

	PAPER NO: AC.65(12)	
Board/Committee:	Audit Committee	
Date:	30 October 2012	
Paper title:	Audit Committee Annual Report	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation by the Executive:	The Executive recommends that the Audit Committee approve the draft Audit Committee Annual Report.	
Aspect of the Corporate Plan to which this will help deliver?	HEFCE Requirement – transparency of governance	
Matter previously considered by:	N/A	N/A
Further approval required?	Board (for consideration)	22 November 2012
Communications – who should be made aware of the decision?	Submitted to HEFCE	

Executive Summary

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

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

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

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

Draft conclusions for these areas have been included at the end of the report.

The principal concerns of the committee have been updated from last year's report following consultation with the Chairman of the Committee.

The committee are asked to approve the annual report.

DRAFT ANNUAL REPORT BY AUDIT COMMITTEE TO THE ACCOUNTABLE OFFICER AND THE BOARD OF GOVERNORS

- *To be approved by the Audit Committee on 30 October 2012*
- *To be noted by the Board on 22 November 2012*
- *To be filed with HEFCE by 1 December 2012*

Executive summary

During the year to 31 July 2012, the Audit Committee met four times, three meetings chaired by Chris Swinson, independent governor and one meeting by Andrew Owen, independent governor. Chris Swinson resigned as a governor and member of the Audit Committee in May 2012. HEFCE was notified of this change.

Major milestones for the Committee during the year include:

- In relation to the reporting year, the key matters covered by the Committee included: review and clearance of the University's annual report and accounts for 2011/12 (paragraph 10);
- approval of the plan for PwC's internal audit review work for the year (paragraph 14);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 15);
- A self assessment of the Committee's effectiveness (paragraph 6);
- Four meetings with PwC and one meeting with Grant Thornton in the absence of all University officers;
- The appointment of a new independent governor member, Douglas Denham St Pinnock (on 8 March 2012) and an external co-opted member, Shachi Patel (on 3 October 2012);
- Consideration of the annual internal audit report;
- Regular review of the corporate risk framework; and
- Approval of a full compliance statement in respect of internal control.

The principal concerns of the Committee, which have been discussed in detail during the year, are:

- data quality – in relation to the returns made to HEFCE and HESA, which are the subject of an action plan for continuous improvement, led by the Pro Vice Chancellor (Academic) and the Academic Registrar (paragraph 30);

- changes to fees and funding models – in relation to the University meeting the challenges of the changes to student fees and the consequences for the University's financial position.

The Executive does not consider this to be a control issue and it is covered in the corporate risk register (risk 1 "Failure to position the university to effectively respond to changes in government policy and the competitive landscape"). Existing controls include financial forecasting and modelling and a regular review of strategy by the Board.

- the change in status of the Students' Union to an independent body.

These concerns will be monitored by the Committee in the current financial year 2012/13.

Introduction to report

1. This report covers the financial and academic year from 1 August 2011 to 31 July 2012.
2. No member of the Audit Committee has, or has had during the year, a direct role in the management of the University. All members of the Committee are asked to declare any interests in any item of business on the agenda at each meeting.
3. During 2011/12, the Audit Committee was chaired by Chris Swinson (until 10 May 2012) and Andrew Owen (from 20 May 2012). Members of the committee during the year were: Steve Balmont, Douglas Denham St Pinnock (from 8 March 2012), Andrew Owen, and Chris Swinson (until 10 May 2012). Chris Swinson left the Audit Committee following his resignation as a governor of the University. All members of the Committee are independent governors. The committee have co-opted Shachi Patel as an external member of the committee from 3 October 2012. There is a vacancy for an independent governor on the Committee. James Stevenson, University Secretary & Clerk to the Board, served as secretary to the Committee throughout the year.
4. The Committee had four business meetings during the year. The Vice Chancellor was present at all meetings except the meeting of 21 September 2011. Members of the Executive were present at all meetings. The internal auditors were present at all four meetings. The external auditors were present for three meetings. For the financial & academic year 2012/13 the Committee will also hold four business meetings (September, October, February, June).
5. The Committee's terms of reference were reviewed in September 2012. The Committee has an agreed forward business plan which is used to plan its agendas during the year and is reviewed annually.
6. The Committee carried out a self-assessment of its effectiveness in autumn 2011. No major changes to the committee or its terms of reference were proposed.
7. All these arrangements are consistent with HEFCE guidance

