

Meeting of the Group Audit and Risk Committee

4.00 - 6.00 pm on Thursday, 7 November 2019
in 1B16 - Technopark, SE1 6LN

Agenda

| <i>No.</i> | <i>Item</i> | <i>Pages</i> | <i>Presenter</i> |
|------------|--|--------------|------------------|
| 15. | Internal audit report - CMA compliance | 3 - 36 | NL |
| 18. | Final internal audit annual report | 37 - 60 | JM |

Date of next meeting
4.00 pm on Thursday, 13 February 2020

Members: Duncan Brown (Chair), John Cole, Rob Orr and Mark Lemmon

In attendance: David Phoenix, Michael Broadway, Natalie Ferer, Richard Flatman and James Stevenson

External auditors: Fleur Nieboer and Jack Stapleton (KPMG)

Internal auditors: Ruth Ireland and Gemma Wright (BDO)

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| | |
|------------------|---|
| | CONFIDENTIAL |
| Paper title: | Internal Audit Report – CMA |
| Board/Committee: | Group Audit and Risk Committee |
| Date of meeting: | 07 November 2019 |
| Author(s): | Nicole Louis, Chief Customer Officer |
| Sponsor(s): | Nicole Louis, Chief Customer Officer |
| Purpose: | For Review and Discussion |
| Recommendation: | The Committee is requested to note the findings |

Executive Summary

PWC conducted an audit of the University’s current practices in relation to CMA. The purpose of the audit was to provide assurance over London South Bank University’s (LSBU) compliance with the CMA requirements in provision of higher education and processes in place to achieve consistency in approach across LSBU. The Audit focussed in the three main areas that impact CMA; Information Provision, Terms and Conditions between HEIs and students; and Complaint handling. In addition, the audit also reviewed internal Awareness and Education in relation to CMA compliance.

Whilst the audit identified a number of areas of good practice for which no recommendations were made including; i) the terms and conditions provided for students, ii) the information on complaints handling and iii), the existence of a CMA working group with a wide range of stakeholders attending, it also highlighted a number of areas for improvement relating to either the provision of information or awareness and education, with 7 risks in total identified (1 high, 1 low, 5 medium).

The most significant risk identified relate to the provision of information for LSBU applicants, where a number of inter-connected processes currently impede the university’s ability to be fully compliant. These processes and practices are complex in their nature and involve multiple PSGs and all 7 schools. Some factors bear more weight than others such as the university’s approach to course management (validations, re-validations, course launches and closures), plus, the current lack of a technology solution for curriculum management.

Addressing the identified risks and working more robustly towards full compliance will require making some adjustments to the processes linked to course management and these are currently being considered by TQE. It will also require clearer lines of

accountability and responsibility for roles within schools and PSGs and the support of a pre-LEAP technology solution to facilitate course information change management and work flow.

The draft audit report has been shared and discussed with the CMA Compliance Steering Group and a number of actions have been discussed and are currently being worked on. These include:

1. Creation of a CMA roadmap– CMA Chair with input from TQE
2. Defined accountabilities / responsibilities for roles relating to the course management and CMA requirements – CMA Chair
3. An updated and extended annual calendar for validation and re-validation with longer lead times for schools – TQE
4. Clarification of processes relating to cross checking course specification with website listing – Marketing & Schools
5. Applicant information to be sent at the time of offer for most courses - Admissions
6. Recommended change of process for approval of course closures – TQE
7. Development of an internal awareness and training plan – Legal and OD

The committee is requested to note.

Internal Audit Report 2018/19

CMA Compliance

*London South Bank
University*

November 2019

Final

▶ Click to launch


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- A. Basis of our classifications
- B. Terms of reference
- C. Limitations and responsibilities

Distribution list


For action: Nicole Louis, Chief Commercial Officer

For information:

- Kathryn Gilmore, Head of Admissions and Recruitment Marketing
- Steven Brabenec, Director of Marketing & Recruitment
- Antonia Goodyer, Solicitor
- Sally Skillet-Moore, Deputy Director of Teaching Quality & Enhancement
- Mehmet Tarhan, Planning and Insight Manager
- James Stevenson, University Secretary
- Natalie Ferer, Group Financial Controller
- Audit Committee



Executive summary (1 of 3)

| | | | | | | | |
|---|--|---|-----------------|-------------|---------------|------------|-----------------|
| <p>Report classification</p> <p>High Risk</p>  | <p>Trend</p> <p>N/A – We have not performed a review of this area previously.</p> | Total number of findings | Critical | High | Medium | Low | Advisory |
| | | Control design | 0 | 0 | 5 | 0 | 0 |
| | | Operating effectiveness | 0 | 0 | 0 | 0 | 0 |
| | | Control design and Operating effectiveness | 0 | 1 | 0 | 1 | 0 |
| | | Total | 0 | 1 | 5 | 1 | 0 |



Background

In March 2015, the Competition and Markets Authority (CMA) published a policy paper, ‘An effective regulatory framework for higher education’, supplemented by guidance on consumer protection law for providers of higher education. This guidance document provides advice to higher education institutions (HEIs) on complying with consumer protection law. In particular the CMA advises on the following areas:

- Information provision;
- Terms and conditions between HEIs and students; and
- Complaint handling.

The purpose of this audit was to provide assurance over the London South Bank University’s (LSBU) compliance with the CMA requirements in provision of higher education and processes in place to achieve consistency in approach across LSBU. In addition to the three areas above, we also reviewed the Awareness and Education of the CMA requirements.

Areas of Good Practice

The following areas of good practice have been identified through our fieldwork:

- The terms and conditions had been recently updated and is accessible, clearly written and in line with CMA guidance. Therefore no exceptions were identified for this area and no issues are reported below.
- The information on the complaints handling process is accessible, provided to students at the time of their offer and clearly detailed with expected timelines. Therefore no exceptions were identified for this area and no issues are reported below.
- There is a CMA working group with all key stakeholders invited; although improvements need to be made (see finding 1).

Executive summary (2 of 3)

Summary of findings

As depicted in the table below, our review identified 7 findings within 2 of the 4 sections of our scope. These were Awareness and Education, and Information Provision.

| Section | High | Medium | Low | Advisory | Total |
|----------------------------|------|--------|-----|----------|-------|
| 1. Awareness and Education | - | 3 | - | | 3 |
| 2. Information Provision | 1 | 2 | 1 | - | 4 |
| 3. Terms and Conditions | - | - | - | - | - |
| 4. Complaints Handling | - | - | - | - | - |

Section 1 - Awareness and Education

The 3 *Medium* risk findings identified are:

- **Central roadmap for the compliance process** - There is no clear and documented end-to-end process for how the University manages and ensures compliance with CMA requirements annually. CMA compliance activity requires the involvement of at least 4 different departments / teams (not including the 7 Schools that are also involved).
- **Awareness of CMA requirements** - There has been limited activity in improving and ensuring the awareness of what is required for CMA compliance and the departmental collaboration required to underpin full compliance; such as training.
- **Accountability, roles and responsibility for compliance** - As there are 4 Departments involved and 7 different Schools. Having the roles and responsibilities for each team defined and documented (including a key departmental lead) will set clear expectations for the work to be completed and improve transparency of effort where individual responsibilities are visible to all involved.



Executive summary (3 of 3)

Summary of findings (cont'd)

Section 2 - Information Provision

The 1 *High* risk finding is:

Accuracy of information provided to prospective students - There is no quality review or reconciliation of the information provided in the course specifications, compared to the information published on the University's website, to ensure it is accurate and complete. Furthermore, our testing of 5 different courses against the information on the course specification, as compared to online, identified a number of exceptions, such as 2 of 5 course specifications not existing and 3 of 5 courses not matching on both mediums with inconsistent modules in years 1 and 2 for example. This is a known issue to LSBU.

The 2 *Medium* risk findings are:

Timeliness of information provided to prospective students – for the 2019/20 prospective students, required information such as the course specification, and terms and conditions were only provided from May 2019 onwards. A key root cause seems to be the academic calendar not being aligned to fit the requirements of CMA for Information Provision.

