



BOARD OF TRUSTEES 22 NOVEMBER 2019

REPORT TITLE	ANNUAL REPORT OF THE AUDIT COMMITTEE 2018/19	
CLASSIFICATION	OPEN <input checked="" type="checkbox"/> CONFIDENTIAL <input type="checkbox"/> STRICTLY CONFIDENTIAL <input type="checkbox"/>	
Report Author: Robert Kerse, Mr Andrew Poolman	Job Title: COO Treasurer & Chair of the Audit Committee	
Sponsored by: Robert Kerse, Mr Andrew Poolman	Job Title: COO Treasurer & Chair of the Audit Committee	
For decision <input checked="" type="checkbox"/>	For discussion: <input type="checkbox"/>	
Actions/Decisions Required		
<p>The Board of Trustees and the Accountable Officer (the Vice-Chancellor) are asked to: CONSIDER the Annual Report of the Audit Committee for 2018/19 and take special note of any matters highlighted that may impact on the Board's approval of the financial statements for the year ended 31 July 2019.</p> <p>Appendices to the report include:</p> <ul style="list-style-type: none"> • The Audit Committee Terms of Reference and membership for academic year 2018/19 (Appendix A), which were noted by the Committee at its meeting on 10 September 2018. • The Internal Audit Strategy for 2019-2022 (Appendix B) which was received by the Committee at its meeting on 19 July 2019. • The Internal Audit Annual Report 2018/19 (see paper BT/19-20/018b) which was received by the Committee at its meeting on 14 October 2019. • The Value for Money (VfM) Statement (Appendix C) which was received by the Committee at its meeting on 14 October 2019. 		
Paper History:		
<p>The Office for Students requires all UK HEIs' Audit & Risk Committees to prepare an annual report for submission to its governing body and the Accountable Officer (the Vice-Chancellor) and subsequently to the Office for Students. The following report was considered and approved by the Audit Committee at its meeting on the 14 October 2019.</p>		
Next Steps:		
<p>The report will be submitted to the Office for Students by 1 December 2019 and also sent to our lenders and private placement investors in line with the obligations contained within the University's borrowing agreements.</p>		

Link to Strategic Plan	NO <input checked="" type="checkbox"/>	YES <input type="checkbox"/>
Link to Risk Register	NO <input type="checkbox"/>	YES <input checked="" type="checkbox"/>
Summary of any consultations carried out	NO <input checked="" type="checkbox"/>	YES <input type="checkbox"/>
Summary of any Equality, Diversity & Inclusion implications	NO <input checked="" type="checkbox"/>	YES <input type="checkbox"/>
Summary of any Sustainability Implications	NO <input checked="" type="checkbox"/>	YES <input type="checkbox"/>
Report/Supporting Information		
Report/Supporting Information attached.	NO <input type="checkbox"/>	YES <input checked="" type="checkbox"/>



ANNUAL REPORT OF THE AUDIT & RISK COMMITTEE 2018/19

1. Introduction

1.1 This report outlines updates on key audit issues during the financial year 1 August 2018 to 31 July 2019; it also includes any significant issues that have arisen up until the date of this annual report (14 October 2019). This report is part of the requirements of the annual assurance return to the Office for Students (OfS). It has been approved by the Audit & Risk Committee, in cognisance of the requirements of the OfS Terms and Conditions of Funding for Higher Education Institutions and the OfS Regulatory Framework for Higher Education in England and subsequent guidance, for the purposes of assuring the Board of Trustees and the University's Accountable Officer (the Vice Chancellor; who is accountable to the OfS on behalf of the Board of Trustees) as to the adequacy and effectiveness of:

- Risk management, control and governance;
- Value for money (VfM); and
- the management and quality assurance of data.

1.2 In particular, the Audit & Risk Committee has taken reasonable steps to assure itself as to the effectiveness of the University's internal audit function and its External Auditors, as well as considering evidence-based assurances from the University's management, throughout the reporting period. Additionally, the Committee reported to the Board of Trustees (of which the Accountable Officer is a member) after each meeting to provide assurance to the Board.

