April and that the next financial valuation of USS might be anticipated to lower the risk.
- 1121 The Committee noted the forthcoming discussion on apprenticeship levy funding at agenda item 2.3. It was suggested UCEM should look to the Lifelong Loan Entitlement as both a risk and an opportunity for UCEM in line with the potential changes to future apprenticeship funding.
- 1122 Finally, the risk in a change of UK government was discussed, and what the labour education and skills manifesto might look like. UCEM is gathering intelligence on this currently but regardless of the administration it is clear there will be a focus on skills and the productivity gap.
- 1123 The Committee **NOTED** the updated risk register and the embedding of the new approach to risk management. The Committee **AGREED** with the identification of the risks presented and the mitigations in place where required.
- 1124 2.2/ RISK DISCUSSION ITEM: RECRUITMENT AND RETENTION OF STAFF**
- 1125 The Chair welcomed Lisa Wilks to the meeting for item 2.2.
- 1126 LW introduced paper 2.2, with associated data slides, on the risks and mitigations in place associated with the recruitment and retention of staff to UCEM. This discussion was requested by Audit Committee during 2022 given the challenges sector wide in the recruitment market.
- 1127 The Committee found the report useful and reassuring as it indicates UCEM is in a fairly stable position with regards to recruitment and retention of staff. UCEM is aware that it is a candidate-driven market but has implemented positive changes to help retain staff, such as benefits enhancements and increased flexibility, where UCEM cannot offer remuneration as attractive as some competitors. UCEM's staff turnover is lower compared to last year.

- 1128 It was noted that UCEM undertakes annual benchmarking of all salaries in the summer, however the current policy is to pay only at lower quartile benchmarks. The Remuneration Committee has requested data on the cost to UCEM of moving all staff to median quartile and this will be modelled for budgeting decisions through the Spring. The sector has just agreed an average 5% pay award this year and retention will become a greater risk if UCEM cannot meet similar levels during pay review in summer 2023. This does, however, have to be balanced against the increase this would bring to overall staff costs, and the impact on the balance sheet.
- 1129 It was also noted that personal development, alongside culture, environment and benefits, can be a significant motivator for retention but that workload concerns were raised in the Employee Engagement Survey which are impacting the ability to undertake development. It is a challenge for UCEM to balance this need within tight budgets and the volume of work required of its staff. UCEM would also benefit from more systematic planning of development with a centralised budget. LW hopes to bring forward proposals for financial wellbeing support to staff in the next budgetary round.
- 1130 The Committee **NOTED** the risks in the area of recruitment and retention of staff and the appropriate management and mitigation of the risks by the UCEM team. The Committee suggested that an update report on this important area is presented annually for discussion.
- 1131 The Chair thanked LW for her contribution and invited her to leave the meeting.
- 1132 2.3/ RISK DISCUSSION ITEM: UCEM RELIANCE ON APPRENTICESHIPS INCOME**
- 1133 The Chair welcomed Tim Mills to the meeting for item 2.3.
- 1134 TM introduced paper 2.3 on the risks and mitigations in place associated with UCEM's ever increasing reliance on Apprenticeships income (now at 61%). Income per student is set by the government and provides limited opportunity for UCEM to increase fees, whereas costs relative to delivery of apprenticeships continue to rise. The risks for UCEM associated with this situation are being considered and mitigated against.
- 1135 It was noted that a change in government could be both an opportunity and a risk for UCEM with potential for changes to Levy funding from a new administration. There are also concerns about income for UCEM related to its (current) 30% rate of drops out on proceeding to EPA (the RICS APC) within six months of the degree programme ending, which is considered insufficient time to prepare by many employers, and UCEM is lengthening its timeframe for completion where necessary to mitigate this risk to income.
- 1136 UCEM is considering how additional income over and above the set rates can be generated from employers upfront and where 'overstayers' might be charged additionally for every six months at the end of the apprenticeship.
- 1137 The Committee queried the Labour Party's policy regarding apprenticeships, and a potential expansion of how the funds can be spent by employers if they came to power, and asked UCEM to discuss with employers what impact this might have on UCEM and what the institution's response would be.

