

Meeting of the Group Audit and Risk Committee

4.00 pm on Tuesday, 6 October 2020
via MS Teams

Agenda

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
6.	External audit: review of non-audit services	304 - 305	RF
7.	External audit progress update	306 - 313	JS
18.	Internal controls annual review and effectiveness	314 - 327	RF

This page is intentionally left blank

Agenda Item 6

	CONFIDENTIAL
Paper title:	Review of non-audit services
Board/Committee	Group Audit and Risk Committee
Date of meeting:	6 th October 2020
Author:	Natalie Ferer, Financial Controller
Sponsor:	Richard Flatman, CFO
Purpose:	For noting
Recommendation:	The committee is requested to note this report detailing KPMG's non-audit services for the year ending 31 July 2020.

Executive Summary

KPMG have been engaged to conduct the following work during the year ending 31st July 2020, with costs including VAT:

Advice in relation to VAT group	£8,400
Covenant compliance work	£7,200
Subsidiary tax computations	£4,920
International tax compliance	£23,820
Capital Goods Scheme adjustment	£3,600

Recommendation

The committee is requested to note the report.

This page is intentionally left blank

Agenda Item 7

	CONFIDENTIAL
Paper title:	External Audit – Progress Report
Board/Committee	Group Audit and Risk Committee
Date of meeting:	6 October 2020
Author:	KPMG
Sponsor:	Richard Flatman - Group Chief Financial Officer
Purpose:	For noting
Recommendation:	The Committee is requested to note the progress report and technical update.

Summary

The Committee is requested to note the external audit progress report and technical update from KPMG.

This page is intentionally left blank



Progress Report and Technical Update

London South Bank University
External Audit 2019-20
October 2020

Section One

External Audit Progress Report – September 2020

Since our last Audit Committee in June 2020 we have...

- Completed our interim audit visit for the group
- Commended our final fieldwork for the group
- Prepared our technical update, which is included within section two.

Ahead of the next meeting of the Audit Committee on 5 November 2020 we will...

- Complete our audit of the year end financial statements and annual report
- Debriefed the findings of our audit with management; and
- Prepared our ISA 260 audit report

Actions arising from this report

We ask the Audit Committee to:

- **NOTE** this progress report;
- **NOTE** the technical update.

Contacts:

Fleur Nieboer	Jessie Spencer
Partner 07768 485532 fleur.nieboer@kpmg.co.uk	Senior Audit Manager 07517111955 Jessica.spencer@kpmg.co.uk

Terms and Conditions of OFS Funding	KPMG Insight
<p>In May 2020 the OFS published its Terms and Conditions of funding for 2020-21. These apply to the recurrent and capital funding the Office for Students (OfS) will distribute to providers that are registered with the OFS. Terms and conditions of OfS funding are supplementary to any conditions of registration that apply.</p> <p>The key conditions of the funding are:</p> <ol style="list-style-type: none"> 1. Any funds that have been earmarked or provided for a specific purpose must be used solely for that purpose. 2. When using OfS funding providers must apply proper processes that ensure effective accountability and secure value for money. This requirement also applies where the provider passes on part of its OfS funding to another legally distinct entity for the provision of education. 3. The provider must have OfS-fundable students in 2020-21. If a provider is identified not to have any such students all recurrent and capital funding for that year will be withdrawn. 4. Student premium funding is earmarked to contribute towards the aims and objectives set out in providers' approved access and participation plans for 2020-21. The provider must therefore use student premium grants solely for these purposes. <p>Grant Clawback</p> <p>If the OfS finds (whether through data reconciliations, data audit or any other means) that erroneous data has resulted in providers receiving incorrect funding or student number allocations, then it will adjust these accordingly – subject to the availability of its funds.</p> <p>Where data error has resulted in a funding allocation being too high, it will recover the excess funding from the provider for any year informed by the audited or reconciled data (including any consequential effects on funding for subsequent years).</p> <p>https://www.officeforstudents.org.uk/media/fa18d837-ee57-48cb-8ff1-4b53eee147ed/terms-and-conditions-of-funding-for-2020-21.pdf</p>	<p>The University should note the funding requirements for 2020-21 and ensure it has adequate processes and controls in place to ensure ongoing compliance.</p> <p>The University should be aware of the changes (although very minor) to the terms and conditions for OfS funding: it's possible that not all OfS funding will be paid in monthly instalments during the main academic year going forward, and the list of professions for pre-registration courses that attract the nursing, midwifery, and allied health supplement now covers both undergraduate and postgraduate study.</p>