2. Risk Management

2.1 The Internal Auditors carried a specific review of Risk Management in 2017/18, and concluded that:

- the University had effective risk management arrangements in place and that these were operating effectively; and
- in the areas examined, suitable key internal controls were in place and generally operating satisfactory to provide reasonable assurance that the related control objectives were achieved.

2.2 Additionally, in 2018/19, a review of governance by the Internal Auditor considered the adequacy of the University's risk management arrangements. Further details are provided in section 4. (Governance) below.

2.3 The Committee considered the Key Risk Register at each of its meetings during 2018/19 with deep dives into Temple Quarter Enterprise Campus ('TQEC') at every meeting and Cyber Security and Disaster Recovery on 29 April 2019. The Committee was given assurances by management that they are taking appropriate action with regard to Temple Quarter Enterprise Campus new campus development. The Committee were joined by either the Deputy Vice-Chancellor (New Campus Development) or the Head of Programme Delivery for Temple Quarter at each meeting. The Committee noted that the University sought to minimise its risk exposure at TQEC by taking a step by step approach and by ensuring that risk budgets were inside the target so as to retain headroom to manage unpredictable costs and risks.

- 2.4 In terms of the deep dives on Cyber Security and Disaster Recover, the Committee heard that the University has risk exposures in these and were provided with assurances from management that actions were being undertaken to mitigate risks. A new University IT Strategy will address these areas and the Committee will receive a progress report in January 2020.
- 2.5 The University's risk management processes have developed during the year and the Committee has provided continuous comment and feedback. In October 2018, the Committee received a paper entitled Progressing the Development of the University's Risk Management Framework. The paper outlined the changes and enhancements that had been made to the Risk Management process, including a new set of risk management policies and procedures. The University has altered the risk scoring mechanism and within the new guidance documents there are detailed descriptions of how the new scores will be scaled on a range of key risk areas, including financial, health and safety, reputation and compliance to allow for more comparative analysis of risks. Risk scores are applied to a matrix based on general themes or strategic areas, with risk appetite represented as a "heat map" by which risk scores can be scaled and compared. The new risk scoring matrix also helps to clarify the University's risk appetite. As part of the integration of risk management the new framework ensures that risk is embedded in the University's integrated planning process. This has been planned to involve operational level review of School/Faculty plans three times per year.
- 2.6 On 19 July 2019, Audit Committee agreed that in relation to Key University Risks, the Committee were not yet satisfied in relation to full *implementation* of the new risk management framework. The Committee noted that it would receive a further response and update on this topic at its meeting on 14 October 2019. [Add in the view of the Committee on 14 October 2019].

Conclusion

- 2.7 The Audit Committee is satisfied with the progress made over 2018/19 and up to the date of this report in developing the University's risk management framework, which is now in a substantially stronger position, and that basic controls to manage risk have been in operation.

3 Controls

- 3.1 Key sources of assurance that the University is maintaining a robust system of internal control are outlined below.

Internal Audit

- 3.2 The University's internal audit services for 2018/19 were provided by a co-sourced model with RSM acting as the Head of Internal Audit and the University providing the majority of internal audit staff to perform the audit field work.
- 3.3 The University's 2018/19 Internal Audit Strategy (agreed by the Audit Committee in July 2018) set out a new approach taken in developing and delivering the University's internal audit service and analysed the corporate objectives, identified risks, major change initiatives and business as usual activities to create a programme of work covering the next three years. A key aspect of the new University Risk Assurance department is that it operates as a co-source model, with RSM Risk Assurance LLP providing leadership, management and direction to support an internal capability who will be responsible for delivering large parts of the internal audit programme. RSM are also responsible for delivering a range of more complex or technically challenging assignments as part of this arrangement. As part of this delivery model the University has directly appointed two full time Senior Auditors who report

into the Finance team but work closely with the RSM leadership to form a “one team” approach to delivering internal audit.

