

Meeting of the Audit Committee

4pm* on Thursday, 26 September 2013
in DGC12&13, Clarence Centre for Enterprise and Innovation, St George's Circus,
London SE1

* Pre meeting with the Internal Auditors at 3.45pm in DGC12&13, Clarence Centre

Agenda

<i>No.</i>	<i>Item</i>	<i>Paper No.</i>	<i>Presenter</i>
1.	Welcome and apologies		Chair
2.	Declarations of Interest		Chair
3.	Minutes of the last meeting (for publication)	AC.38(13)	Chair
4.	Matters arising		
4.1	ICT Security update	AC.39(13)	CIO
4.2	Halls Debtors reconciliation process update (to note)	AC.40(13)	EDF
5.	Internal Audit		
5.1	Progress report (for monitoring)	AC.41(13)	PwC
5.2	Quarter 4 Continuous Auditing report, 2012/13 (for monitoring)	AC.42(13)	PwC
5.3	Update on process for academic appeals / OIA	Verbal report	PwC
5.4	Draft Internal Audit annual report, 2012/13 (to discuss and note)	AC.43(13)	PwC
6.	External Audit		
6.1	External audit progress report, 2012/13 (to discuss and note)	Verbal update	GT
6.2	FRS17 Assumptions (to approve)	AC.44(13)	EDF
7.	Risk and Control		
7.1	Internal Controls – Annual review of effectiveness (to consider)	AC.45(13)	EDF

7.2	Risk Register (to review)	AC.46(13)	EDF
8.	Other Matters		
8.1	Progress on External Reporting (to discuss and note)	AC.47(13)	PVC(A)
8.2	Audit Committee self assessment (to discuss and note)	AC.48(13)	Chair
8.3	Committee terms of reference (to review)	AC.49(13)	Sec
8.4	Anti-fraud, bribery and corruption report (to consider)	AC.50(13)	EDF
8.5	Speak up report (to consider)	AC.51(13)	Sec
8.6	Higher education proposed regulatory reform	AC.52(13)	Sec
8.7	Annual Committee plan (to approve)	AC.53(13)	Sec
9.	Matters to report to the Board following this meeting		Chair
10.	Any other business		Chair
11.	Date of next meeting: 31 October 2013		Chair

Members: Andrew Owen (Chair), Steve Balmont, Douglas Denham St Pinnock and Mee Ling Ng

Internal Auditors: Justin Martin and David Wildey (PwC).

External Auditors: David Barnes (Grant Thornton)

Apologies: Shachi Patel

With: Vice Chancellor, Pro Vice Chancellor (Academic), , Executive Director of Finance, University Secretary, Financial Controller, Executive Director of Corporate Services (for item 4.1), Chief Information Officer (for item 4.1) and Governance Officer.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 26 September 2013
In Room DCG12&13, Clarence Centre, St George's Circus,
London, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	

External Auditors

David Barnes	Grant Thornton
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Internal Auditors

Justin Martin	PricewaterhouseCoopers
David Wildey	PricewaterhouseCoopers

In attendance

Dr Phil Cardew	Pro Vice Chancellor (Academic)
Prof Martin Earwicker	Vice Chancellor and Chief Executive
Richard Flatman	Executive Director of Finance
Ian Mehrtens	Executive Director of Corporate Services (<i>for minutes 1-7</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
David Swayne	Chief Information Officer (<i>for minutes 1-7</i>)
Michael Broadway	Governance Officer

Welcome and apologies

1. Apologies had been received from Mee Ling Ng, Shachi Patel and Natalie Ferer.

Declarations of Interest

2. No interests were declared on any item on the agenda.

Minutes of the last meeting

3. The minutes of the meeting held on 13 June 2013 were approved (paper **AC.01(13)**). The minutes were approved for publication subject to the proposed redactions.

Matters Arising

4. There were no other matters arising from the previous minutes which were not picked up elsewhere on the agenda.

ICT Security update

5. The committee noted an update on ICT security from the Chief Information Officer following the internal audit report considered at their meeting of 13 June 2013 (minutes 13-14 refer) (paper **AC.39(13)**).
6. In response to concerns in the internal audit report on the following areas it was reported that:
 - a. *physical security* - a business case was being developed for approval by the Board in November 2013 to outsource the data centre;
 - b. *user administration* - a business case to replace the CAMS system would be submitted to the Executive for approval. It was anticipated that it would take up to three months to implement the new system;
 - c. *logical security* - the Managed Security Service tender had been completed and a logical security policy was being developed in conjunction with the supplier;
 - d. *phishing* - an online training module was available to all staff
7. The committee requested the actions to be expedited urgently and requested a further update at the November meeting.

Ian Mehrtens and David Swayne left the meeting

Halls Debtors Reconciliation Process Update

8. The committee noted an update on the process for managing halls of residence debtors (paper **AC.40(13)**) (minutes 9-11 of 7 February 2013 and minutes 5-6 of 13 June 2013 refer). It was reported that the Agresso financial system now reconciled with the KX accommodation system and that continuous auditing would test reconciliation and flag any trends in the underlying data.

Internal Audit Progress Report

9. The committee noted the Internal Audit progress report (paper **AC.41(13)**). It was noted that the 2012/13 had been completed and that work had begun on the 2013/14 plan.

Quarter 4 Continuous Auditing report, 2012/13

10. The committee discussed the quarter 4 continuous auditing report for 2012/13 (paper **AC.42(13)**). The committee welcomed the report which showed that all tested areas were now rated green and operating effectively. The set of tests would be continued quarterly.

Update on Process for Academic Appeals / OIA report

11. The committee noted a verbal update on the internal audit work on the process for academic appeals and OIA. It was reported that there were no fundamental concerns around the process and that the final report would be presented at the next meeting.

Draft Internal Audit Annual Report, 2012/13

12. The committee discussed the draft internal audit annual report for 2012/13 (paper **AC.43(13)**). It was noted that subject to control design and operating effectiveness issues around IT security, the internal audit opinion is that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of both risk management, control and governance and for economy, efficiency and effectiveness (value for money) arrangements.
13. The committee noted that the draft internal audit opinion makes specific reference to issues around ICT security. The committee requested the internal auditors to review the ICT strategy which had been presented to the Executive.

External Audit Progress Report, 2012/13

14. The committee noted a verbal update on the progress of the external audit for 2012/13. Grant Thornton reported no issues had arisen to date.

FRS17 Assumptions

15. The committee discussed the FRS17 assumptions in relation to the pension scheme used for the annual report (paper **AC.44(13)**), which the external auditors considered to be reasonable. The committee requested the executive to review the discount rate due to the volatility in the bonds market. The external auditors would provide comparators.

Internal Controls – Annual Review of Effectiveness

16. The committee noted the annual review of effectiveness of internal controls (paper **AC.45(13)**). The committee approved the full compliance statement to be included in the annual report.

Corporate Risk Register

17. The committee discussed the corporate risk register (paper **AC.46(13)**). The Vice Chancellor drew attention to uncertainties around government policy for higher education. The committee noted that there would be a detailed discussion of the corporate risk register at the Board meeting on 22 October 2013.

Progress on External Reporting

18. The committee noted an update on improvements to external reporting of student data (paper **AC.47(13)**). The actions were on target.

Audit Committee self-assessment

19. The committee noted the outcomes and actions of its recent self-assessment exercise (paper **AC.48(13)**). The committee welcomed the proposed actions, including a formal letter of appointment; informal appraisal; and an induction plan for new members.
20. It was reported that the letter of appointment would be issued retrospectively to current members of the committee. The committee agreed that the proposed skills matrix is used as an informal guide to assessing the members.

Committee terms of reference

21. The committee recommended their amended terms of reference to the Board for approval (paper **AC.49(13)**).

Anti-fraud, bribery and corruption report

22. The committee noted the anti-fraud, bribery and corruption report (paper **AC.50(13)**). One matter of suspected fraud around improper procurement card use had been reported since the last meeting which was not considered “significant” for the purposes of reporting further. The member of staff had been dismissed. The committee expressed concern that it had taken too long

to dismiss the member of staff and requested that the relevant HR procedures are reviewed.

Speak up report

- 23. The committee noted the speak up report (paper **AC.51(13)**). One matter had been raised with the University Secretary and it was decided that it should be dealt with under the staff grievance and probation procedures.

Higher Education Proposed Regulatory Reforms

- 24. The committee noted the update on the proposed higher education regulatory reforms, including proposals to amend the financial memorandum between HEFCE and institutions (paper **AC.52(13)**). The executive would monitor developments.

Annual Committee Plan

- 25. The committee noted its annual committee plan (paper **AC.53(13)**). It was noted that this would become a standing item on the agenda.

Matters to report to the Board

- 26. The committee noted that the matters to report to the Board were the update on ICT security, the risk register and the update on the external audit process.

Date of next meeting

- 27. It was noted that the next meeting would be at 4pm on Thursday, 31 October 2013.

There being no further business, the meeting concluded.

Confirmed as a true record:

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Chairman

	PAPER NO: AC.38(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Minutes of the meeting of 13 June 2013	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee approves the minutes of its last meeting and approves publication subject to the proposed redactions.	
Matter previously considered by:	N/A	N/A
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	Published on the University's website	

Executive Summary

The Committee is asked to approve the minutes of its meeting of 13 June 2013 and the suggested redactions (in grey) for publication.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 13 June 2013
In Room 1B27, Technopark, London Road, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	
Dr Mee Ling Ng	
Shachi Patel	(Independent co-opted member)

External Auditors

David Barnes	Grant Thornton
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Internal Auditors

Justin Martin	PricewaterhouseCoopers (<i>except minutes 18-19</i>)
David Wildey	PricewaterhouseCoopers (<i>except minutes 18-19</i>)

In attendance

Dr Phil Cardew	Pro Vice Chancellor (Academic)
Natalie Ferer	Financial Controller
Richard Flatman	Executive Director of Finance
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Officer

Welcome and apologies

1. Dr Mee Ling Ng was welcomed to her first Audit Committee meeting. Apologies had been received from Prof Martin Earwicker.

Declarations of Interest

2. No interests were declared on any item on the agenda.

Minutes of the last meeting

3. The minutes of the meeting held on 7 February 2013 were approved (paper **AC.01(13)**), subject to an amendment to minute 8 to read “the committee requested management to ensure timely preparation of future TRAC returns so that the approval process can be completed on time”. The amended minutes were approved for publication subject to the proposed redaction.

Matters Arising

4. There were no matters arising from the previous minutes which were not picked up elsewhere on the agenda.

Halls Debtors Update

5. The committee noted an update on the process for managing halls of residence debtors (paper **AC.15(13)**) (minutes 9-11 of 7 February 2013 refer). It was noted that the accounting entries had been corrected and new controls implemented. It was noted that independent assurance would be provided by the continuous auditing programme and that recoverability of accommodation debt was identified as a risk in the external audit plan for 2012/13.
6. The committee requested an update at their September meeting on the reconciliation process and a report at their October meeting on the performance of the Halls of Residence.

Internal Audit Progress Report and Continuous Auditing Reports

7. The committee discussed the Internal Audit progress report (paper **AC.16(13)**) and the continuous auditing reports for quarter 2 (paper **AC.17(13)**) and quarter 3 (paper **AC.18(13)**). The committee noted that the internal audit plan for 2012/13 had been completed with the exception of work on value for money.
8. In relation to the quarter 3 continuous audit report and the effectiveness of core financial control areas, the Chairman noted that there was variability in progress. It was reported that some of the changes in rating reflect testing in new areas but that there is still more to be done, and the focus is on moving to a stable control environment in all areas as soon as possible.

Internal Audit Report – Key Information Sets

9. The committee noted the internal audit report on key information sets (paper **AC.19(13)**), which had been given a low risk rating.

Internal Audit Report – Financial Forecasting

10. The committee noted the internal audit report on financial forecasting (paper **AC.20(13)**), which had been given a medium risk rating. It was noted that no issues were found relating to the accuracy or completeness of the data provided in the management accounts but that there was a lack of formal

detailing of the procedures followed by the Business Support Managers and concerns around the treatment and reporting of research and capital expenditure. The committee requested the executive to review capital reporting.

Internal Audit Report – University Enterprise

11. The committee noted the internal audit report on University Enterprise (paper **AC.22(13)**), which had been given a medium risk rating. A focus on engaging academic areas would be necessary to mitigate the risk.

Internal Audit Report - TRAC

12. The committee noted the internal audit report on the Transparent Approach to Costing (TRAC) return (paper **AC.24(13)**), which had been given a medium risk rating. The draft report had been considered by the committee at its meeting of 7 February 2013 alongside the actual TRAC return (minutes 7 and 8 refer) and no changes had since been made to the report.

Internal Audit Report – IT Security and Phishing

13. The committee noted the internal audit report on IT Security and Phishing (paper **AC.21(13)**), which had been given a high risk rating. Areas of weakness were identified in the controls relating to the physical security of the campus server locations, management authorisation for the creation of administrators on the University phonebook system and password security.
14. The committee expressed their concern at the report and requested the Chief Information Officer to attend the next meeting to update the committee on the background to the report, actions being taken to address the findings of the report, current controls in place for information security and key challenges for the future.

Internal Audit Report – Payroll Implementation

15. The committee noted the internal audit report on the implementation review of the new payroll system and the follow up review (paper **AC.23(13)**). It was noted that the actions suggested were being implemented by management and that a new implementation date was expected to be late 2013.

Internal Audit Plan, 2013/14

16. The committee discussed in detail the draft internal audit plan for 2013/14 (paper **AC.26(13)**), which was based on a rolling plan of work and risks identified on the risk register. It was noted that days allocated to continuous auditing (50 in the plan) could be reduced if all areas were performing well in year. The committee emphasised the need to map the plan to the corporate risk register.
17. The committee approved the internal audit plan for 2013/14.

Internal Audit Contract Extension

Justin Martin and David Wildey left the meeting.

18. The committee discussed the recommendation to extend the contract of PricewaterhouseCoopers (PwC) as internal auditors for an additional year (paper **AC.25(13)**). It was noted that PwC were appointed in 2010 for an initial three year term with the opportunity to extend on an annual basis thereafter for a further two years.
19. On the basis that agreed performance standards have been met by PwC the Audit Committee approved extending PwC's contract as internal auditors for an additional year. The committee requested that this be reported to the Board at its meeting of 18 July 2013.

Justin Martin and David Wildey re-entered the meeting

External Audit Plan, 2012/13

20. The committee discussed in detail the draft external audit plan for 2012/14 (paper **AC.27(13)**), which outlined the approach to the audit and key risks.
21. The committee approved the external audit plan for 2012/13. The committee requested an update of progress at their meeting of 26 September 2013.

Corporate Risk Register

22. The committee noted the corporate risk register (paper **AC.28(13)**). It was noted that the risk of potential loss of NHS contract income had been upgraded from high to critical, following uncertainty around the funding position for 2013/14. The two critical risks on the register therefore related to revenue generation.

HEFCE Assessment of Institutional Risk

23. The committee noted HEFCE's assessment of the accountability, risk and sustainability of the University as "not at higher risk" at this time, the higher of two possible ratings (paper **AC.29(13)**).
24. The committee noted the financial benchmarking data from HEFCE.
25. The HEFCE letter had been reported to the Board on 23 May 2013.

HEFCE Institutional Visit

26. The committee noted the outcome of the institutional visit to the University by HEFCE on 9 May 2013 (paper **AC.30(13)**).
27. The committee noted the core and margin policy discussion. The committee requested the correspondence with HEFCE to be circulated to committee members.

Transparent Approach to Costing (Teaching) return

28. The committee noted the Transparent Approach to Costing (Teaching) (TRAC(T)) return (paper **AC.31(13)**), which had been reviewed by the Chairman of the Audit Committee and submitted to HEFCE.
29. The committee ratified the submission to HEFCE.

Anti-fraud, bribery and corruption report

30. The committee noted the anti-fraud, bribery and corruption report (paper **AC.32(13)**).

Review of anti-fraud policy

31. The committee approved the minor amendments to the anti-fraud policy (paper **AC.33(13)**).

Speak up report

32. The committee noted the speak up report (paper **AC.34(13)**). One speak up matter had been raised with the Chairman of the committee whose decision was that the matter should be dealt with under LSBU's internal Student Complaints Procedure.

Annual debt write off

33. The committee approved the write off of tuition fee debt more than six years old to the value of £411,000 (paper **AC.35(13)**).

Review of financial regulations

34. The committee noted that following the annual review of the financial regulations minor amendments would be brought to the Policy and Resources Committee for approval (paper **AC.36(13)**).
35. The committee noted that the revised value of debt write off of £50k annually and £10k for individual bad debts which it would be asked to approve under the financial regulations. The committee's terms of reference would be amended to reflect this. The Executive Director of Finance would be authorised to approve debt write off below these levels. The committee requested that bad debt write off approved by the Executive Director of Finance is reported to the committee.

Audit Committee self-assessment

36. The committee noted the responses of its recent self-assessment exercise (tabled paper **AC.37(13)**). It was noted that the Chairman would discuss the key issues with the Clerk to the Board and the Executive Director of Finance and that a report would come to the meeting of 26 September 2013.

Matters to report to the Board

37. The committee noted that the matters to report to the Board were the re-appointment of PwC as internal auditors, the ICT internal audit report and the external audit plan for 2012/13.

Any other business

38. The committee noted that the Office of the Independent Adjudicator (OIA) had published details of the University's unintentional non-compliance with one of its recommendations in its annual report. The committee requested a report to the Board meeting of 18 July 2013.

Date of next meeting

39. It was noted that the next meeting would be at 4pm on Thursday, 26 September 2013.

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There being no further business, the meeting concluded.

Confirmed as a true record:

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Chairman



Committee Action Points

19 September 2013

12:09:31

Committee	Date	Minute	Action	Person Res	Status	
Audit	13/06/2013	3	Amend minutes and publish	Secretary		<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	6	Update on halls debtors reconciliation process at Sept meeting	EDF	On agenda	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	6	Report on performance of halls of residence at October meeting	EDF	On agenda	<input type="checkbox"/> Completed
Audit	13/06/2013	10	Executive to review capital reporting	EDF		<input type="checkbox"/> Completed
Audit	13/06/2013	14	Report at next meeting on IT security by Chief Information Officer	EDF	On agenda. CIO invited to meeting	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	19	Reappoint PwC as internal auditors and report to the Board on 18 July	EDF	Reported to Board on 18 July 2013	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	21	External audit progress update at Sept meeting	EDF	On agenda	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	27	Correspondence with HEFCE on core and margin to be circulated to committee members	Secretary	Sent to committee members via email on 28 June 2013	<input checked="" type="checkbox"/> Completed

Committee	Date	Minute	Action	Person Res	Status	
Audit	13/06/2013	31	Amendments to Anti-Fraud Policy	EDF		<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	35	Level of bad debt write off authorisation to be included in Audit Committee terms of reference	Secretary	To be approved by the committee on 26 Sept 2013 and the Board on 17 Oct 2013	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	36	Committee self assessment report to Sept meeting	Secretary	Chair will meet with Clerk and EDF to go through findings. On agenda.	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	37	Report following matters to Board of 18 July: reappointment of PwC as internal auditors, ICT security internal audit report and external audit plan	Secretary	Reported to Board meeting of 18 July 2013	<input checked="" type="checkbox"/> Completed
Audit	13/06/2013	38	Report on OIA publication of LSBU's non-compliance to Board	Secretary	Reported to Board on 18 July 2013	<input checked="" type="checkbox"/> Completed

	PAPER NO: AC.39(13)	
Board/Committee:	Audit Committee	
Date:	12 th September 2013	
Paper title:	ICT Security Update	
Author:	David Swayne (Chief Information Officer)	
Executive sponsor:	Ian Mehrtens	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability. 	
Matter previously considered by:	Audit Committee	On: 13 th June 2013
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive Summary

This paper has been requested by the Audit Committee following the presentation of the internal audit findings on IT Controls at the previous meeting. The paper provides an update on the actions being taken to rectify the issues identified by the internal audit and identifies areas where further approvals or expenditure may be required.

