



## BOARD OF TRUSTEES

<b>MEETING DATE</b>	20/11/2020		
<b>REPORT TITLE</b>	ANNUAL REPORT OF THE AUDIT & RISK COMMITTEE 2019/20		
<b>CLASSIFICATION</b>	OPEN	<input type="checkbox"/>	
	CONFIDENTIAL	<input checked="" type="checkbox"/>	
	STRICTLY CONFIDENTIAL	<input type="checkbox"/>	
<b>Report Authors:</b> Robert Kerse (Chief Operating Officer), Andrew Poolman Helen Cole	<b>Job Title:</b> COO Treasurer & Chair of the Audit & Risk Committee Senior Governance Officer & Secretary to Audit & Risk Committee		
<b>Sponsored by:</b> Andrew Poolman	<b>Job Title:</b> Treasurer & Chair of the Audit & Risk Committee		
<b>For decision:</b> <input checked="" type="checkbox"/>	<b>For discussion:</b> <input type="checkbox"/>		
<b>The Board of Trustees is asked to:</b>			
<p><b>APPROVE</b> the Annual Report of the Audit and Risk Committee for 2019/20 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 2020.</p> <p><b>Appendices</b> to the Report include:</p> <ul style="list-style-type: none"> <li>The Internal Audit Strategy and Plan for 2020-23 (<b>Appendix A</b>) which was received by the Audit &amp; Risk Committee at its meeting on 6 July 2020.</li> <li>The Internal Audit Annual Report 2019/20 – Final Draft (<b>BT/20-21/019b</b>) which was received by the Audit &amp; Risk Committee at its meeting on 21 October 2020.</li> <li>The Value for Money (VfM) Report (<b>included within UoB Annual Report BT/20-21/019d</b>) which was received by the Audit &amp; Risk Committee at its meeting on 21 October 2020.</li> </ul>			
<b>Executive summary:</b> The Office for Students no longer requires all UK HEIs' Audit & Risk Committees to prepare an annual report. However, it is best practice and a requirement from the CUC Audit Committee Code of Practice that an Annual Report from the Audit and Risk Committee is produced. This report has been approved by the Audit & Risk Committee.			
<b>Link to Strategic Plan</b>	NO	<input checked="" type="checkbox"/>	YES <input type="checkbox"/>
<b>Link to Risk Register</b>	NO	<input type="checkbox"/>	YES <input checked="" type="checkbox"/>
<p>The Terms of Reference of the Audit and Risk Committee include the following responsibilities:</p> <ul style="list-style-type: none"> <li>To review the effectiveness of the Risk Management Framework and Policy and recommend its approval to the Board of Trustees.</li> </ul>			

<ul style="list-style-type: none"> <li>To review the Key University Risk Register and ensure that adequate action is being taken to manage and mitigate identified risks and to provide assurance to the Board of Trustees that this is the case.</li> </ul>		
<b>Summary of any consultations carried out</b>	<b>NO</b> <input checked="" type="checkbox"/>	<b>YES</b> <input type="checkbox"/>
<b>Summary of any Equality, Diversity &amp; Inclusion implications</b>	<b>NO</b> <input checked="" type="checkbox"/>	<b>YES</b> <input type="checkbox"/>
<b>Summary of any Sustainability Implications</b>	<b>NO</b> <input checked="" type="checkbox"/>	<b>YES</b> <input type="checkbox"/>
<b>Decision and Consultation Pathway</b>		
<b>Does this report need to go to another Body/Committee?</b>	<b>NO</b> <input checked="" type="checkbox"/>	<b>YES</b> <input type="checkbox"/>
<b>Report/Supporting Information</b> <i>See Report writing guidance</i>		
Report/Supporting Information attached.	<b>NO</b> <input type="checkbox"/>	<b>YES</b> <input checked="" type="checkbox"/>



## ANNUAL REPORT OF THE AUDIT & RISK COMMITTEE 2019/20

### 1. Introduction

1.1 This report outlines updates on key audit issues during the financial year 1 August 2019 to 31 July 2020; it also includes any significant issues that have arisen up until the date of this annual report (21 October 2020). It has been approved by the Audit & Risk Committee for the purposes of assuring the Board of Trustees and the University's Accountable Officer (the Vice Chancellor; who is accountable to the OfS (Office for Students) 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 satisfactorily 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 2019/20 with a strategic risk focus on the Temple Quarter Enterprise Campus ('TQEC') programme at every meeting. Deep dives / focus on strategic risk also took place into the following areas during the year: Brexit on 14 October 2019, Cyber Security and Disaster Recovery (follow up from 29 April 2019) on 20 January 2020, University response to COVID-19 on 27 April 2020 and 6 July 2020 and NCC Risk Register on 6 July 2020.