Process gap for managing course changes and cancellations - There is no process in place to consistently manage any updates or changes required on the information provided in the course specification, printed prospectus and website. Furthermore, there was no control or mechanism in place to communicate any course changes nor course cancellations to the students.

We also identified one *Low* risk finding relating to no assurance mechanism in place to monitor and assess if the University is meeting the requirements and/or where the gaps or issues are.

We would like to thank Kathryn, Mehmet and all others who gave their time to support this review.



Background and scope



This review formed part of the 2018/19 internal audit plan approved by the Audit Committee.

Background

In March 2015, the Competition and Markets Authority (CMA) published a policy paper, ‘An effective regulatory framework for higher education’, supplemented by guidance on consumer protection law for providers of higher education. This guidance document provides advice to higher education institutions (HEIs) on complying with consumer protection law. In particular the CMA advises on the following areas:

- Information provision;
- Terms and conditions between HEIs and students; and
- Complaint handling

The purpose of this audit was to provide assurance over the London South Bank University’s (LSBU) compliance with the CMA requirements in provision of higher education and processes in place to achieve consistency in approach across LSBU.

Scope

The audit scope sought to assess whether:

- LSBU had put in place arrangements that allows them to identify their compliance with consumer protection law and other relevant legislation;
- LSBU demonstrates consistency and good practice across the faculties and departments in respect of the CMA guidance; and
- LSBU’s controls for complying with consumer protection law are consistent with other providers within the HE sector.

The audit focused on compliance with the CMA requirements as set out within the CMA ‘Higher education providers – advice on consumer protection law’ and Department for Business, Innovation & Skills ‘Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice’.

Section A: Awareness and Education – 1 of 3 findings

Central roadmap for the compliance process

Control Design

1

(1 of 2)

Page 1

Finding rating

Rating

Medium

Findings

There is no clear and documented end-to-end process for how the University manages and ensures compliance with CMA requirements annually. The work requires the involvement of at least 4 different departments / teams (not including the 7 Schools that are also involved) and whilst staff are aware of certain tasks that need to be performed, the teams work separately with limited communication and collaboration to ensure the information provided to students is accurate.

A central roadmap that depicts the key stages for the annual CMA compliance including the timelines, key teams / owners involved and the tasks required, would help highlight and remind of the duties required. This would enable the individual departments to plan their work and tasks around the timelines.

Whilst we acknowledge there is a CMA working group but as we understand from our interviews, this had focused on status updates of long term projects rather than improving the immediate processes.

Implications

Members of staff engaged in CMA-relevant activities are unaware of the regulatory requirements and the collaborative process required.

The University may not be able to identify where best practice exists within teams, limiting its ability to ensure consistent application of good practice.

Agreed action

a) A central timetable for academic year 2019/20 (entry September 20) is being developed, and is being led by the CCO with input from the AQE and Admissions teams. This will be drafted by end of September and reviewed with the Provost and Deans on 15th October.

b) The University's existing schedule of course validations and re-validations is currently being updated for academic years 2019/20 and 2020/21 and this will feed into the CMA roadmap

Responsible person/title:

- a) Nicole Louis, CCO
- b) Mark Griffith, Acting Director of TQE

Target date:

a) & b): 30 November 2019

Reference number: 4 November 2019

Section A: Awareness and Education – 1 of 3 findings

Central roadmap for the compliance process

Control Design

(2 of 2)

1

Page 12

Finding rating

Rating

Medium

Management response

At present, the university’s approach to course management allows a degree of flexibility for schools to make essential changes to courses in-year, and to introduce new courses in a fairly agile way to enhance the offer for students. Current practice creates some challenges in relation to CMA compliance and LSBU is not unique in this regard, specifically with respect to the provision of information as course changes and amendments can sometimes be agreed after the point in the academic year that applicants have received offers, for example, up to the last SASC of the school year. We are updating the courses validation / re-validation schedule and this will allow for essential course changes or introductions to be implemented in a fully compliant way, whilst ensuring that the vast majority of course changes are agreed within an earlier timeframe in the preceding academic year, so that the majority of ‘rolling over’ courses can be ‘locked down’ in line with the critical dates set out in the CMA calendar.

Section A: Awareness and Education – 2 of 3 findings

Awareness of CMA requirements

Control Design

2

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Finding rating

Rating **Medium**

Findings

Whilst we acknowledge there had been some informal training provided by the Legal team previously, further improvements are required to ensure there is clarity and transparency on the CMA requirements, such as checklist or summary outline, and to ensure this is communicated widely to the relevant staff. This would help to ensure adherence to the requirements.

There has been limited actions and activity in improving and ensuring the awareness of what is required for CMA compliance and the departmental collaboration required.

We also acknowledge that a CMA guidance document had been provided to Schools, as part of the project to request them to review update the course specifications.

Implications

Members of staff engaged in CMA-relevant activities are unaware of the regulatory requirements and the collaborative process required.

Agreed action

A training plan is being developed by Irene Bernstein, Head of Legal Services and this is expected to be reviewed by the CMA compliance team by the end of November. This will include a blend of face-to-face and online learning tools. The Learning and Development department will support the training rollout.

Responsible person/title:

Irene Bernstein, Head of Legal Services

Target date:

30 November 2019

Reference number:

CMA_Awareness_Education_2

Section A: Awareness and Education – 3 of 3 findings

Accountability, roles and responsibility for compliance

Control Design
Page 14
(1 of 2)

3

Finding rating

Rating

Medium

Findings

Whilst we acknowledge that all key teams attend the CMA Working group and that individual teams are aware of what needs to be done, there seems to be inconsistencies in how these tasks are performed, including the differing levels of collaboration and communication across the different Departments.

As there are 4 Departments involved and 7 different Schools to input, having the roles and responsibilities for each team defined and documented (including a key lead for the department) will set clear expectations for the work and responsibilities and bring improved transparency; especially as there is work that is reliant on other teams. For example, the Schools should make sure that the course specifications are accurate and completed, and that any changes are communicated to Marketing, Admissions and Teaching Quality. This may also hold key departments and/or individuals accountable for ensuring the quality and integrity of the information for example.

Furthermore, embedding central coordination for managing CMA Compliance will be beneficial in managing the process and requirements effectively.

Implications

There is a lack of accountability between the Departments and Schools, due to limited clarity and acknowledgment of the individuals and tasks required for CMA compliance.

Agreed action

- a) A CMA ‘roles and responsibilities’ document is being prepared covering key roles and responsibility for school and PSG staff. To be agreed by team by end of November.
- b) Changes to CMA working group attendance to ensure participants are clearly accountable by end November.
- c) Accountabilities for academic staff to be embedded within job descriptions.

Responsible person/title:

- a) & b): Nicole Louis, Chief Commercial Officer (CCO)
- c) Pat Bailey, Deputy Vice Chancellor

Target date:

- a) 30 November 2019
- b) & c): 31 January 2019

Reference number:

CMA_Awareness_Education_3

Section A: Awareness and Education – 3 of 3 findings

Accountability, roles and responsibility for compliance

Control Design

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(2 of 2)

3

Finding rating

Rating

Medium

Management response

Because of the relative recency of CMA within the world of HEIs, accountabilities and responsibilities linked to CMA compliance for both school and PSG staff has been implicit, rather than explicitly articulated in pre-existing individual JDs (job descriptions). The ‘CMA Roles and Responsibilities’ document will clarify the roles, both academic and supporting that have a material contribution to compliance. Revisions will be made to individual JDs.

Representation on the CMA Compliance Steering Committee will be revised to ensure attendance for school DESEs who have a critical supporting role.

Section B: Information Provision – 1 of 4 findings

Accuracy of information provided to prospective students

Control Design and Operating Effectiveness

1

(1 of 2)

Finding rating

Rating

High

Findings

There is no quality review or reconciliation of the information provided in the course specifications, compared to the website, to ensure it is accurate and complete. This is a known issue as for example, the Schools may not always inform the Marketing team and/or Teaching Quality team, to update the course information consistently across available publications. We acknowledge that there is no curriculum management system in place for instance, to manage and have ‘one version of the truth’. The current process is manual and requires notifying different teams about the changes which is not always abided to as evidenced from our testing below.