Physical Security

Actions a) and b) – ICT has agreed that the Operations and Customer Service Manager will be the ‘owner’ for each restricted space. A list of people who should have access to the spaces has been identified and ICT is working with Security to implement the changes requested. It is anticipated that this action will be completed by the target date of 30th September 2013.

Action c) – The locks on the network rooms are being reviewed to ensure that they provide the appropriate level of security.

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Action d) – The lock on the network equipment rack has been repaired.

Action e) – A quote has been obtained to change to an electronic lock. This will be progressed and access restricted to ICT network staff.

User Administration

Action a) and b) – Discussions have been held with IBM and Dell Software regarding the provision of an identity and access management solution to replace the CAMS system and a business case will be ready for discussion in the next approval round. The likely cost of an appropriate solution is circa £400k.

Action c) – The review of accounts has been completed and 350 erroneous user accounts identified that are in the process of being removed. These records retained access to LSBU systems because the phone book entry was deleted prior to the record termination date being reached. The practise of deleting phone book records is being stopped and monthly checks will be completed until a replacement solution is implemented.

Logical Security

Action a) – The Managed Security Service tender has been completed and an initial meeting scheduled for 24th September. The service will cost £100k per year and is contracted for 3 years. The logical security policy will be developed in conjunction with the supplier. This action is now scheduled to be completed by 30th November rather than 30th September.

Action b) – The password strength is still set to basic but the guidance has been changed to tell people to use stronger passwords. The password length has been adjusted to insist on 8 “characters”. The password cycle prevents any of the last 5 being re-used. Further changes are dependent upon us implementing a new identity and access control system.

Action c) – The collection of security logs is included in the scope of the Managed Security Service and implementation will commence in September. It is anticipated that the service will be fully operational by the end of the calendar year but this will not be confirmed until the meeting on 24th September.

Action d) – Usage of the “install” account has been stopped. The other privileged accounts are being reviewed and expiration dates set where this is practicable. The Managed Security Service will report on the use of these accounts and further advice will be obtained from the provider.

Phishing

Action a) – An online training module has been made available to all staff.

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Action b) – All of the people who replied to the ‘phishing’ email will be spoken to by the end of September. Holidays prevented this being completed by end of August.

Action c) – The delegated letter of authority wording has been updated and all managers are therefore aware of (and agree to) the responsibility to keep data and systems secure.

Action d) – The ability to prevent users accessing the site that a specific attack is using to capture account details is in place and has been tested.

Summary

16 actions of which 3 are complete and 13 are in progress.

	PAPER NO: AC.40(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Halls Debtors reconciliation process update	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that committee notes the changes made and the current position.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive. Financial control.	
Matter previously considered by:	Audit Committee	13 th June 2013
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive summary

Grant Thornton highlighted in their Key Issues Memorandum (KIM) section on control account reconciliations that there has been a long standing problem with the transfer of data from the KX accommodation system to the Agresso financial system. As noted in the KIM, a great deal of work had already been done to resolve the issue and process the correcting entries. It was agreed that system changes would be made as required and correcting entries processed during 2012/13 so that this matter does not continue. Progress was reported to Audit Committee in June and this paper further updates the committee.

Background

The difference between the KX system and the accounting balance in Agresso resulted from incomplete data being extracted and posted to the Agresso financial accounting system. This issue regarding the transfer of data resulted in the following accounting problems:

- Accumulated credit balances on control accounts causing the balance for 'bank and cash' in the financial statements to be understated.
- A large difference between the value of Halls debtors reported in the Financial Statements and the balance recorded on the Halls management system (KX), resulting in debtors reported in the accounts to be overstated.
- large reconciling balances when the bank reconciliation was performed due to being unable to match transactions from the bank statement to Agresso.

Current position:

These problems were resolved by amending the file that is extracted from KX for accounting purposes and by changing procedures for posting from KX to Agresso. The new process went live during December 2012. Entries to clear historical balance sheet items and correct the halls debtor balance on Agresso have now been processed, including a write down of the debtor balance on Agresso and the reversal of the associated provision for bad debt.

The revised files and processes have resulted in transactions from KX being accounted for accurately with references that make the reconciliation process easier. In line with the new procedure, any reconciled items are investigated and corrected either in the current or following month.

The control accounts and reconciliations have been reviewed at 31/7/13 the results of the reconciliation process were as follows:

- Transactions posted to the cash control accounts 7121, 7122 and 7123 were all matched, except for debit balances of £41k. These relate to £2k of incorrectly posted items and the remainder relating to receipts posted in the following month.

- All bank transactions coming from KX to Agresso could be matched against the bank statement except for £36k of receipts and these are being corrected in August.
- The halls debtor position on Agresso can now be reconciled to KX, with the debtor balance at 31/7/13 being £281k. The majority of this is expected to be collected during September enrolment.

Recommendation:

The Committee is asked to note the changes made and the current position.

	PAPER NO: AC.41(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Internal Audit Report – Progress Report	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

PWC have provided a high level summary of their work so far during 2013/14. The internal audit programme is on target and proceeding to agreed schedule, and copies of the reports for continuous audit work completed to date are presented to the Audit Committee for review.

Appendix 2 shows the results of follow up recommendations, and demonstrates that the majority of these have been completed for this quarter, with some recommendations from the review of Enterprise activity being partially complete and ongoing.

Appendix 3 shows the agreed Key Performance Indicators for the internal audit.

The Executive recommends that the Audit Committee note the attached report.



London South Bank University

Internal Audit Progress Report

**Progress Report to
Audit Committee**

26 September 2013

Overview

Progress Summary

This report presents a high level summary of the audit activity that has taken place in 2013 since our last progress report to the June Audit Committee. A detailed timeline of audit activity for the year is set out at Appendix 1.

Reports presented at the September 2013 Audit Committee

Continuous Auditing (Q4 2012/13; May 2013 – July 2013)

This is the first review we have completed as part of the 2013/14 Internal Audit Plan and relates to the control environment operating between 1 May and 31 July 2013.

We are pleased to report that the core control environment has improved significantly this quarter, with all cycles reported as green and operating effectively. In particular, we have not identified any exceptions within the Payroll cycle in this quarter, which is a significant improvement following concerns raised as part of previous continuous audit reports. As such, it would appear that the controls in this cycle have stabilised. No issues were noted in our testing of the Student Data or Cash cycles this quarter and although we identified errors as part of our fieldwork within General Ledger, Accounts Receivable and Accounts Payable, these are deemed to be minor exceptions.

Findings of our follow up work

- We have undertaken follow up work on the recommendations on the 4Action system with a target date for action of 31/07/2013 or sooner. As such we are reviewing the progress of any recommendations that should have been implemented at 31/07/2013 based on their implementation date, and as such some of these may have also been followed up in previous progress reports. We have discussed with management the progress made in implementing recommendations falling due in this period. Where the recommendations had a priority of low, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.
- A total of 12 recommendations have been followed up this quarter. Of these 9 (75%) have been fully implemented. The remaining 3 recommendations have been partially implemented. All of these partially implemented recommendations relate to Enterprise and are being resolved as part of a wider review being performed by management in relation to how this entity operates and in embedding their processes across the organisation.
- Our detailed findings in respect of each recommendation considered this quarter are included in Appendix 2.

Other matters

- We have completed all the reviews within the 2012/13 internal audit programme for the year. We have started work on the quarter 1 reviews within the 2013/14 internal audit plan. We have completed our first phase of continuous auditing fieldwork for 2013/14. This report is provided as part of these Audit Committee papers.
- We have undertaken an additional review, at the request of management, of 'Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA'. The fieldwork is currently in the process of being completed and we will bring this report to the October Audit Committee.
- We have also included for consideration a draft of our Internal Audit Annual Report 2012/13 which has been drafted on the basis of discussions with management.

Recommendations

- That the Committee **notes** the progress made against our 2012/13 Internal Audit Operational Plan.
- That the Committee **notes** the progress made by management in implementing previous internal audit recommendations.
- That the Committee **comments** upon the Continuous Auditing Q4 report.
- That the Committee **comments** on the draft 2012/13 Internal Audit Annual Report.

Appendix 1 - Progress against the 2013/14 operational plan

Included below is a summary of the current progress against the reviews in our 2013/14 operational plan. For each review, the days per the plan are shown, together with the actual days spent to date (shown in brackets).

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 1: August 2013 – October 2013											
Continuous Auditing of Key Financial Systems (May to July 2013)											
12 (12)	02/08/2013	12/08/2013	03/09/2013	12/09/2013	N/A	-	-	-	-	-	
Quality of Management Information											
10	-	-	-	-	-	-	-	-	-	-	
Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA											
16 (10)	13/08/2013	19/08/2013			-	-	-	-	-	-	
Student Data											
5	-	-	-	-	-	-	-	-	-	-	
Quarter 2: November 2013 – January 2014											
HESA Finance Return											
10	-	-	-	-	-	-	-	-	-	-	
Continuous Auditing of Key Financial Systems (August to October 2013)											
12	-	-	-	-	-	-	-	-	-	-	
Disaster Recovery and Business Continuity											
10	-	-	-	-	-	-	-	-	-	-	
Quarter 3: February 2014 – April 2014											
Continuous Auditing of Key Financial Systems (November 2012 – January 2013)											
13	-	-	-	-	-	-	-	-	-	-	
Quarter 4: May 2014 – July 2014											
Continuous Auditing of Key Financial Systems (February – April 2013)											
13	-	-	-	-	-	-	-	-	-	-	
Risk Management follow up											
5	-	-	-	-	-	-	-	-	-	-	
Value for Money											
5	-	-	-	-	-	-	-	-	-	-	
Other											
15	Planning, contract management, reporting, value for money and Follow up										
Total	126 (22)										

Appendix 2 - Results of Follow Up of Recommendations

Agreed action	Progress to date	Priority	Status	Further recommendation
1. Allocation of faculty driven projects - Enterprise 2012/13				
The Enterprise team will develop a straightforward checklist to enable non-financial experts to allocate projects correctly, in the context of taxation and other compliance considerations.	The Finance team are developing guidance on when projects must go through SBUEL and when they may go through the University.	Medium	Partially implemented	To be reported on during the audit committee meeting and progress is to be reviewed in Q2.
2. Training and guidance on producing effective business cases – Capital Projects 2012/13				
The following will be undertaken in order to help support staff in the production of business cases 1. Relevant staff will be identified and training provided on how to prepare a business case, incorporating examples of successful projects and where NPV calculations have added value to the process. 2. The Investment Appraisal Guidance document will be made available on the SharePoint system so that it is available to all staff involved in the preparation of business cases. 3. A pro-forma evaluation document will be produced, both to help structure the review process and allow for the provision of formal feedback to staff in respect of business cases which have been rejected on review.	This recommendation has been implemented.	Low	Implemented	N/A
3. Lack of procedure notes – Financial Forecasting 2012/13				
Procedure notes will be formalised. Ralph Sanders will collate information from all the BSMs in order to draft the procedure notes on Revenue income/expenditure forecasting and will be responsible for drafting the procedure note for capital expenditure. These notes will then be shared with the BSMs to create a collaborative document	A financial planning and reporting team manual has been produced and has been inspected which covers revenue and expenditure forecasting and capital expenditure. This document has been shared with all the BSMs. Any changes to the document will be discussed and agreed upon in the October team meeting.	Medium	Implemented	N/A
4. Lack of approval limits for contracting – Enterprise 2012/13				
Procedures will be developed to formalise approval limits. This will be developed to be consistent with London South Bank University's Financial Regulations and will include due diligence checks on contracting parties, consultation with legal and analysis of budgets.	Although progress has been made in implementing a process of approval limits; this has not yet been implemented. A paper has been written which will be presented to the SBUEL board on 25/09/2013	Medium	Partially implemented	To be reported on during the audit committee meeting and progress is to be reviewed in Q2.

It is noted that the Financial Regulations are not specific on the controls that must be applied beyond those imposed by the FEC form (i.e. they specify no value constraints). Values for each level should be set based on a review and discussion of the capacity of the University to deliver commercial contracts and will be agreed by the SBUEL Board of Directors.

recommending a specific scheme of delegation for commercial sales and recommending that it is adopted as an addendum to the financial regulations.

5. Alignment of Objectives – Enterprise 2012/13

<p>There remains an issue regarding 'buy- in' within some Faculties to the work London South Bank University are trying to do. This is largely centred on the lack of strategic goals and incentives which are aligned across University Enterprise and Faculty. There are a number of perceived 'perverse' incentives (often around financial control and targets) which continue to act as barriers to more aligned working.</p> <p>London South Bank University will share findings from this report with the University Executive team to establish a formal route to securing better alignment of objectives and incentives with Faculties. In parallel, London South Bank University will continue to perform formal exercises to engage with key stakeholders at Faculty level to build buy-in from individuals into the nature of the Enterprise offering, the resources available and the potential for 'value-add' in their own work.</p>	<p>University Enterprise has continued to make incremental improvements. Enterprise's approach has been to demonstrate the value of what they can do for faculties through operational delivery. This creates a track record of adding value and fosters alignment between the Enterprise team and academics in the Faculties. There is a growing portfolio of projects that can be used to demonstrate Enterprise's value to faculties and a growing recognition of this. However, there remains a long way to go to achieve true and complete alignment in some faculty areas where significant culture change is required. Enterprise continues actively to engage with Faculty staff at all levels to make progress on this action but do not expect a quick step change. This action is jointly assigned to University Enterprise and the University Executive.</p>	<p>Medium</p>	<p>Partially implemented</p>	<p>To be reported on during the audit committee meeting and progress is to be reviewed in Q2.</p>
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6. Lack of supporting documentation – Key Information Sets 2012/13

<p>The registry department will retain copies of supporting documentation. Student numbers will be captured and retained at the time when the data is processed for the Time and Learning measure. University accommodation price lists will be requested from the accommodation department. Copies of these will be retained by the registry department.</p>	<p>PwC have inspected copies of student lists by faculty originated to process for Time and Learning. Accommodation lists have been provided by the marketing department.</p>	<p>Medium</p>	<p>Implemented</p>	<p>N/A</p>
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7. Oversight of commercial activity – Enterprise 2012/13

<p>Since the audit, London South Bank University has worked with management accountants to develop a complete set which we are currently analysing.</p> <p>There is no need for a central register as all projects should now be identified through the management</p>	<p>Implemented.</p>	<p>Medium</p>	<p>Implemented</p>	<p>N/A</p>
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reporting process.
 London South Bank University's review of the management accounts has identified some potential mis-classifications of Enterprise income and expenditure. Further work is needed to confirm whether these items have been classified incorrectly. London South Bank University will do a review of spend to get assurance this is accurate. Once this work has been completed, they will share outputs with the University Executive to decide whether reclassification of these items is necessary.
 In addition, they are seeking to establish better controlled project management processes but, in part due to the lack of alignment identified in the previous issue, faculties are not always supportive of this initiative.

8. Late submission of the TRAC return – TRAC 2012/13

<p>To avoid delays incurred in prior years, London South Bank University has sent off data requests at an earlier stage for the 2012/13 return. London South Bank University has agreed time with the Vice-Chancellor on 30/01/13, during which they will aim to have the return authorised.</p>	<p>The submission deadline was met: the TRAC return was submitted on 31st January 2013.</p>	<p>Medium</p>	<p>Implemented</p>	<p>N/A</p>
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9. Hazardous Materials - Procedures and Controls are not applied in practice - Control operating in practice

<p>Consider any practical alternatives to labelling – e.g. effective and consistent communication of Locations of asbestos containing materials to staff/students and contractors. If London South Bank University management are not confident that all persons who might need to be aware of the location of Asbestos can be made aware, and then other options should be considered. This includes finding a Means to physically restrict access to asbestos-containing materials. If this is not practical, then labelling must be considered. A communication plan may need to be developed ahead of any labelling exercise to ensure that the risk of negative reaction to labels is minimised.</p>	<p>Implemented.</p>	<p>High</p>	<p>Implemented</p>	<p>N/A</p>
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10. Project Management Methodology and Value for Money

<p>Management should incorporate formal reference to VfM considerations in the Project Management Methodology. This should include guidance as to how to consider and achieve VfM and how to access examples of projects where VfM has been achieved in the University (this could be retained on the VfM website.</p>	<p>Implemented.</p>	<p>Medium</p>	<p>Implemented.</p>	<p>N/A</p>
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11. Risk Assessment – control design - The Bribery Act 2010/2011/12 – 2011/12

Management should formally include the high risk areas identified in relation to the Bribery Act on the risk register. Mitigating controls should be noted against these high risk areas and management should monitor these risks as part of the monthly risk management process.	PwC inspected the operational level risk register as updated at 12/07/2013 (before the due date). The register confirms that a risk is included that the UK Bribery Act 2010 will not be complied with. Mitigating controls such as review of the Gifts and Hospitality Register are included on the register. Review of this register is performed on a monthly basis at team meetings.	High	Implemented	N/A
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12. Risk Assessment – control design – The Bribery Act 2010/2011/12 – 2011/12

Management should formally include the high risk areas identified in relation to the Bribery Act on the risk register. Mitigating controls should be noted against these high risk areas and management should monitor these risks as part of the monthly risk management process.	At the stage of commencement of a construction project risks relating to The Bribery Act 2010 are included on the risk register.	High	Implemented	N/A
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	PAPER NO: AC.42(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Quarter 4 Continuous Auditing report, 2012/13	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – decision notice?	n/a	

Executive summary

The attached Continuous Audit report for Quarter 4 2012/13 was undertaken as part of the 13/14 internal audit programme, and is the fourth report in the continuous auditing cycle for the 2012/13 financial year.

There have been positive upward changes in the ratings for payroll and general ledger compared to Q3, and all areas are now rated as green, with the author noting:

“We are pleased to report that the core control environment has improved significantly this quarter, with all cycles reported as green and operating effectively”.

The Executive recommends that the Audit Committee note the attached report.

London South Bank
University

August 2013

*Internal Audit
Report 2013/2014*
Continuous Auditing

Quarter four 2012/13

(1st May 2013 – 31st July 2013)

FINAL

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Distribution List

For action: Natalie Ferer (Financial Controller)

For information: Richard Flatman (Executive Director of Finance)
Chair and Members of the Audit Committee

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Our internal audit work has been performed in accordance with HEFCEs Financial Memorandum. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. Executive summary

Background and approach:

Effective financial controls are essential for providing assurance over both the efficient and effective use of funds, and the reporting and forecasting of complete and accurate management information. In recognition of this, our internal audit programme makes provision for a rolling programme of audit work which focuses upon the design and operation of the organisations core financial controls. The systems included within the scope of our work in 2013/14 are:

























- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- General Ledger; and
- Student Financial Data.

In developing our work programme for 2013/14, we met with management to refresh our understanding of the University's controls to ensure that our work remained targeted to the key risks facing the institution. The controls included within the scope of our work are set out within our Terms of Reference included at Appendix Two.

Our detailed findings are set out in Section Two of this report; a summary of our findings and the matters arising in the course of our work this quarter is set out below.

System summaries

Our system summary below is determined with reference to the extent or monetary impact of the exceptions we identified in the course of our work (our rating criteria are set out at Appendix One).