2.4 Regarding TQEC, 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.

- 2.5 In terms of the deep dive on Cyber Security and Disaster Recover, the Committee was assured regarding the adequacy of both completed and planned actions to address issues raised since the last report in April 2019 and the appropriateness of the improved target risk score. It was noted that the cyber security risk had increased for the whole sector during summer 2020 resulting in the National Cyber Security Centre placing Higher Education at the top of list of industries most at risk. The risk score has been elevated and the cyber security project work plan adjusted to reflect the external risk profile and the recent internal discovery of further shadow IT following the deployment of network monitoring tools.
- 2.6 The National Composite Centre (NCC) is a subsidiary of the University and falls under the remit of the Audit & Risk Committee. The Committee was assured that the NCC had reviewed its existing Risk Management Policy and has made changes which aligned it with the University's Risk Management Framework. The Committee was assured regarding the risk management approach at NCC and the actions taken relating to the key risks highlighted in particular relating to the impact of the Covid-19 pandemic.
- 2.7 In terms of the University response to COVID-19, in both April and July 2020, the Committee was assured that the University's arrangements for the management of the risks posed were adequate and effective. However, the Committee noted that some risks were outside of the University's control and agreed that the matrix score that combined impact and likelihood coupled with the effect of the Covid-19 pandemic was producing this exceptional result.
- 2.8 The University's risk management processes have developed during the year and the Committee has provided continuous comment and feedback. In October 2019, the Committee approved changes made to the calibration of the risk profile since July 2019 and noted that the University senior executive staff had re-evaluated and re-quantified the risks and the overall risk profile. During the year, the University has continued to develop the Risk Management Framework. The aim was to improve the way that risks are managed on the ground, to provide a consistent framework for the management of risk at these levels and to operationalise the risk escalation process. The University has sought to move onto more detailed consideration of risk appetite as the University's risk culture becomes more mature. 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 involved operational level review of School/Faculty plans three times per year. From January 2020, extra elements were included to improve the usefulness and understanding of the documentation: an indication of progression against an aim i.e. displaying the current score between residual and target and improvements in the trend indicator.

#### *Conclusion*

- 2.9 The Audit Committee is satisfied with the progress made over 2019/20 and up to the date of this report in developing the University's risk management arrangements, which are 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 2019/20 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 2019/22 Internal Audit Strategy (agreed by the Audit Committee in July 2019) set out the approach to be taken. The proposed programme of work sought to provide assurance across the following four specific areas: assurance over a range of core business as usual activity; areas that have not previously been subject to independent assurance or areas of transformation / change; areas that represent key strategic risks to the University; and areas identified by management as areas of possible concern.
- 3.4 The Committee emphasised the necessity of in-depth audits to provide adequate assurances in key risk areas. Audit & Risk Committee received, challenged and approved a revised version of the Internal Audit Plan 2019/20 Update Report at each meeting in the academic year 2019/20. In April 2020, the Committee approved a revised approach to the remainder of the 2019/20 internal audit activity to refocus on fraud protection and business continuity in order to better support the University in managing the risks associated with new ways of working as a result of Covid-19. To achieve this, the following six audits on the original internal audit plan for 2019/20 were postponed: Student Survey Action Planning, Procurement, Key HR Controls, Estates Asset Management, National Composites Centre, Langford Veterinary Services
- 3.5 On 21 October 2020, Audit & Risk Committee will consider the Internal Audit Annual Report 2019/20 – Final Draft. At the time of writing, 13 reports had been completed by RSM between October 2019 and October 2020, the table below details assurance and actions.

Number of Reports	Assurance Levels and Actions Required
1	Reasonable Assurance High, Medium and Low Priority Actions
5	Reasonable Assurance with Medium and Low Priority Actions
3	Partial Assurance High, Medium and Low Priority Actions
2	Partial Assurance Medium and Low Priority Actions
1	Report "Strategic and Business Planning Executive Summary", RSM's audit was terminated early, in March 2020 due COVID-19 and its impact. RSM presented an advisory report in lieu of a full internal audit report, to summarise key observations from the aspects of the process which it had been able to review. Additionally, instead of agreeing specific, short-term actions with management, RSM presented observations for consideration during future refinement of the University's planning processes once it returns to a steadier state.
1	Report "Change Management", RSM did not provide an assurance opinion. Instead using a specialist programme consulting team, RSM reviewed the proposed new structure and approach and considered its feasibility in line with the University's aspirations and strategy and delivered an advisory review (including recommendations) on the University's proposed approach to change management.

