

Meeting of the Audit Committee

4.00 - 6.00 pm on Thursday, 4 October 2018
in 1B16 - Technopark, SE1 6LN

Agenda

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
16.	Audit committee annual report	3 - 12	RF

Date of next meeting
4.00 pm on Thursday, 8 November 2018

Members: Steve Balmont (Chair), Shachi Blakemore, Duncan Brown, Mee Ling Ng and Jerry Cope

Apologies:

In attendance: David Phoenix, Richard Flatman, James Stevenson, Natalie Ferer, and Joe Kelly

Auditors: Justin Martin, Lucy Gresswell, Amy Chiu, Fleur Nieboer and Jack Stapleton

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	CONFIDENTIAL
Paper title:	Audit Committee Annual Report
Board/Committee:	Audit Committee
Date of meeting:	04 October 2018
Author(s):	James Stevenson
Sponsor(s):	James Stevenson
Purpose:	For Approval
Recommendation:	The committee is requested to review and approve its annual report.

Executive Summary

Introduction

The Audit Committee is required under the Financial Memorandum with HEFCE / OfS to produce an annual report of the committee to the Board of Governors and the Accountable Officer (the Vice Chancellor). The report will also be submitted to OfS in December.

Guidance from OfS is that it must include any significant issues and should be considered by the Board before approval of the accounts. It must also include the committee's opinions on the adequacy and effectiveness of LSBU's arrangements for the following:

- Risk management, control and governance;
- Economy, efficiency and effectiveness (value for money);
- Management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies.

Draft Opinions

Draft opinions (to be discussed at the Audit Committee meeting) for these areas have been included at the end of the report and are set out below. The committee's opinion on:

1. The Committee's opinion on the institution's risk management, control and governance is that these arrangements are adequate and effective.

2. The Committee's opinion on the arrangements for the economy, efficiency and effectiveness of the University is that they are adequate and effective.

The Committee's opinion on the management and quality assurance of data submitted to HESA and HEFCE (OfS from 1 April 2018) is that the University has adequate assurance.

Recommendations

Audit Committee is requested to review and approve its annual report.

Annual Report of the Audit Committee to the Board of Governors and the Accountable Officer 2017/18

Executive summary

During the year to 31 July 2018, the Audit Committee was chaired by Steve Balmont and met four times.

Matters completed by the Committee for the year 2017/18 include:

- review and clearance of the University's annual report and accounts for 2017/18 (paragraph 8);
- approval of the plan for PwC's internal audit review work for the year (paragraph 12);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 12);
- [three] meetings with PwC and four meetings with KPMG in the absence of all University staff;
- consideration of the annual internal audit report (paragraph 14);
- regular review of the corporate risk framework (paragraph 19);
- approval of a statement of internal control (paragraph 31).

Introduction

1. This report covers the financial and academic year from 1 August 2017 to 31 July 2018 and includes any significant issues up to the date of the signing of this report and consideration of the financial statements for the year.
2. No member of the Audit Committee has, or has had during the year, a direct role in the management of the University. All members of the Committee are asked to declare any interests in any item of business on the agenda at each meeting.
3. During 2017/18, the Audit Committee was chaired by Steve Balmont, an independent governor. Other members of the Committee during the year were: Mee Ling Ng, Shachi Blakemore, Duncan Brown and independent co-optee, Roy Waight (resigned 12 January 2018). The Audit Committee considers it has individuals with an appropriate mix of skills and experience to allow it to discharge its duties effectively.
4. All members of the Committee are independent of management. James Stevenson, University Secretary & Clerk to the Board, served as secretary to the Committee throughout the year.
5. The Committee held four business meetings during the financial year to 31 July 2018. The Vice Chancellor, Chief Financial Officer and other members of the Executive were present. The internal auditors and the external auditors were present at all four meetings. For the financial & academic year 2018/19 the Committee will also hold four business meetings (October, November, February, and June.)
6. The Committee's terms of reference are reviewed annually in the autumn. The Committee has an agreed forward business plan which is used to plan its agendas during the year and is reviewed at each meeting.

External Audit

7. At its meeting of 7 June 2018, the Committee approved the external audit plan for the financial year 2018/19.
8. [At its meeting of 8 November 2018, the Committee considered and recommended to the Board for approval the draft financial statements for the year ended 31 July 2018. The Committee considered in detail an audit opinion from KPMG UK LLP. The Committee considered and recommended to the Board for approval the letter of

representation from the Board of Governors to KPMG UK LLP. – *to be confirmed 8 November 2018*]

9. [Performance indicators have been agreed against which the performance of the external auditors is measured. At its meeting of 8 November 2018, the Committee received a report on performance against indicators. The external auditors met all of the agreed performance indicators. – *to be confirmed*]
10. [On 8 November 2018, the Committee met KPMG UK LLP in the absence of any University employees to discuss the year end audit and other matters. *To be confirmed*]
11. Non-audit work provided by KPMG UK LLP for LSBU for the year ended 31 July 2018 is as follows:
 - £4,525.00 (SBUEL tax computation)

Internal Audit

12. The University's Internal Auditors for the year were PricewaterhouseCoopers (PwC). PwC worked to an internal audit plan of 125 days approved by the Committee at its meeting of 8 June 2017. 125 days of work were delivered. The Committee has received progress reports from PwC against the plan at every meeting.
13. During the year 10 internal audits were undertaken (2017: 8.) The Continuous Audit programme of key financial systems and student data was undertaken throughout the year.
14. The internal auditor's annual report for 2017/18 (dated September 2018) provided a positive assurance statement. The internal audit annual report found:

“Governance, risk management and control, and value for money arrangements in relation to business critical areas is generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control and value for money arrangements which potentially put the achievement of objectives at risk. Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control and value for money arrangements.”