System / Rating	Q4 2012/13	Q3 2012/13	Q2 2012/13	Q1 2012/13	Trend
Payroll	 Green	 Amber	 Amber	 Amber	↑
Accounts payable	 Green	 Green	 Amber	 Green	↔
Accounts receivable	 Green	 Green	 Amber	 Amber	↔
Cash	 Green	 Green	 Green	 Amber	↔
General Ledger	 Green	 Amber	 Amber	 Green	↑
Student financial data	 Green	 Green	 Green	 Green	↔

Findings and recommendations

We are pleased to report that the core control environment has improved significantly this quarter, with all cycles reported as green and operating effectively.

In particular, we have not identified any exceptions within the Payroll cycle in this quarter, which is a significant improvement following concerns raised as part of previous continuous audit reports. As such, it would appear that the controls in this cycle have stabilised. No issues were noted in our testing of the Student Data or Cash cycles this quarter and although we identified errors as part of our fieldwork within General Ledger, Accounts Receivable and Accounts Payable, these are deemed to be minor exceptions.

The key issues arising from our work in respect of each system are summarised below:

Payroll

No exceptions noted.

Accounts payable

The purchase orders for two of the 20 items tested were completed and authorised after the invoice had already been received, with the length of time varying from 13 to 64 days.

Our testing in Q2 identified a control design issue that no reports are run to identify duplicate suppliers on the system. We have revisited the design issue in more depth this quarter and due to extra information supplied and a more comprehensive understanding of the controls in place, we have deemed that the existing mitigating controls in response to the risk of duplicate suppliers are appropriate.

Accounts receivable

The monthly reconciliations of the ledger to QLX and the debtors control account performed in June had not been signed or dated as authorised at the time of testing (23/8/2013). As such we have concluded that this was not evidenced as reviewed in a timely manner. AR6 and AR8 are effectively reconciled as part of the same process and control and therefore in future we shall test and report these as one control rather than two as done presently.

Cash

No exceptions noted.

General Ledger

Testing performed during Q4 identified that all journals processed had the subsequent backing documentation available on request. 17/25 of the journals tested did not have the backing information uploaded on to Agresso (the general ledger system) with the relevant journal. Good practice would include the timely uploading of all supporting information into the GL repository for ease of reference by management.

Student Financial Data

No exceptions noted.

2. Detailed findings

Payroll

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2012/13)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)
P1	Authorised and accurate new starter forms are received prior to an individual being entered on to the payroll system.	●		●	●	●
P2	Exception reports are reviewed on a monthly basis.	●		●	●	●
P3	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	●		●	●	●
P4	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	●		●	●	●
P5	Variation forms, with supporting documentation, are received prior to any changes being made to standing data.	●		●	●	●
P6	Access to the payroll system is restricted to appropriate personnel.	●		●	●	●
P7	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	●		●	●	●
P8	Monthly reconciliations are performed between the general ledger and the payroll system. These are prepared and reviewed on a timely basis, with supporting	●		●	●	●

documentation and reconciling items are investigated on a timely basis.

P9 Expenses are supported by appropriately authorised claim forms.



Accounts Payable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2012/13)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)
AP1	Authorised documentation must be received prior to the creating a new or amending a supplier record.					N/A
AP2	Invoices are approved for payment by an appropriately authorised individual.					
AP3	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.		<p>2/20 of the purchase orders tested have been authorised after the corresponding invoice had been received from the supplier.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: We are aware that some purchase orders are raised after the supplier invoice is received. We will continue to work with departments to ensure procedures are followed</p>			
AP4	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation.					

AP5 Exception reports are generated to identify duplicate suppliers and payments. Actions are taken to resolve any errors noted.

Our testing in Q2 identified a control design issue that no reports are run to identify duplicate suppliers on the system. We have revisited the design issue during our testing this period and due to the additional information supplied by management, we have deemed the controls around the risk of duplicate suppliers to be appropriate.

The key control preventing duplicate suppliers relates to segregation of duties in creating a new supplier: a 'new supplier form' must be completed for all new suppliers and this is completed by the requisitioner, authorised by the budget holder, and entered onto the accounts payable system by a member of procurement. This level of segregation of duties is deemed to be an appropriate mechanism helping to prevent a duplicate supplier being entered either through manual error or for fraudulent purposes.

We have tested this process as part of testing for AP1; no exceptions were noted.

AP6 Daily reconciliations are performed between the general ledger and the creditors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.

● ● ● ●

Accounts Receivable

Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2012/13)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)
AR1 Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	●		●	●	N/A
AR2 Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	●		●	●	●
AR3 Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	●		●	●	●

AR4	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis in line with policy	●	●	●	●
AR5	Debts are written off only following review and authorisation	●	●	N/A	N/A
AR6	Monthly reconciliations are performed between the debtors balance on the general ledger and QLX.	●	●	●	●
	<p>The reconciliation performed in June had not been signed or dated as being authorised at the time of testing (23/8/2013). AR6 and AR8 are effectively reconciled as part of the same process and control and therefore in future we shall test and report these as one control rather than two as done presently.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: We will ensure going forward that the reconciliations are signed and dated so that there is documented evidence of authorisation.</p>				
AR7	Monthly reconciliations are performed between the debtors balance per QLX to QLS.	●	●	●	●
AR8	Monthly reconciliations are performed between the General Ledger and the debtors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	●	●	●	●
	<p>The reconciliation performed in June had not been signed or dated as being authorised at the time of testing (23/8/2013)</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: We will ensure going forward that the reconciliations are signed and dated so that there is documented evidence of authorisation.</p>				

Cash

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2012/13)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)
C1	Cash takings in respect of tuition fees and student residences as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	●		●	●	●
C2	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	●		●	●	●
C3	Cash receipts per the general ledger are reconciled to QLX on a monthly basis. Cash receipts per the general ledger are reconciled to KX on a monthly basis.	●		●	●	●
C4	Cash receipting responsibility within the QLX system is restricted to appropriate individuals. Cash receipting within the KS system are restricted to appropriate individuals.	●		●	●	●
C5	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are performed by Treasury Team and reviewed on a timely basis (by the Financial Accountant), with supporting documentation and reconciling items are investigated on a timely basis.	●		●	●	●

General Ledger

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2012/13)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)
GL1	Journals must be authorised, with supporting documentation, prior to being posted on the system.	●	<p>All journals had supporting documentation, however, this documentation had not been uploaded on the Agresso system for 17/25 journals tested.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: This is a new procedure and Management will work with the team to ensure supporting documentation is uploaded to Agresso to support journal entries</p>	N/A	N/A	N/A
GL2	On a monthly basis management accounts are prepared and significant variances against budget are investigated	●		●	●	N/A
GL3	Suspense accounts and balance sheet control accounts are cleared or reconciled on a quarterly basis.	●		N/A	N/A	N/A
GL4	Access to the general ledger is restricted	●		●	N/A	N/A
GL5	No single individual has access to make changes to both the QLX and QLS systems	●		●	●	●

Student Financial Data

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2012/13)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)
S1	Enrolment or re-enrolment paperwork has been completed for each new and re-enrolled student prior to the creation of records within QLS.	●		●	●	●
S2	Course changes are only actioned on QLS after completion of the Course Changes Log.	●		●	●	●
S3	Faculty Managers are notified of updates to QLS records and check to confirm these are accurate and appropriate.	●		●	N/A	N/A
S4	Access rights within QLX are restricted to appropriate personnel.	●		●	●	●

Appendix 1. Assessment Criteria

System summary ratings

The finding ratings in respect of each financial sub-process area are determined with reference to the following criteria;

Rating	Assessment rationale
<p>●</p> <p>Red</p>	<p>A high proportion of exceptions identified across a number of the control activities included within the scope of our work; or</p> <p>Control failures which, individually or in aggregate, have resulted in the significant misstatement of the University's financial records.</p>
<p>●</p> <p>Amber</p>	<p>Some exceptions identified in the course of our work, but these are limited to either a single control or a small number of controls; or</p> <p>Control failures which, individually or in aggregate, have resulted in the misstatement of the organisations financial records, but this misstatement is not significant to the University</p>
<p>●</p> <p>Green</p>	<p>Limited exceptions identified in the course of our work</p> <p>Control failures which, individually or in aggregate, do not appear to have resulted in the misstatement of the organisations financial records.</p>

Control design improvement classifications

The finding ratings in respect of any control design improvements identified in the course of our work are determined with reference to the following criteria;

Rating	Assessment rationale
<p>●</p> <p>Critical</p>	<p>Critical impact on operational performance resulting in inability to continue core activities for more than two days; or</p> <p>● Critical monetary or financial statement impact of £5m; or</p> <p>Critical breach in laws and regulations that could result in material fines or consequences over £500k; or</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.</p>
<p>●</p> <p>High</p>	<p>Significant impact on operational performance resulting in significant disruption to core activities; or</p> <p>● Significant monetary or financial statement impact of £2m; or</p> <p>Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or</p> <p>Significant impact on the reputation or brand of the organisation, resulting in unfavorable national media coverage.</p>
<p>●</p> <p>Medium</p>	<p>Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or</p> <p>● Moderate monetary or financial statement impact of £1m; or</p> <p>Moderate breach in laws and regulations resulting in fines and consequences over £100k; or</p> <p>Moderate impact on the reputation or brand of the organisation, resulting in limited unfavorable media coverage.</p>
<p>●</p> <p>Low</p>	<p>Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or</p> <p>● Minor monetary or financial statement impact £500k; or</p> <p>Minor breach in laws and regulations with limited consequences over £50k; or</p> <p>Minor impact on the reputation of the organisation, resulting in limited unfavorable media coverage restricted to the local press.</p>
<p>Advisory</p>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 2. Terms of Reference

Terms of reference – Continuous Auditing 2013/14 - Final

To: Richard Flatman (Director of Finance)

From: Justin Martin (Head of Internal Audit)

This review is being undertaken as part of the 2013/2014 Internal Audit plan approved by the Audit Committee.

Background

The purpose of our Continuous Audit programme is to test key controls on an on-going basis to assess whether they are operating effectively and to flag areas and/or report transactions that appear to circumvent controls. Testing is undertaken four times a year (covering three month periods) and provides the following benefits:

- It provides management with an assessment of the operation of key controls on a regular basis throughout the year;
- Control weaknesses can be addressed during the year rather than after the year end; and
- The administrative burden on management will be reduced when compared with a full system review, in areas where there is sufficient evidence that key controls are operating effectively.

We have outlined the specific controls we will be testing within Appendix 1. These have been identified through our annual audit planning process and meetings with management to update our understanding of the control framework in place. We will continue to refresh this knowledge throughout the year to ensure we focus upon the key risks facing the University. Where the control environment changes in the financial year or we agree with management to revise our approach to reflect revised processes or previous recommendations, we will update Appendix 1 and re-issue our Terms of Reference these changes.

We will report upon the operating effectiveness of controls on a quarterly basis to provide regular and timely insight to management and Audit Committee members.

We believe that this work touches upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10	x	x	x	x	x

x = area of primary focus

x = possible area of secondary focus

Scope

During 2013/14, we will continue to review the operating effectiveness of key controls in place during the period 1 May 2013 to 30 April 2014 as detailed in the Approach section below.

The financial processes, related key control objectives and key risks within the scope of our work are detailed below.

Financial process	Key control objectives	Key risks
Payroll and staff expenses	<p>Accurate payments are made to valid employees of the organisation.</p> <p>Accurate payments are made in respect of valid expenses claims.</p>	<p>Fictitious employees are established on the payroll and/or employees are established on the payroll incorrectly (e.g. incorrect pay scale).</p> <p>Payments are made in error to employees who have left the organisation and / or inaccurate final salary payments are made.</p> <p>Overtime or other timesheet based records are inaccurate leading to salary over / under payments.</p> <p>Invalid changes are made to employee salary and bank details leading to incorrect salary payments being made.</p> <p>Information transferred from the payroll system to the main accounting system is not complete and accurate.</p> <p>Expenses are incurred and reimbursed that are not allowable.</p>
Accounts payable	<p>Expenditure commitments are made with prior budgetary approval.</p> <p>Payments are made only following the satisfactory receipt of goods or services.</p> <p>Payments are made only to valid suppliers.</p>	<p>Payments are made for goods and services which have not been ordered, received or are inadequate.</p> <p>Invalid suppliers or supplier standing data is maintained leading to inaccurate or fraudulent payments.</p> <p>Information transferred from the accounts payable system to the main accounting system is not complete and accurate.</p> <p>Amounts due to suppliers for goods and services are overpaid.</p>
Accounts receivable	<p>Fee income is collected on a timely basis.</p> <p>Goods or services are delivered only to credit worthy customers.</p> <p>Debts due are collected promptly.</p>	<p>Inaccurate or incomplete records of student debts may mean income is not collected on a timely basis.</p> <p>Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded. This may mean debts are not recoverable.</p> <p>Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts and maximisation of income.</p> <p>Information transferred from the accounts receivable system to the main accounting system is not complete and accurate.</p>
Cash	<p>Cash ledger balances are accurate and complete.</p> <p>Cash is not lost or misappropriated.</p>	<p>Information transferred from the cash receipting systems to the main accounting system is not complete and accurate.</p> <p>Discrepancies between the ledger and till or float records are not promptly identified and investigated. This could mean cash balances are incomplete and / or inaccurate.</p>

General Ledger	Ledger balances are valid and accurate.	<p>Invalid, incomplete or inaccurate journals are posted. This could disguise misappropriations or mean there is no evidence to support decisions made.</p> <p>Suspense accounts and balance sheet control accounts are not cleared on a timely basis.</p> <p>Segregation of duties is not maintained, this could compromise the validity and accuracy of general ledger information.</p>
Student Systems	Accurate records of students and their activity are maintained.	<p>Student details and fees payable as recorded upon enrolment are not correct. This could mean income owed to the University is not maximised.</p> <p>Course changes or withdrawals are not identified on a timely basis this could affect fee income owed to the University.</p> <p>Invalid changes are made to student accounts which could compromise the validity, accuracy and completeness of student records.</p>

Limitations of scope

The following limitations of scope are in place:

- Our work is not intended to provide assurance over the effectiveness of all the controls operated by management over these financial systems; the focus of our work will be limited to those controls which are deemed by management to be most significant to the system under consideration; and
- Our work will not consider the organisations IT security framework and associated controls in place.

Audit approach

To provide LSBU with regular and timely insight into the operating effectiveness of their controls, we will undertake our testing on a quarterly basis, covering the following periods during 2013/14.

- Quarter Four 2012/13
- Quarter One 2013/14
- Quarter Two 2013/14
- Quarter Three 2013/14

The controls which will be considered in the course of our testing, mapped to the key risks identified above, have been set out at Appendix 1.

Internal audit team

Name	Title	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 justin.f.martin@uk.pwc.com
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Charlotte Bilsland	Audit Manager	07715 484 670 charlotte.bilsland@uk.pwc.com
Nicholas White	Continuous Auditing Manager	07803 456 050 nicholas.j.white@uk.pwc.com
Dan Barton	Continuous Auditing Team Lead	daniel.j.barton@uk.pwc.com
Emily Wright	Continuous Auditing Team Lead	emily.l.wright@uk.pwc.com
Harley Crossman	Continuous Auditing Technician	harley.crossman@uk.pwc.com

Key contacts

Name	Title
Richard Flatman	Executive Director of Finance (Audit Sponsor)
Natalie Ferer	Financial Controller
Joanne Monk	Deputy Director of Human Resources
Jenny Laws	Deputy Registrar (Student Management Information Team Leader)
Ravi Mistry	Financial Systems Manager
Ralph Sanders	Financial Planning Manager
Brian Wiltshire	Treasury Manager
Penny Green	Head of Procurement
Julian Rigby	Income Manager
Ravi Mistry	Financial Systems Manager
Nicolas Waring	Cash Office Manager
Denise Sullivan	Payroll Manager
Felicity Clarke	Payroll Team Leader
Andrew Ratajczak	Manager; Fees, Bursaries and Central Enrolment

Timetable

As set out in the approach section above, we will undertake our work on a quarterly basis

	<u>Quarter Four</u> <u>2012/13</u>	<u>Quarter One</u> <u>2013/14</u>	<u>Quarter Two</u> <u>2013/14</u>	<u>Quarter Three</u> <u>2013/14</u>
Fieldwork start	12/08/2013	TBC	TBC	TBC
Fieldwork completed	23/08/2013	TBC	TBC	TBC
Draft report to client	06/09/2013	TBC	TBC	TBC
Response from client	20/09/2013	TBC	TBC	TBC
Final report to client	27/09/2013	TBC	TBC	TBC

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Sub Appendix 1: Key controls schedule

Based upon our understanding of the financial systems in place at LSBU and in discussion with management, we have agreed that the operating effectiveness of the following controls will be considered. These have been mapped to the key risks identified as in scope above.