- 3.4 The Committee emphasised the necessity of in-depth audits to provide adequate assurances in key risk areas. Audit Committee received, challenged and approved a revised version of the Internal Audit Plan 2018/19 Update Report at each meeting in the academic year 2018/19.
- 3.5 On 14 October 2019, Audit Committee considered the Internal Audit Annual Report 2018/19 – Final Draft. 19 reports were completed by RSM between October 2018 and October 2019. RSM provided reasonable assurance and agreed medium and low priority level action actions with management for eight reports. RSM provided partial assurance and agreed high, medium and low priority actions with management for ten reports. For one report entitled Business Continuity and Disaster Recovery, RSM provided no assurance and agreed high, medium and low priority level action actions with management.
- 3.6 Of the total 126 actions identified throughout the year, 16 (12.8%) were high priority. These findings reflected serious internal control or risk management issues in their respective areas; each carrying a risk of substantial losses, violation of corporate strategies, policies or values, regulatory scrutiny, reputational damage, negative publicity in national or international media or adverse regulatory impact, such as loss of operating licences or material fines. The high priority actions covered the following areas:
- Improving the management of third-party risk, shadow IT, mobile devices, and leaver systems access to address key cyber security risks;
 - Development and communication of an IT disaster recovery (DR) and business continuity (BC) framework following a business impact analysis, a clearly owned process for assigning BC/DR priority for new services, and an IT BC Plan; as well as updating emergency contact information for BC and DR incidents;
 - Improving clarity over accountability for purchasing approvals; and ensuring appropriate leadership within Finance to enhance capability for continuous improvement and processing the identified invoicing backlog;
 - Increasing central oversight and reporting on use of hourly paid teachers;
 - Bringing processes for the management of temporary staff within MyERP, reducing reliance on manual spreadsheets; and a review of processes with a view to reducing or eliminating the practice of retrospective requests for use of temporary staff.
- 3.7 RSM noted that the work of the Internal Audit team during 2018/19 had brought a materially increased level of challenge to the management team but concluded that this does not reflect any significant change in the University’s governance and control frameworks; but is more due to RSM’s focus on end-to-end processes, strategic alignment, and seeking the underlying causes of issues identified in specific areas.
- 3.8 A further report related to Follow Up Progress on previous recommendations. RSM has followed up on the progress against all the agreed management actions from the previous internal auditors. In order to adequately track management actions and embed ownership with management going forwards action tracking software will be implemented.
- 3.9 Additionally, the Committee received and approved the Risk Assurance Draft Internal Audit Strategy 2019-2022 (**Appendix B**). The Committee discussed what the appropriate level of assurance activity is each year, noting that the number of days had been higher in the last two years than it had been in the previous ten. It was noted that the internal audit team was building up its skills and experience and that this would lead to improved efficiencies in the processes.

External Audit

- 3.10 External audit services were provided by PricewaterhouseCoopers LLP (PwC), Audit Committee recommended to the Board of Trustees that they be appointed as the external Auditor of the period 2018/19, this was subsequently agreed by the Board of Trustees. In accordance with the Annual Assurance Framework outlined by the Office for Students, the annual report of PwC was considered by the Audit Committee on 14 October 2019.
- 3.11 In the report, PwC reported the significant findings from the 2018/19 Audit. The report set out matters arising from PwC's audit of financial statements, for University of Bristol and its subsidiary companies, for which reporting is required under the Audit Code of Practice ("the Code"), which is included in both the Terms and conditions of funding for higher education institutions for the period to 31 July 2019 (OfS 2018.15) issued by Office for Students ("OfS") and Terms and conditions of Research England grant (RE-P-2018-02) issued by Research England (together "the terms and conditions of funding") and International Standard on Auditing (UK) 260 'Communication of audit matters with those charged with governance'. The Code sets out mandatory audit requirements which represent conditions of funding under the terms and conditions of funding between the institution and both the OfS and Research England.
- 3.12 In the report, PwC reported on the University's financial statements, the application of funds by the University, and whether the requirements of the regulator's accounts direction had been met. PwC confirmed that its audit work had been substantially completed and that it expected to issue an unmodified audit opinion on the financial statements in November 2019.
- 3.13 The Audit Committee considered PwC's Management Letter for 2018/19 at its meeting on the 14 October 2019. No significant control issues were raised by PwC. Further, at its October 2019 meeting, the Committee considered the financial statements with the External Auditors, the Vice Chancellor, the Provost, the Chief Operating Officer (the University's Finance Director) and the Registrar & University Secretary. The 2018/19 Management Letter and Letter of Representation will be considered by the Board of Trustees on 22 November 2019.