Amendments to SLC Payments for 2020-21	KPMG Insight
<p>On 4 May 2020, the Education Secretary of the UK Government, Gavin Williamson, announced changes to tuition fee loan payments in the 2020/21 academic year to providers.</p> <p>In response the SLC have agreed to make two fee payments in the first term of the 2020-21 academic year. The first payment of 25% of the Tuition Fee Loan is being made as normal. A second payment of 25% is being made earlier than in previous years, in advance of term 2. The third term payment of 50% remains unchanged. The University will receive the term 2 advance payment shortly after the first term routine payment, in the same month.</p> <p>This change applies to all UK higher education providers, in respect of English, Welsh and Northern Irish full-time and part-time undergraduate students</p> <p>As a result the University will need to submit attendance confirmations twice in the first term. The SLC have confirmed they will open up the attendance confirmation worklists for the second term at the same time as the first. Both confirmations can be made as soon as the student becomes liable to pay the tuition fee due in the first term.</p>	<p>The University should note the change in planned payment dates and ensure this is reflected in its 2020-21 cash flow forecasting.</p> <p>Furthermore, the University should ensure it has processes in place to comply with the amended attendance confirmations.</p>

Carbon reporting impacting a wider range of companies	KPMG Insight
<p>Streamlined Energy and Carbon Reporting (SECR)</p> <p>In July 2018, BEIS introduced The Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 that requires all UK quoted companies and all large UK unquoted companies and LLPs to make additional disclosures around energy consumption. These Regulations will apply to companies with financial periods beginning on or after 1 April 2019 and are therefore applicable for the financial year ending 31 March 2020 onwards. SECR has to appear as part of the Directors Report in the accounts filed at Companies House</p> <p>A company qualifies for the additional reporting requirements where it meets 2 out of 3 of the following:</p> <ul style="list-style-type: none"> • Employees 250 or higher • Sales £36 million or more • Balance Sheet £18 million or more <p>There are dispensations for UK subsidiaries if covered by a parent's group reporting or where energy consumption is below 40,000 kWh (which equates to less than c£5,000).</p> <p>Reporting Requirements</p> <p>The Company is required to include the following disclosures within its Strategic Report:</p> <ol style="list-style-type: none"> 1. UK energy consumption (including fuel for transport) in kWh. 2. Conversion of (1) in kWh to CO2 emissions. 3. Previous years' figures. 4. At least one measure of energy intensity (i.e kWh/unit of production). 5. Energy efficiency actions taken (e.g: audits, monitoring, energy efficiency technology). 6. The methodology used to produce the data, basically a summary report. 	<p>As the University is a registered company it is required to comply with the new reporting requirements. Ahead of the financial year end the University should ensure it has access to the required data and can be reported on accurately within the 2019-20 accounts. Where concerns arise, early discussions should be held with the audit team.</p>



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2020 KPMG LLP, a UK limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity. All rights reserved.

KPMG LLP is multi-disciplinary practice authorised and regulated by the Solicitors Regulation Authority. For full details of our professional regulation please refer to ‘Regulatory Information’ at www.kpmg.com/uk

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Agenda Item 18

	CONFIDENTIAL
Paper title:	Internal Controls – Annual review of effectiveness 2019/20
Board/Committee	Audit Committee
Date of meeting:	6 th October 2020
Author:	Natalie Ferer, Financial Controller
Sponsor:	Richard Flatman, Group Chief Financial Officer
Purpose:	For noting
Recommendation:	The Committee is requested to note the attached report and approve the annual compliance statement.

Summary

This paper presents the annual review of effectiveness of the University's system of internal control, that underpins the internal control statement in the annual report and accounts.

The proposed statement is a 'full compliance' statement for the period under review.

Recommendation

The Committee is requested to note the attached report and approve the annual compliance statement.

This page is intentionally left blank

System of Internal Controls
Annual Review of Effectiveness
Year ended 31 July 2020

CONTENTS

1. Executive Summary
2. Annual review process
3. Changes in the nature and extent of significant risks
4. Scope and quality of management's ongoing monitoring of risks and the system of internal control
5. Results of internal audit work
6. Extent and frequency of communication to the board
7. Incidence of significant control failings or weaknesses during the year
8. Effectiveness of the University's external reporting processes

Appendix

1. Draft Statement on Internal Control
2. Corporate Risk Register Residual Likelihood Matrix Overview, as at August 2020.