Payroll

Key contacts: Denise Sullivan, Felicity Clarke and Joanne Monk

Key risk	Key control	Reference
Fictitious employees are established on the payroll and/or employees are established on the payroll incorrectly (e.g. incorrect pay scale)	Authorised and accurate new starter forms are received prior to an individual being entered on to the payroll system.	P1
Payments are made in error to employees who have left the organisation and / or inaccurate final salary payments are made	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	P2
	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	P3
	Exception reports are reviewed on a monthly basis.	P4
Invalid changes are made to employee salary and bank details leading to incorrect salary payments being made	Variation forms, with supporting documentation, are received prior to any changes being made to standing data.	P5
	Access to the payroll system is restricted to appropriate personnel.	P6
Overtime or other timesheet based records are inaccurate leading to salary over / under payments	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	P7
Information transferred from the payroll system to the main accounting system is not complete and accurate	Monthly reconciliations are performed between the general ledger and the payroll system. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	P8
Expenses are incurred and reimbursed that are not allowable	Expenses are supported by appropriately authorised claim forms.	P9

Accounts Payable

Key contacts: Penny Green (AP1) and Maureen Stanislaus (AP2 – AP6)

Key risk	Key control	Reference
Invalid suppliers or supplier standing data is maintained leading to inaccurate or fraudulent payments	Authorised documentation must be received prior to the creating a new or amending a supplier record.	AP1
Payments are made for goods and services which have not been ordered, received or are inadequate. Invoices payments are not appropriately reviewed and authorised prior to payment	Invoices are approved for payment by an appropriately authorised individual.	AP2
	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	AP3
	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation.	AP4
Amounts due to suppliers for goods and services are over paid	Exception reports are generated produced to identify duplicate suppliers and payments. Actions are taken to resolve any errors noted.	AP5
Information transferred from the accounts payable system to the main accounting system is not complete and accurate	Daily reconciliations are performed between the general ledger and the creditors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	AP6

Accounts receivable

Key contacts: Natalie Ferer and Julian Rigby

Key risk	Key control	Reference
Agreements are entered into with customers prior to the performance of credit checks or credit limits are exceeded. This may mean debts are not recoverable.	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	AR1
Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts and maximisation of income	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference.	AR2
	Reminder letters are sent to debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt.	AR3
	Reminder letters are sent in respect of overdue fees on a monthly basis in line with policy.	AR4
	Debts are written off following appropriate review and authorisation.	AR5

Inaccurate or incomplete records of student debts may mean income is not collected on a timely basis	Monthly reconciliations are performed between the debtors balance on the general ledger and QLX.	AR6
	Monthly reconciliations are performed between the debtors balance per QLX to QLS.	AR7
Information transferred from the accounts receivable system to the main accounting system is not complete and accurate	Monthly reconciliations are performed between the General Ledger and the debtors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	AR8

Cash

Key contacts: Nicholas Waring (C1-4) and Brian Wiltshire (C5)

Key risk	Key control	Reference
Information transferred from the cash receipting systems to the main accounting system is not complete and accurate	Cash takings in respect of tuition fees and student residences as recorded on QLX and KX are reconciled to cash balances held on a daily basis and discrepancies investigated.	C1
Discrepancies between the ledger and till or float records are not promptly identified and investigated. This could mean cash balances are incomplete and / or inaccurate	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	C2
	Cash receipts per Agresso are reconciled to QLX and KX on a monthly basis.	C3
	Cash receipting responsibility within the QLX system and KX system is restricted to appropriate individuals.	C4
	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are performed by Treasury Team and reviewed on a timely basis (by the Financial Accountant), with supporting documentation and reconciling items are investigated on a timely basis.	C5

General Ledger

Key contacts: *Detailed below*

Key risk	Key control	Reference
Invalid, incomplete or inaccurate journals are posted. This could disguise misappropriations or mean there is no evidence to support decisions made	Journals must be authorised, with supporting documentation, prior to being posted on the system. Key contact: <i>Ephraim Maimbo</i>	GL1
	On a monthly basis management accounts are prepared and significant variances against budget are investigated. Key contact: <i>Ralph Sanders</i>	GL2
Suspense accounts and balance sheet control accounts are not cleared on a timely basis	Suspense accounts and balance sheet control accounts are cleared or reconciled on a quarterly basis. Key contact: <i>Ephraim Maimbo</i>	GL3
Segregation of duties is not maintained, this could compromise the validity and accuracy of general ledger information	Access to the general ledger is restricted to appropriate personnel. Key contact: <i>Ravi Mistry</i>	GL4
	No single individual has access to make changes to both the QLX and QLS systems. Key contact: <i>Ravi Mistry</i>	GL5

Student Systems

Key contact: Andrew Ratajczak

Key risk	Key control	Reference
Student details and fees payable as recorded upon enrolment are not correct. This could mean income owed to the University is not maximised	Enrolment or re-enrolment paperwork has been completed for each new and re-enrolled student prior to the creation of records within QLS.	S1
Course changes or withdrawals are not identified on a timely basis this could affect fee income owed to the University	Course changes are only actioned on QLS after completion of the Course Changes Log. Faculty Managers are notified of updates to QLS records and check to confirm these are accurate and appropriate.	S2 S3
Invalid changes are made to student accounts which could compromise the validity, accuracy and completeness of student records	Access rights within QLX are restricted to appropriate personnel.	S4

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of Continuous Auditing for Quarter 4 (May – July 2013), subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

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This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with Richard Flatman in our agreement dated 2/8/2013. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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London South Bank University

	PAPER NO: AC.43(12)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Draft Internal Audit Annual Report 2012/13	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	Audit Committee	On: Annually
Further approval required?	n/a	n/a
Communications – decision notice?	n/a	

Executive summary

The conclusions from the internal audit work programme for 2012/13 are discussed in more detail in the attached report. Subject to some control design and operating effectiveness issues surrounding IT security for which responses are in hand, the internal audit opinion is that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of both risk management, control and governance; and for economy, efficiency and effectiveness (value for money) arrangements.

The Executive recommends that the Audit Committee note the attached report.

Internal Audit Annual Report 2012/2013

**London South
Bank University**

September 2013

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Distribution List

For action	Richard Flatman, Executive Director of Finance Audit Committee
For information	James Stevenson, University Secretary

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1. *Executive summary*

Background

The Model Financial Memorandum between the Higher Education Funding Council for England (HEFCE) and institutions requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Audit Committee. As such, the purpose of this report is to present our view on the adequacy and effectiveness of:

- Risk management, control and governance; and
- Economy, efficiency and effectiveness (value for money) arrangements.

Whilst this report is a key element of the framework designed to inform Audit Committee's Annual Report to HEFCE, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee's responsibility for forming their own view on governance, risk management, control and value for money arrangements.

This report covers the period to the financial year ended 31 July 2013.

Scope

Our findings are based on the results of the internal audit work performed as set out in the Internal Audit Risk Assessment and Internal Audit Plan 2012/13 approved by the Audit Committee in June 2012. Our report also includes reference to the following additional audits:

- Payroll Implementation Review; and
- Payroll Implementation Follow Up Review.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix One.

Our internal audit work is designed to comply with the Model Financial Memorandum between HEFCE and other institutions. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Opinion

Our opinion is based on our assessment of whether the controls in place support the achievement of management's objectives as set out in our Internal Audit Risk Assessment and Internal Audit Plan 2012/13. We have completed the program of internal audit work for the financial year ended 31 July 2013.

Our work in relation to Risk Management, Control and Governance indicates that London South Bank University's overarching mechanisms for ensuring the regularity and propriety of activity are largely sound.

The core control environment has remained robust overall. Our continuous auditing fieldwork during the year had identified some recurrent control deficiencies over payroll processing which required additional focus. However, our most recent continuous audit work for the period 1 May to 31 July 2013 has identified no issues within this cycle which provides some assurance that this control environment had stabilised by year end.

We have been made aware of some control design and operating effectiveness issues surrounding IT security which we believe has implications with respect to London South Bank University's control framework. These matters are described further in Section Two of this report.

Except for the areas noted in Section Two, we believe London South Bank University has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of:

- Risk management, control and governance; and
- Economy, efficiency and effectiveness (value for money) arrangements.

Acknowledgement

We would like to take this opportunity to thank London South Bank University staff, for their co-operation and assistance provided during the year.

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2. Summary of findings

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below. We have also mapped our key findings to each area of Audit Committee responsibility.

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 14 internal audits. This resulted in the identification of 0 critical, 5 high, 13 medium and 11 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness of these controls.</p> <p>The results of our trend analysis indicate that the control environment has remained consistent with the previous year. The number of high risk and critical risk issues identified has remained consistent with the previous year and the number of low risk issues has reduced. While the number of medium risk issues has increased, overall the volume of recommendations has reduced.</p>	<p>Our audit plan was scoped to address London South Bank University's key risks and strategic objectives. We mapped each review to these areas in our 2012/13 Internal Audit plan.</p> <p>We have completed our internal audit plan in line with the set timescales.</p> <p>We have delivered two additional 'value enhancement reviews' to support London South Bank University with the implementation of their new payroll system and we have mobilised specialists in the areas of ICT and finance in year.</p>
<p>Risk Management, Control and Governance</p> <p>Our work in relation to Risk Management, Control and Governance indicates that London South Bank University's overarching mechanisms for ensuring the regularity and propriety of activity are largely sound.</p> <p>Control:</p> <p>There remain opportunities for management to improve this framework and provide more robust assurance.</p> <p>As noted in our overall opinion, the core control environment has remained robust overall. Our continuous auditing fieldwork during the year had identified some recurrent control deficiencies particularly over payroll processing which required additional focus. However, we are pleased that our most recent continuous audit work for the period 1 May to 31 July 2013 has identified no issues within the payroll cycle which provides some assurance that the control environment over this cycle had stabilised by year end. By the end of the year our continuous audit report was showing all cycles as green and operating effectively. A summary of continuous auditing performance and results of individual reviews is included in Section Three.</p> <p>We have been made aware of some control design and operating effectiveness issues surrounding IT security which we believe has implications with respect to London South Bank University's control framework. These key findings are summarised opposite.</p>	<p>Our review of IT Controls and Phishing identified three high risk issues:</p> <ul style="list-style-type: none"> We identified weak controls surrounding the allocation of access to restricted areas and a lack of formal 'area owners'. Weak security controls resulted in over 500 people being able to access one server room (K2) and 180 individuals being able to access the University's other server room (G70). There was a lack of management authorisation for the creation or definition of new 'Phonebook' administrators. There was an absence of a formalised process or retained evidence of requests to add new staff into the phonebook. We identified 22 network accounts (from a sample of 30) of leavers that were still active. There were weak security settings within staff network accounts and we identified a number of administrator accounts which had been set to 'password never expires'. We also identified that systems are configured to log activities to a maximum size of entries (130Mb) and to overwrite the entries should the log become full. At the time of testing, the security log only contained the previous four hours of entries. <p>Our Phishing exercise was also responded to by a significant number of employees.</p>

Risk management:

Our work surrounding risk management was limited to a follow up of prior year findings - these are reviewed as part of our quarterly updates to Audit Committee. Overall risk management processes and controls have improved; three of four recommendations from 2011/12 were implemented in 2012/13. To ensure implementation of the final recommendation, further work is needed to ensure that departmental registers are complete, updated and reviewed on a timely basis.

Governance:

Overall governance arrangements appear to be reasonable. Our core financial systems work has identified appropriate segregation of duties and reporting/documenting of key processes.

Another indicator of a strong compliance culture is managements prompt implementation of audit recommendations.

Two other high risk control findings from our planned work were:

- Financial Forecasting - At the time of audit, quarterly capital reports did not provide a complete overview of all the capital expenditure and only included financial information on Estates and Facilities. We also noted that there is no formal communication channel to discuss this with the Executive team and that the Q2 capital report was not produced due to staff sickness and limited resources; and
- Continuous Auditing Q2 - During our continuous auditing fieldwork we identified that the aged debt listing included a number of credit balances. The current practice is to net these off against future transactions made by the customer. These are not refunded unless the customer claims these in writing. If the University does not make appropriate attempts to return overpayments to customers, the University may be breaking the law.

Value for Money

Institutions have a duty of care to ensure the proper use of public funds and the achievement of value for money. Accordingly, our audit approach considers value for money as an integral objective of the University's systems of internal control. Our work indicates that the processes in place to ensure value for money is achieved are in accordance with good practice.

In the current year our audit work has considered value for money across a range of areas. These include:

University Enterprise

We reviewed the operations and responsibilities of University enterprise. This included ensuring that there is a clear line of sight with regard to the activities that are managed through University Enterprises, SBUEL and the University and ensuring that for all appropriate commercial activities to be managed through the appropriate University entity in order to create efficiencies and maximise opportunities associated with economies of scale, VAT and tax.

We also confirmed that there are policies and procedures in place to ensure that contracts linked to commercial activities are actively managed with an appropriate control environment supporting them such as robust systems.

We also reviewed the process for budget setting, monitoring and management reporting of commercial enterprise. This included ensuring that:

- Projects are entered into once a business case, budget and project plan have been prepared, reviewed and approved.
- Projects are monitored on a timely basis with performance monitored against approved budgets and project plans and actions taken as a result.
- The financial performance of Commercial Enterprise is subject to appropriate and timely

	<p>scrutiny.</p> <ul style="list-style-type: none"> Processes and procedures are consistent across the organisation. <p>Our work concluded that the Commercial Enterprise vision is in line with expectation for a forward-looking higher education institution and supports the University's objectives to maximise its revenue-generating capacity from Commercial Activity. However, a lack of 'buy-in' across the University could hinder the achievement of these objectives: we noted that some individuals do not understand the rationale behind Enterprise and some Faculties do not see the benefit of the structure to them.</p> <p><i>Capital Projects</i></p> <p>We reviewed the University's Capital Programme to ensure it is clearly aligned to corporate priorities and considered the business case development and appraisal to ensure there is a clear and transparent process governing the development and approval of proposed capital projects, which facilitates the achievement of value for money. Our work concluded that a new system has been put in place which has been seen as a positive development. The new processes have ensured consistency of business cases submitted that proper approvals are sought for these projects. We noted some opportunities to further improve this process framework and ensure that those responsible for preparing business cases have appropriate training and guidance to properly undertake this role.</p> <p><i>Financial Controls</i></p> <p>In the course of our continuous audit work we test the operating effectiveness of controls in place designed to ensure transactions are approved and reviewed in accordance with the University's delegated authority framework. Our work concluded that the majority of London South Bank University's financial controls appear to be operating effectively however there are opportunities to improve compliance in this area (see internal control section above).</p>
<p>Data Quality</p> <p>The Financial Memorandum includes a mandatory requirement for quality assurances to be provided by Institutions over the data submitted to the Higher Education Statistics Agency (HESA) and HEFCE.</p> <p>Whilst there is no requirement for our internal audit programme to provide a conclusion in respect of data quality, our internal audit programme in 2012/13 has been designed to support the Audit Committee in forming its conclusion in respect of such matters.</p>	<p>TRAC</p> <p>Procedure notes are in place outlining the timeline for compilation of the TRAC return and there is an established review process to confirm the accuracy and completeness of data. Compilation and review of the return is restricted to a limited number of individuals. London South Bank University may wish to consider training additional staff or delegating some tasks to avoid knowledge gaps and for contingency planning purposes. London South Bank University also needs to ensure that review processes are documented and retained to evidence the work performed. Review structures should also be reassessed to ensure they are compliant with JCPSG guidance. The University encountered delays in receipt of data which meant that the 2011/12 return</p>

was not authorised by the Vice Chancellor until 02/02/2012. This is after the formal submission date to HEFCE (31/01/2012).

Key Information Sets

London South Bank University adopted a logical approach to compiling data and our re-performance of a sample of calculations found data was calculated accurately. However, testing identified a number of instances where Management could not locate the original source documentation to validate the results.

Data was submitted to HEFCE on time but there were a number of examples of non-compliance with internal deadlines which threatened this being achieved. We also noted that there are no procedure notes for four of the indicators.

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3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work and implications for next year's plan. We have also provided an analysis of findings identified year on year to provide an indicative direction of travel.

The criteria for our report classifications and the definitions applied in the assessment of our individual findings are included at Appendix Two. We also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.

Results of individual assignments

Audit unit	Report status	Report classification	Number of findings				
			Critical	High	Medium	Low	Advisory
Continuous Auditing Q4 2011/12	Final	No classification	-	-	-	1	-
Continuous Auditing Q1 2012/13	Final	No classification	-	-	-	1	-
Continuous Auditing Q2 2012/13	Final	No classification	-	1	3	-	-
Continuous Auditing Q3 2012/13	Final	No classification	-	-	-	-	-
IT controls and phishing	Final	High	-	3	-	-	-
Review of Capital Programme	Final	Low	-	-	-	1	-
Management of Fraud Risk	Final	Low	-	-	1	2	2
TRAC	Final	Medium	-	-	3	1	-
Key Information Sets	Final	Low	-	-	1	3	1
Enterprise	Final	Medium	-	-	4	1	1
Financial Forecasting	Final	Medium	-	1	1	1	-
Risk Management	Final	N/a – follow up	-	-	-	-	-
Payroll Implementation	Final	N/a – value enhancement	-	-	-	-	-
Payroll Implementation Follow Up	Final	N/a – value enhancement	-	-	-	-	-
		Total	-	5	13	11	4

To assist the Audit Committee in understanding how our work corresponds to their reporting responsibilities, we have mapped our work against these areas in Appendix Four.

Audit Findings - Direction of travel

Finding rating	Trend between current and prior year	Number of findings	
		2012/13	2011/12
Critical	↔	0	0
High	↔	5	5
Medium	↑	13	9
Low	↓	11	18
Total	↓	29	32

Implications for management

The results of our trend analysis indicate that the control environment has remained consistent with the previous year. The number of high risk and critical risk issues identified has remained consistent with the previous year and the number of low risk issues has reduced. While the number of medium risk issues has increased, overall the volume of recommendations has reduced.

Whilst acknowledging that the direction of travel is positive overall, it should be noted that tangible improvements will only be achieved if timely actions are taken to address the findings identified in the course of our work.

Further analysis of the continuous auditing programme

Whilst no overarching classification is assigned in respect of our continuous auditing reports, we have below summarised the systems ratings assigned and number of operating effectiveness exceptions identified in each financial quarter under consideration as part of the 2012/13 audit programme.

System / Rating	Trend	Q4 2012/13	Q3 2012/13	Q2 2012/13	Q1 2012/13
Payroll	↑	● Green (0)	● Amber (4)	● Amber (2)	● Amber (2)
Accounts payable	↔	● Green (1)	● Green (1)	● Amber (1)	● Green (0)
Accounts receivable	↑	● Green (1)	● Green (0)	● Amber (2)	● Amber (3)
Cash	↑	● Green (0)	● Green (1)	● Green (0)	● Amber (1)
General Ledger	↔	● Green (1)	● Amber (2)	● Amber (0)	● Green (0)
Student financial data	↔	● Green (0)	● Green (1)	● Green (0)	● Green (0)

Implications for next year's plan

We have increased the number of days assigned to our continuous auditing programme to reflect additional assurance needed over the payroll system and as a result of recurrent control issues identified during continuous auditing.

We will review IT security findings as part of quarterly reporting and have included a review of Disaster Recovery and Business Continuity for 2013/14.

Comparison of planned and actual activity

<i>Audit</i>	<i>Audit Type</i>	<i>Budgeted days</i>	<i>Actual days</i>
Continuous Auditing Q4 2011/12	Value protection	11	11
Continuous Auditing Q1 2012/13	Value protection	11	11
Continuous Auditing Q2 2012/13	Value protection	10	10
Continuous Auditing Q3 2012/13	Value protection	11	11
IT controls and phishing	Value protection	15	15
Review of Capital Programme	Value protection	8	8
Management of Fraud Risk	Value protection	5	5
Risk Management	Value protection	2	2
TRAC	Value protection	3	3
Key Information Sets	Value protection	10	10
Enterprise	Value protection	10	10
Financial Forecasting	Value protection	5	5
Payroll Implementation	Value enhancement	7	7
Payroll Implementation Follow Up	Value enhancement	4	4
Audit Management and Value for Money	N/a	16	16
	Total	128	128

Appendix Five provides further details on the performance of internal audit.

4. Follow up work conducted

Introduction

Within the Internal Audit Risk Assessment and Internal Audit Plan 2012/13, five days were assigned for following up recommendations previously raised and falling due for implementation.

To provide regular and timely insight with regards to management's progress in this area, we reported on the results of our follow up work on a quarterly basis.

Where recommendations were classified as critical, high or medium risk, we have validated that management's actions have been implemented. Where recommendations were classified as low risk, our follow up was limited to discussing progress with management and accepting their assurances with regards to the implementation status.

If some action has been taken to implement a recommendation then the action has been classified as 'partially implemented'. If no action has been taken, the recommendation has been classified as 'outstanding'.

Please note follow up work was not undertaken on findings from our continuous auditing programme. This is because issues noted as part of continuous auditing are followed up each quarter.

Summary

The majority of agreed actions have been implemented throughout the year (90% implementation rate) and at 31 July 2013 only three actions that were due to have been resolved by year end remain open. These three actions have been partially implemented and all relate to our review of Enterprise. These have all been classified as medium risk and had a target completion date of 31 July 2013. We have included a breakdown of these findings in Appendix Three.

We will continue to work collaboratively with management in 2013/14 to ensure that implementation timescales agreed in respect of recommendations raised in year are achievable, taking in to account any known or expected changes in London South Bank University's processes or regulatory requirements.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and the Audit Committee, subject to the limitations outlined below.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound arrangements and systems for risk management, internal control and governance. Additionally, management is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance. Management is responsible for review regularly the adequacy and effectiveness of these arrangements.

Management is responsible for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibility for the design and operation of these controls.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Opinion

The opinion is based on the work undertaken as part of the Internal Audit Risk Assessment and Internal Audit Plan 2012/13. The work addressed the control objectives agreed for each individual internal audit assignments as set out in our Internal Audit Risk Assessment and Internal Audit Plan 2012/13.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual audits was extended or other relevant matters were brought to our attention.

Internal control:

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods:

Our assessment of controls relating to London South Bank University is for the year ended 31 July 2013. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Appendix 2: Basis of our opinion and classifications

Assignment Report classifications

Assignment report classifications are determined by allocating points to each of the findings included in the report:

Findings rating		Points
Critical		40 points per finding
High		10 points per finding
Medium		3 points per finding
Low		1 point per finding
Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings.