Other source of assurance

- 3.14 The University has robust policies to prevent and tackle fraud, and regarding public interest disclosures. On 19 July 2019, the Audit Committee approved the University's Annual Fraud Report and noted the actions taken to contain the risk of fraud. Additionally, the Committee received an update on the current fraud review that the University was undertaking at its meeting on 14 October 2019.
- 3.15 In discussing the Whistleblowing policy, the Committee considered that an annual report to the Audit Committee on public interest disclosures would increase the visibility and transparency of the whistleblowing procedure to the non-executives. Additionally, it was agreed that the Whistleblowing Policy should be revised to ensure that Audit and Risk Committee were informed of all disclosures reported via the Policy regardless of the degree to which a case advanced. The Audit Committee considered that these two policies, together with other University policies provided an adequate and robust framework to safeguard the University's interests.

Conclusion

- 3.16 The Audit Committee considers that a basic framework for internal control has been in operation for financial year 2018/19 and up to the date of this report with the exception of controls relating to business continuity. The Committee has been assured by management that appropriate action is being taken to address weaknesses identified by both the internal and external auditor.

4. Governance

- 4.1 The Board of Trustees conducts its business in accordance with legal requirements (The University is subject to Charity Law), and best practice in higher education and corporate governance. The University and its Board adheres to the University Charter, Statutes and Ordinances and the following governance codes, principles and regulatory framework:

- Bristol University Charter, Statutes and Ordinances
- Committee of University Chairs Remuneration Code
- Office for Students (OfS) Public Interest Governance Principles
- Office for Students Regulatory Framework for Higher Education in England
- Committee on Standards in Public Life – 7 Principles of Public Life

- 4.2 Additionally, in the year ending 31 July 2019 the University has complied with the guidance to universities in particular the CUC (Committee of University Chairs) Governance Code of Practice issued in December 2014 (the “2014 CUC Code”), save that:

- Lay members’ appointments to the Board of Trustees are managed by a Nominations Committee of Court (rather than of the Board of Trustees) and approved by Court rather than by the Board of Trustees (which differs from the guidance of the 2014 CUC Code). In accordance with the University’s Charter, any changes to this position would require the consent of Court, which was obtained in December 2018.
- Court, rather than the Board of Trustees, has the power to remove members of the Board of Trustees (other than ex officio members and members of academic staff) (which differs from the guidance of the 2014 CUC Code). In accordance with the University’s Charter, any changes to that power would require the consent of Court which was obtained in December 2018.

However, during 2018/19, the University went through a process of reforming University Court, in order to meet the OfS’ ‘good governance’ conditions of registration. As part of those reforms, the powers of Court to appoint and remove lay members of the Board of Trustees were transferred from University Court to the Board of Trustees. These changes were approved by both the Court (in December 2018) and the Board (in March and then again in May 2019). They came into force following Privy Council approval for the start of the 2019/20 academic year, and the University is now fully compliant with, and fully applies the CUC Higher Education Code of Governance.