1138 The Committee noted that the Board is comfortable with the volume of apprenticeship delivery at UCEM but is aware of the reliance on apprenticeships with the proportion of income that comes from them. The Board is expecting growth in UCEM's programme offering as one means to mitigate risk in this area and work on what the breadth of offering should be is being considered at Executive and Board this year in strategy update discussions.

1139 AF commented that in his sector there is a clear move by employers towards seeking more modular and role specific training and the challenge for providers is how to turn this into a commercial model.

1140 The Committee **NOTED** the increasing importance of apprenticeship income to UCEM and the work that the Executive is undertaking on UCEM's financial resilience in this area, particularly by expanding the programme breadth on offer. The Committee also **NOTED** UCEM's decision to extend its apprenticeships by 6 months in mitigation of the risks of non-submission of the End Point Assessment.

1141 The Chair thanked TM for his contribution and invited him to leave the meeting.

## 1142 **2.4/ RISK DISCUSSION ITEM: IT AND SYSTEMS**

1143 The Chair welcomed Andy Youell to the meeting for item 2.4.

1144 AY introduced paper 2.3 on the significant challenges ahead for UCEM and the risks and mitigations in place associated with UCEM's current IT infrastructure and systems. The key areas of concern for UCEM are around the student records system, the server estate and the security environment. In recent years they have functioned but had no real investment and are approaching end of life. This necessitates both investment and significant change and is not optional. The implications of a major IT security breach for UCEM as an online institution are profound so work to continue to keep UCEM safe is essential. UCEM continues to successfully reaccredit itself with Cyber Essentials Plus but ongoing training and communication for staff is also essential as 95% of information security breaches are due to human error not computers.

1145 CC suggested AY speaks with his ex-colleagues at Ravensbourne University about the move of the Student Records System from an in-house server to a cloud-based system as they completed this move through a relatively painless process and believe it was well worth the effort.

**ACTION: AY/CC to connect about the Ravensbourne University experience in moving SITs to the cloud. [AY]**

1146 The Committee queried UCEM's understanding of its own digital architecture, which may be complicated due to organic growth over many years, and whether UCEM has the right skills in its staff in business analytics and strategic change to rationalise, integrate and transform it into a fit for purpose structure for the future. AY commented that a review had recently been conducted for the IT service which reported yesterday and contains 29 recommendations. There is still work ongoing to digest these recommendations but it is clear that systems governance and design authority are required as part of risk mitigation in this area. The work and investment

required to the IT Infrastructure and the student records system alongside the required skills of UCEM staff, will be a long term project over the next 2-3 years.