To assess the operating effectiveness, we had performed sample testing of 5 different courses across 5 academic departments, and tested the information provided on the course specification and whether that matches the website. We found the following exceptions:

- For 2 of 5 courses, there was no course specification available at all;
- For 3 of 5 courses, the course specifications details did not match the information on the website. For example, a module had been listed for Year 1 in the course specification and on the website, it was noted for Year 2. Other issues include 2 modules being listed as being part of the course in the document but not on the website and differing entry score requirements;
- For 1 of 5 courses, the course specification had not been updated and reviewed since 2015. This course is from the Arts and Creative Industries faculty, and it is likely this course will have been updated since.

Implications

The University may not have a full understanding of the information provided to students at each stage of the admissions process.

Information provided at each stage may not comply with CMA guidance such as:

- Providing complete and accurate information to prospective students, including information on courses and fees.

Students are misinformed which may lead to legal and reputational repercussions.

Section B: Information Provision – 1 of 4 findings

Accuracy of information provided to prospective students

Control Design and Operating Effectiveness

1

Page 17
(2 of 2)

Finding rating

Rating

High

Agreed action

Multiple courses may be served by a single course specification sheets and this can create gaps in reconciling the courses specifications updated to courses advertised.

- a) AQE team to undertake an audit of the number of web based course finder against the active course specifications for 2019/20 to identify and gaps between the advertised course list and the active course list.
- b) School Academics to undertake a review of 2019/20 courses and to update with any changes to 2020/21 courses.
- c) Roles and responsibilities document to set our specific responsibilities for notifying marketing of changes to courses.

Responsible person/title:

- a) Sally Skillet-Moore, Deputy Director of Teaching Quality & Enhancement
- b) Pat Bailey, Deputy Vice Chancellor (as Provost of the 7 Deans)
- c) Nicole Louis, Chief Commercial Officer (CCO)

Target date:

- a) & b): 31 October 2019
- c) 30 November 2019

Reference number:

CMA_Info_provision_1

Section B: Information Provision – 2 of 4 findings

Timeliness of information provided to prospective students

Control Design

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(1 of 2)

2

Finding rating

Rating

Medium

Findings

As per the CMA guidance "You must provide prospective students with the information they need to make a decision, including the required pre-contract information, before they accept a formal offer of a place on your course".

Our interviews confirmed that for the upcoming 2019/20 year, majority of offers had been (and usually) made to prospective students between September 2018 – May 2019 for the next academic year (2019/20); but that the pre-contract information such as course specifications and enrolments terms, had only been provided in May 2019. The delay had been due to LSBU trying to update/correct the documents as they had only received the course specifications in March 2019. Whilst we acknowledge that the University did provide the relevant information to the student whilst the offer window was still open; there is a need to improve the management of this information including the enforcement of strict timelines, to ensure the information provided is accurate, complete and timely; and required for CMA compliance.

A key root cause is the academic timetable not being aligned to the CMA appropriate timelines. For instance, best practice would be for all prospective course information (e.g. 2019/20) to be locked down from further updates by the end of the current academic year (e.g. June-July 2017/18) before providing this to prospective 2019/20 students. This would also help with finding 1, regarding the accuracy of information provided.

We also understood that for previous academic years, there had often been changes to the course even after sending the course specifications to the students (see finding 3).

Implications

Information provided at each stage may not comply with CMA guidance such as:

- Providing complete and accurate information to prospective students, including information on courses and fees;
- Ensuring students are aware of the Terms they are agreeing to in taking up an offer from the provider, and ensuring these terms are fair according to the law.

Section B: Information Provision – 2 of 4 findings

Timeliness of information provided to prospective students

Control Design

(2 of 2)

2

Finding rating

Rating

Medium

Agreed action

- a) Academic calendar for 2020/21 entry stipulates changes to ‘rolling over courses’; to be confirmed by academies by 27th September 2019.
- b) Offer making to students to commence on the 4th October with pre-contract information provided.

Responsible person/title:

- a) Sally Skillet-Moore, Deputy Director of Teaching Quality & Enhancement
- b) Mehmet Tarhan, Admissions Planning and Insight Manager

Target date:

31 October 2019

Reference number:

CMA_Info_provision_2

Section B: Information Provision – 3 of 4 findings

Process gap for managing course changes and cancellations

Control Design

Page 20
(1 of 2)

3

Finding rating

Rating

Medium

Findings

There is no process in place to consistently manage any updates or changes required on the information provided in the course specification, printed prospectus and website. Furthermore, there was no control or mechanism in place to communicate any course changes nor course cancellations to the students.

We note from our interviews, that each of the academic departments are responsible for the course information including any changes but there had been instances where this is performed without informing the relevant teams and/or without informing the students after the course specification had been provided.

At present, any required course detail changes or cancellations are required to be flagged by the Academics, otherwise it will be unknown to the other teams. Often these changes may be flagged in informal discussions but this is often too late i.e. the student had already received the prior version of the course details.

Another issue is on when course changes are ‘material’ and therefore should be communicated and resent to the prospective student.

We do acknowledge that there is a ‘Programme and module amendments’ policy and a ‘Programme and module discontinuation’ policy, including a change process being recently created and sent to the board for approval.

Implications

Information provided at each stage may not comply with CMA guidance such as:

- Providing complete and accurate information to prospective students, including information on courses and fees.

Students are misinformed which may lead to legal and reputational repercussions.

Section B: Information Provision – 3 of 4 findings

Process gap for managing course changes and cancellations

Control Design

(2 of 2)

3

Finding rating

Rating

Medium

Agreed action

- a) Course Directors have been briefed by AQE team to notify the school marketing manager of any course changes following the review and updating of 2019/20 course specification sheets. This responsibility will be reiterated in the CMA roles and responsibilities document.
- b) The Course Directors were identified as owning the process for overseeing communication to applicants when courses change post-provision of applicant offer packs. This is will be laid out in the CMA roles and responsibilities document. Responsible officers for ensuring compliance within each department is expected to be the 7 Deans.
- c) The wider responsibilities of the role of a Course Director will be set out in a Job Description and this will include responsibilities linked to course management which impacts CMA. The responsible officer is Pat Bailey, Provost.
- d) AQE team to produce guidance document on categorisation of changes to course specifications indicating what constitutes a material change. By October, owner AQE Team (individual to be confirmed)

Responsible person/title:

- a) & b): Follow up with Nicole Louis, Chief Commercial Officer (CCO), for confirmation on action owners
- c) Pat Bailey, Deputy Vice Chancellor
- d) Mark Griffith, Acting Director of TQE

Target date:

- a) & b): 30 November 2019
- c) 31 January 2020
- d) 30 November 2019

Reference number:

CMA_Info_provision_3

Section B: Information Provision – 4 of 4 findings

Assurance over compliance

Control Design and Operating Effectiveness

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4

Finding rating

Rating **Low**

Findings

In line with finding 1, regarding no overall process for managing the annual CMA Compliance requirements alongside business as usual duties; there is no assurance mechanism in place to monitor and assess if the University is meeting the requirements and/or where the gaps or issues are.

Having a separate measure of assurance would allow the University to track and record key issues with full transparency and awareness. This would also enable actions to be taken to improve the process and to perform any lessons learnt exercises as required.

We acknowledge that the University had committed to using Internal Audit to provide assurance over their compliance, however this will not be annually performed and therefore LSBU should consider other method of obtaining assurance e.g. periodic sample testing on the accuracy and timeliness of information being provided to students.

Implications

Members of staff engaged in CMA-relevant activities are unaware of the regulatory requirements for compliance.

There is a limited knowledge and assurance of how the University is complying with CMA.

Agreed action

University is looking to establish a group compliance team who would oversee checks and balances relating to CMA compliance. Whilst this proposal is subject to a business case, it is the anticipated way forward.