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance resulting in inability to continue core activities for more than two days; or • Critical monetary or financial statement impact of £5m; or • Critical breach in laws and regulations that could result in material fines or consequences over £500k; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance resulting in significant disruption to core activities; or • Significant monetary or financial statement impact of £2m; or • Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or • Significant impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.

Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or • Moderate monetary or financial statement impact of £1m; or • Moderate breach in laws and regulations resulting in fines and consequences over £100k; or • Moderate impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or • Minor monetary or financial statement impact £500k; or • Minor breach in laws and regulations with limited consequences over £50k; or • Minor impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

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Appendix 3: Partially implemented agreed actions

Breakdown of partially implemented agreed actions

Three agreed actions which were due to be implemented by 31 July 2013 are still ongoing at year end. All actions relate to our 2012/13 review of Enterprise. We have provided a breakdown of the original finding raised, risk rating, agreed action, target implementation date and progress against these items below.

Finding	Agreed action	Status
<p>There is a lack of clarity surrounding what constitutes activities are defined as 'Enterprise activities' and 'University activities'. For example, commercial lettings are run by both Enterprise and Estates. Similarly, commercial projects may be run by Enterprise or Faculties.</p> <p>There is currently no formal policy outlining whether projects should be run through SBUEL or London South Bank University. We recognise that in practice this rarely presents an issue, as most types of project have historical precedent and so treatment is not ambiguous. However, it will become more difficult to rely on 'precedent' as more complicated projects are adopted.</p>	<p>Risk Rating: Medium</p> <p>Agreed Action: The Enterprise team, working with colleagues in Finance will develop a straightforward checklist to enable non-financial experts to allocate projects correctly, in the context of taxation and other compliance considerations.</p> <p>Due date: 31 July 2013</p>	<p>The LSBUEL accountant has produced a set of guidelines, "Allocation of projects to SBUEL or the University", which are currently being reviewed by the Director of Enterprise, and will be taken to the executive for approval in due course. However, a straightforward and universal checklist is impossible to produce, as the question of whether a new project should be routed through LSBUEL or the University is not absolutely clear cut – and can sometimes involve an element of judgement from the staff within the enterprise team.</p>

<p>There are no procedures outlining the approval limits for entering contracts for the supply of products or services (i.e. sales) at an Enterprise level. London South Bank University's Financial Regulations do not include any delegation limits in respect of sales.</p>	<p>Risk Rating: Medium</p> <p>Agreed Action: Procedures will be developed to formalise approval limits. This will be developed to be consistent with London South Bank University's Financial Regulations and will include due diligence checks on contracting parties, consultation with legal and analysis of budgets.</p> <p>It is noted that the Financial Regulations are not specific on the controls that must be applied beyond those imposed by the FEC form (i.e. they specify no value constraints).</p> <p>Values for each level should be set based on a review and discussion of the capacity of the University to deliver commercial contracts and will be agreed by the SBUEL Board of Directors.</p> <p>Due date: 31 July 2013</p>	<p>Progress has been made in implementing a process of approval limits but this has not yet been implemented. A paper has been written which will be presented to SBUEL board on 25 September 2013 recommending a specific scheme of delegation for commercial sales and recommending that it is adopted as an addendum to the financial regulations.</p>
<p>There is a lack of goal congruence between the Enterprise vision and the reality of managing commercial activity at a Faculty level. Our interviews with Faculties identified that some individuals are sceptical about the new approach to Enterprise being taken by the University Enterprise team, do not see its relevance to their own work and are unclear that engagement with Enterprise will lead to any 'value'. There is a perception that the engagement imposes an additional administrative burden on them. Overall, this leads to a lack of buy-in to the goals of the Enterprise teams in some Faculty areas and can mean opportunities to maximise income for Enterprise are not seized.</p>	<p>Risk Rating: Medium</p> <p>Agreed Action: We have performed multiple exercises with Faculties to explain the purpose of University Enterprise. However, there remains an issue regarding 'buy-in' within some Faculties to the work we are trying to do. This is largely centred on the lack of strategic goals and incentives which are aligned across University Enterprise and Faculty. There are a number of perceived 'perverse' incentives (often around financial control and targets) which continue to act as barriers to more aligned working.</p> <p>We will share findings from this report with the University Executive team to establish a formal route to securing better alignment of objectives and incentives with Faculties. In parallel, we will continue to perform formal exercises to engage with key stakeholders at Faculty level to build buy-in from individuals into the nature of the Enterprise offering, the resources available and the potential for 'value-add' in their own work.</p> <p>Due date: 31 July 2013</p>	<p>University Enterprise has continued to make incremental improvements. Enterprise's approach has been to demonstrate the value of what they can do for faculties through operational delivery. This creates a track record of adding value and fosters alignment between the Enterprise team and academics in the Faculties. There is a growing portfolio of projects that can be used to demonstrate Enterprise's value to faculties and a growing recognition of this. However, there remains a long way to go to achieve true and complete alignment in some faculty areas where significant culture change is required. Enterprise continues actively to engage with Faculty staff at all levels to make progress on this action but do not expect a quick step change. This action is jointly assigned to University Enterprise and the University Executive.</p>

Appendix 4: Mapping of internal audit work

Reporting responsibilities

The table below maps our internal audit work against the Audit Committee's reporting responsibilities.

Audit	Governance	Risk management	Control	Value for money	Data submission
Continuous Auditing	-	x	x	x	x
IT controls and phishing	-	-	x	-	-
Review of Capital Programme	X	-	x	x	-
Management of Fraud Risk	-	x	x	-	-
Risk Management	-	x	-	-	-
TRAC	-	-	x	-	x
Key Information Sets	-	x	-	-	x
Enterprise	X	-	x	x	-
Financial Forecasting	-	x	x	-	x
Payroll Implementation	-	-	x	-	x
Payroll Implementation Follow Up	-	-	x	-	x

Key

- x** Testing focused on this area
- x Testing was peripheral
- Not tested

Data submission

The Audit Committee's Annual Report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of data submissions to HESA, HEFCE and other funding bodies. To assist the Audit Committee prepare its Annual Report, we have outlined where our work assessed the arrangements for the management and quality assurance of data submissions (see the table on this page). We provide no conclusions or opinion on data quality.

Appendix 5: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance and that of management against each KPI as at 31 July 2013 is shown in the table below.

Audit Stage	KPI	Achieved/Not Achieved	Narrative
Production of Internal Audit Plan	The annual internal audit plan will be produced for the June Audit Committee. The plan will be risk based and linked to the University's Risk Register. Once the plan is approved by the Audit Committee any further material changes must be approved by the Committee.	Achieved	The 2013/14 internal audit plan was approved at the June Audit Committee. This was compiled following a risk based approach and was linked to the University's risk register.
Terms of reference	All internal audit ToRs will be agreed with the audit sponsor at least 1 week before the fieldwork start date.	Achieved	The Capital projects final ToR was agreed prior to the fieldwork starting but within a week. However, the content of the ToR had been agreed with management well in advance of this.
Fieldwork	All audit fieldwork will be recorded on our electronic working paper system.	Achieved	-
Exit Meeting	An exit meeting will be held at the end of each audit to discuss the audit findings and recommendations with the audit sponsor.	Achieved	-
Draft Report	The draft report will be issued to the audit sponsor and Executive Director of Finance within 10 working days of the completion of fieldwork.	Achieved	-
Management Response	The audit sponsor will provide the engagement manager with a complete written response to the internal audit report within 10 days of receipt of the draft report.	Achieved	Late response for four reports.
Final Report	The final report will be issued to the audit sponsor and Executive Director of Finance within 5 working days of receiving the management response. The final report will include a schedule identifying responsibility and a timescale for implementation of the recommendations.	Achieved	-

<i>Audit Stage</i>	<i>KPI</i>	<i>Achieved/ Not Achieved</i>	<i>Narrative</i>
Audit Committee	The engagement manager or Head of Internal Audit will provide an internal audit update report to each Audit Committee (unless requested not to) and an internal audit annual report to the Audit Committee each year.	Achieved	Update reports provided at September, October, February and June Committees. Our internal audit annual report 2011/12 was presented at the September Committee and the 2012/13 report will be presented at the September 2013 Committee meeting.
Pre Audit Committee Meetings	The engagement manager will meet with the Executive Director of Finance a minimum of 3 weeks before each Audit Committee to discuss progress and reports to be presented to the Audit Committee.	Achieved	-
100% of audits delivered against the plan	Progress against plan detailed in the Annual Internal Audit report. Any changes to the Internal Audit plan will be agreed with Executive Director of Finance (and the Audit Committee, where material) prior to action.	Achieved	-
Management feedback >7 or above	A client satisfaction survey will be issued annually. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	TBC	Issued.
Audit Committee feedback >7 or above issues promptly	A client satisfaction survey will be issued annually to the Chair of the Audit Committee. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	TBC	Issued.

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In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, London South Bank University discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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	PAPER NO: AC.44(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Assumptions used for the LSBU FRS17 report at 31/7/13	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommend that the committee approves the assumptions made by the LPFA scheme actuaries, Barnet Waddington, for FRS17 disclosures.	
Aspect of the Corporate Plan to which this will help deliver?	Statutory financial reporting.	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	N/A	

Executive summary

Assumptions for the LSBU FRS17 report at 31/7/13 have been received and are attached. This paper is presented to Committee because the assumptions used by the actuaries in respect of the Local Government Pension scheme (LGPS) have a significant impact on our reported financial result including the reported scheme deficit. It is important therefore that the assumptions are reviewed and approved.

We have taken advice from Grant Thornton, the University's auditors, and they have confirmed that the assumptions used are acceptable for use when preparing the FRS17 report as a basis for inclusion in the University's statutory financial statements.

Assumptions

Barnett Waddingham, the scheme actuary, has provided the rates they have used for LSBU for 2013. These are linked to the agreed inflation and discount rate curves. The specific rates for London South Bank University, as set out in the table below, are based on our profile as an individual employer given the duration of our liabilities. This focus on the duration of individual employer liabilities is welcomed and represents a key change in approach from previous years where the annualised yield on the iBoxx AA rated over 15 year corporate bond index was used as the discount rate (and deemed to be appropriate for all employers regardless of liability duration).

The rates for 2013 are as follows and have been shown alongside the actual LSBU assumptions last year and the ranges that Barnett Waddington has set for all employers in the scheme.

	31/7/13	31/7/12	31/7/13
	LSBU		Range for all employers
RPI increases	3.3%	2.6%	2.9%-3.4%
CPI increases	2.5%	1.8%	2.1%-2.6%
Salary increases	4.2%	3.5%	3.8%-4.3%
Pension increases	2.5%	1.8%	2.1%-2.6%
Discount rate	4.7%	3.9%	3.6%-4.8%

The key assumption in terms of the value of liabilities is neither the discount rate nor the inflation rate (CPI) but the difference between the two – the “real discount rate” which drives the valuation of the liabilities. The higher/lower the real discount rate the lower/higher the valuation of the pension liabilities on the face of the balance sheet and the higher/lower the cost of the FRS17 charge in the I&E account.

The real discount rate at 31/7/13 is 2.2% (4.7-2.5) compared with 2.1% in the previous year. Therefore the discount rate applied to our liabilities will be greater and this has contributed to the reduction in our FRS17 deficit as shown on the balance sheet at 31 July 2013.

Recommendation

The Committee is asked to note and approve the assumptions. Further consideration of assumptions and the resulting impact on the accounts will be made in November at which stage Grant Thornton will provide benchmarking analysis as part of their Key Issues Memorandum.

	PAPER NO: AC.45(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Internal Controls – Annual review of effectiveness	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	<p>The Executive recommends that:</p> <ul style="list-style-type: none"> • This report is noted • The annual compliance statement is approved (subject to final review immediately before approval of accounts). 	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Financial sustainability • Creating an environment in which excellence can thrive. 	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	Audit Committee (final review to confirm no further changes)	On:31 October 2013
Communications – who should be made aware of the decision?	Financial controller	

Executive summary

This paper presents the annual review of effectiveness of the University's system of internal control and underpins the internal control statement in the annual report and accounts. As reported in Appendix 1, the statement relates to the period up to the date of approval of the financial statements. This paper is therefore in draft form at this stage and will require further confirmation that no changes are required at the next meeting on 30 October.

Committee is asked to note the report and approve the statement in Appendix 1 subject to final confirmation. Our statement is a "full compliance" statement for the period under review. Please refer to section 1 of the report for the summary/justification of the full compliance statement.

London South Bank
University

London South Bank University

System of Internal Controls

Annual Review of Effectiveness
Year ended 31 July 2013

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 (and other committees)
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 Framework as at 12 September 2013

1. Executive Summary

This report documents the progress that has been made 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 2013 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 a full compliance statement for the period under review (for the year ended 31 July 2013 and up to the date of approval of the financial statements) the following assurance sources have been taken into account:

HEFCE

- The most recent risk assessment, as reported by HEFCE in its letter to LSBU dated 3 April 2013 (and as reported to Audit Committee at its meeting in June 2013) confirms that LSBU is “not at higher risk at this time”. The Executive is not aware of any issues which would currently change that rating
- HEFCE also carried out an assurance visit to LSBU on 12 July 2011, which is conducted every 5 years. The overall conclusion from the review was the highest assurance rating possible “*that, at this time we (HEFCE) are able to place reliance on the accountability information.*” No additional recommendations for improvement were included in the report.

- HEFCE have subsequently raised in their final assurance report some issues regarding the data amendments to the HESA fixed database. This is consistent with internal audit findings on data quality and an appropriate plan is in place to address these issues.

Internal audit

- The programme of internal audit work for the year ended 31 July 2013 was aligned to the corporate risk framework to provide assurance on the effectiveness of controls in key risk areas.
- The 12/13 internal audit programme included a specific follow up review of the findings noted as part of the 2011/12 risk management audit. The majority had been actioned and closed. One recommendation remained valid, regarding the effectiveness of some faculty / departmental risk registers. These continue to be monitored closely through the Quarterly Review meetings.

The conclusions from internal audit work are discussed in more detail in section 5 of this report. Subject to some control design and operating effectiveness issues surrounding IT security for which responses are in hand, the internal audit opinion is that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of both risk management, control and governance; and for economy, efficiency and effectiveness (value for money) arrangements.

Internal governance

- The Corporate Risk Framework is aligned to the Corporate Plan, reviewed by the Executive on a monthly basis and updated regularly.
- Risk reports have been submitted to every meeting of the Board of Governors and the Audit Committee.
- In addition to risk reports, regular reports have been submitted to Audit committee/Board demonstrating progress on projects/actions related to key corporate risks.
- There have been no major breakdowns in controls during the year.
- Regular fraud updates/reports have been provided to each meeting of the Audit Committee. No significant frauds 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 Audit Committee and ongoing monitoring reports and consideration of risk issues by the Executive); 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 corporate risk framework has been subject to monthly review by the Executive and has been updated as appropriate. Significant changes were made in the year to combine risks where appropriate and to ensure that the risk framework is aligned with the University's Corporate Plan 2011/14.

There have been no significant changes to the corporate risk register.

The current Corporate Risk summary framework is attached at Appendix 2. The principal risks facing the University relate to student recruitment and the potential future loss of NHS income. These risks are discussed in more detail in the University's financial statements.

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

Risk Management is a standing item on every Executive agenda, 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, and this is embedded into formal letters of delegated authority.

5. Results of internal audit work for 2012/13

The University's Internal Auditors for the period under review were PricewaterhouseCoopers LLP (PwC) and their opinion for 2012/13 is set out in their internal audit annual report.

The PwC opinion for 2012/13 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 2012/13. They have completed the program of internal audit work for the financial year ended 31 July 2013, and their opinion is:

Our work in relation to Risk Management, Control and Governance indicates that London South Bank University's overarching mechanisms for ensuring the regularity and propriety of activity are largely sound.

The core control environment has remained robust overall. Our continuous auditing fieldwork during the year had identified some recurrent control deficiencies over payroll processing which required additional focus. However, our most recent continuous audit work for the period 1 May to 31 July 2013 has identified no issues within this cycle which provides some assurance that this control environment had stabilised by year end.

We have been made aware of some control design and operating effectiveness issues surrounding IT security which we believe has implications with respect to London South Bank University's control framework. These matters are described further in Section Two of this report.

Except for the areas noted in Section Two, we believe London South Bank University has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of:

- *Risk management, control and governance; and*
- *Economy, efficiency and effectiveness (value for money) arrangements.*

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 as set out below. These are in addition to the detailed papers at this meeting.

Board of Governors	Report	Purpose
18 th July 2013	Key performance indicators	To note a progress report from the Vice Chancellor
	Corporate risk register	To note a report from the Executive Director of Finance
	Hefce Annual Mid Year Accountability Return	To approve the return to Hefce including the 5 year forecast.
23 rd May 2013	Key Performance Indicators	To consider the Vice Chancellor's report and note developments
	Corporate risk register	To consider a report from the Executive Director of Finance
21 st March 2013	Corporate risk register	To note and update report from the Executive Director of Finance
	Key performance indicators	To consider the Vice Chancellor's report and note developments
	Corporate projects	To note progress on the list of corporate projects from the Vice Chancellor
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
22 nd November 2012	Corporate risk register	To note and update report from the Executive Director of Finance
	Key performance indicators	To consider the Vice Chancellor's report and note developments
	Annual report from Audit	To note report from the Chair of Audit

22 nd November 2012	Committee	Committee
	Audit Committee report on the accounts	To note report from the Chair of Audit Committee
	Annual report and financial statements for year ended 31 July 2011	To approve report from the Executive Director of Finance
	Report from the Policy and Resources Committee on the accounts	To note report from the Chair of Policy and Resources Committee
	External Audit key issues memorandum	To note report from the External Auditors (Grant Thornton)
	HEFCE annual accountability return	To note report from the Executive Director of Finance
3 rd October 2012	Corporate risk register	To note detailed annual review from the Executive Director of Finance
	Key performance indicators	To consider the Vice Chancellor's report and note developments
	Corporate Governance Statement	To approve

Audit Committee	Report	Purpose
13 th June 2013	Corporate risk report	To consider the report on corporate risks from the Executive Director of Finance
	Internal Audit progress report 2012/13	To note report from internal auditors on audit progress for 2012/13
	Internal Audit Reports 2012/13:	To note reports completed from 2012/13 internal audit plan
	<ul style="list-style-type: none"> • Key Information Sets • Financial Forecasting • IT Security & Phishing • University Enterprise 	

13 th June 2013	<ul style="list-style-type: none"> • Payroll Project Implementation • TRAC reporting 	
	Internal Audit plan 2013/14	To preview plan from internal auditors for activity in 2013/14
	External audit plan for 2012/13	To approve plan from external auditors
7 th February 2013	Corporate risk report	To consider the report on corporate risks from the Executive Director of Finance
	Internal Audit progress report 2012/13	To note report from internal auditors on audit progress for 2012/13
	Internal Audit Reports 2012/13:	To note reports completed from 2012/13 internal audit plan
	<ul style="list-style-type: none"> • Capital Projects • Counter Fraud 	
	Internal Audit Key Performance Indicators	To approve report from internal auditors
30 th October 2012	Corporate risk report	To consider the report on corporate risks and mitigating actions
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
	Draft report and accounts for year ended 31 July 2012	To consider the report from the Executive Director of Finance
	Internal audit annual report	To note report from internal auditors
	Internal audit progress report	To note report from internal auditors on audit progress for 2012/13
	Audit Committee Annual Report	To approve the Audit Committee Annual Report
	HEFCE assurance report	To note a report from HEFCE

27 th September 2012	Corporate risk report	To consider the report on corporate risks and mitigating actions
	Annual report on effectiveness internal controls	To consider the report from the Executive Director of Finance
	Internal Audit Reports	To note reports on various 2011/12 audit areas
	<ul style="list-style-type: none"> • Research • Student & Data Quality 	
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
	UK Border Agency Audit Feedback	To note a report from the Pro Vice Chancellor (External)

Policy and Resources	Report	Purpose
2 nd July 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
7 th May 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
12 th February 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
13 th November 2012	Key performance indicators update	To consider the corporate plan KPIs progress report
18 th September 12	Key performance indicators update	To consider the corporate plan KPIs progress report

In addition:

The Audit Committee will have reviewed the following reports at meetings in September 2013 and October 2013 before the accounts are signed:

- The financial statements, including the Statement of Internal Control
- final annual report of the internal auditors for the year ended 31 July 2013
- External auditor's Key Issues memorandum (KIM).