- 4.3 The Audit Committee itself is in compliance with the guidance of the 2014 CUC Code, and on 29 April 2019 reviewed its own terms of reference to ensure best practice in the light of emerging expectations from the Office for Students in relation to Audit Committees. The review led to the Committee being renamed as the Audit and Risk Committee in order to highlight risk function and the Terms of Reference re-formatted to highlight the categories of information required by the OfS in the Audit Committee Annual Report.
- 4.4 In 2018/19 the Internal Auditor performed an audit to review the adequacy and effectiveness of the governance structure and arrangements in place within the University that enable it to thrive in the increasingly challenging external environment in which it operates. They concluded that the University’s risk and control framework over Corporate Governance was adequate and effective with further enhancements to the Governance arrangements in

progress and due to be implemented by the end of 2019. The University meets the OfS Good governance conditions of registration and applies the CUC Higher Education Code of Governance. The Internal Auditor identified areas where improvements could be made to the existing structures to enhance decision making and accountability and agreed fifteen management actions within their report.

Conclusion

4.5 The Audit Committee has not identified any material weaknesses in respect of the University's governance arrangements and notes the Internal Auditor's opinion that governance could be strengthened through greater central oversight of activities and more effective allocation of ownership and accountability..

5. Review of arrangements for promoting economy, efficiency and effectiveness – Value for Money (VfM) Strategy 2017-2023

5.1 The Audit Committee has been asked to note and comment on the actions that have occurred and are planned in order to promote VfM and to decide on the basis of a VfM annual statement and the Internal Auditor's assessment of VfM, whether it is able to confirm in its annual report the adequacy and effectiveness of the University's arrangements for promoting VfM.

5.2 The OfS requires Higher Education providers to apply proper processes that ensure effective accountability and secure value for money. The University uses the National Audit Office (NAO) approach to assess whether costs and outputs/outcomes are aligned. This based on economy (spending less), efficiency (spending well) and effectiveness (spending wisely). Taken together these examine whether the University has made optimal use of resources to achieve intended outcomes, both in quality and quantity.

5.3 There are several indicators which suggest that the University is working towards the objectives of its Value for Money Strategy:

- A series of initiatives in academic support and student wellbeing have been deployed;
- The University is becoming more efficient in terms of energy consumption as well as working practices, with the increased use of in e-purchasing and New Ways of Working; and
- The QS world ranking has improved from 51st to 49th.

5.4 However, some areas for improvement have been identified with respect to the Value for Money objectives:

- Our performance expressed in the National Student Survey, is behind many of our peers, in particular regarding student assessment and feedback;
- We would like to achieve a higher ranking in major national and international University league tables; and
- In many subject areas, the cost of the University's teaching is comparatively high compared to its peers. This may be appropriate where we are delivering an exceptional student experience; however, we need to test that this is the case.

5.5 The University's Value for Money Strategy covers the period 2017-2023 and sets out a series of short-and medium-term targets, some key objectives for 2023 are as follows:

- 90% overall satisfaction in the National Student Survey (currently 85%)
- QS world rank of 30th (currently 49th)
- 25% of subject areas in the bottom 25% of our peer group for cost of teaching (currently 3%)

- 5.6 Some of the key actions we intend to take in 2019/20 are as follows:
- Bristol Futures 2 – a project covering assessment, curriculum and pedagogy;
 - Introduction of the Pro Vice-Chancellor - Student Experience role to provide senior capacity and on new wellbeing and mental health action plan;
 - Fit for the future programme to assess the processes around our research grant proposals;
 - Introduction of the Student Lifecycle Support Programme system to provide an integrated end-to-end student facing IT system; and
 - Start of a new programme Smart and Efficient Buildings to improve our energy efficiency.

Conclusion

- 5.7 The Audit Committee is reasonably assured with the adequacy and effectiveness of the University's Value for Money (VfM) arrangements and notes the opinion of the Internal Auditor that activities and controls relating to VfM in the areas they examined were, subject to the timely implementation of recommendations made, suitably designed to achieve the specific VfM objectives of the University.