- 3.6 Of the total 82 actions identified throughout the year, 7 (8.5%) were high priority. This rate compared favourably against a high priority action of 12.8% for the previous year (2018-19). 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:

- Development of secure templates in-house for the calculation of loan eligibility and return of funding for early leavers.
- Use the most recent programme schedule to develop and maintain an Integrated Master Schedule (IMS) that covers the whole Temple Quarter Enterprise Campus development programme including every sub-programme and workstream. The IMS should highlight all dependencies between all sub-programmes and workstreams, document all the risks of non-provision and where appropriate, identify suitable mitigation actions.
- Institute a review of the existing control framework for bribery and fraud and identify any improvements to be made including identifying executive owners and responsible teams / officers. Another review of the University's compliance frameworks will look to allocate ownership for defining, maintaining, and embedding control frameworks and establish effective monitoring mechanisms to ensure compliance with relevant legal and regulatory requirements.
- Four actions to ensure that expenditure on capital projects is better controlled by improving the current processes and systems to give improved total visibility of spend against capital projects and therefore reducing the risk of overspend against budgets. Institute a cross departmental project to review and simplify reporting processes, content and to align financial data in two systems that are used.

3.7 The Committee noted during 2019/20, the work of the internal audit team had continued to challenge the management team 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 Additionally, the Committee noted that the implementation of the 4Action system for tracking the completion of internal audit actions was completed in early Summer 2020. The system allows action owners to update progress, attach evidence of completion and prompt when due dates are imminent; and also provides senior leaders with a University-wide view of internal audit actions.

#### *External Audit*

3.9 External audit services were provided by PricewaterhouseCoopers LLP (PwC), Audit and Risk Committee recommended to the Board of Trustees that they be appointed as the external Auditor of the period 2019/20, this was subsequently agreed by the Board of Trustees. The annual report of PwC was considered by the Audit Committee on 21 October 2020.

3.10 In the report, PwC reported the significant findings from the 2019/20 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 2020 ( OfS 2019.12) 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.

3.11 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 2020.

- 3.12 The Audit Committee considered PwC's Management Letter for 2019/20 at its meeting on the 21 October 2020. No significant control issues were raised by PwC. Further, at its October 2020 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 2019/20 Management Letter and Letter of Representation will be considered by the Board of Trustees on 20 November 2020.

*Other source of assurance*

- 3.13 The University has robust policies to prevent and tackle fraud and regarding public interest disclosures. In April 2020 in the light of the Covid-19 pandemic, the Committee approved a revised approach of refocusing the remainder of the 2019/20 internal audit activity on fraud protection and business continuity (see 3.4). On 6 July 2020, the Audit & Risk Committee received a paper entitled Fraud Risk Assessment. The Committee noted that Finance Services leads for the University on the identification and mitigation of fraud risks and that the paper summarised the key financial and non-financial risks, including the impact of the coronavirus pandemic on the control environment. The Committee noted that the paper had been informed by the results of an advisory review by the Internal Audit (see 3.6) which would inform the Annual Fraud Report reported to the Committee in October 2020.
- 3.14 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*

- 3.15 The Audit & Risk Committee considers that an adequate framework for internal control has been in operation for financial year 2019/20 and up to the date of this report. The Committee has been assured by management that appropriate action is being taken to address any weaknesses identified by both the internal and external auditor. Additionally, the Committee noted that no major control failings had been identified by management during the year.

**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 During the year ending 31 July 2020, the Audit & Risk Committee and the University has complied, and fully applies 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”). In September 2020, a revised Higher Education Code of Governance was issued by the CUC. The University’s Governance Team is currently undertaking an internal exercise to ensure that the University is aligned with this new Code and actions will be initiated where required.

- 4.3 In May 2020, the CUC issued its Higher Education (HE) Audit Committees Code of Practice. The University’s Governance Team has reviewed the level of alignment between the Audit & Risk Committee and the Code. The University is largely compliant with areas of improvement principally relating to areas that will be altered in the planned wider review of Committees of the Board Term of Reference and the University’s Strategy Review in Autumn 2020. The Committee received an analysis of compliance at its meeting in October 2020.
- 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. The University meets the OfS Good governance conditions of registration and applies the CUC Higher Education Code of Governance.
- 4.5 In October 2019, the requirement to report all Reportable Events and Serious Incidents to each meeting of the Committee and to record all incidents in the Committee’s Annual Report was added to the Committee’s Terms of Reference. In 2019/20, the following Reportable Events were registered with the OfS, there were no serious incidents:
- Update report on suspected fraud event (initially reported to the Committee in July 2019)
  - Suspected theft of IT equipment
  - UCU strike action
  - Two events involving potential legal action
  - Disposal of Interest in a Joint Venture Company (Bristol is Open) to the other Joint Venture Partner (Bristol City Council)