Responsible person/title:

Ed Spacey, Acting Deputy Director of HR Services

Target date:

30 January 2020

Reference number:

4 November 2019

CMA_Info_provision_4

**Appendix A: Basis of our
classifications**

**Appendix B: Terms of
reference**

**Appendix C: Limitations
and responsibilities**

Appendices

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Appendix A: Basis of our classifications

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 |
|-------------------|--|
| ● Red | A high proportion of exceptions identified across a number of the control activities included within the scope of our work; or Control failures which, individually or in aggregate, have resulted in the significant misstatement of the University's financial records. |
| ● Amber | 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 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 |
| ● Green | Limited exceptions identified in the course of our work Control failures which, individually or in aggregate, do not appear to have resulted in the misstatement of the organisations financial records. |

Control design improvement classifications

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

Critical

A finding that could have a:

- **Critical** impact on operational performance resulting in inability to continue core activities for more than two days; or
- **Critical** monetary or financial statement impact £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.

Appendix A: Basis of our classifications

High

A finding that could have a:

- **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

A finding that could have a:

- **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

A finding that could have a:

- **Minor** impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or
- **Minor** monetary or financial statement impact of £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

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.



**Appendix A: Basis of our
classifications**

**Appendix B: Terms of
reference**

**Appendix C: Limitations
and responsibilities**

Appendix B: Terms of reference

CMA Compliance

To: Nicole Louis, Chief Customer Officer, LSBU
From: Justin Martin – Head of Internal Audit

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Appendix C: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken this review 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 changes; 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 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.

Background and scope (1 of 2)



This review will form part of the 2018/19 internal audit plan approved by the Audit Committee.

Background

In March 2015, the Competition and Markets Authority (CMA) published a policy paper, ‘An effective regulatory framework for higher education’, supplemented by guidance on consumer protection law for providers of higher education. This guidance document provides advice to higher education institutions (HEIs) on complying with consumer protection law. In particular the CMA advises on the following areas:

- Information provision;
- Terms and conditions between HEIs and students; and
- Complaint handling

The purpose of this audit is to provide assurance over the London South Bank University’s (LSBU) compliance with the CMA requirements in provision of higher education and processes in place to achieve consistency in approach across LSBU.

Scope

The audit scope will seek to assess whether:

- LSBU have put in place arrangements that allow them to identify if they are compliant with consumer protection law and other relevant legislation;
- LSBU demonstrates consistency and good practice across the faculties and departments in respect of the CMA guidance; and
- LSBU’s controls for complying with consumer protection law are consistent with other providers within the HE sector.

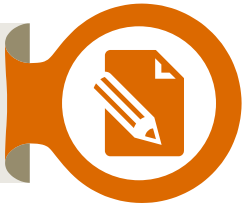
The audit will focus on compliance with the CMA requirements as set out within the CMA ‘Higher education providers – advice on consumer protection law’ and Department for Business, Innovation & Skills ‘Fulfilling our Potential: Teaching Excellence, Social Mobility and Student Choice’.

Background and scope (2 of 2)



| Sub-process | Control Objectives |
|--------------------------------|---|
| Awareness and Education | <p>Processes are in place to raise awareness of the CMA requirements for HE providers across LSBU, including the faculties and departments.</p> <p>Processes are in place for sharing of knowledge and good practice across the University.</p> |
| Information provision | <p>Students are given up front, clear, timely, accurate and comprehensive information at each of the following stages:</p> <ul style="list-style-type: none"> • Student research and application stage; • Offer stage; and • Student enrolment stage |
| Terms and conditions | <p>Terms and conditions between LSBU and students are fair, ensuring that:</p> <ul style="list-style-type: none"> • Terms and conditions are available, can be accessed by students and students are made aware of these before accepting an offer; • Terms and conditions are written clearly and are understandable, in accordance with the guidance set out within the CMA ‘Higher education providers – advice on consumer protection law’; • Terms and conditions fairly balance the rights and obligations of the University and the student and terms are unambiguous, in accordance with the guidance set out within the CMA ‘Higher education providers – advice on consumer protection law’; and • Terms and conditions are regularly reviewed to ensure LSBU mitigates the impact caused by unforeseen events. |
| Complaints Handling | <p>Complaint handling processes and practices are accessible, clear and fair to students, ensuring that:</p> <ul style="list-style-type: none"> • Procedures can be located and accessed; • Information is provided to students on complaints processes before they accept an offer; • Information provided to students on complaints handling is clear and accurate; • Complaints handling processes are fair; • Guidelines published by any third party redress or complaint schemes are followed; and • Staff are trained in complaints handling. |

Approach and limitation of scope



Audit approach

The review will be carried out using a risk-based approach and will focus on:

- Review of background documents including the CMA ‘UK higher education providers – advice on consumer protection law’, relevant policies, strategies and procedure documents, manuals and other relevant guidance.
- Interviews with relevant employees at LSBU to document the processes and controls in place and to establish compliance with those controls.
- Assessing the adequacy of procedures and controls in operation to mitigate the potential risks identified.
- Testing adherence to these controls by review and sample testing of documentation across the faculties.
- We will test a sample of courses back to the CMA regulations.

Limitations of scope

The scope of this review is limited to the areas identified above. Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given.

Internal audit team and key contacts (1 of 2)



Internal audit team - PwC

| Name | Role | Contact details |
|---------------|------------------------|--|
| Justin Martin | Head of Internal Audit | justin.f.martin@pwc.com |
| Amy Chiu | Engagement Manager | amy.chiu@pwc.com |
| Josh Thomas | Auditor | joshua.thomas@pwc.com |

Key contacts – LSBU

| Name | Title | Contact details | Responsibilities |
|---------------------|---|--|---|
| Nicole Louis | Chief Customer Officer (Audit Sponsor) | louisn@lsbu.ac.uk | Review and approve draft and final terms of reference Receive and approve draft report Receive final report |
| Mehmet Tarhan | Planning and Insight Manager | tarhanm2@lsbu.ac.uk | Audit contact |
| Steven Brabenec | Director of Marketing and Recruitment | steven.brabenec@lsbu.ac.uk | Audit contact |
| Irina Bernstein | Solicitor | bernstei@lsbu.ac.uk | Audit contact |
| Antonia Goodyer | Solicitor | goodyera@lsbu.ac.uk | Audit contact |
| Sally Skillet-Moore | Deputy Director of Teaching Quality and Enhancement | skillets@lsbu.ac.uk | Audit contact |

Internal audit team and key contacts (2 of 2)



Key contacts – LSBU

| Name | Title | Contact details | Responsibilities |
|-----------------|--|--|------------------|
| Kathryn Gilmore | Head of Admissions and Recruitment Marketing, Admissions and Communications | gilmork2@lsbu.ac.uk | Audit contact |
| James Stevenson | University Secretary | stevenj7@lsbu.ac.uk | Audit contact |
| Jamie Barker | Senior Manager – Marketing and Campaigns | barkerj8@lsbu.ac.uk | Audit contact |
| Scott Dunk | Manager, Strategic Recruitment & Conversion Marketing, Admissions and Communications | dunksm@lsbu.ac.uk | Audit contact |

Timetable



| <i>Timetable</i> | |
|-------------------------------|------------------------------|
| Fieldwork start | 2 nd July 2019 |
| Fieldwork completed | 10 th July 2019 |
| Draft report to client | 24 th July 2019 |
| Response from client | 7 th August 2019 |
| Final report to client | 14 th August 2019 |

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.

Information request



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Ahead of the audit fieldwork date, please provide us with the following:

- The course handbook, prospectus and any supplementary material on course content prepared by the sampled departments and provided to prospective students at open days, when giving an offer or on enrolment;
- The University's terms and conditions for students;
- Any guidance notes or documents given to students alongside the terms and conditions;
- A copy of the University's offer letter/email;
- The University's complaints handling policy;
- Any guidance material for students on how they would complain;
- A listing of complaints passed to a third party adjudicator in the year;
- Any other documents that would be useful for our review.

This listing is not exhaustive and additional items may be asked for on request.

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University in our agreement dated 16 October 2017. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Memorandum of Assurance and Accountability between the Office for Students and 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.