6. Management, control and quality assurance of financial data submitted to HESA, Office for Students and other funding bodies.

- 6.1 During the year the following financial and data returns were submitted to OfS and HESA.

Return	Body	Return date
Annual Assurance Return	OfS	1 December 2018
Signed Audited Financial Statements	OfS	1 December 2018
Audit Committee Annual report	OfS	1 December 2018
External Audit Management letter and management responses	OfS	1 December 2018
Internal Audit annual report	OfS	1 December 2018
Value for Money report	OfS	1 December 2018
Financial commentary	OfS	1 December 2018
Annual Academic Quality Assurance report	OfS	1 December 2018
Annual sustainability assessment (optional)		
Transparent Approach to Costing (TRAC) return	OfS	31 January 2019
Transparent Approach to Costing (TRAC) return	OfS	31 January 2019
Finance Record	HESA	1 December 2018
Higher Education – Business and Community Interaction*	HESA	31 January 2019
Five-year Financial Forecasts	OfS	1 December 2018
Commentary on Financial Forecasts	OfS	1 December 2018

- 6.2 All returns were reviewed by the Senior Finance Team prior to Submission, with the majority being considered through Finance Committee and the Board of Trustees. There were no significant queries raised by OfS or HESA on the returns submitted. A misclassification error was identified by the University in the 2017/18 HESA return as part of the preparatory work for the current 2018/19 return and this was disclosed to OfS as part of the data amendment process. The misclassification, which arose from the migration of data from the previous finance system to MyERP totalled c £7m and has no material impact at Institution level. A

review process has been instigated with Research & Enterprise Development prior to submission of the 2018/19 return.

6.3 In April 2019, Audit Committee received a report by the Internal Auditors on the OfS Annual Accountability Returns that considered data quality. The report recommended that additional assurance to the Committee over the management and quality of data could be obtained by developing a management and quality of data assurance report from University management similar to the approach taken to value for money reporting within the University. This would also set out how data quality is co-ordinated and monitored across the University. In response, the Committee have agreed that in 2019/20 the University will provide an annual report confirming the work that has been done to confirm the reliability and accuracy of data submissions, in order to assist the committee in giving its assurances to the Board. Additionally, new systems and data cleansing operations would assist the committee in testing that management had robust processes in place to provide assurance about the accuracy of data and in particular data required by external regulators.

6.4 During the year the University was audited by the following external research grant bodies and was found to be compliant with regard to these organisations' requirements.

- RCUK
- Wellcome Trust
- US Federal Grant Audit
- EC Horizon 2020 (3 grants)
- Cancer Research UK
- Innovate UK

7 Overall Conclusion

7.1 The Audit and Risk Committee presents this annual report to provide assurance to the University's Board of Trustees and the University's Accountable Officer regarding the signing the University's Annual Report and the Financial Statements for 2018/19. The report will be presented to and reviewed by the Board of Trustees on 22 November 2019 before the audited financial statements are signed.

7.2 On the basis of the information provided to it, including assurances received from the Vice Chancellor and members of the senior management team that they are not aware of any material weaknesses and plans are in place to address identified issues, the External Audit Report, the Internal Auditor's Reports, its discussions with the External and Internal Auditors, the Audit and Risk Committee can confirm to the Board of Trustees and the accountable officer that it is satisfied that:

- Basic controls have been operating for risk management and internal control with the exception of controls for business continuity, which are separately disclosed within the Board's Internal Control statement in the 2018/19 annual report and financial statements. The Committee received assurances from the Executive Team that control weaknesses identified are being addressed on a timely basis;
- There are no material weaknesses in relation to governance;
- Adequate arrangements have been in place to promote economy, efficiency and effectiveness (VFM); and
- Adequate arrangements have been in place in relation to the management and quality assurance of data submitted to the Higher Education Statistics Agency, the Student Loans Company, HEFCE, the OfS, Research England and other bodies.