

ANNUAL REPORT OF THE AUDIT & RISK COMMITTEE 2020/21

1. Introduction

The University has adopted the Committee of University Chairs (CUC) Higher Education Audit Committees Code of Practice, which requires audit committees to prepare an annual report for the institution's governing body (Council) and the Head of Institution (Vice-Chancellor, the University's Accountable Officer).

This annual report records the work of the Audit & Risk Committee for the financial year from 1st August 2020 to 31st July 2021 and considers the reports received by the Committee from the University's internal and external auditors and other matters for which the Committee holds responsibility on behalf of the Council.

This report includes any significant issues up to the date of the preparation of the report. This report shall be submitted and reviewed by Council before the audited financial statements are signed.

The CUC Code of Practice states that the Committee's annual report should include the Committee's opinion of the adequacy and effectiveness of the institution's arrangements for:

- risk management, control and governance;
- sustainability;
- economy, efficiency and effectiveness (value for money);
- management and quality assurance of data submitted to regulatory bodies.

This report is sectioned into these categories for transparency purposes.

2. Risk Management

The University has an established risk management policy and framework with reports on the University Risk Register to the Audit & Risk Committee at every meeting.

The University Risk Register and Policy last underwent a substantial review in 2019, with a new format to the Register being implemented based on a 5x5 heat-mapped matrix to allow easy identification of the key risks for the University.

The Register continued to be developed over the past year to recognise the impact of the Covid-19 pandemic, to outline within a dedicated row the key risks to the University from the pandemic. The University Risk Register was used to inform the development of the internal audit programme for 2020–21, with Uniac highlighting within their audit observations key risks that require management action.

The Committee received the Corporate Compliance Risk Register, which provided an overview of the University's most significant cross-institutional obligations, including both general corporate compliance obligations and regulatory licences. A dedicated Review of Consumer Protection Compliance was also considered by the Committee at its March meeting, which offered assurance that the risks of non-compliance were being managed effectively.

An Education Act – Section 22 (Students’ Unions) Compliance Risk Register was reviewed by the Committee to also identify risks to the University from both students’ unions – the report also highlighted full compliance.

The Audit & Risk Committee was satisfied with the improved risk management and risk reporting arrangements and note that continued improvements were planned for the 2021/22 academic year as the University sought to further develop the approach.

3. Controls

3.1 Controls – Internal Audit

The internal audit and assurance service for the University during 2020/21 was provided by Uniac. Uniac is a consortium (an unincorporated association) owned jointly by each of its constituent member universities which includes Keele University – it also has other universities as clients. The University’s Chief Operating Officer was a member of the Uniac Board during 2020/21. During the year, the Committee welcomed to the team and ARC meetings a new Client Manager, with the existing Client Manager becoming Client Director.

In developing the 2020/21 audit programme, Uniac considered the whole of the University’s risk management, control and governance arrangements, reflecting on audits conducted over the past five years, the strategic plan and through a consultative process with executive University staff and the Audit & Risk Committee. A two-phase approach to the audit programme was adopted for 2020/21 to allow audit selection to be responsive to the changing external environment and risks, including the ongoing Covid-19 pandemic.

The programme comprised of 159 days, with the final number of days undertaken on audit work being 174 days – the full list of the 2020/21 audit areas were as follows:

- Academic Programme Implementation
- Access and Participation Plan - data return
- Budget Management
- Covid Response
- Fraud Awareness
- Staff Welfare
- Procurement Cards
- UKVI Compliance (deferred to 2021/22)
- OneKeele
- IT / GDPR
- Estates - Maintenance
- Student Communications & Engagement
- Research Delivery
- Corporate Compliance Risk Register
- Post Audit Review

The Audit & Risk Committee received summaries of each of the audit findings and had the opportunity to discuss these in detail with the internal auditors in attendance at the meetings of the Committee. Audit reviews addressed the effectiveness of design, effectiveness of implementation and the economy and efficiency of the audited controls, with a quantified conclusion featuring on each audit report presented to the Committee.

During this academic year, Uniac also included a benchmarking category for each audit to assess the University’s position and performance in comparison with other institutions (categories being: Good Practice/Strong Control Environment; Position within the norm; Underperforming). Also new to 2020/21 audit reports were a category for trajectory, e.g. stable or improving.

The Committee was assured that all recommendations were accepted by relevant management teams and were receiving adequate management attention. Throughout the year, the Committee continued to review the internal audit actions implementation status in a tracking spreadsheet that had been highlighted by Uniac at an external sector briefing event as a feature of best practice.

Uniac confirmed within their Annual Report that their work had been carried out without any impairment to the independence and objectivity of either Uniac as a whole, or of individual audit staff.