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|------------------|--|
| | CONFIDENTIAL |
| Paper title: | Internal Audit Annual Report –2018/2019 |
| Board/Committee: | Audit Committee |
| Date of meeting: | 07 November 2019 |
| Author(s): | PwC |
| Sponsor(s): | Richard Flatman, Chief Financial Officer |
| Purpose: | For Information |
| Recommendation: | The Committee is requested to note the attached annual report by the internal auditors, now issued in final. |

Executive Summary

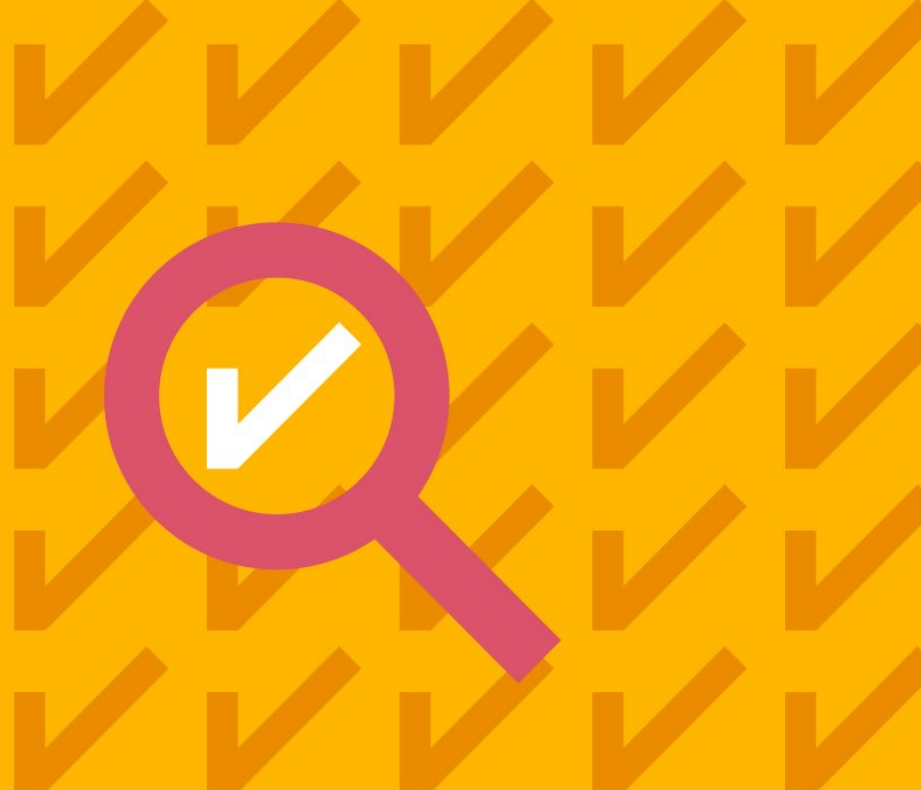
The Internal Auditors’ annual report for the Audit Committee provides their opinion on the adequacy and effectiveness of governance, risk management and control for the financial year of operation, and details summary progress against the internal audit plan. This opinion features in the annual statement on control which supports the statement made by the Board in the published accounts, and the report is provided to the Office for Students as a component of the annual accountability return.

The opinion within this report for 2018/10 is “generally satisfactory with some improvements required” and is in line with the draft report discussed by the committee at its meeting of 1 October 2019.

The committee is requested to note the final report.

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Internal audit annual report and opinion 2018/2019



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London South Bank University
FINAL
September 2019

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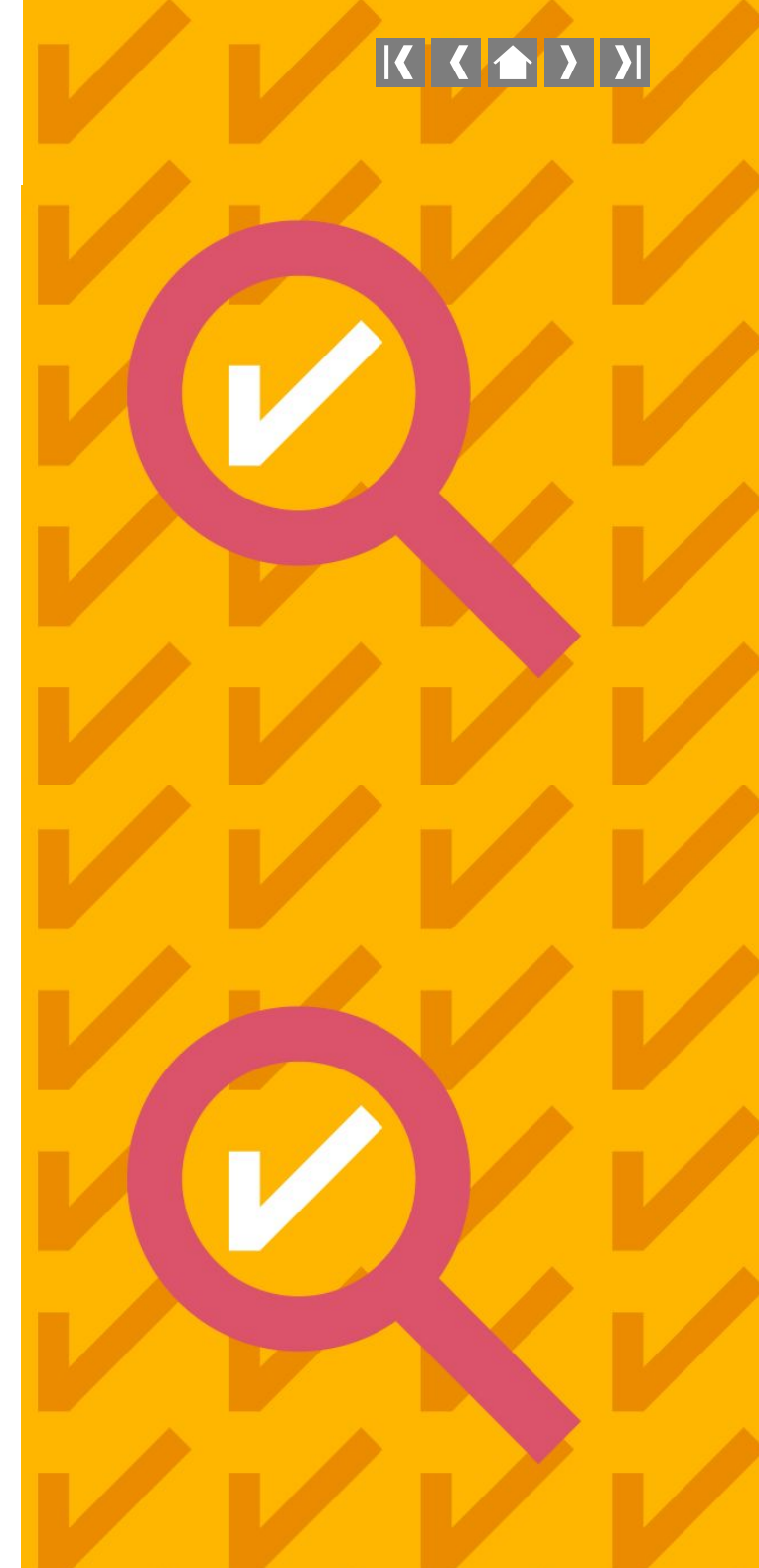
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Distribution list

For action: Richard Flatman, Group Chief Financial Officer
Audit Committee

For information: LSBU Executive Team



1. Executive summary (1 of 3)

Introduction

This report outlines the internal audit work we have carried out for the year ended 31 July 2019.

The Office for Students terms and conditions of funding for higher education 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:

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

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit Committee approved a plan with internal audit input of 140 days. An additional follow up review to South Bank Academy Trust was approved during the year. This resulted in the delivery of 162 internal audit days. Whilst this report is a key element of the framework designed to inform the Audit Committee's Annual report to the University Council, 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.

Head of internal audit opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control, and economy, efficiency and effectiveness arrangements (value for money). 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 4.