The Board will conduct a detailed review of the corporate risk register at its meeting in October 2013.

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.

The internal auditors have identified some control design and operating effectiveness issues around IT security and these are being addressed.

Regular anti-fraud reports have been submitted to each meeting of the Audit Committee. No significant reportable incidents have been reported in 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 in the Memorandum and Articles of Association and the Financial Memorandum with HEFCE.

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 2013 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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 four times a year 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 Audit Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Audit 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 Audit Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Audit 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 risk registers for each faculty and department. Review procedures cover business, operational and compliance as well as financial risk;
- The executive team meets regularly to consider risk, assess the current exposure and keep up to date the record of key corporate risks facing the University;
- A network of risk champions exists to support risk management activity in all faculties and departments; Update training is provided as required to support delivery;
- 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 HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in July 2011. 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 FRAMEWORK (by Residual Priority)

Ref	Description	Impact	Inherent Likelihood	Residual Likelihood	Residual risk priority	Owner
CO-01-02	Failure to meet recruitment targets	Critical	High	Medium	Critical	PVC(E)
CO-10-06	Potential loss of NHS contract income	Critical	High	High	Critical	ED(HSC)
CP-01	Failure to position the university to effectively respond to changes in government legislation/policy and the political landscape	Critical	High	Low	High	VC
CO-08-01	Ineffective management information to support delivery of the corporate plan	High	High	Medium	High	PVC(A)
CO-10-01	Increasing pensions deficit	High	High	High	High	EDF
CO-13-01	Data Protection	High	Medium	Medium	High	EDF
CO-10-09	Poor Staff Engagement	High	High	Medium	High	VC
CO-10-08	Potential impact of estates strategy delivery on financial position	High	High	Low	Medium	EDF

CO	Risk to delivery of one of the objectives in the Corporate Plan
CP	Risk to overall delivery of the Corporate Plan
MI	Risk to University students, staff or infrastructure resulting from major incident

	PAPER NO: AC.46(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Corporate Risk Register	
Author:	John Baker, Corporate & Business Planning Manager	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Committee note the updated risk register.	
Aspect of the Corporate Plan to which this will help deliver?	The corporate risk framework is aligned to the new corporate plan and effective management of corporate risk underpins successful delivery of all aspects of the plan.	
Matter previously considered by:	Executive Board of Governors	On: 17/09/2013 On: 28/07/2013
Further approval required?	n/a	
Communications – decision notice?	n/a	

Executive summary

Material changes since the Register was present at the June meeting :

- Risk 1: Core & Margin issue now resolved through formal return of extra places to Hefce Lynn Grimes action: note added shows that this is ongoing throughout 2014.
- Risk 2: 16-20 action completed and regular reports to Exec on this programme now in place as a control measure.
- Risk 3: Defined contribution scheme now established through Friends Life.
- Risk 6: Data warehouse control now re-stated as an action regarding the establishment of a data 'Master View'.
- Risk 305: Now re-stated as Data Security, not protection.
- Risk 362: New action created regarding reporting of departmental action plans.

The Committee is requested to note the revised Corporate Risk Register.

Attachments: Corporate Risk Register

Corporate Level - Risk Register

Date	19/09/2013
Risk Status	Open
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
1	CP-01 Failure to position the university to effectively respond to changes in government policy and the competitive landscape Risk Owner: Martin Earwicker Last Updated: 18/09/2013	<p>Cause & Effect: Causes:</p> <ul style="list-style-type: none"> - Changes to fees and funding models - Increased competition, supported by Government policy - Failure to anticipate change - Failure to position (politically) - Failure to position (capacity/structure) - Failure to improve League Table position <p>Effects:</p> <ul style="list-style-type: none"> - Further loss of public funding - Loss of HEFCE contract numbers - Failure to recruit students - Business model becomes unsustainable 	4 3 Critical	<p>Financial controls (inc. forecasting/modelling, restructure) to enable achievement of operating surplus target</p> <hr/> <p>Maintain relationships with key politicians/influencers, boroughs and local FE</p> <hr/> <p>Annual review of corporate strategy by Executive and Board of Governors</p> <hr/> <p>OFFA agreement for 13/14 and 14/15</p> <hr/> <p>Modelling work regularly updated to establish a fee position net of fee waivers less than £7500 for the 12/13 entry cohort, using allocation of fee waivers and bursaries as required. elling/updated.</p>	4 1 High	<p>Improve contacts with national and regional press</p> <p>Person Responsible: Lynn Grimes To be implemented by: 31/07/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
2	CO-01-02 Failure to meet revenue targets	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees mechanisms for UGFT - Increased competition - Failure to develop and communicate brand - Lack of accurate real-time reporting mechanisms - LSBU late entrant to international student market and fails to catch-up - Poor league table position - Portfolio or modes of delivery do not reflect market need - Failure to engage with non-enterprise activities <p>Effects:</p> <ul style="list-style-type: none"> - Under recruitment - Loss of HEFCE contract numbers - Over recruitment leading to penalties on HEFCE numbers - Failure to meet income targets for non-HEFCE students 	4 3 Critical	<p>Report on student recruitment presented to every monthly Executive meeting and also reviewed by Board of Governors</p> <hr/> <p>Enterprise Business Plan submitted annually to SBUEL Board for approval & quarterly updates provided at Board meetings.</p> <hr/> <p>Sustainable Internationalisation strategy & Action Plan, includes Fees & Discount policy, with simplified fee structure and discount/scholarship programme for targeted countries, & enhanced in-market and partner activities</p> <hr/> <p>League Table action plan</p> <hr/> <p>Modelling of student recruitment numbers, including worse case scenarios which aid the planning process.</p> <hr/> <p>Reports on the 16-20 Challenge Programme (Financial & Narrative) will be provided to each Executive Meeting to aid constant scrutiny of this initiative and review of progress against 5 year income targets.</p> <hr/> <p>SBUEL has 2 Non-Executive Directors in place to oversee the Enterprise strategy</p> <hr/> <p>Differentiated campaigns started for postgraduate and part-time students</p>	4 2 Critical	<p>Step-change in Internationalisation Plan to be incorporated.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 29/11/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
3	CO-10-01 Increasing pensions deficit	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Increased life expectancies - Reductions to long term bond yields, which drive the discount rate - Poor stock market performance - Poor performance of the LPFA fund manager relative to the market - TPS/USS schemes may also become subject to FRS17 accounting <p>Effects:</p> <ul style="list-style-type: none"> - Increased I&E pension cost means other resources are restricted further if a surplus is to be maintained - Balance sheet is weakened and may move to a net liabilities position, though pension liability is disregarded by HEFCE - Significant cash injections into schemes may be required in the long term 	<p>3 3</p> <p>High</p>	<p>Switch of inflator from RPI to CPI (expected to be lower in the long term)</p> <hr/> <p>Regular monitoring of national/sector pension developments and attendance at relevant conferences and briefing seminars</p> <hr/> <p>Regular valuation of pension scheme (actuarial and FRS 17). Most recent FRS valuation shows significant reduction in LPFA deficit and reduced I&E cost moving forward following switch to CPI.</p> <hr/> <p>Reporting to HR committee on progress.</p> <hr/> <p>Tight control of staff costs in all areas (and reported to committee and Board via agreed KPIs)</p> <hr/> <p>Proposal for new LPFA scheme, effective April 2014</p> <hr/> <p>Strict control on early access to pension at redundancy/restructure</p> <hr/> <p>Active monitoring in year of trends in discount rate, life expectancy assumptions etc to ensure year-end adjustments are minimised</p>	<p>3 3</p> <p>High</p>	

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
6	CO-08-01 Ineffective data systems leading to failure to supply meaningful and reliable management information (internally) and to comply with the requirements of external agencies	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Data in systems is inaccurate - Data systems are insufficient to support effective delivery of management information - Financial constraints & Insufficient capacity limit ability to deliver improved systems - Failure to manage data through the clearing period - Lack of data quality control and assurance mechanisms <p>Effects:</p> <ul style="list-style-type: none"> - Insufficient evidence to support effective decision-making at all levels - Inability to track trends or benchmark performance - Internal management information reporting insufficient to verify external reporting - Failure to manage recruitm through clearing results in over-recruitment - Failure to submit credible HESA/HESES returns - Failure to satisfy requirements of UKBA leading to potential revocation of licence and loss of £8m+ in revenue in the short term, with reputation damage causing significant longer term revenue loss - Failure to satisfy requirements of Professional, Statutory and Regulatory bodies (NHS, course accreditation etc) 	3 3 High	<p>Regular Engagement with internal auditors & 3 year IA cycle to systematically check data in key systems (and related processes):</p> <ul style="list-style-type: none"> - Finance (including student fees) - Student data (& data Quality) - HR systems - Space management systems - UKBA requirements & compliance <hr/> <p>Systematic data quality checks of staff returns by HR in conjunction with faculties.</p> <hr/> <p>Engagement between International Office, Registry and Faculties to ensure compliance with UKBA requirements, specifically with regards to:</p> <ul style="list-style-type: none"> - Visa applications and issue of Certificate of Acceptance to Study - English lanuage requirements - Reporting of absence or withdrawal <hr/> <p>Systematic data quality checks of student returns by Registry in conjunction with faculties.</p>	3 2 High	<p>Annual education of all staff engaged with international students, to update on UKBA requirements; annual independant review by UKBA specialist to highlight areas for improvement.</p> <p>Person Responsible: Jennifer Parsons</p> <p>To be implemented by: 30/04/2013</p> <hr/> <p>Data management project</p> <p>Project has three stages. Project completion dates: Stage 1 - May 2013, requirements were completed and used to move to Stage 2 Stage 2 - September 2013, the responses to the original PQQ were disappointed and this was put on hold because of teh significant overlap with the IBM partnership Stage 3 - September 2014, contingent upon teh broader partnership or a separate strand of action , including Master Data Management</p> <p>Person Responsible: David Swayne</p> <p>To be implemented by: 30/09/2014</p> <hr/> <p>HESA improvement project</p> <p>Project has two stages Project completion dates: Stage 1 - October 2012 Stage 2 - October 2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
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Person Responsible: Andrew Fisher
To be implemented by: 31/10/2013

To improve admissions processes

Person Responsible: Andrew Fisher
To be implemented by: 30/09/2013

Construct a 'master data view' and report exceptions from systems including:

- * Student Records
- * Staff Records
- * Student Engagement / Progression
- * Admissions (especially during clearing and enrolment)
- * Curriculum
- * Estate (especially spaces used for teaching)
- * Timetable
- * VLE and other learning systems usage
- * Finance Records

Person Responsible: David Swayne
To be implemented by: 31/03/2014

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
14	CO-10-06 Potential loss of NHS contract income Risk Owner: Judith Ellis Last Updated: 27/08/2013	Cause & Effect: Cause: Reduction in expected CPPD funding due to ongoing NHS financial challenges/ structural change. In addition potential problems with NHS deanery recruitment to community programmes. Failure to maintain student numbers on the contract resulting in clawback Effect: Reduction in income Reduced staff numbers Negative impact on reputation	3 2 High	Named Customer Manager roles with NHS Trusts, CCGs and HEE. <hr/> Monitor quality of courses (CPM and NMC) annually in autumn (CPM) and winter (NMC) <hr/> Regular contact with commissioning contract managers and deanery	3 2 High	Submit a strong return to next REF exercise. Person Responsible: Nicola Crichton To be implemented by: 31/12/2013 <hr/> Ensure a quality campus in each HEE/ LETB area. Person Responsible: Warren Turner To be implemented by: 01/09/2013 <hr/> Grow into new markets for medical and private sector CPPD provision Person Responsible: Warren Turner To be implemented by: 31/08/2013 <hr/> Improvement in NSS returns and scores Person Responsible: Judith Ellis To be implemented by: 31/07/2013 <hr/> Develop opportunities for further International 'in-country' activity. Person Responsible: Dr Michelle Spruce To be implemented by: 30/09/2013 <hr/> Increase uptake in band 1-4 activity Support Trusts in seeking external (non NHS) funding Person Responsible: Sheelagh Mealing To be implemented by: 01/09/2013

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
37	CO-10-08 Potential impact of estates strategy delivery on financial position	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Poor project controls - Lack of capacity to manage/deliver projects - Reduction in agreed/assumed capital funding - Reduction in other government funding <p>Effects:</p> <ul style="list-style-type: none"> - Adverse financial impact - Reputational damage - Reduced surplus - Planned improvement to student experience not delivered - Inability to attract new students 	3 3 High	<p>Regular Reports are provided to both P&R and the Board on planned capital expenditure.</p> <hr/> <p>Full Business Case including clarity on cost and funding prepared for each element of Estates Strategy and approved by Board of Governors</p> <hr/> <p>Clear requirement (including authority levels) for all major (>£1m) capital expenditure to have Board approval</p> <hr/> <p>Property Committee is a sub-committee of the Board of Governors and has a remit to review all property related capital decisions.</p> <hr/> <p>Automated process developed for business cases including all capital spend. Guidance developed as part of new process.</p> <hr/> <p>Financial forecasts regularly updated to take account of changing assumptions about future capital funding.</p> <hr/> <p>Clear project governance established for both the renovation of the Terraces and the Student Centre</p> <hr/> <p>Estates & Facilities Dept project controls</p>	3 1 Medium	<p>Completion of the Terraces Project will see the completion also of the current development plan in relation to the Anchor Projects. The potential acquisition of the Hugh Astor Court (Peabody Building) on Keyworth Street opens up the opportunity for the redevelopment of the North West quarter of the campus and the creation of a clear University 'front door'.</p> <p>Plans have been developed for a major redevelopment scheme that will be shared with the Executive in July and following consultation with the Faculties and major stakeholders, the 2013 Estate Development Plan will be shared with Governors for consideration and consultation in the Autumn 2013.</p> <p>Person Responsible: Ian Mehrtens To be implemented by: 30/11/2013</p> <hr/> <p>Deliver the renovation of the Terraces in accordance with agreed budget.</p> <p>Person Responsible: Beverley Jullien To be implemented by: 31/07/2013</p> <hr/> <p>Complete and report on the final negotiations for the Student Centre</p> <p>Person Responsible: Ian Mehrtens To be implemented by: 30/04/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
305	CO-13-01 Data Security (Upgraded from Registry's operational register)	<p>Cause & Effect: Loss of student data security either en masse (e.g. address harvesting) or in specific cases (e.g. loss of sensitive personal files)</p>	<p>3 2 High</p>	<p>Following a meeting on 16/11/12, David Swayne has taken responsibility for improving our control over data protection risks at an institutional level.</p>	<p>3 2 High</p>	<p>Define an Information Security solution for LSBU and implement it. LSBU has no Information Security Manager - the post was removed some time ago. To rectify this situation a Managed Security Service is being procured.</p> <p>Person Responsible: David Swayne</p> <p>To be implemented by: 20/12/2013</p> <hr/> <p>1. Define Mobile Device Policy - this is agreed and published 2. Prepare and deliver a training course on this topic - this is in progress in collaboration between ICT and OSDT 3. Ensure that all mobile devices have adequate protection - laptop encryption tool being selected, mobile device management tool purchased and being deployed</p> <p>Person Responsible: David Swayne</p> <p>To be implemented by: 29/11/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
362	CO-10-09 Poor staff engagement	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> •Bureaucracy involved in decision making at the University •No teamwork amongst departments at the University •Staff feeling that they do not receive relevant information directly linked to them and their jobs •Poor pay and reward packages •Poor diversity and inclusion practises <p>Effects:</p> <ul style="list-style-type: none"> •Decreased customer (student) satisfaction •Overall University performance decreases •Low staff satisfaction results •Increased staff turnover •Quality of service delivered decreases 	3 3 High	<p>Departmental Business Planning process</p> <hr/> <p>Feedback page for staff to leave comments on staff Gateway</p> <hr/> <p>Scheduled Team meetings</p> <hr/> <p>Corporate Roadshows</p> <hr/> <p>Staff engagement survey</p> <hr/> <p>Quarterly review meetings</p>	3 2 High	<p>OSDT to consolidate responses to Bristol Online Survey tool from SMG members and produce Action Plan Summary Report for Executive scrutiny.</p> <p>Person Responsible: Mrs Vongai Nyahunzvi</p> <p>To be implemented by: 28/11/2013</p> <hr/> <p>The Executive and Departmental Managers will be required to develop and implement relevant action plans to address outcomes from the survey. Each manager will have access to an interactive tool that will have them with the action planning process. In addition to this, there will be staff and managers' briefing session to discuss the results. Some of the areas highlighted as least positive in the survey will be addressed in the Organisational Development Strategy.</p> <p>Person Responsible: Mrs Vongai Nyahunzvi</p> <p>To be implemented by: 27/06/2014</p>

	PAPER NO: AC.47(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Progress on External Reporting	
Author:	Dr Andrew Fisher, Academic Registrar	
Executive sponsor:	Prof Phil Cardew, Pro Vice Chancellor (Academic)	
Recommendation by the Executive:	To discuss and note the report	
Aspect of the Corporate Plan to which this will help deliver?		
Matter previously considered by:	Audit Committee	On: Regularly
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive Summary

This paper reports the progress made with planned improvements to external reporting. The report is based on the more recent items in the timeline (Appendix 1) and risk register (Appendix 2) for the project originally prepared for the Board in January 2012. There has been no material change to the project timeline.

We are now in the last stages of making the 2012/13 HESA Student Record Return. This Return will incorporate the data quality improvements we planned to achieve this year, as well as making good the data quality improvements (chiefly module data and NHS funding data) which were planned for 11/12 but not fully achieved in that year. Some of our published Performance Indicators may continue to rely on the inaccurate 2010/11 data (for instance some Indicators report how many of the 10/11 students returned in 11/12 and 12/13). We will need to review this once we have the appropriate outputs from HESA and may have to ask for certain indicators to be suppressed for another year.

Appendix 1: Project Timeline

This appendix reports on progress against the project timeline prepared for the Board in January 2012.

2012		
	Planned Activity	Achieved Activity
August	Clearing – ensure adequate capture of 2012/13 data	Achieved
September	Enrolment – ensure adequate capture of 2012/13 data Return 11/12 data to HESA	Achieved
October	Data quality checking period for 11/12 data	Achieved
November	Validate 12/13 data with Faculties	Partially achieved. Validation of module data could have been stronger
December	Return 12/13 data to HESES	Achieved
2013		
	Planned Activity	Achieved Activity
January		Documentation of revised HESA practices
February		
March	Validate 12/13 data with Faculties (Semester 2)	Achieved
April	Establishment of HESA Working Group	Achieved
May	Resolve Schema errors on 2012/13 data	Delayed due to issues with module data primarily in HSC and BUS. This issue was reported to the HESA Project Board and is now resolved.
June	Resolve Business Rules on 2012/13 data	Delayed due to delays in resolving schema errors. Now back on track
July		
August	Clearing – ensure adequate capture of 2013/14 data	On track
September	Enrolment – ensure adequate capture of 2013/14 data Return 12/13 data to HESA	On track
October	Data quality checking	On track

London South Bank University

	period for 12/13 data	
November	Validate 13/14 data with Faculties	On track
December	Return 13/14 data to HESES	On track

Appendix 2: Risk

This risk register was presented to the Board in January 2012. The 'Outcome' column indicates progress since then.