- 1147 It was suggested that AY work to provide the Board with a roadmap of the project, the systems UCEM currently operates, where it needs to get to potential for efficiencies and the associated investments, given the risks and the level of investment that will be required. This will come forward to the Board in due course and the Committee will continue to receive updates given the degree of risk and its criticality to UCEM's operations.
- 1148 The Committee **NOTED** the risks in the area of IT and systems at UCEM and the management and mitigation of these risks by the UCEM team.
- 1149 The Chair thanked AY for his contribution and invited him to leave the meeting.
- 1150 2.5/ APPRENTICESHIP QUALIFICATION ACHIEVEMENT RATES – RISK MITIGATION UPDATE**
- 1151 The Chair welcomed Kate Deakin to the meeting for item 2.5.
- 1152 KD introduced paper 2.2 on apprenticeship student outcomes and the risks to UCEM following the implementation of the new ESFA Accountability Framework. The Committee had discussed this at its last meeting and since then the Executive has taken some decisions on how the performance indicator risks can be mitigated.
- 1153 KD reminded the Committee that the last element of an apprenticeship, progression to and completion of the EPA (the RICS APC) is not in UCEM's control in the way it normally would be for an apprenticeship provider. In total, 20% of the apprenticeship funding is withheld until students have completed and passed their EPA. UCEM is reliant on employers and APC counsellors to agree when an apprentice is ready to sit their EPA and this might fall outside of the agreed timeframe for the total apprenticeship. UCEM is working with employers to help them understand their responsibilities and roles throughout the entire apprenticeship and the ESFA is also starting to challenge employers about their 'overstaying' apprentices who do not complete the APC in the agreed timeframe which will hopefully start to have a positive impact on UCEM's completion rates, which are currently below ESFA expectations. Other mitigations to support improvements to the Qualification Achievement Rate were outlined in the paper and have been sufficient to give the ESFA confidence that UCEM is doing all it can to address the issue.
- 1154 One means UCEM will adopt is the lengthening of the apprenticeship which will give an additional 6-months following completion of the degree element to allow apprentices to prepare for the APC, though this does have an impact on UCEM's deferred income rates. UCEM will also seek to frontload modules at levels 4 and 5 and thereby reduce the workload in the final year of the degree and allow preparations for APC to commence. This will come forward when UCEM revalidates all undergraduate programmes in summer 2024. In addition, UCEM is seeking to strengthen its working relationship with the RICS so they apply apprenticeship rules more stringently. All these factors will have an impact, but it may take time to see the results work through.
- 1155 The Committee queried whether UCEM is still at risk of sanctions by the ESFA regardless of the mitigations it is working through. KD reported that UCEM's QAR

was at 36.7% last year and is forecast to be at 48% this year. The target is 50-60% but given the marked improvement this would represent UCEM is unlikely to face repercussions.

1156 The Committee **NOTED** the risks in the area of ESFA compliance and the management response and interventions being made to successfully manage and mitigate these risks.

1157 The Chair thanked KD for her contribution and invited her to leave the meeting.

## 1158 **2.6/ BUSINESS CONTINUITY PLANNING UPDATE**

1159 JEF introduced paper 2.6 which provided an update on business continuity planning which was last reviewed by the Committee in June 2021.

1160 The Committee noted that BCP is no longer a feature on the institutional risk register given the impact of covid on testing all procedures and policies. Work continues on technology and systems and on adopting successful hybrid working practices both in the office and in home environments.

1161 The Committee discussed hybrid working, given that particularly on a Monday and Friday Horizons can still feel quite empty of staff, and whether this way of working was productive or efficient for the institution. The flexibility offered to staff is of huge benefit and saves them commuting time, but the opportunity of human interaction in person is reduced. Committee members also continue to grapple with this issue in their own businesses and institutions, with the biggest challenges noted as successful onboarding of new staff into the culture and community of the institution and the challenge in recruiting highly skilled younger staff who no longer wish to be in an office environment five days a week. It is highly likely a hybrid model of work will remain, especially for UCEM where salaries can be less competitive and flexibility can be offered as a benefit to attract staff.

1162 The Committee **NOTED** the update provided on UCEM's Business Continuity Planning activities and management, and **ENDORSED** the approach being taking to manage risk in this area.

1163 The Chair thanked KM for her contribution and invited her to leave the meeting.

## **3) AUDITS**

### 1164 **3.1/ AUDIT PLANNING 2023-2025**

1165 The Committee was presented with the updated Audit Plan for 2023-2025 (paper 3.1a). The Committee **NOTED** the schedule of audits across the next three years linking the relevance of the audit back to the compliance and regulation requirements of the institution and areas of significant risk. They also noted its compliance with the CUC handbook for audit.

1166 The Committee **RECONFIRMED** the Audit Plan schedule for 2023-2025 and the scoping work underway for the two audits planned for 2022-23.

### 1167 **3.2/ AUDIT ON ETHICAL RISKS**

1168 Jane Fawkes presented the proposed approach to undertaking an audit on ethical risks, as identified in the Audit Plan for 2022-23. The approach proposes undertaking the audit internally and without expense to the institution. A report outlining the outcomes will be published back to the Committee in June 2023. The Committee can then determine whether any further externally supported in depth scrutiny is required.