In the overall assessment of the work carried out, the Internal Audit Annual Report 2020/21 provided commentary on compliance with the Office for Students (Ofs) ongoing conditions of registration and the topics that would typically be addressed in a statement of internal control. The report commented:

“On the basis of our work, we can provide substantial assurance that the University has effective arrangements in place to monitor compliance with the conditions of registration and to notify the OfS of any reportable events that it is required to under their direction. Based on our engagement with other clients and across the sector, we would also identify the University’s approach to regulatory monitoring as an example of best practice.”

Within their annual report, Uniac concluded that for each of the CUC HE Audit Committees Code of Practice categories (sections of this report), their opinion was that they **are adequate and effective**.

In relation to the University’s response to the Covid-19 pandemic, Uniac stated that based on their experience, they believed the University had managed the impact on staff and students very successfully and that the approach was receiving external recognition as a model of best practice.

3.2 Controls – External Audit & Financial Statements

The external audit for 2020/21 was provided by KPMG LLP. An external audit tender exercise was due to be undertaken in 2021, however, this was postponed until 2022 as a result of the ongoing Covid-19 pandemic. The contract for external audit was, therefore, extended by one year, with the Chair of ARC and the Director of Finance being involved with the negotiations on the contract extension and fee.

At its June meeting, the Committee reviewed the External Audit and Non-Audit Fees Annual Report to ensure compliance with the ARC-approved parameters for balance of fees.

The Committee received a Higher Education Sector Technical Update and a HE Financial Statements Benchmarking Report, that provided information on sector wide issues that were pertinent across a broad spectrum of financial and non-financial topics relevant to ARC.

The Committee discussed and approved the plan for the year end audit. The Committee also welcomed a new Audit Manager at KPMG for the 2020/21 audit.

The 2020/21 accounts were prepared in accordance with the UK accounting standards (including FRS 102) and with the Statement of Recommended Practice (SORP): Accounting for FE and HE. The financial statements also met the requirements of the OfS’s Accounts Direction (Regulatory Advice 9).

The Committee received the External Auditor's Year End Report and Management Letter, which summarised the results of the audit of the University and its only active subsidiary company, Keele University Science & Business Park Limited (KUSBP Ltd).

The audit focussed on the significant risks, being:

- Fraud risk from revenue recognition
- Valuation of KSS gross pension liability
- Valuation of USS pension provision
- Management override of controls

Other areas of audit focus during the year were:

- Valuation of LGPS net pension liability
- Going concern
- Access and participation expenditure
- Use of funds

The report highlighted the areas of audit risk identified in the audit planning strategy memorandum, results of the audit work and the implications of the findings together with how they were resolved.

The external auditors issued an unqualified audit opinion for the year ended 31 July 2021.

Based on their work in 2020/21, the auditors identified a few control-point improvement observations in their Year End Report that are being addressed by management.

The Committee agreed at its meeting on 20th October 2021 that the draft final 2020/21 financial statements be endorsed and recommended for approval by the Council.

4. Governance

4.1 Corporate Governance

The University has adopted the CUC HE Code of Governance and the CUC Audit Committees Code of Practice, including adoption of the model terms of reference for the Audit & Risk Committee. At its October 2020 meeting, the Committee received a compliance report outlining how the Audit Committees Code of Practice had been adopted and actions implemented.

At its June meeting, the Committee approved the updated Financial Regulations - the Regulations are a key governing document of the University to provide control over the totality of the University's resources and provide management with assurances that the resources are being properly applied in the delivery of the strategic plan, financial sustainability plan, and business objectives and ensure:

- financial viability
- achieving value for money
- provision of effective financial controls over the use of public funds
- ensuring compliance with all relevant legislation
- the safeguarding of assets.

The Committee also received an updated OfS Reportable Events Interim Procedure (Covid-19 pandemic) following the publication of the OfS's published interim guidance in January 2021; the Committee were informed that the University had responded to the OfS consultation on reportable events and that new guidance would be issued in 2021.

Ethical Policies: The Committee received the Whistleblowing, Fraud & Bribery Disclosures Annual Report, which declared there had been one reported case of whistleblowing, which had been reported

to the ARC Chair at the point of investigation. The case concluded no evidence to support the claim of an act of wrongdoing or danger at work; no malpractice to answer and not in the public interest to pursue allegations further; and that alternative HR processes would have been a more appropriate avenue to pursue in the circumstances. There were no cases of fraud or bribery reported within the year. The report also outlined the communications of these individual policies and the staff training that had been introduced via the University's online learning platform, Learning Pool, during the year.