1. Executive Summary

This report documents the progress that has been made with regard to our system of internal control and to our risk management processes over the past year. A copy of the proposed statement of full compliance for the year ended 31 July 2020 is enclosed as Appendix 1.

In making this statement, we are required to ensure that a number of key principles of effective risk management have been applied. These principles, together with an assessment of compliance by LSBU, are provided in the table below.

Effective risk management:

Requirement	Assessment
Covers all risks – governance, management, quality, reputation and financial.	✓
Produces a balanced portfolio of risk exposure.	✓
Is based on a clearly articulated policy and approach.	✓
Requires regular monitoring and review, giving rise to action where appropriate.	✓
Needs to be managed by an identified individual and involves the demonstrable commitment of governors, academics and officers.	✓
Is integrated into normal business processes and aligned to the strategic objectives of the organisation.	✓

In making this assessment, and in drafting the proposed full compliance statement for the period under review (for the year ended 31 July 2020, but considering all matters up to the date of approval of the financial statements) the following assurance sources have been taken into account:

The Office for Students

- Governance, and effective Risk management processes are a requirement of Conditions of Registration (condition E2 – adequate and effective governance) with the OfS. As part of the seeking registration with the OfS, LSBU submitted a self-assessment, regarding its governance arrangements, including risk management and internal controls.
- LSBU has a quarterly OfS taskforce, to monitor progress against OfS conditions of registration to ensure conditions continue to be met.

Internal Audit

- The programme of internal audit work for the year ended 31 July 2020 was aligned to the corporate risk framework to provide assurance on the effectiveness of controls in key risk areas.
- The conclusions from internal audit work are discussed in more detail in section 5 of this report. There have been no reports with no assurance rating. There are a number of areas where Limited assurance was provided over the design of controls:
 - LSBU - Accounts Receivable, UKVI Tier 2 and Tier 5, UKVI Tier 4 and IT Security
 - SBC - Accounts Payable and Health & Safety for SBC
 - SBA - AP and Parent Pay and IT Security.

And limited assurance over the effectiveness of controls was found in the following areas:

- LSBU – Accounts Receivable, UKVI Tier 4 and IT Security
- SBC – IT Security
- SBA - AP and Parent Pay and IT Security.

Management have accepted all recommendations and appropriate action is being taken to address those weaknesses and implement agreed actions.

- Across the group, 116 recommendations were raised during the year, of which 18 were high risk, 70 medium risk and 28 low risk. As this is the first year that BDO have been engaged as internal auditors, there are no comparative figures.
- 104 recommendations were outstanding at the start of the year and to date. Of these 44 (32%) have been implemented, 25 (24%) are in progress and 32 (31%) are not yet due.

Internal Governance

- This Corporate Risk Report has been submitted to every meeting of the Board of Governors
- The Corporate Risk Report & Risk Register has been submitted to every meeting of the Group Audit and Risk Committee
- Based on the internal audit work performed in the year we have not identified any significant issues with regard to risk management that we need to draw to your attention and are satisfied that the University has effective risk management arrangements in place.
- There have been no major breakdowns in controls during the year.

- Regular anti-fraud, bribery and corruption updates/reports have been provided to each meeting of the Group Audit and Risk Committee. No significant matters have occurred.
- No significant issues have arisen as a result of the University's external reporting processes.

2. Annual Review Process

To be able to make the statement on internal control set out in Appendix 1, Governors need to satisfy themselves that the risk management system is functioning effectively and in a manner that they have approved.

The two elements of effective monitoring are:

- An ongoing review process;
(for LSBU this takes the form of regular risk management reports to the Group Audit and Risk Committee and Board of Governors,); and
- An annual assessment of the effectiveness of internal controls.

This paper documents the annual assessment undertaken. It considers issues dealt with in reports received during the year, together with any additional information necessary to ensure that Governors take account of all significant aspects of internal control for the year under review and up to the date of approval of the annual accounts.

3. Changes in the nature and extent of significant risks

The Risk Register is aligned with the goals of the University's Corporate Strategy for 2020.

