

Meeting of the Audit Committee

4.00 - 6.00 pm on Tuesday, 1 October 2019
in Technopark, SE1 6LN

Agenda

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
6.	South Bank Academies risk management and Value for Money (VfM) audit report	223 - 224	JM
9.	Draft internal audit annual report, 2018/19	225 - 248	JM

Date of next meeting
4.00 pm on Thursday, 7 November 2019

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

Apologies: Gemma Wright

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

External auditors: Fleur Nieboer and Jack Stapleton (KPMG)

Internal auditors: Justin Martin and Amy Chiu (PWC)

Ruth Ireland (BDO)

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	CONFIDENTIAL
Paper title:	SBA Internal Audit Report
Board/Committee:	Audit and Risk Committee
Date of meeting:	01 October 2019
Author(s):	PwC, Internal Auditors
Sponsor(s):	Nicole Louis, Chief Executive Officer, SBA
Purpose:	For Discussion
Recommendation:	The committee is requested to review the findings of the external audit report covering risk management and value for money

Executive Summary

This review is the second audit undertaken by PwC on SBA and focussed on risk management and value for money controls against good practice. The previous PwC audit concentrated on key financial controls, financial monitoring and safeguarding. Broadly, the findings of this audit are positive in that only a small number of recommendations have been identified. These recommendations, whilst representing best practice in the areas of risk management, fall outside any requirements defined by either the ESFA or the Academies Financial Handbook and may therefore, be considered discretionary in terms of SBA's need to implement. Management has reviewed the findings and has agreed to implement the recommendations against each finding with a target date of 31st December 2019.

The report identified three medium risk findings and one advisory finding as follows:

Medium

1. Lack of an existing risk management strategy and risk appetite statement;
2. Two of the academies' stated objectives not being aligned to items on the three current risk registers, and risk owners being identified by job title rather than by name; and
3. Sample testing evidenced risk registers not having been reported to local advisory boards.

Advisory

4. Achieving value for money not referred to in the Trust's strategy.

The committee is requested to review the report.

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	CONFIDENTIAL
Paper title:	Draft Internal Audit Annual Report and Opinion
Board/Committee	Audit Committee
Date of meeting:	1 st October 2019
Author:	Pricewaterhouse Coopers
Sponsor:	Richard Flatman, Chief Financial Officer
Recommendation:	The Committee is requested to note the draft report and its findings. The final report will be presented at the November Audit committee meeting.

Summary:

This report outlines the internal audit work that PWC have carried out for the year ended 31 July 2019. Their overall opinion is that of 'Generally satisfactory with some improvements required'.

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. PWC's 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.

The report is currently in draft and will come back as final to the committee in November. The final version of the report will be submitted to the Office for Students as part of an annual return. As in previous years, the draft report is provided in October so the committee can have early sight of it. Two reports (on CMA compliance and London South Bank Innovation Centre) are not yet finalised although the annual opinion takes account of the draft findings. These reports will be available for more detailed review at the November 2019 meeting.

Recommendation:

The Committee is requested to note this 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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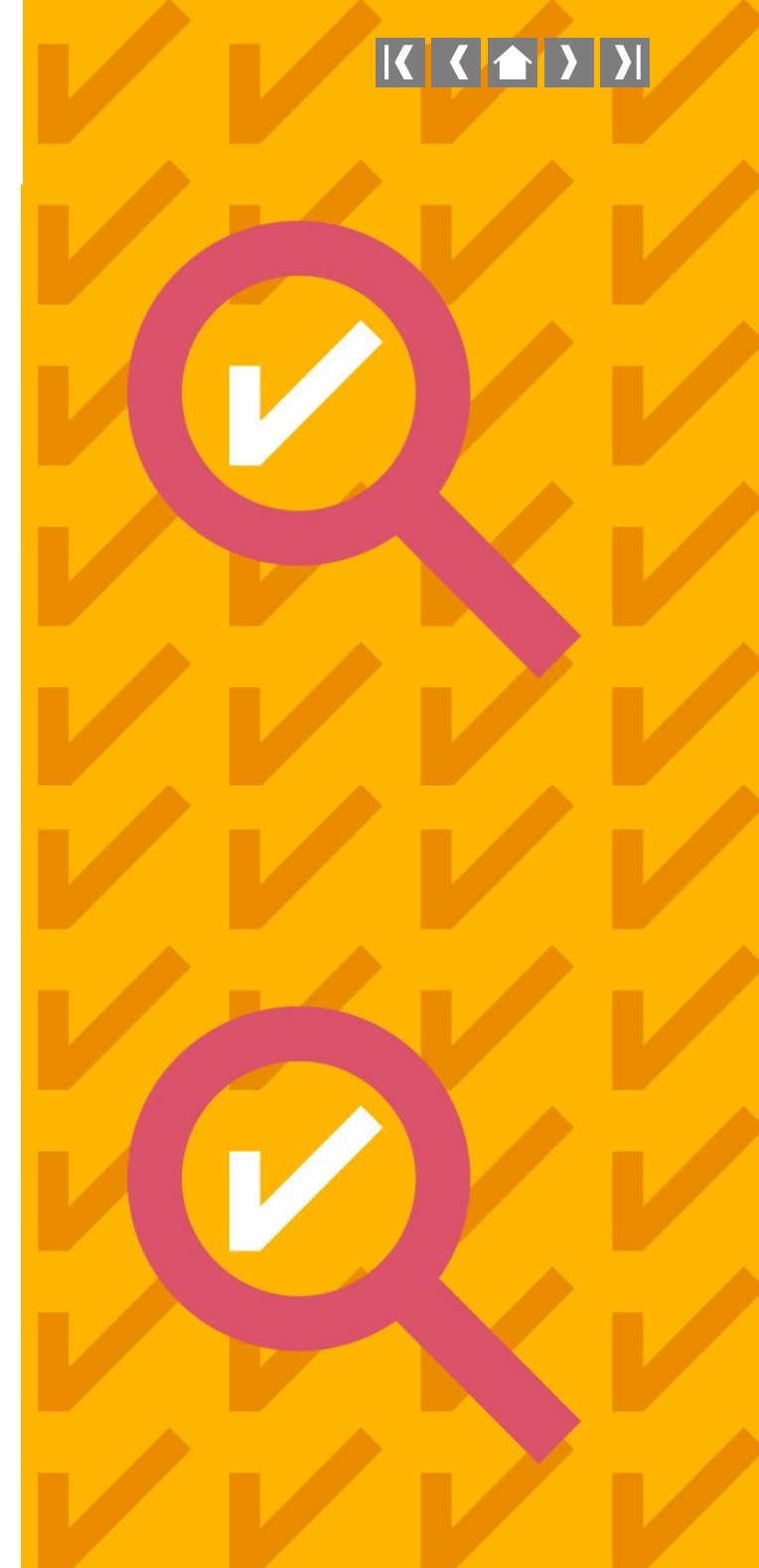
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Distribution list

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 or high.

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><i>Please note that there are two reports, LSBIC and CMA Compliance that are still in draft with Management for their final review and comments. Therefore they are not yet finalised but will be finalised by the next Audit Committee. Our annual opinion reflects the findings and risk ratings presented in those draft reports, as they are not likely to change significantly and had been agreed in the closing meetings.</i></p>	<p>Our audit plan was scoped to address London South Bank University's key risks and strategic objectives. We mapped each review to these areas in our 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.
Governance	<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>
Risk Management	<p>At the date of this draft report we are finalising our year end review of the University's risk management policies and procedures. 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>

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.

Please note that this report (alongside CMA Compliance) are still in draft with Management and not yet finalised.

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 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 - <i>draft report version</i>	High	-	1	5	1
The London South Bank Innovation Centre (LSBIC) - <i>draft report version</i>	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

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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.

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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.

For more details, please refer to our September progress report of the outstanding actions up to 31 July 2019.

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 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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