In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

1. Executive summary (2 of 3)

Opinion

Our opinion is as follows:

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Satisfactory

Based on the risk appetite and the internal audit plan agreed with you, we have completed our programme of work and we believe there are adequate and effective arrangements to enable the related risks to be managed and objectives to be met regarding:

- Governance, risk management and control; and
- Value for money arrangements.

Please see our Summary of Findings in Section 2.

Or

Generally satisfactory with some improvements required

Governance, risk management and control, and value for money arrangements in relation to business critical areas is generally satisfactory. However, there are some areas of weakness or non-compliance in the framework of governance, risk management and control or value for money arrangements which potentially put the achievement of objectives at risk.

Improvements are required in those areas to enhance the adequacy or effectiveness of governance, risk management and control or value for money arrangements. Please see our Summary of Findings in Section 2.

Or

Major improvement required

There are significant weaknesses in the framework of governance, risk management and control [and/or] value for money arrangements which put the achievement of organisational objectives at risk.

Major improvements are required to improve the adequacy [and/or] effectiveness of governance, risk management and control [and/or] value for money arrangements. Please see our Summary of Findings in Section 2.

Or

Unsatisfactory

The framework of governance, risk management and control [and/or] value for money arrangements is poor.

Either:

Because of this, systems have failed [and/or] value for money has not been achieved.

Or:

Because of this, we believe there is a real and substantial risk that systems will fail [and/or] value for money will not be achieved.

Immediate action is required to improve the adequacy [and/or] effectiveness of governance, risk management and control.

Overview

Whilst there were 3 High risk reports during the year, these reflected specific areas of the University and does not reflect the overall control environment within the wider University. Our Continuous Auditing work shows that on the whole the core financial control environment has remained fairly consistent during the year since Phase 1, with no significant exceptions or control recommendations raised; and has improved significantly since 2016/17. Please see the Executive Summary for more details.

Our opinion for the year ended 2019 is that the control environment is satisfactory overall. However, the incidence of non systemic system issues has increased over prior years. The core control environment has improved over prior years but has had some variability in compliance in the past. Any deterioration in core finance control in conjunction with the other issues noted this year would have been sufficient to move our overall classification to major improvement required.

1. Executive summary (3 of 3)

An explanation of the types of opinion that may be given can be found in Appendix 2.

Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.

What proportion of the organisation's audit needs have been covered to date.

The commentary that follows provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

Our view on LSBU's operational control environment and governance arrangements is underpinned by the audit reviews that we have performed during the year. There has been three high risk and one medium risk rated reports prepared during the financial year, plus two advisory reports focused on the South Bank Academy Trust. The findings from these reports are not considered significant in aggregate to the system of internal control. None of the individual assignments completed in 2018/19 have an overall classification of critical risk.

Three high risk reports were presented during the year with 5 high risk findings, which is an increase from last year. The reviews were on Procurement, GDPR compliance and CMA compliance. The scope of our Procurement review focused on three specific areas; whether supporting evidence was available for expenses on Purchase Cards, justification for Value for Money on purchases between £10k - £50k, and monitoring spends and usage against the agreed contract values. Therefore the risk rating does not reflect the overall performance of the Procurement function. Similarly, CMA compliance is still a relatively new requirement for Universities and does not reflect the performance of other key departments within LSBU. This is the same for GDPR compliance. Please see page 5 for details of the five high risk findings.

None of the years planned internal audit reviews, following our annual risk assessment had an overall risk rating of critical.

Commentary (cont'd)

One medium risk report was presented during the year related to bidding process for the London South Bank Innovation Centre (LSBIC); with no high risk findings identified in the report. There were no low risk reports identified or low risk findings that we would draw to your attention for the purposes of your own reporting.

Our Continuous Auditing work shows that on the whole the core financial control environment has remained fairly consistent during the year since Phase 1, with no significant exceptions or control recommendations raised. A similar number of exceptions were identified across the systems compared with 2017/18, and in particular, we are pleased to report that the performance of Payroll and Accounts Payable has continued to remain a green risk rating due to the exceptions being identified as low risk. Accounts Receivable has also improved to green in phase 2. There have been some exceptions identified through our substantive controls testing of Cash and General Ledger processes, which should be one-off exceptions. The findings identified are not considered to be a threat to the operation of the system as a whole, although, when taken in aggregate, these findings do undermine the efficient performance of the financial control environment.

There has been a slight deterioration in the University's implementation rate for internal audit recommendations this year with a 52% implementation rate, compared to 64% obtained last year. However there is also twice the number of agreed actions to implement, compared to last year where there were 11 agreed actions. Also, there are a further 20% of actions that are partially / mostly implemented and should be completed by the next Audit Committee. Please see page 6 and 11 for further details.

Acknowledgement

We would like to take this opportunity to thank all the University staff, for their cooperation and assistance provided during the year.

2. Summary of findings (1 of 5)

Our annual internal audit report is timed to inform the organisation's Audit Committee's Annual Report to OfS (Office for Students).

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

| Description | Detail |
|--|--|
| <p>Overview</p> <p>We completed 10 internal audit reviews. This resulted in the identification of 0 critical, 5 high, 14 medium and 5 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness. We also completed an advisory review of the University's catering contract procurement.</p> | <p>Our audit plan was scoped to address LSBUs key risks and strategic objectives. We mapped each review to these areas in our Internal Audit Risk Assessment and Internal Audit Plan 2018/19.</p> <p>We have completed our internal audit plan in line with the set timescales.</p> <p>We reported:</p> <ul style="list-style-type: none"> • Three high risk reports with respect to Procurement, CMA Compliance and GDPR Compliance. • One medium risk reports with respect to London South Bank Innovation Centre. • Two advisory reviews on the South Bank Academy Trust, which is now part of the LSBU Group. |
| <p>Governance</p> | <p>A number of our reviews included governance as part of our testing. Overall, we are satisfied that the University has effective governance arrangements in place. The only review that identified an audit finding in relation to governance was our review of CMA Compliance where we recommended further clarity with regard to overall accountability and roles.</p> |
| <p>Risk Management</p> | <p>Based on the internal audit work performed in the year, we have not identified any significant issues with regard to risk management that we need to draw to you attention and are satisfied that the University has effective risk management arrangements in place.</p> <p>Our previous review identified only one low risk finding, and we had followed up on this and assessed whether these actions were implemented, in which they were. We were pleased to also see that management have continued to implement improvements to further strengthen the University's approach to risk management.</p> |

2. Summary of findings (2 of 5)

Our annual internal audit report is timed to inform the organisation's Audit Committee's Annual Report to OfS (Office for Students).