The current Corporate Risk Register residual likelihood matrix is attached at Appendix 2.

A separate detailed risk register covering the Groups response to Covid 19 is in place and new risks around cybersecurity and the potential for fee and other refunds have been identified which will be added to the next version of the risk register. Apart from these, the principal risks facing the University relate to UK undergraduate student recruitment, income generation from Overseas and EU applicants, NHS Contract income, and increasing pension deficits / cost of pension provision.

These risks are discussed in more detail in the University's financial statements.

Following the move to Group, a reassessment of risk management processes has been undertaken and a new Group Risk policy and process has been developed and aligns with the new 2020/25 Group Corporate Plan. This has already been approved by the Group Audit and Risk Committee.

4. Scope and quality of management's ongoing monitoring of risks and the system of internal control

Risk Management is a standing item on the agenda of Organisational Effectiveness Review meetings, and risk management and internal control are embedded into normal operating routines. Both are subject to regular management review and periodic audit review.

Every Corporate Risk has an Executive Risk Owner. Every member of the Executive is the Risk Champion for their area of the institution, and this is embedded into formal letters of delegated authority issued for every financial period.

All matters relating to internal control are reported to the Executive, which also monitors carefully the implementation of agreed recommendations / actions for improvement, as reported through the Internal Audit Progress reports.

5. Results of internal audit work for 2019/20

The University's Internal Auditors for the period under review were BDO LLP and their opinion for 2019/20 is set out in their internal audit annual report.

This opinion is based on their assessment of whether the controls in place support the achievement of management's objectives, as set out in their Internal Audit Risk Assessment and Internal Audit Plan 2019/20.

They have completed the program of internal audit work for the financial year ended 31 July 2020, and their opinion is:

Extract from BDO's 2019/20 Internal Audit Annual Report for LSBU

Our opinion is;

In our opinion, based on the reviews undertaken, the follow up audits completed during the period, and in the context of materiality:

- *The risk management activities and controls in the areas which we examined were found to be suitably designed to achieve the specific risk management, control and governance arrangements. This is with the exception of the following areas where limited assurance was provided over the design of controls:*
 - *LSBU - Accounts Receivable, UKVI Tier 2 and Tier 5, UKVI Tier 4 and IT Security*

- SBC - Accounts Payable and Health & Safety for SBC
 - SBA - AP and ParentPay and IT Security.
- *Based on our sample testing, risk management, control and governance arrangements were operating with sufficient effectiveness to provide reasonable assurance that the related risk management, control and governance objectives were achieved throughout the period under review. This is with the exception of the following areas where limited assurance was provided over the effectiveness of controls:*
 - LSBU – Accounts Receivable, UKVI Tier 4 and IT Security
 - SBC – IT Security
 - SBA - AP and ParentPay and IT Security.
 - *The arrangements we examined to promote economy, efficiency and effectiveness were suitably designed to achieve the objectives required by management; and those arrangements were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related objectives were achieved during the period under review.*

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Group's risk management, control and governance processes and its arrangement for economy, efficiency and effectiveness.

This opinion is based on historical information and the projection of any information or conclusions contained in our opinion to any future periods is subject to the risk that changes may alter its validity. Specifically, some of the internal audit work undertaken was delivered prior to the changes in environment due to the COVID-19 pandemic and therefore our work and opinion provided does not provide an opinion on subsequent changes to risk management, control and governance arrangements as a result of the pandemic and increased remote working arrangements in those areas.

Value for money

We are able to provide reasonable assurance on the adequacy of the Group's arrangements for economy, efficiency and effectiveness. Consideration is always given during an audit as to whether the underlying systems encourage value for money (VFM). Two audits were completed in the period which considered aspects of VFM and were generally found to be well controlled. Audits which had a VFM focus were estates capital programme, ParentPay (re catering contract). We also reviewed efficiencies aspects of VFM across the student data audits, and apprenticeships audit.

Management action on recommendations

Management has made steady progress in implementing recommendations from previous internal audit reports. Of the 49 recommendations brought forward from 2017/18 and 2018/19, 34 have been implemented and 15 remained outstanding at 31 July 2020. Our reporting to Audit and Risk Committee throughout the year shows that progress is being made to address these recommendations.