External Audit

8. Throughout the year Grant Thornton UK served as the University's external auditors.

9. At its meeting of 16 November 2011, the Committee considered and approved a letter of engagement of Grant Thornton UK.
10. At its meeting of 30 October 2012, the Committee considered and recommended to the Board for approval the draft Financial Statements for the year ended 31 July 2012. The Committee considered in detail a Key Issues Memorandum and audit opinion from Grant Thornton UK. The Committee considered and recommended to the Board for approval the letter of representation from the Board of Governors to Grant Thornton UK.
11. Performance indicators had been agreed against which the performance of the external auditors would be measured. The Committee received a report on performance against indicators at its meeting of 30 October 2012. The external auditors met, or partially met, all of the agreed performance indicators.
12. The Committee met Grant Thornton UK prior to its meeting of 30 October 2012 in the absence of any University employees to discuss the year end audit and other matters. In addition, private meetings between the Committee and Grant Thornton UK are held if required during the year.
13. For the year ended 31 July 2012, Grant Thornton provided corporate tax advisory services with a value of £3,286 including VAT. This work was carried out by an engagement team completely separate from the audit team.

Internal Audit

14. The University's Internal Auditors for the year were PricewaterhouseCoopers (PwC). PwC worked to an internal audit plan approved by the Committee.
15. The Committee has received progress reports from PwC at every meeting, which it monitors both with the internal auditors and with management. A protocol agreement is in place which sets out the timetable by which management must respond to the recommendations of the internal auditors.
16. During the year eight audits were undertaken. Two areas were deemed low risk, four areas medium risk and two areas high risk which were "the Bribery Act" and "Student Data Quality". A total of 32 recommendations across the eight audits were made of which none were critical, five were high, nine were medium and 18 were low.

17. The internal auditor's annual report for 2011/12 provided a positive assurance statement. With three specific exceptions where significant improvements are required, the internal audit opinion is that LSBU has adequate and effective arrangements in place to address the risks that management's objectives are not achieved in respect of risk management, control, governance and value for money.
18. The three concerns were:
 - a. Ensuring that adequate arrangements are in place to ensure compliance with the Bribery Act 2010;
 - b. Ensuring that systems and processes are in place to ensure that the HESA and HESES data returns submitted to HEFCE is both accurate and complete; and
 - c. Discouraging members of staff from sharing their user access credentials with other employees, and ensuring that staff are aware of the requirement to ensure their PC terminals are appropriately secure prior to leaving their desk for any period of time.
19. The internal audit annual report found year on year improvements in the control environment: "comparing the volume and risk rating assigned to recommendations year on year however is indicative of an improvement in the overall control environment. ... [T]here has been a significant reduction in the number of medium risk recommendations raised. Whilst we have identified an increased number of low risk recommendations year on year, the overall volume of recommendations has reduced".
20. In the previous year's internal audit annual report "moderate assurance" was given on the design adequacy and effectiveness of the system of internal control.
21. The Committee met PwC prior to its meeting of 30 October 2012, in the absence of any of the University's employees, to discuss progress in the internal audit function and other matters. In addition, private meetings between the Committee and PwC are held prior to each committee meeting.
22. Performance indicators had been agreed against which the performance of the internal auditors would be measured. The Committee received a report on performance against indicators at its meeting in September 2012. The internal auditors met all of the agreed performance indicators.

23. In addition to their internal audit work, PwC performed an investigation in respect of a payroll overpayment processed in March 2012. This has been reported separately to HEFCE.

Students' Union Finances

24. The audited Financial Statements of the Students' Union for the year ended 31 July 2012 were noted at the meeting on 30 October 2012. During the 2012/13 financial year the Student's Union will register as an independent charity separate from the University.

Risk management, control and governance

25. The Committee received a report on risk management at each meeting. Risk is also reported to the Board of Governors and is considered by the University Executive at its monthly meetings. The University's corporate risk framework is aligned to the Corporate Plan.
26. The University has continued to use 4Risk, a software package which tracks the implementation of risk management measures.
27. A review of the effectiveness of internal control is undertaken annually and a report was submitted to the Committee at its meetings of 27 September 2012 and 30 October 2012. At the October meeting, the Committee approved the annual full compliance statement.
28. During the year, one major breakdown of controls was discovered which led to an erroneous payment in the March payroll of £139k. Following an internal investigation and a review carried out by the internal auditors, PwC, management and the committee are of the view that the overpayment was due to an error rather than fraud or malicious intent. The failure of a number of controls was identified and actions are being taken to address this including disciplinary action against the staff involved. HEFCE have been notified of the incident and received the report from the internal auditors. All overpaid monies were recovered.

Economy, Efficiency and Effectiveness (VFM)

29. Value for money (VFM) is a component in every review undertaken by the internal auditors. The Committee receives an annual VFM report from the Executive. For 2011/12, the principal achievements are:
- a. Contract term cashable savings of £2.6m identified in 11/12;
 - b. Approval of a new Category Management approach to embed demand management, value analysis and process re-engineering;
 - c. Increased internal client interaction, including the establishment of a VFM Working Group. Jointly chaired by the Head of Procurement and the Director of Student Services, the group will focus on VFM for the student and ensure that the University is doing the right thing (not just doing things right);
 - d. Delivery of a broad range of non-cashable efficiency savings as set out in the VFM report; and
 - e. Earlier involvement by Procurement in key projects.