1169 The Committee **APPROVED** the proposed approach to an audit on ethical risks this year.

**ACTION: Undertake the internal audit on ethical risks ahead of the next Audit Committee. [JEF]**

### **1170 3.3/ NEW AUDITORS FOR UCEM ASIA LTD**

1171 The Chair welcomed Tim Mills to the meeting for item 3.3.

1172 TM introduced paper 3.3 on the progress to date in seeking potential new auditors for UCEM Asia Ltd, as requested at the Joint Audit and Finance Committee in November 2022.

1173 TM reported that, to date, there have been no expressions of interest in the work from the firms approached and in the event that any of the firms contacted do provide a quote it is likely to be significantly in excess of UCEM's current fee with Nova. TM will continue his efforts to secure quotes. In the meantime, he assured the Committee that his team has no reservations about reappointing Nova, their work has been detailed, timely and thorough and is always also reviewed by Mazars when integrating into the group accounts.

1174 The Committee **NOTED** the progress to date in seeking potential new auditors for UAL and that UCEM may not get any alternative quotes or engagement from other audit firms in time for the 2022/23 audit.

1175 The Chair thanked TM for his contribution and invited him to leave the meeting.

## **4) OFFICE FOR STUDENTS COMPLIANCE**

### **1176 4.1/ UCEM REPORTABLE EVENTS POLICY**

1177 The Chair welcomed Gethin Edwards to the meeting for item 4.1.

1178 GE presented paper 4.1 which provided proposed amendments to the UCEM Reportable Events policy. The policy was last updated in 2020 and proposed amendments were suggested in November 2022, discussed by the Committee and then further amended in the version now presented for approval. The revisions now allocate potential reportable events into three categories, the first requiring approval by the Board, the second requiring sign-off by the Chair or Vice-Chair and the third where delegation is devolved to the Executive. The policy is not published externally and is for internal process and procedure only. UCEM has not submitted any reportable events in the last year, so their occurrences are rare.

1179 The Committee considered the principle of delegating authority for certain events or matters. There was a mixture of views with some concern about the fact there



should be no situation in which the Board should or would not be involved in deciding to report to the OfS.. Reportable Events are by definition not day-today occurrences so the Board should retain oversight in all cases. In many ways the proposals seek to solve a problem that does not currently exist and is therefore unnecessary. On the other hand, there are very straightforward cases where deferral to the Board is excessive due to the minor nature of the report being made. There is no desire to bypass the Board in the proposals made, simply to improve practicalities in the process. In addition, as at one Committee member's institution, in some situations reportable events can become very frequent and a delegation process was essential in this circumstance. It was noted that UCEM could adopt this sort of process for a specific project if, in the future, it was in the situation of needing to report frequently.

1180 The Committee was unable to agree on the merits of delegation and agreed some further discussion outside the meeting would be required to reach a consensus.

**ACTION: Hold further discussions with Committee members and the Chair and Principal about the Reportable Events procedure revisions in order to reach a consensus and agree amendments to the policy that can be approved at the next meeting. [JEF]**

1181 The Chair thanked GE for his contribution and invited him to leave the meeting.

## 5) ANY OTHER BUSINESS

### 1182 5/ ANY OTHER BUSINESS

1183 The Committee noted the papers provided for report at item 7:  
The ongoing UCEM compliance with Conditions of Registration F1, F3 and F4 with the Office for Students.  
The Cyber Security Update and UCEM's Cyber Essentials Plus Re-Accreditation


1184 There were no other matters of business raised.

## 6) CLOSE

1185 The Chair thanked the Committee for the discussions and closed the meeting at 11.40am.

**Date of next meeting:  
8 June 2023**

**Signed**



**Name**

Stephen Jackson

**Position**

Chair of Audit Committee

**Date**

8 June 2023