### *Conclusion*

- 4.6 The Audit and Risk Committee is satisfied with the adequacy and effectiveness of the University’s governance arrangements. During the year the Committee was satisfied with assurances that governance arrangements, the degree of strategic oversight on interconnectivity across the institution and the level of institutional expertise within the University were still appropriate as the potential construction phase of the Temple Quarter Enterprise Campus moved closer. The Committee noted that that the programme was a standing item on both Finance and Infrastructure Committee and the Board of Trustees.
- 5. Review of arrangements for promoting economy, efficiency and effectiveness – Value for Money (VfM) Strategy 2017-2023**
- 5.1 In September 2019, the Board of Trustees on the recommendation of the Audit & Risk Committee approved the University’s Value for Money Strategy 2017-2023, which had been updated in response to the requirements of the OfS Regulatory code. In November 2019, the Board of Trustees approved on the recommendation of Audit & Risk Committee, the University’s Value for Money Statement for publication in the University Annual Report.
- 5.2 The Audit & Risk 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.

- 5.3 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 is 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.
- 5.4 In January 2020, the Committee discussed Value for Money and the following points were noted:
- The OfS currently did not provide a definition of VfM to the sector.
  - The benchmarking data presented in the October 2020 VfM Statement should be increased and diversified compared to the October 2019 submission to show benchmarking against the comparable institutions with the aim of defining more clearly the targets that the University aspired to.
  - There was further work for the University to do in explaining how tuition fees were spent, for example the funding of Temple Quarter Enterprise Campus.
- 5.5 In July 2020, the Committee received and discussed a presentation entitled Delivering VfM to students & taxpayer during the Covid-19 pandemic and noted that at its meeting on 21 October, the Committee would receive the University's Value for Money Statement

*Conclusion*

- 5.5 The Audit & Risk Committee is satisfied 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 2019
Signed Audited Financial Statements	OfS	1 December 2019
Audit Committee Annual report	OfS	1 December 2019
External Audit Management letter and management responses	OfS	1 December 2019
Internal Audit annual report	OfS	1 December 2019
Value for Money Statement	OfS	1 December 2019
Financial commentary	OfS	1 December 2019
Annual Academic Quality Assurance report	OfS	1 December 2019
Annual sustainability assessment (optional)		
Transparent Approach to Costing (TRAC) return	OfS	31 January 2020
Transparent Approach to Costing for Teaching (TRACT) return	OfS	28 February 2020
Finance Record	HESA	1 December 2019
Higher Education – Business and Community Interaction*	HESA	31 January 2020
Five-year Financial Forecasts	OfS	1 December 2019

Return	Body	Return date
Commentary on Financial Forecasts	OfS	1 December 2019

- 6.2 All financial returns were reviewed by the Senior Finance Team prior to Submission, with the majority being considered through Finance and Infrastructure Committee and the Board of Trustees. There were no significant queries raised by OfS or HESA on the returns submitted.
- 6.3 During the year an internal audit entitled Key Financial Controls Regulatory Requirements was completed. RSM provided reasonable assurance and agreed five medium priority actions with management. The audit sought to evaluate the adequacy and effectiveness of control over the financial regulatory returns. Specifically, the processes, control frameworks and assurance mechanisms in place around the governance, compilation, review and sign-off for the Office for Students (OfS) annual financial return, the Transparent Approach to Costing (TRAC) return and the Higher Education – Business and Community Interaction survey (HEBCIS). It was noted that submission of the regulatory returns was centrally co-ordinated by the Senior Team Executive Office, with returns assigned to the appropriate business areas to complete. The governance and formal sign-off processes differ for each return, some to University Executive Board (UEB) and Audit Committee whereas others were signed off locally before presented to the Vice-Chancellor for formal approval.
- 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.
- UKRI
  - Royal Society
  - US Federal Grant Audit (Annual Grant Audit)
  - European H2020 Grant Audits (individual Grant Audits)
  - Innovate UK (individual Grant Audits)

## 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 2019/20. The report will be presented to and reviewed by the Board of Trustees on 20 November 2020 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, 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:
- Adequate controls have been operating for risk management and internal control, which are separately disclosed within the Board's Internal Control statement in the 2019/20 annual report and financial statements.
  - Adequate arrangements have been in place 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.