Risk	Impact	Likelihood	Value	Mitigation	Outcome
We cannot make necessary improvements in our qualifications on entry data (e.g. due to prevalence of mature, Clearing or non-UK educated entrants)	High	Medium	High	Continue current practice of accepting Clearing entrants only if already in UCAS (although this may carry risks of its own) Invest in additional data collection if required.	This risk did not eventuate. We made significant improvements in the file submitted in October 2012
Due to staff illness or turnover we lack the specialist skills needed to return HESA or HESES data	Medium	Medium	Medium	Rotation of duties with Student Records team	This risk did partially eventuate. Staff illness delayed our return to the Fixed Database, but we have since put much more robust staffing resources in place and this is no longer an issue.
Our key funding data are not robust enough to withstand audit	Medium	Medium	Medium	Prior review by internal audit	The internal audit was completed successfully
New HEFCE requirements arise resulting from	Medium	Medium	Medium	Review resources committed to external	There was no legislation, and none is now expected

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legislation in 2012/13				reporting	
Our module data are not robust enough to be returned to HESA	Low/Medium	Medium	Medium	Continue return of placeholder modules for another year	This risk did eventuate. We mitigated in the planned way by returning placeholder modules again in 11/12. Full module data will be returned in 12/13
Our published data do not reflect the best possible performance in League Tables	Low	Medium	Low	It is as likely that our League Table performance is overstated due to data errors.	There was no material impact on league tables

	PAPER NO: AC.48(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Audit Committee self assessment	
Author:	James Stevenson, University Secretary	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee note the proposed actions following their self assessment	
Aspect of the Corporate Plan to which this will help deliver?		
Matter previously considered by:	Audit Committee	On: Effectiveness is reviewed annually by the committee
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	A summary will be presented to the Board as part of the committee’s annual report to the Board and accountable officer	

Executive Summary

Why is the paper coming to the Committee?

The Audit Committee reviews its effectiveness annually using the National Audit Office checklist. The questionnaire was sent to all committee members and the Vice Chancellor, Executive Director of Finance and Pro Vice Chancellor (Academic) during summer 2013. This paper presents the results of the questionnaire and suggested actions.

What particular issues does the Committee need to give its attention?

The committee is requested to note that the following actions will be implemented following the assessment:

- Appointment letters will be issued to new members of the Audit Committee

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- A skills matrix has been developed
- An induction plan has been developed for new members
- Quarterly updates of sector developments will be sent to committee members
- The outcomes of this effectiveness review will be reported in the Audit Committee Annual Report to the Board and Accountable Officer
- Audit Committee annual business plan will be a standing item on the agenda

The committee is requested to discuss and note the report.

Audit Committee Effectiveness Review

The Audit Committee reviewed its own effectiveness during spring/summer 2013. The National Audit Office Audit Committee self-assessment checklist was sent to all committee members and the Vice Chancellor, Executive Director of Finance and Pro Vice Chancellor (Academic).

The following queries with responses and actions arose from the 2013 audit committee effectiveness review:

Membership, Independence, Objectivity and Understanding

1. Query: Do all Audit Committee members have a clear understanding of what is expected of them in their role, set out in a letter of appointment (question 18)

Action: Develop an appointment letter for new audit committee members

A draft based on the template letter of appointment in the CUC handbook is attached in appendix 1. It includes criteria for the appraisal of committee members by the Chairman of the Committee – see point 2 below

It also includes terms of office for committee members. It is proposed that these are in line with the member's term of office on the Board and that a review of membership should be carried out when their governor term is renewed.

2. Query: How are individual members appraised (question 18)

Action: Criteria against which to appraise members will be included in the letter of appointment. The Chairman of the committee will review each member's effectiveness yearly against these criteria and will raise any issues with that member.

Skills

3. Query: Are there formal selection criteria for members (question 20)

Action: Develop a skills matrix for the Audit Committee

A skills matrix of independent governors is used by the Nomination Committee when selecting candidates for the Board. It is recommended that the appropriate sections of this are used for selecting candidates for the audit committee. Recommended skills and attributes, included in the CUC handbook, will also be used. Please see appendix 2.

4. Query: Is the induction programme for new members adequate (question 23)?

Action: Develop induction plan for new members.

A draft based on the recommendations from the CUC handbook is attached in appendix 3. It includes meetings with the chair of the committee, the Vice Chancellor, the Secretary, Executive Director of Finance and Financial Controller and the internal and external auditors. A pack of suitable papers is recommended.

5. Query: How can the committee keep abreast of best practice and developments in the sector (question 27)?

Action: The University Secretary will send out quarterly updates ahead of committee meetings of any relevant developments in the sector. The Internal and External Auditors will be requested to keep the committee up-to-date via any briefings / newsletters

6. Query: How can the committee address lack of sector knowledge on committee (question 21d)

Action: The Nomination Committee are currently seeking an ex-VC to join the Board and they would be asked to join the Audit Committee.

Scope of Work

7. Query: Does the Audit Committee review the draft accounts (question 52)

Response: This has been reviewed before and considered impractical

8. Query: Could more be done to update committee during audit process (question 38)

Action: if any significant issues arise the Executive Director of Finance would of course alert committee members immediately rather than waiting until next meeting. Recent audits have run smoothly with few issues arising

9. Query: Should review of Whistleblowing policy be more formal (question 45)?

Response: The "Speak up" policy is formally reviewed annually by the committee. This review is in the committee's annual plan.

10. Query: Should we seek to improve early warning and reporting of fraud (question 47)?

Action: The Committee reviews the anti fraud policy and the fraud reporting protocol on an annual basis. There are clear lines of escalation.

Communication

11. Query: Does the Audit Committee Annual report include reference to the quality of internal and external audit and the committee's view of its own effectiveness (question 59)

Action: The Audit Committee annual report currently includes reference to the effectiveness of the internal and external auditors against the agreed KPIs. We will include a paragraph on this audit committee effectiveness review and its outcomes in the audit committee annual report.

Role of the Chair

12. Query: Should there be a 3 Year business plan as a standing item on the agenda (question 63)

Response: The committee has an annual business plan which is reviewed at the first meeting of each academic year. It will be included as a standing item on each agenda in future.

Appendix 1 – Draft Letter of Appointment

James Stevenson
University Secretary and Clerk to the Board of Governors
103 Borough Road
London SE1 0AA
Tel: +44 (0) 20 7815 6012
Fax: +44 (0) 20 7815 6030
Email: stevenj7@lsbu.ac.uk

PERSONAL

[Name]

[Address]

[Date]

Dear [name],

Appointment as a member of the Audit Committee of London South Bank University

You have been appointed to the Audit Committee by the Board of Governors of London South Bank University. As a member of the Audit Committee you are accountable to the governing body through the chair of the committee. Your appointment is for **three years** from [date]. This appointment may be renewed, upon recommendation by the Chair of the Audit Committee.

I should be grateful if you would sign and return a copy of this letter to indicate your acceptance of the appointment.

Audit Committee

The Audit Committee is a committee of the Board of Governors. The purpose of the Audit Committee is to assist the Board to discharge its responsibility for adequate and effective risk management, control and governance and for the economy, efficiency and effectiveness of the institution's activities. In particular this includes:

- reviewing the audit aspects of the institution's financial statements;

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- monitoring and reviewing the effectiveness of the risk management, control and governance arrangements;
- reviewing the arrangements in place to promote economy, efficiency and effectiveness;
- providing oversight of the appointment of the internal auditor and the nature, scope and effectiveness of the internal audit process;
- providing oversight of the appointment of the external auditor and the nature, scope and effectiveness of the external audit process.

A copy of the Audit Committee's terms of reference and current work plan is enclosed along with committee minutes for the past 12 months.

The current members of the Audit Committee are:

- Andrew Owen (Chair)
- Steve Balmont
- Douglas Denham St Pinnock
- Mee Ling Ng
- Shachi Patel (external co-opted member)

To help you to understand the the role of Audit Committees in the higher education sector, a copy of the Committee of University Chairs publication *Handbook for Members of Audit Committees in Higher Education Institutions* is enclosed with this letter of appointment.

Time Commitment

Your duties as an Audit Committee member are expected to typically take between 30 and 50 hours per year. This includes the time necessary to familiarise yourself with the organisation, undergo appropriate professional development, read the Audit Committee papers and prepare for meetings. The Audit Committee usually meets four times each year, but additional meetings may be required from time to time.

Other directorships and business interests

As an Audit Committee member, you will be expected to declare proactively any potential conflict of interest arising out of business relating to the committee's agenda.

Appraisal [for discussion with the Chairman]

As a member of the Audit Committee, each year you will be party to an appraisal process by the chair of the committee. If your performance or conduct as an Audit

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Committee member is deemed unsatisfactory, your appointment may be terminated by the Board of Governors.

Support

The Audit Committee is supported by the University Secretary and Clerk to the Board of Governors and his team. Each member is entitled to seek the advice and services of the Secretary in relation to committee matters

Independent advice

During your appointment, circumstances may arise when it will be appropriate for you to seek advice from independent advisers at the University's expense. You should first consult the University Secretary, in confidence, who will facilitate this.

Meetings dates

Your first meeting will be on [date]. Papers for meetings will usually be sent to you a week before the meeting. Committee papers are available on the Board share point site.

We will be in contact to arrange your induction shortly. Please let us know if you have any questions or need any additional information. Our contact details are as follows:

Name	Position	Telephone	Email
James Stevenson	University Secretary	020 7815 6011	stevenj7@lsbu.ac.uk
Michael Broadway	Governance Officer	020 7815 6032	broadwam@lsbu.ac.uk
Anne Harris	PA to James Stevenson	020 7815 6012	harrisas@lsbu.ac.uk

Yours sincerely,

James Stevenson

University Secretary and Clerk to the Board of Governors

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University

Encs.

1. Audit Committee terms of reference
2. Audit Committee annual work plan
3. Audit Committee minutes, 2011-12
4. CUC *Handbook for Members of Audit Committees in Higher Education Institutions* (February 2008)

I accept appointment as a member of the Audit Committee of London South Bank University on the terms set out in this letter.

Signed:.....

Date:.....

Audit Committee - Skills Matrix

Confidential

Skill Area	Description	AO	SB	DDSP	MLN	SP	Total	Desired total	On target?
		Term ends 2017	2017	2015	2017	2015			
	Term	2	2	1	1	1			

Essential Skills

Financial Performance	The ability to analyse key financial statements							All	●
	The ability to oversee funding arrangements and accountability							All	●
Risk and Compliance oversight	Ability to identify key risks to the organisation in a wide range of areas including legal and regulatory compliance and monitor risk and compliance management frameworks and systems							All	●
Executive management	Exeprience at an executive level including the ability to evaluate the performance of the CEO and the senior executive managers							4	●
Corporate Governance	Knowledge and experience in best practice corporate governance structures, policies and processes (particularly in the not-for-profit context).							2	●
Commercial Experience	A broad range of commercial/business experience							3	●
Education	Knowledge, experience and networks in higher education							1	●

Personal Attributes

	Sound business judgement							All	
	Integrity and probity							All	
	Ability to question intelligently and debate constructively							All	
	Ability to challenge rigorously and decide dispassionately							All	
	Trusted and respected by other committee members							All	
Qualifications	Qualifications and experience in accounting or finance							2	●

Appendix 3 – Induction plan and pack

Induction for new Audit Committee members

- Meeting with Chair of Committee to discuss:
 - role of committee;
 - current issues the committee are dealing with;
 - answer any questions etc

- Meeting with Vice Chancellor to discuss:
 - current issues for the university
 - answer any questions etc

- Meeting with Sec to discuss:
 - role of committee in governance structure and reporting to Board
 - relationships with board, management, internal and external audit

- Meeting with Executive Director of Finance and Financial Controller to discuss:
 - Internal audit process and reporting
 - Continuous auditing process and reporting
 - External audit process and reporting
 - Risk management process and reporting
 - Internal control processes including anti-fraud, corruption and bribery

- Meet external and internal auditors

- Induction pack to include:
 - Financial memorandum with HEFCE
 - *CUC Handbook for Members of Audit Committees in HEIs*
 - Committee terms of reference, minutes and annual work plan
 - Anti-fraud policy and whistleblowing policy
 - Risk register
 - Internal audit terms of reference, continuous auditing terms of reference, internal audit annual report for previous year, internal audit plan for current year
 - External audit work plan, most recent year report to committee and KIM for previous year
 - Most recent financial statements
 - Most recent audit committee annual report to governing body
 - Latest audit report on effectiveness of governance, risk and control
 - Reports on VfM

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- Send *Getting to Grips with Finance* and *Getting to Grips with Risk* and other relevant information
- Identify appropriate training course

	PAPER NO: AC.49(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Committee terms of reference	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee recommends its amended terms of reference to the Board for approval.	
Aspect of the Corporate Plan to which this will help deliver?		
Matter previously considered by:	N/A	N/A
Further approval required?	Board of Governors	On: 3 October 2012
Communications – who should be made aware of the decision?	Published on university's website	

Executive summary

Each year the terms of reference of committees are reviewed.

Following the review of the financial regulations in June 2013 the Audit Committee agreed to authorize debt write off over a certain level. Terms of reference of the committee have been updated to include this new authority for the committee:

7.1.19 to authorise single debt write offs above £10,000 and annual debt write offs above £50,000. To receive a report on any debt written off below this threshold and approved by the Executive Director of Finance.

The annual report of the Audit Committee to the Board and the accountable officer includes the committee's opinion on:

- risk management, control and governance;
- economy, efficiency and effectiveness (VfM); and

- the management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies.

This is in line with HEFCE guidance. The last bullet point is not currently referred to in the committee's terms of reference and has been included in this draft.

The proposed amendments are highlighted in red. No other amendments are suggested as the committee's current terms of reference follow closely the model terms of reference suggested in the *Handbook for members of Audit Committees of Higher Education Institutions*.

The committee is requested to recommend its revised terms of reference to the Board.

Audit committee

Terms of reference

1. Constitution

- 1.1 The Board of Governors has established a committee of the Board known as the Audit Committee.

2. Membership

- 2.1 The Audit Committee and its chair shall be appointed by the Board, from among its own members, and must consist of members with no executive responsibility for the management of the institution.
- 2.2 There shall be no fewer than three members; a quorum shall be at least two members.
- 2.3 The chair of the Board should not be a member of the committee.
- 2.4 Members should not have significant interests in LSBU.
- 2.5 At least one member should have recent relevant experience in finance, accounting or auditing.
- 2.6 The committee may, if it considers it necessary or desirable, co-opt members with particular expertise.
- 2.7 Members of the committee should not also be members of the finance committee (or equivalent).

3. Attendance at meetings

- 3.1 The chief executive, head of finance (or equivalent), the head of internal audit and a representative of the external auditors shall normally attend meetings where business relevant to them is to be discussed.
- 3.2 At least once a year the committee should meet with the external and internal auditors without any officers present.

4. Frequency of meetings

- 4.1 Meetings shall normally be held four times each financial year. The external auditors or head of internal audit may request a meeting if they consider it necessary.

5. Authority

- 5.1 The committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the committee.
- 5.2 The committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of non-members with relevant experience and expertise if it considers this necessary, normally in consultation with the head of institution and/or chair of the Board. However, it may not incur direct expenditure in this respect in excess of £20,000 without the prior approval of the Board.
- 5.3 The Audit Committee will review the audit aspects of the draft annual financial statements. These aspects will include the external audit opinion, the statement of members' responsibilities, the statement of internal control and any relevant issue raised in the external auditors' management letter. The committee should, where appropriate, confirm with the internal and external auditors that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the Board.

6. Secretary

- 6.1 The secretary to the Audit Committee will be the Clerk to the Board or other appropriate person nominated by the Clerk.

7. Duties

- 7.1 The duties of the committee shall be to:
- 7.1.1 advise the Board on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors, and any questions of resignation or dismissal of the external auditors;
- 7.1.2 discuss with the external auditors, before the audit begins, the nature and scope of the audit;

- 7.1.3 as necessary, to hold regular discussions with the external auditors (in the absence of management where necessary);
- 7.1.4 consider and advise the Board on the appointment and terms of engagement of the internal audit service (and the head of internal audit if applicable), the audit fee, the provision of any non-audit services by the internal auditors, and any questions of resignation or dismissal of the internal auditors;
- 7.1.5 review the internal auditors' audit risk assessment, strategy and programme; consider major findings of internal audit investigations and management's response; and promote co-ordination between the internal and external auditors. The committee will monitor that the resources made available for internal audit by the executive are sufficient to meet LSBU's needs (or make a recommendation to the Board as appropriate);
- 7.1.6 keep under review the effectiveness of the risk management, control and governance arrangements, and in particular review the external auditors' management letter, the internal auditors' annual report, and management responses;
- 7.1.7 monitor the implementation of agreed audit-based recommendations, from whatever source;
- 7.1.8 monitor the proper investigation by the executive of all significant losses and that the internal and external auditors, and where appropriate the funding council's accounting officer, have been informed;
- 7.1.9 oversee the policy on anti-fraud and irregularity, including being notified of any action taken under that policy;
- 7.1.10 satisfy itself that suitable arrangements are in place to promote economy, efficiency and effectiveness;
- 7.1.11 receive any relevant reports from the National Audit Office (NAO), the funding councils and other organisations;
- 7.1.12 monitor annually the performance and effectiveness of the external and internal auditors, including any matters affecting their objectivity, and make recommendations to the Board concerning their reappointment, where appropriate;

7.1.13 consider elements of the annual financial statements in the presence of the external auditors, including the auditors' formal opinion, the statement of members' responsibilities and the statement of internal control, in accordance with the funding councils' accounts directions;

7.1.14 in the event of the merger or dissolution of the institution, ensure that the necessary actions are completed, including arranging for a final set of financial statements to be completed and signed;

7.1.15 advise the Board of Governors on the effectiveness of the internal control system and recommend changes as necessary;

7.1.16 review regularly the financial regulations for the supervision and control of financial procedures, accounts, income and expenditure of LSBU and to advise the Board of Governors as necessary;

7.1.17 monitor compliance with relevant regulatory and legal requirements (e.g. HEFCE financial memorandum) and report to the Board of Governors as necessary;

7.1.18 receive reports made under the "speak up" policy and to monitor annually the performance and effectiveness of the "speak up" policy and procedures;

7.1.19 to authorise single debt write offs above £10,000 and annual debt write offs above £50,000. To receive a report on any debt written off below this threshold and approved by the Executive Director of Finance.

8. Reporting procedures

8.1 The minutes (or a report) of meetings of the Audit Committee will be circulated to all members of the Board.

8.2 The committee will prepare an annual report covering the institution's financial year and any significant issues up to the date of preparing the report. The report will be addressed to the Board and Vice Chancellor/Chief Executive, and will summarise the activity for the year. It will give the committee's opinion of the adequacy and effectiveness of the institution's arrangements for the following:

- risk management, control and governance (the risk management element includes the accuracy of the statement of internal control included with the annual statement of accounts); and
- economy, efficiency and effectiveness (value for money).