6. Extent and frequency of communication to the Board (and other committees)

Regular reports on risk and control matters have been presented to the Board and its Committees throughout the year, including:

- Key Performance Indicators
- Corporate Risk Report
- OfS Annual and mid-year accountability forecast
- Annual report from Group Audit and Risk Committee
- Group Audit and Risk Committee report on the accounts
- Annual report and financial statements
- External Audit plan and External Audit management letter
- Corporate Governance Statement
- Internal Audit plan, reports, progress reports and annual report
- Annual report on effectiveness of Internal Controls

7. Incidence of significant control failings or weaknesses during the year

There have been no reportable incidents of significant control failings or weaknesses during the year.

8. Effectiveness of the University's external reporting processes

No significant issues have arisen as a result of the University's external reporting processes other than matters already covered within the Corporate Risk framework.

APPENDIX 1

Statement on Internal Control

As the governing body of London South Bank University, we have responsibility for ensuring that there is a process for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives of the University, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body by the OfS, according to Registration Condition E2.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process linked to the achievement of institutional objectives and designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2020 and up to the date of approval of the financial statements, and accords with OfS conditions.

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- We meet a minimum of seven times a year (including 2 strategy days) to consider the plans and strategic direction of the institution;
- The approach to internal control is risk based, including a regular evaluation of the likelihood and impact of risks becoming a reality;
- The Group Audit and Risk Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Group Audit and Risk Committee concerning internal control and we require regular reports from managers on internal control activities and the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
- The Group Audit and Risk Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Group Audit and Risk Committee receives regular reports from the internal auditor, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, together with recommendations for improvement;
- The internal audit programme has been aligned with the University's corporate risk register;

- An organisation-wide register of key corporate risks is maintained, together with individual operational risk registers for each school and professional service group. Review procedures cover risk to achievement of strategic objectives, operational business matters, and regulatory compliance as well as financial risk;
- A network of risk champions exists to support risk management activity in all schools and professional service groups;
- Formal risk management and internal control procedures have been embedded within ongoing operations.

Our review of the effectiveness of the system of internal control is informed by internal audit, which operates to standards defined in the OfS Regulatory Framework and as per the Internal Audit Charter, also adheres to the definition of internal auditing, code of ethics and the standards for professional practice that are published by the Institute of Internal Auditors. The internal auditors submit regular reports, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, with recommendations for improvement.

Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

APPENDIX 2: Corporate Risk Register: Residual Likelihood Matrix

LSBU Corporate Risk: Board Summary Report – Aug 2020

Cover Page: Risk Exposure Matrix – Severity by risk type (from Risk Appetite)

Severity Rating/Risk Type - Appetite	Low	Medium	High	Critical
Financial (open)	(517) EU Referendum Impact on regulation & market (DP)	(631) Full financial benefits including income and expenditure levels fail to leverage potential of Group (RF) (402) Income growth from Research & Enterprise unrealised (PI) (630) HE Policy - B3 Registration Regulation and potential introduction of student number controls (DJ)	(3) Sustainability of current pension schemes (RF) (625) Impact of Govt. Education Review on HE funding (RF) (2) Revenue reduction if course portfolio, and related marketing activity, does not achieve Home UG recruitment targets (NL) (457) Anticipated international & EU student revenue unrealised (NL)	
Legal / Compliance (Cautious)		(305) Data security and data protection (NL) (519) Negative Curriculum Assessment (DJ) (584) External incident compromises campus operations or access (MMJ)		
Academic Activity (Seek)		(628) Availability of NHS placements (PB) (495) Higher Apprenticeship degrees (FM) (398) Academic programmes not engaged with technological and pedagogic developments (DJ) (494) Inconsistent delivery of Placement activity (NL) (518) Core student system inflexibility / failure (DJ) (627) Impact of new strategy upon organisational culture (MMJ)	(629) OfS Thresholds not met in relation to Condition of Registration B3 (DJ) (37) Affordability of Capital Expenditure investment plans (RF) (467) Progression rates don't increase (DJ) (633) Unable to deliver recovery plan from Covid-19 (DP)	
Reputation (Open)		(6) Management Information perceived as unreliable, doesn't triangulate or absent (RF) (362) Low staff engagement impacts performance negatively (MMJ)	(626) Impact of assurance activity & new initiatives fails to address issues around student experience (PB) (632) Alignment of estate with sector requirements across the Group (PI) (1) Capability to respond to change in policy or competitive landscape (DP)	

This page is intentionally left blank