15. "Our [PwC's] view on London South Bank University's operational control environment and governance arrangements is underpinned by the audit reviews that we have performed during the year. There has been one high risk rated report, two medium risk rated reports and two low risk rated reports prepared during the financial year. The findings from these reports are not considered significant in aggregate to the system of internal control. None of the individual assignments completed in 2017/18 have an overall classification of critical risk."
16. The Committee met PwC prior to [three meetings (November 2017 excepted)], in the absence of any of the University's employees.
17. Following a tender process in 2014/5, PwC was re-appointed as internal auditors from 1 August 2015. The contract is for three years with the possibility of a further two 12 month extensions, subject to performance.
18. Through a tender process conducted in Spring 2018, PwC has been selected as Change Partner for a major University IT project. PwC will continue to act as internal auditors until 31 July 2019: the role of Internal Auditor will be re-tendered in Spring 2019 and new internal auditors will take over on 1 August 2019.

Risk management, control and governance

19. The Committee reviewed the corporate risk register at each meeting. In addition, the committee annually reviews risk strategy and risk appetite and makes recommendations to the Board of Governors. The University's corporate risk framework is aligned to the Corporate Strategy.
20. During the year PwC undertook an internal audit on risk management controls which concluded the control environment remains "robust" and "stable" and there is a low risk to the University.
21. [At its meeting on 4 October 2018, the committee reviewed the effectiveness of internal controls and approved the full compliance statement for inclusion in the annual report and accounts. *To be confirmed*]

Economy, Efficiency and Effectiveness

22. PwC considers value for money as part of its work on LSBU's systems of internal control. Its assessment is that LSBU's value for money processes are in accordance with good practice.

23. Following changes to HEFCE guidance, a new mandatory Annual Efficiency Return was approved by the Accountable Officer. This report was ratified by the committee at its meeting of 8 February 2018.

Management and Quality Assurance of Data submitted to HESA, HEFCE and Student Loans Company

24. Both financial and student data are monitored regularly through management controls and independently tested through the internal audit continuous audit programme. No significant findings have been reported.

25. Following two reports on the continuous auditing of student data controls during the year 2017/18, the Internal Auditors “have not identified any significant exceptions regarding student data controls, but we [PwC] have seen an increase in exceptions over the course of the year”.

HEFCE’s Assessment of Institutional Risk

26. In a letter dated 21 February 2018, the committee received HEFCE’s assessment of the University’s institutional risk by the Annual Provider Review (APR) Group. HEFCE’s statement was that LSBU was “not at higher risk” at this time. The regulator has given the same opinion each year since 2007.

Public Interest Disclosure

27. Under the “Speak Up” policy the University Secretary reported on Speak Up activity at every meeting of the Audit Committee. The Chair of the Audit Committee acts as the independent point of contact for anyone wishing to raise a Speak Up matter outside line management, and reviews the conclusion of any subsequent investigation.

28. Three matters were reported / reviewed through the Speak Up policy during the year.

- The first was an allegation of unfairness in a University process: following investigation, no evidence was found of deliberate malpractice.
- The second related to terms of employment in one of the University’s wholly owned subsidiaries. This case was reviewed and the allegation was not supported: the case has been closed.

- The third was an allegation of bullying in one of the University's subsidiary companies. The matter was investigated and judged not to be a Speak Up matter but one relating to the company's Grievance Policy to which it was referred.

Anti-Fraud

29. Under LSBU's anti-fraud policy the Chief Financial Officer reported on any fraud matters at every business meeting. One irregularity was reported to the Committee during 2017/18. At its meeting on 9 November 2017, the Committee was informed of an incident of Payroll fraud. Payments were subsequently made correctly to the employee and reported to the police through Action Fraud. HEFCE was not informed as the amounts were below the required threshold.

Audit Committee effectiveness assessment

30. The Audit Committee undertook an effectiveness review in May 2017 and received a report on the findings at its meeting on 8 June 2017. The recommendations from the report have been implemented. The next review is due in May 2019.

Opinion of the Audit Committee

Risk Management, Control and Governance

31. [The Committee's opinion on the institution's risk management, control and governance is that these arrangements are adequate and effective. *to be confirmed*]

32. This opinion is based on:

- the Internal Audit annual report for 2017/18 which gave the opinion that "we believe London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over risk management, control and governance".
- the Executive's detailed review of internal controls. This review was considered by the Audit Committee on 4 October 2018 – *to be confirmed*.

Economy, Efficiency and Effectiveness

33. The Committee's opinion on the arrangements for the economy, efficiency and effectiveness of the University is that they are adequate and effective - *to be confirmed*
34. This opinion is based on the Internal Audit annual report, 2017/18 which gave the opinion that "[PwC's] work indicates that LSBU has processes in place to ensure value for money which are in accordance with good practice". This is demonstrated through use of purchasing consortiums, adherence to financial controls, and an internal value for money working group.

Management and quality assurance of data submitted to HESA, HEFCE / OfS, and Student Loans Company

35. The Committee's opinion on the management and quality assurance of data submitted to HESA, HEFCE (OfS from 1 April 2018), and Student Loans Company is that the University has adequate assurance.
36. Both financial and student data are monitored regularly through management controls and independently tested through the internal audit continuous audit programme. No significant findings have been reported.

[This annual report was approved by the Audit Committee on 8 November 2018 - *to be confirmed.*]

Signed
Steve Balmont
Chairman of the Audit Committee
22 November 2018

[*To be signed at the Board meeting of 22 November 2018*]

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