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

| Description | Detail |
|---|---|
| <p>Internal controls</p> <p>During the course of our work, our reviews on a specific scope for Procurement, GDPR Compliance and CMA Compliance identified these as high risk areas for the University, and identified five high risk findings which are summarised opposite.</p> <p>The results of our Key Financial Systems Continuous Auditing has remained consistent during the year, with no significant exceptions or control recommendations raised.</p> <p>A similar number of exceptions were identified across the systems compared with 2017/18, and in particular, we are pleased to report that the performance of Payroll and Accounts Payable has continued to remain a green risk rating due to the exceptions being identified as low risk.</p> <p>Accounts Receivable has also improved to green in phase 2. There have been some exceptions identified through our substantive controls testing of Cash and General Ledger processes, which should be one-off exceptions. The findings identified are not considered to be a threat to the operation of the system as a whole, although, when taken in aggregate, these findings do undermine the efficient performance of the financial control environment.</p> <p>A summary of Continuous Auditing performance and the results of individual reviews is included on page 10.</p> | <p>Below is a summary of the five high risk findings identified during the year. These should be considered by management when considering the Universities risk management and internal control systems.</p> <p>Procurement – High Risk report (1 High and 2 Medium risk findings)</p> <ul style="list-style-type: none"> <i>Purchase card expenditure</i> – from our sample testing 25 expense transactions, we identified 7 exceptions (28%) where supporting documentation of the expense claim could not be provided (3 of 7), no explanation provided on how the expense was for business purposes only (3 of 7), and the supporting documentation for the claim was less than the amount claimed by a difference of £554 (1 of 7). <p>GDPR Compliance - High risk report (3 High and 2 Medium risk findings)</p> <ul style="list-style-type: none"> <i>Awareness of DP risks and issues, incl. delays with the GDPR action plan</i> - There is no documented LSBU-wide view of, or detailed understanding of, DP-related residual risks and exposure. Further, the process for escalation of risks, issues and delays experienced has not been followed. <i>Incompleteness of, and progress with, the GDPR action plan</i> – LSBU's GDPR action plan, in its current state, is inadequate for tracking GDPR activities for compliance. For example, there are no target start and completion dates, and there is a lot of missing data from other columns. Furthermore, at the time of our fieldwork we had observed 99 of 117 (85%) actions remain to be completed, where from the 76 actions with priority ratings assigned, 42 (55%) were high priority. The GDPR action plan is also being treated as a continuous and ongoing BAU plan, instead of a programme plan for achieving compliance with GDPR. <i>Gaps in the Records for Processing Activities Process (RoPA)</i> - the RoPA is missing mandatory columns such as 'purpose of processing' and there is no process for keeping the RoPA up-to-date. These are essential requirements for compliance with GDPR. <p>CMA Compliance - High risk report (1 High, 5 Medium and 1 Low risk findings)</p> <ul style="list-style-type: none"> <i>Accuracy of information provided to prospective students</i> - There is no quality review or reconciliation of the information provided in the course specifications, compared to the information published on the University's website, to ensure it is accurate and complete. Furthermore, our testing of 5 different courses against the information on the course specification, as compared to online, identified a number of exceptions, such as 2 of 5 course specifications not existing and 3 of 5 courses not matching on both mediums with inconsistent modules in years 1 and 2 for example. This is a known issue to LSBU. |

2. Summary of findings (3 of 5)

Description

Other control weaknesses

We have included details of our medium findings from the one medium risk report (London South Bank Innovation Centre - LSBIC) in this section.

Detail

There were two reviews that received an overall Medium risk rating, and we have summarised the medium risk findings from these reports below for the attention of the Audit Committee.

- **London South Bank Innovation Centre - Medium Risk report** (2 Medium and Low risk findings)
 - *Bid Process and pre-submission review* - There is heavy reliance on the Director to write and also review their own content, prior to submission. There is also no further review by an independent person and/or in terms of its technical content by a specialist as necessary. Other checks including the completeness of the documents provided against the requirements are also not formally performed as a requirement.
 - *Lessons Learnt and Prior Experience for future bids* - There is no formal capture of the feedback discussions held or a summary of key points as future reference to the team for similar bids, or for general process improvements for example. There should also be a mechanism or reference point/library in place, to ensure prior experience of similar bids are shared. Furthermore there is also no tracking in place to ensure the feedback from unsuccessful bids are also received.

The low risk findings identified in our reports do not represent a significant impact on the University's internal control and relate to specific areas. None are deemed to undermine the effective operation of controls within key systems.

Follow up

During the year we have undertaken follow up work on previously agreed actions up to 31 July 2019. The results of the follow up work have been reported at each Audit Committee meeting in our progress report.

The timely implementation of internal audit recommendations by management is a key indicator of good governance and a target rate of 75%+ should be aspired to by management.

Overall a 52% implementation rate was obtained, which is a slight deterioration from last year's 64%. However there are a further 20% of actions that are partially / mostly completed and are due to be completed by the next Audit Committee. The delay had been due to the complexity of the actions and there being twice the number of actions to implement this year. This continues to demonstrate that the University takes the work of Internal Audit seriously and is demonstrating a drive for continual process and control improvement.

A total of 25 agreed actions have been followed up, where 13 actions have been fully implemented (52%), 5 actions that are partially / mostly completed (20%) and 3 actions that are not implemented but deferred with a revised date (12%).

Please see page 11 for details of the follow ups.

2. Summary of findings (4 of 5)

Description

Good practice

We also identified a number of areas where few weaknesses were identified and/or areas of good practice were observed.

Detail

GDPR Compliance

- Despite resource constraints, the DPO and others (such as ICT Security) have made good progress such as updating all student-facing notices and forms, updating the consent process for direct marketing and implementing encryption to all LSBU laptops, reviewed and updated the compulsory training and delivered other targeted training sessions.

CMA Compliance (Report not yet finalised and will be finalised in November)

- The terms and conditions had been recently updated and is accessible, clearly written and in line with CMA guidance. Therefore no exceptions were identified for this area and no issues are reported below.
- The information on the complaints handling process is accessible, provided to students at the time of their offer and clearly detailed with expected timelines. Therefore no exceptions were identified for this area and no issues are reported below.
- There is a CMA working group with all key stakeholders invited; although improvements need to be made (see finding 1).

London South Bank Innovation Centre (Report not yet finalised and will be finalised in November)

- The Haplo system has been in place since late 2018 to manage, collaborate and track the funding proposals; with a Business Systems lead for support.
- The automated Haplo system provides sufficient audit trail of key approvers such as the financial review and approval from the REI (Research, Enterprise and Innovation) team at LSBU.

2. Summary of findings (5 of 5)

Description

Value for Money

Data quality

A Number of our reviews touched on data quality and the key aspects noted are as follows.

Detail

We have considered value for money as part of each of our internal audit reviews and have seen evidence of value for money being considered, monitored and achieved both for the University and other stakeholders such as the students.

Continuous Auditing

The two Student Data Continuous Auditing reports issued in 2017/18 were classified as medium risk for both phase 1 and phase 2. We have not identified any significant exceptions regarding student data controls, but we have seen an increase in exceptions over the course of the year which suggests that there has been a deterioration in performance. This should be monitored by management to ensure that this trend does not continue.

Our reviews of GDPR Compliance and CMA Compliance both focus on how the University handles the personal data and information of students against regulatory requirements. Whilst both reports have been rated High risk, these related to overall compliance with the standards and no significant data quality issues were noted as part of our reviews.

3. Internal audit work conducted (1 of 3)

Introduction

The table below sets out the results of our internal audit work. The following page shows direction of travel for controls and a comparison of planned and actual internal audit activity.

Results of individual assignments

| Review | Report classification | Number of findings | | | |
|---|--------------------------------|--------------------|----------|-----------|----------|
| | | Critical | High | Medium | Low |
| Continuous Auditing – Key Financial Controls P1 | N/A | - | - | 3 | 1 |
| The South Bank Academies Trust | N/A - advisory only | - | - | - | - |
| Continuous Auditing – Student Data P1 | N/A | - | - | - | 1 |
| Procurement | High | - | 1 | 2 | - |
| Continuous Auditing – Key Financial Controls P2 | N/A | - | - | - | 1 |
| Continuous Auditing – Student Data P2 | N/A | - | - | - | - |
| GDPR compliance | High | - | 3 | 2 | - |
| The South Bank Academies Trust - follow up, risk management and VfM | N/A - advisory only | - | - | - | - |
| CMA Compliance | High | - | 1 | 5 | 1 |
| The London South Bank Innovation Centre (LSBIC) | Medium | - | - | 2 | 1 |
| Risk Management | N/A - part of annual reporting | - | - | - | - |
| Value for Money | N/A - part of annual reporting | - | - | - | - |
| Total | | - | 5 | 14 | 5 |

3. Internal audit work conducted (2 of 3)

Direction of travel for controls

| Finding rating | Trend between current and prior year | Number of findings | | |
|----------------|--------------------------------------|--------------------|-----------|-----------|
| | | 2018/19 | 2017/18 | 2016/17 |
| Critical | | - | - | - |
| High | | 5 | 3 | 1 |
| Medium | | 14 | 13 | 13 |
| Low | | 5 | 14 | 11 |
| Total | | 24 | 30 | 25 |

Implications for management

Over the past two years, the overall number of findings have decreased but with a slight increase in high and medium risk findings, yet far less low risk findings. This year, we have performed 10 reviews which is slightly more compared with the 9 reviews last year. Overall this indicates a steady improvement. The risk profile will have also changed over the course of the two year period as we conduct different reviews each year that present different risk profiles.