- management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies

This opinion should be based on the information presented to the committee. The Audit Committee annual report should normally be submitted to the Board before the members' responsibility statement in the annual financial statements is signed.

Membership 2013/14

Chairman

Andrew Owen (Chairman)

Independent governor members:

Steve Balmont

Douglas Denham St Pinnock

Mee Ling Ng

1 vacancy

External co-opted member:

Shachi Patel

In attendance:

External auditors Grant Thornton

Internal auditors PricewaterhouseCoopers

Executive:

Vice Chancellor

Pro Vice Chancellor (Academic)

Executive Director of Finance

University Secretary

*Approved by the Audit Committee on **

*Approved by the Board of Governors on **

	PAPER NO: AC.50(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Anti fraud, bribery and corruption report	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that Audit committee note the position as reported below.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

This paper is presented to each meeting of Audit Committee to alert members to any instances of fraud, bribery or corruption arising in the period since committee last met.

One matter has been reported since the last meeting involving a long standing member of staff, who is stores technician in ESBE and hence has responsibility for purchasing a wide range of supplies on his corporate procurement card. He has admitted using the card for personal rather than business use. His role means that he has a higher monthly credit limit (£15k) than other staff.

The member of staff has been suspended and appropriate action taken to mitigate any further loss:

- the purchase card has been suspended
- the purchase card and all the related documents have been secured
- the staff member's LSBU email access has been suspended
- Security have suspended access to the University premises for this staff member until further instruction. The manual lock on the stores entrance has being changed.
- an internal investigation is underway.

The current status at 11 September is as follows:

- The staff member remains suspended whilst the investigation is ongoing
- He has admitted in writing misuse of his procurement card in relation to 9 items (copies of receipts provided for 8 of these) totalling £238
- Finance staff have performed a review of all expenditure on the procurement card going back to 1/8/12. The total value of suspicious items based on descriptions provided is £5,425 (covering food and drink, petrol and groceries). This is the maximum value and it may well be that some proportion of the £5,425 is genuine business expenditure although this is very difficult to prove. Because of the value involved, and because the staff member has already admitted misuse, the fraud will not be treated as significant and no further investigation will be conducted in order to try and uncover other items
- Because the effective use of procurement cards is largely based on trust, and because we have a zero tolerance policy toward fraud, the matter has been reported to the police. A full fraud report form has been issued via "action fraud" and in addition we have met with the police to discuss the case. On seeing a photograph of the staff member the police confirmed that he is known to them, although it is not clear in what capacity. We have followed up with the police but have not yet heard back how they intend to proceed
- Internal HR disciplinary procedures are ongoing and the ESBE led investigation is expected to complete in the next few days
- A report has been run to identify any other procurement cards which are significantly behind in terms of approvals. Excluding transactions for the card in

question, the total value of unapproved transactions University wide totals £10,800 – a large proportion of which relates to current month. This does not indicate that there is a wider problem

- Finance and Procurement staff have had a ‘lesson’s learned’ meeting and a number of changes to the purchasing card procedures will be made to ensure that card holders and approvers understand their responsibilities, approval is monitored and action taken if transactions are not approved in a timely manner.

	PAPER NO: AC.51 (13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Speak up report	
Author:	James Stevenson, University Secretary & Clerk to the Board	
Sponsor:	Andrew Owen, Chair of the Audit Committee	
Recommendation:	The Audit Committee is requested to note the report	
Aspect of the Corporate Plan to which this will help deliver?	N/A – but speak up is one aspect of developing a climate of personal responsibility and ethical conduct by staff / stakeholders	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	The Speak up Policy is published to staff and students	

Speak up report

1. Under the speak up procedure, since the last meeting of the Audit Committee on 13 June 2013, there has been one new speak up matter raised with the University Secretary in relation to a complaint by an employee regarding bullying in the Business Faculty. The Chair of the committee was informed but it was decided that the matter should be dealt with under the staff grievance and probation procedures and not the Speak Up Policy. The employee left LSBU on 31 August 2013. Their appeal against a grievance decision is pending.
2. No other matters have been raised with the University Secretary, Director of HR or Deputy Director of HR.

3. The committee is requested to note the speak up report.

	PAPER NO: AC.52(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Higher Education proposed regulatory reform	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Executive sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Recommendation by the Executive:	That the committee note the update from HEFCE	
Aspect of the Corporate Plan to which this will help deliver?	N/A	
Matter previously considered by:	N/A	N/A
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive Summary

The committee is requested to note the update provided by HEFCE on proposed regulatory reforms to the sector (Appendix 1). These include:

- developing a register of higher education provision in England – this should be ready by August 2014. This will be done by HEFCE and is intended to provide information to students including corporate form, arrangements for quality assurance and student complaints and any concerns HEFCE has about the institution.
- consulting on proposed revisions to HEFCE's Financial Memorandum – consultation commenced on 16th September 2013 – please see appendix 2 for further details.

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- operating of a new system of specific-course designation for alternative providers
- implementing further changes to student number controls, including extending them to alternative providers from 2014-15.

Further details of the proposed regulatory reforms are set out in the Written Ministerial Statement included as appendix 3.

The committee is requested to note the paper.

Appendix 1 – HEFCE News Item

Next steps in higher education regulatory reform

11 July 2013

The Government has announced its intention to make further changes to the regulation of higher education in England. These changes follow the 2011 Higher Education White Paper ‘Students at the heart of the system’, which sets out the Government’s plans for placing higher education on a financially sustainable footing, delivering a better quality student experience, and promoting social mobility.

The success of higher education in England is underpinned by the principles of institutional autonomy and academic freedom, and the new arrangements build on these strong foundations. The Government has asked HEFCE and the Regulatory Partnership Group (RPG) to implement them within existing legislation, while recognising that a new legislative framework will be required in the longer term.

Working in partnership with the RPG, HEFCE is asked to take on a regulatory oversight and coordination role. HEFCE is leading work on a number of strands of the new arrangements:

- developing a register of higher education provision in England
- consulting on proposed revisions to HEFCE’s Financial Memorandum
- operating of a new system of specific-course designation for alternative providers
- implementing further changes to student number controls, including extending them to alternative providers from 2014-15.

The Government has announced that it intends to delegate to HEFCE responsibility for the process of approving designation of HEFCE-funded universities and colleges, and for providing assurance that the agreed terms and conditions are met. Eligible courses at these institutions are and will continue to be designated automatically, allowing students to access student support. Institutions will not be required to undergo a separate designation process. This means that in practice there will be little change for existing institutions, and no additional administrative burden.

The RPG, which is chaired by HEFCE and the Student Loans Company (SLC), is publishing a summary of the current and proposed regulatory and funding arrangements, ‘Operating framework for higher education in England’.

Tim Melville-Ross (Chair of HEFCE), who co-chairs the RPG with Ed Smith (Chair of SLC), said:

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‘The new arrangements are designed to safeguard the interests of students, ensure proper accountability for the use of public funds, and protect and enhance the reputation of higher education in England. HEFCE, SLC and the RPG will work with Government, universities, colleges and other higher education providers to implement them in an even-handed and proportionate way, keeping the administrative burden on institutions to a minimum and respecting institutional autonomy.’

Appendix 2 – HEFCE News Item

Review of HEFCE financial memorandum with institutions

16 September 2013

The terms and conditions for payment of HEFCE grants to universities and colleges are to be revised. HEFCE is consulting on proposed changes.

The financial memorandum between HEFCE and the institutions it funds sets out the accountability requirements on universities and colleges in order to receive HEFCE grant funding. The changes proposed in the consultation take account of the Government's recent reforms to the funding and regulation of higher education as well as changes in how banks lend money to universities and colleges.

The most significant issue for consultation concerns what changes are necessary to manage the risks around financial commitments taken on by higher education institutions. The current way that HEFCE consents to borrowing by HEIs, which is based upon annualised servicing costs, is no longer suitable because banks are now generally lending on shorter timescales. We have not proposed new arrangements, because we want to hear how universities, colleges and lenders wish us to address this issue.

The higher education sector has a long and successful history of self-regulation, and HEFCE aims to keep its own regulation limited where possible. Where we have confidence in an institution's accountability arrangements and processes, we will rely on the assurances that institutions already provide for themselves. From time to time we will validate these assurances. This respects institutional autonomy and limits the cost of regulation.

Other proposed changes include updates and reduction in the level of detail, including having fewer annexes. These include:

- **Research integrity** – in line with the outcome of our consultation on the concordat on research integrity, we are reflecting the sector's agreement that this is a condition of research grant funding.
- **Register of higher education providers** – The register will provide information for prospective and current students about providers of higher education, including their corporate form and arrangements for quality assurance and student complaints. Where there are concerns that we believe should be brought to the attention of prospective or current students, we intend to flag these in the register. We will work with sector bodies to set out the criteria for assessing when such concerns would lead to a flag in the register.

- **Subscriptions to Jisc** – Jisc recently became a separate legal entity and is in transition whereby its funding is moving from less grant funding to more subscription income. We are proposing to support this transition by requiring higher education institutions to subscribe to Jisc for three years from August 2014.
- **Audit Code of Practice and annexes to the financial memorandum** – we are proposing to reduce significantly both the Audit Code of Practice (Annex A to the draft financial memorandum) and the total number of annexes, because some of these are no longer necessary or can be covered through other routes.

Sir Alan Langlands, Chief Executive of HEFCE, said:

'HEFCE has a clear regulatory duty to ensure that universities and colleges in receipt of public funds provide value for money and are responsible in their use of these funds. We also ensure that the funding we distribute accurately reflects what is delivered. We aim to reduce the accountability burden on institutions by enabling other public bodies, wherever possible, to rely on our systems of oversight and assurance. We in turn seek to take assurance from institutions' own systems of self-regulation and control.

'The principle of institutional autonomy and the system of regulation on which it depends therefore relies on clear lines of accountability for the proper stewardship of public funds and on being able to demonstrate to Parliament and the public that, in the exceptional circumstance when something goes wrong, there is a clear mechanism to put it right. The financial memorandum provides this clarity and assurance by defining the formal relationship between HEFCE, governing bodies and heads of institutions.

'In addition HEFCE has responsibilities to protect the collective student interest – a role given more prominence in the recent government reforms – and to secure the wider public interest, particularly in relation to the funding of higher education.'

Responses to the consultation are invited by 6 December 2013.

London South Bank
University

Appendix 3 – Written Ministerial Statement

WRITTEN MINISTERIAL STATEMENT: HIGHER EDUCATION REGULATORY REFORMS

Today I am announcing reforms to how higher education in England is regulated.

The White Paper *Students at the Heart of the System*, published in 2011, set out a plan to transform higher education, to ensure it was placed on a sustainable footing, to deliver a better student experience, to promote social mobility and widen participation, and to create a more responsive higher education sector in which funding follows the decisions of learners and where successful institutions will thrive. The funding reforms, that rebalanced funding from grants to tuition fees, came into effect in the 2012/13 academic year. The regulation of higher education needs to be adjusted to reflect these reforms.

The reformed regulatory system for higher education I am announcing today has been developed by the Higher Education Funding Council for England and the Student Loan Company through the Regulatory Partnership Group, working with the Government. The reformed regulatory system ensures accountability for public funding, protects the collective student interest, gives priority to quality improvement, safeguards institutional autonomy, and sustains the reputation of English higher education.

The higher education sector has a long tradition of successful independent regulation and also regulation shared between Government and the sector. The funding council's statutory independence is a key feature of this system. The funding council's independence has helped to sustain academic freedom and institutional autonomy, features that are critical to the continued success and international standing of English higher education. In adjusting the regulatory framework this successful independent regulation has been protected as a vital national asset.

The funding council and the loan company do not work alone and have developed effective relationships with other bodies including the Quality Assurance Agency, the Office for Fair Access, the Office of the Independent Adjudicator, the Higher Education Statistics Agency, and the Universities and Colleges Admissions Service.

As part of the reforms, the working of the regulatory system will be set out in an operating framework which the funding council will be publishing shortly. The framework will be instantly recognisable to many in the sector as much remains largely unchanged. It affirms the value of institutional autonomy and sets out transparently the accountability and regulatory requirements that protect the student interest and public investment. HEFCE will consult the sector on a new financial memorandum that will support the operating framework incorporating necessary changes that the reforms and new priorities demand. The framework incorporates changes which have been a result of separate consultations by Government, the funding council, and the Quality Assurance Agency.

Flowing from the White Paper 'Students at the Heart of the System' and the funding reforms, there are a number of new or reformed elements. These reforms are:

- Placing the funding council in an oversight and coordination role;
- Establishing a Register of Higher Education Provision;
- Introducing a Statement of Higher Education Institutions (HEI) Designation Conditions;
- Updating the Financial Memorandum;
- Reforming Student Number Controls;

- A new Designation System for Alternative Providers;
- A Student Number Control system for Alternative Providers; and,
- A Designation Resolution Process.

The first reform is placing the funding council in an Oversight and Coordination role. This is a complex, but highly necessary function that will ensure proportionate regulation across all higher education providers and co-ordinate the regulatory activity of a number of bodies that are variously constituted as Government agencies and independent bodies. It will involve the funding council:

- Acting as registrar;
- Working with higher education providers, agencies, representative bodies and the NUS, to monitor systematically observance of the conditions associated with operating in the system, with a focus on protecting the collective student interest;
- Taking a lead in working with partners to identify and address issues within higher education providers and take appropriate remedial action; and,
- Monitoring the ongoing appropriateness of the regulatory system, changes in the broader context, and new risks as they emerge.

Next, I have asked the funding council to establish a Register of Higher Education Provision. Good, high quality, timely, and reliable information is key to enabling students to make the right decisions on their education. It is also important that those institutions that fulfil requirements that provide confidence to students and the public are appropriately recognised. The Register of Higher Education Provision will therefore act as a consumer safeguard. The Register will give information on:

- The constitutional / organisational status of each higher education provider;
- How the higher education provider is funded; and,
- What the provider is committed to do – this might include, but not be limited to, provision of information, quality requirements, financial management, governance, complaints handling, and fair access.

The third reform is introducing a Statement of HEI Designation Conditions. Regulatory requirements on higher education institutions are currently primarily applied through the funding council's Financial Memorandum which applies conditions to grant funding and establishes clear accountability for such funding. This arrangement will continue. From academic year 2014/15 onwards it is my intention that similar conditions will also apply to HEI automatic course designation for student support. This ensures that the rebalancing of funding from grants to tuition fees does not diminish the effectiveness of the current regulatory regime and the confidence this provides to students and the public. It also means the regulatory burden is minimised as no further requirements are placed on institutions than currently exist.

To make this change I will be updating the Education (Student Support) Regulations. BIS will discuss the details of the amendment and its implementation in practice with representatives of the higher education sector. Importantly, once the regulations have been made, BIS intends to delegate to the funding council the function of designation of courses at higher education institutions for student support purposes. This continues the existing protections that institutions enjoy through the funding council being at arms length from Government.

Over the next academic year the funding council will be consulting on an updated version of the Financial Memorandum, informed by extensive discussions the council has already held with higher education representatives and other interested bodies. I understand that the proposed changes are limited, with the most significant issue for consultation being new arrangements to manage the risks around financial commitments. These arrangements are important for sustaining confidence in universities in the capital markets.

The funding council is already consulting on reforming the student number control system for HEI. While continuing to exercise prudent control of the overall higher education budget, student choice is being increased through our tariff policy and the consultation on a flexibility margin for 2014/15. The tariff threshold has been reduced to ABB or equivalent from 2013/14 which frees around one third of places from number controls. These policies will allow more students to study at their first choice institution.

Alternative providers are an important part of increasing choice for students. The sixth reform is to the designation system for alternative providers. Specific course designation at alternative providers allows eligible English-domiciled students on designated courses to access loans and grants from the Student Loan Company (with the maximum fee loan being £6,000 per annum). This widens student choice and strengthens the forces that drive innovation.

At the same time the Government is committed to ensuring that there are robust processes in place to protect the interest of students, the reputation of UK higher education, and the public investment. Following a Government consultation existing and new alternative providers will now have to meet stronger requirements on quality assurance, financial sustainability, and good governance. We will also expect that the collective student interest is served through this process.

To accompany the strengthening of specific course designation for alternative providers we are also planning to introduce a system of Student Number Controls for alternative providers. This will be introduced from academic year 2014/15.

Finally in the highly unlikely event that a higher education institution or alternative provider does not meet the conditions of course designation in respect of student support funding there is a risk that the course will no longer remain designated. To protect the students at an institution where this occurs I have asked the funding council working with Government and the wider sector to look at options for developing a Designation Resolution Process. This should place the interests of students at the centre of the process.

Taken as a whole these eight higher education regulatory reforms constitute a package of measures, alongside the previous rebalancing of funding, to ensure higher education is placed on a sustainable footing, that a student have a better experience, to promote social mobility and widen participation, and to create a more responsive higher education sector in which funding follows the decisions of learners and where successful institutions will thrive.

I am today placing copies of my letter to the funding council in the libraries of both houses. I am also placing copies of the operating framework in the libraries of both houses.

	PAPER NO: AC.53(13)	
Board/Committee:	Audit Committee	
Date:	26 September 2013	
Paper title:	Annual Committee Annual Plan	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee note its annual plan	
Aspect of the Corporate Plan to which this will help deliver?		
Matter previously considered by:	Audit Committee	On: Annually
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive Summary

The committee is requested to note its annual plan. This is based on the template as set out in the *Handbook for Members of Audit Committees in Higher Education Institutions*.

Annual debt write off has been added to the plan for the November meeting each year.

LSBU audit committee – calendar of recurring/standing items

This annual committee plan is intended to cover items regularly discussed by the committee. Other non-regular items will be considered by the committee when necessary.

	Sept	Nov	Feb	June
Committee governance				
Review Committee terms of reference (Board to approve)	X			
Self-assessment of Audit Committee performance	X			
Declarations of Interest	X	X	X	X
Financial Information				
Review and recommend approval of annual financial statements		X		
Review student union annual financial statements		X		
Note HEFCE's accounts directions in relation to the financial statements		X		
Annual value for money report		X		
Discuss appropriateness of accounting policies, estimates and judgements		X		
Regulation				
TRAC return to HEFCE to be ratified			X	
TRAC(T) return to HEFCE to be ratified				X
Review Financial Regulations				X
External Auditors				
Review performance of external auditors		X		
Consider policy in relation to non-audit services		X		
Approve / review audit plan (inc. fees, terms of engagement, objectivity/independence, scope of audit work)				X
Review external audit findings (key issues memorandum, inc. review of annual financial statements, views on control environment, related party transactions)		X		

London South Bank University

Discuss with auditor in absence of executive (Nov and as required)		X		
Internal Auditors				
Review performance against KPI's	X	X	X	X
Review annual internal audit report		X		
Review internal audit plan				X
Review continuous audit reports	X	X	X	X
Review progress on actions arising from internal audit reports (4Action)	X	X	X	X
Discuss with auditor in absence of executive	X	X	X	X
Risk				
Consider corporate risks and internal controls	X	X	X	X
Review progress on actions arising from corporate risk register (4Risk)	X	X	X	X
Review of Internal Controls	X (draft)	X (update)		
HEFCE Risk assessment				X
Other responsibilities				
Annual report to board and VC (submitted to HEFCE with annual return)		X		
Review "speak up" policy			X	
"Speak up" report	X	X	X	X
Review anti-fraud policy				X
Anti-fraud, bribery and corruption report	X	X	X	X
Review financial personnel succession planning			X	
Review halls of residence debtors			X	
Annual debt write off		X		