Management and Quality Assurance of Data submitted to HESA and HEFCE

30. At its meeting of 16 November 2011, the Committee discussed in detail the quality of data in relation to the returns made to HEFCE and HESA. Both the Pro Vice Chancellor (Academic) and the newly appointed Academic Registrar reported to that meeting. The Committee noted the action plan for continuous improvement.
31. The committee reviewed the progress of the action plan for continuous improvement at each meeting subsequently. In addition the internal auditors undertook ten days' work reviewing student data quality.
32. PwC confirmed that a number systems and processes designed to support the accuracy of submitted HESES and HESA data relating to student intake required improvement. The system was classified as 'High Risk' but the committee noted that work is in hand.

HEFCE Assessment of Institutional Risk

33. In November 2012 the Board received HEFCE's assessment of the University's institutional risk, which was that LSBU was "not at higher risk" at this time, and noted that this was the most favourable opinion available for HEFCE to give to any institution. HEFCE gave the same opinion in 2007, 2008, 2009, 2010 and 2011.

HEFCE Assurance Review

34. In July 2011 HEFCE undertook an assurance review of the University to review how the University exercises accountability for the public funds it receives. HEFCE's conclusion was that they are "able to place reliance on the accountability information". This is the highest rating possible. HEFCE did not make any recommendations for improvement in the report.

Public Interest Disclosure

35. Under the "speak up" policy the University Secretary reported on speak up activity at every business meeting of the Audit Committee. During this period no speak up matters were raised. The Chairman of the Audit Committee acts as the independent point of contact for anyone wishing to raise a speak up matter outside line management of the Executive.
36. The "speak up" policy was reviewed in February 2012.

Fraud

37. Under the anti-fraud policy the Executive Director of Finance reported on fraud at every business meeting. During the year one irregularity was discovered in the payroll department regarding an overpayment in the March 2012 payroll. This is reported in more detail in paragraph 28. Whilst the root cause of the entries could not be established, the investigators considered the possibility of a typographical error when inputting adjustment start dates to be a potential likely cause rather than fraud or malicious intent.
38. No other instances of fraud, corruption, bribery or other irregularity had been discovered or reported to the Executive Director of Finance during the year.
39. The Audit Committee reviewed and approved the anti-fraud policy in June 2012.

Principal concerns of the Audit Committee

40. The principal concerns of the Committee, which have been discussed in detail (either in formal committee meetings or in private pre-meetings) during the year, are:

- data quality – in relation to the returns made to HEFCE and HESA, which are the subject of an action plan for continuous improvement, led by the Pro Vice Chancellor (Academic) and the Academic Registrar (paragraph 30);
- changes to fees and funding models – in relation to the University meeting the challenges of the changes to student fees and the consequences for the University's financial position.

The Executive does not consider this to be a control issue and it is covered in the corporate risk register (risk 1 "Failure to position the university to effectively respond to changes in government policy and the competitive landscape"). Existing controls include financial forecasting and modelling and a regular review of strategy by the Board.

- the change in status of the Students' Union to an independent body.

These concerns will be monitored by the Committee in the current financial year 2012/13.

Opinion of the Audit Committee

Risk Management, Control and Governance

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

42. This opinion is based on:

- the HEFCE assurance review of July 2011 and HEFCE's annual assessment of institutional risk;
- the Internal Audit annual report for 2011/12 which, subject to three specific exceptions where significant improvements are required, gave the opinion that "the 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

- the University's detailed review of internal controls and governance arrangements. This review was considered by the Audit Committee on 30 October 2012.

Economy, Efficiency and Effectiveness (VFM)

43. The Committee's opinion on the economy, efficiency and effectiveness (VFM) of the University is that they have been achieved satisfactorily.
44. This opinion is based on our annual assessment of VFM and the Internal Audit annual report, 2011/12 which gave the opinion that "the University has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of value for money".

Management and quality assurance of data submitted to HESA and HEFCE

45. The Committee's opinion on the management and quality assurance of data submitted to HESA and HEFCE is that, although perceptible progress has been made in the 2011-12 year, the University still has only limited assurance.
46. This is based on the progress demonstrated to the Committee of the HESA Improvement Project and the internal audit review of student data quality which classified the system as high risk (N.B. There was no specific requirement for the internal auditors to give an opinion on data quality).

This annual report is recommended to the Audit Committee by the University Executive and approved by the members of the Audit Committee on 30 October 2012.

Signed

Andrew Owen
Chairman of the Audit Committee