For 2018/19, the high risk findings are from the Procurement, GDPR compliance and CMA compliance reviews. The scope of our Procurement review focused on three specific areas; whether supporting evidence was available for expenses on Purchase Cards, justification for Value for Money on purchases between £10k - £50k, and monitoring spends and usage against the agreed contract values. Therefore the risk rating does not reflect the overall performance of the Procurement function. Similarly, CMA compliance is still a relatively new requirement for Universities and does not reflect the performance of other key departments within LSBU. This is the same for GDPR compliance.

Therefore, the high risk findings relate to specific issues and is not deemed to represent a systemic threat to the entire control, risk management and governance environment.

Implications for next year's plan

As this is our final year serving as the provider of internal audit services, we have provided the new incumbent with the required materials to continue to deliver the service.

Comparison of planned and actual activity

| Audit unit | Budgeted days | Actual days |
|---|---------------|-------------|
| Continuous Auditing – Key Financial Controls P1 | 15 | 15 |
| The South Bank Academies Trust | 15 | 15 |
| Continuous Auditing – Student Data P1 | 13 | 13 |
| Procurement | 10 | 10 |
| Continuous Auditing – Key Financial Controls P2 | 15 | 15 |
| Continuous Auditing – Student Data P2 | 12 | 12 |
| GDPR compliance | 17 | 17 |
| The South Bank Academies Trust - follow up, risk management and VfM | - | 17 |
| CMA Compliance | 10 | 12 |
| The London South Bank Innovation Centre (LSBIC) | 10 | 10 |
| Risk Management | 5 | 5 |
| Value for Money | 3 | 3 |
| Audit planning and management | 15 | 18 |
| Total | 140 | 162 |

3. Internal audit work conducted (3 of 3)

Analysis of the Continuous Auditing programme

Whilst no overarching classification is assigned for our Continuous Auditing reports, we have summarised below the findings identified in each period under consideration as part of the 2017/18 audit programme. The comparative performance for 2016/17 is also shown.

Key Financial Systems

The table below represents our view of the overall risk for each system within each financial cycle. As this is the final year of our IA service, we have not performed testing for the period (January 2019 - June 2019, which would be normally covered by our phase one testing of the 2019/20 key financial systems. The numbers in brackets represents the number of operating effectiveness exceptions identified from our work. The control design recommendations identified are included within the table included on page 9.

Overall the performance during this period has slightly deteriorated with the previous period but remains consistent in the number of exceptions identified across the systems compared, with the previous period. In particular, we are pleased to report that the performance of Payroll remains improved as green risk rating following previous years. The performance of Accounts Receivable has also improved with the risk rating remaining green due to fewer exceptions identified, and for those identified they were low risk. For Cash and General Ledger, the risks are now amber for 2018/19, due to the type of exceptions identified. However we note that these are one-off exceptions and do not impact the overall controls in place.

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| System / Rating | Trend | IA Programme | | | | | |
|--------------------|-------|--------------|------------|------------|------------|------------|------------|
| | | P2 2018/19 | P1 2018/19 | P2 2017/18 | P1 2017/18 | P2 2016/17 | P1 2016/17 |
| Payroll | ↔ | Green (2) | Green (1) | Amber (1) | Red (5) | Amber (5) | Amber (4) |
| Account Payable | ↔ | Green (0) | Green (1) | Green (3) | Amber (1) | Amber (2) | Green (1) |
| Account Receivable | ↑ | Green (1) | Amber (2) | Amber (2) | Green (0) | Green (2) | Green (1) |
| Cash | ↓ | Amber (2) | Green (1) | Green (1) | Green (0) | Green (1) | Amber (1) |
| General Ledger | ↓ | Amber (1) | Green (0) | Green (1) | Green (2) | Green (0) | Amber (1) |

4. Follow up work conducted

Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented. In accordance with our internal audit plan, we followed up a sample of recommendations made in prior years to ascertain whether action had been taken. The table below summarises the follow up work performed.

Results of follow up work

92 agreed actions were due for implementation by 31 July 2019. The table below summarises the follow up work performed.

| Status of agreed actions | Total number of agreed actions as of 31 July 2019 |
|-------------------------------|---|
| Due and implemented | 13 (52%) |
| Due and partially implemented | 5 (20%) |
| Due but not implemented | 3 (12%) |
| Not due | 4 (16%) |
| Total | 25 |

Summary

There has been a deterioration in the University's implementation rate this year with the University achieving a 52% implementation rate compared to an implementation rate of 64% last year. However, there is also over twice the number of agreed actions to implement, compared to last year where there were 11 agreed actions.

Appendix 1: Limitations and responsibilities

Appendix 2: Opinion types

Appendix 3: Basis of our classifications

Appendix 4: Mapping of internal audit work

Appendix 5: Conformance with the code of ethics, internal audit standards and independence

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. 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 reviews 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 period 1 August 2018 to 31 July 2019. 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.

The specific time period for each individual internal audit is recorded within section 3 of this report.

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

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

| Type of opinion | Indication of when this type of opinion may be given |
|---|---|
| Satisfactory | <ul style="list-style-type: none"> A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and None of the individual assignment reports have an overall report classification of either high or critical risk. |
| Generally satisfactory with some improvements required | <ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and None of the individual assignment reports have an overall classification of critical risk. |
| Major improvement required | <ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and A minority of the individual assignment reports may have an overall report classification of either high or critical risk. |
| Unsatisfactory | <ul style="list-style-type: none"> High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or More than a minority of the individual assignment reports have an overall report classification of either high or critical risk. |
| Disclaimer opinion | <ul style="list-style-type: none"> An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control. |

Appendix 3: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

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

Appendix 3: Basis of our classifications

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; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability. |
| High | <p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequences; or • Significant impact on the reputation or brand of the organisation. |
| Medium | <p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation. |
| Low | <p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation. |
| Advisory | <p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</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 unit | Governance | Risk management | Control | Value for money | Data submission |
|---|------------|-----------------|---------|-----------------|-----------------|
| Continuous Auditing – Key Financial Controls P1 | XX | XX | X | XX | XX |
| The South Bank Academies Trust | XX | XX | X | XX | - |
| Continuous Auditing – Student Data P1 | XX | XX | XX | XX | X |
| Procurement | XX | X | XX | X | - |
| Continuous Auditing – Key Financial Controls P2 | XX | XX | X | XX | XX |
| Continuous Auditing – Student Data P2 | XX | XX | XX | XX | X |
| GDPR compliance | X | - | XX | XX | XX |
| The South Bank Academies Trust - follow up, risk management and VfM | XX | XX | X | XX | - |
| CMA Compliance | X | XX | X | XX | XX |
| The London South Bank Innovation Centre (LSBIC) | - | XX | X | XX | - |
| Risk Management | XX | X | - | - | - |
| Value for Money | - | - | - | X | - |

Data submission

It is of particular note that 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 the Higher Education Statistics Agency, OFS and other funding bodies. To assist the Audit Committee prepare its Annual Report, we have outlined above 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.

Key

X Testing focused on this area

XX Testing was peripheral

Appendix 5: Conformance with the code of ethics, internal audit standards and independence

Code of Ethics and Internal Audit Standards

We have a firm wide internal audit methodology which is aligned to the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. This is designed to standardise the approach to conducting internal audit engagements. All our work is documented in our dedicated internal audit software which sets out the procedures to be performed to achieve compliance with the standards. The inbuilt workflow functionality ensures that work is adequately documented and reviewed before results are shared. This is further supported by relevant training, supervision and review of the work performed by those with adequate experience and skill in the relevant areas. We also review a random selection of engagements to ensure they comply with the firm's requirements and have appropriately followed the internal audit methodology.

We can confirm that our work has been performed in accordance with this methodology.

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Independence

We can confirm that in our professional judgement, as at the date of this document, Internal Audit staff have had no direct operational responsibility or authority over any of the activities planned for review. We can confirm that as an organisation we are independent from London South Bank University.

Thank you

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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 London South Bank University in our agreement dated 16/10/17. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Memorandum of Assurance and Accountability between the Office for Students and 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.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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