At its October meeting, the Committee received the Cyber Security and IT Infrastructure Assurance Report, along with updates on the University's IT infrastructure and cyber security arrangements, including compliance requirements, controls and action plans to upgrade provision and standards. The assurance report provided headline successes against the Digital Transformation Investment Plan.

At its March meeting, the Committee received the Corporate Compliance Risk Register which outlined risks, controls and assurance mechanisms for each piece of legislative or regulatory compliance requirement. Uniac also undertook an assurance review linked to the Register that focused on regulatory funding compliance, aligned with the Charities Act.

The Committee reviewed compliance with the Education Act Section 22: Students' Unions, which highlighted full compliance.

The Committee also received assurance from the Review of Consumer Protection Compliance Review, which had been required of all HE providers by the OfS, to evaluate ongoing compliance with consumer protection law during the Covid-19 pandemic and lockdown restrictions.

The Committee continued to monitor annually the University's compliance with the covenants of the Development Trust Deed relating to use of space within the Primary Care section of the David Weatherall Building and use of space and facilities within the Huxley Building for monoclonal antibody work.

The Corporate Governance Statement was also reviewed by the Committee at the time that the financial statements were considered. Furthermore, various Uniac audits made recommendations to strengthen corporate governance standards.

4.2 Committee Governance

The membership of the Audit & Risk Committee for 2020/21 was as follows:

- Mr Richard Barnes (Chair) – Deputy Pro-Chancellor
- Ms Ruth Bagley – Lay member of Council
- Mr Sajid Hashmi* – Lay member of Council
- Mr Peter Harris* – Lay member of Council
- Mr Neil Clatworthy – Co-opted member

The Audit & Risk Committee membership is reviewed annually by the Nominations & Governance Committee, on behalf of Council. All new members attend an induction session in advance of their first meeting of the Committee. Membership, biographies and committee terms of reference are published on the University website. The Committee carried a vacancy throughout the year for option of a second co-opted member.

*Peter Harris was appointed to Council as a lay-member in April 2020, but will be stepping back to continue on ARC as a co-opted member from September, 2021. Andrew MacLeod was appointed to replace Peter Harris as a lay-member of Council and Hifsa Haroon-Iqbal to replace Sajid Hashmi, whose term of office came to an end in August 2021.

All other membership remained unchanged. The University appointed a new Secretary to Council, Clare Stevenson in January 2021. There was a new Internal Audit (Uniac) Manager, Gai Murphy, from March 2021, with Martin Conway stepping up as Client Director. There was also a new External Audit (KPMG) Manager, Salma Younis from May 2021 for the audit of financial statements 2020/21. The University has appointed an interim Chief Financial Officer starting from August 2021 prior to the retirement of the Finance Director at the end of September 2021.

The Vice-Chancellor (or Deputy), the Director of Finance and the Secretary to Council attended meetings of the Audit & Risk Committee, with the internal auditors and external auditors represented at every meeting.

Secretariat support was provided by the Legal, Governance & Compliance team. The quorum for the Audit & Risk Committee is three members, which was achieved at each meeting.

Due to the ongoing Covid-19 pandemic, all meetings in the year were held remotely via MS Teams. The business for the usual full-day meeting in October was, therefore, separated into two meetings held in October and November.

The Committee's Terms of Reference and Schedule of Business were reviewed during the year. A report of each ARC meeting is presented to Council, with the full minutes available on request.

The ARC Annual Self-Assessment Exercise consisted of a new style questionnaire that members completed, ranking their satisfaction with various aspects of Committee business, responsibilities and execution, then resulting in recommendations for improvements. The outcome showed that members had a general high level of satisfaction.

Training & Information Sharing: The Committee had a standing agenda item to provide group feedback following attendance at an external briefing/conference event and also to receive briefing documents to advise and inform decision making on Committee business. This year, members and/or executives attended webinars including BDO HEI Audit Committee Breakfast Seminars and KPMG ACI HE Breakfast Seminar and were informed of playback webinars from KPMG and Institute of Risk Management. The Committee also received an annual briefing presentation by both sets of auditors and various sector topical Briefing Notes from both KPMG and Uniac.

5. Sustainability and Economy, Efficiency & Effectiveness (Value for Money)

The Committee monitored the effectiveness of the University's financial controls, systems and management structures in place for ensuring sustainability and promoting efficiency, effectiveness and economy (3E's) in the use of its funds and other resources through the reports and presentations at each meeting on the Financial Sustainability Plan (FSP) and the OneKeele Project, including the OneKeele Phase 2 Implementation Risk Analysis.

Since the launch of the FSP, the internal audit programme has had critical focus on the short, medium and long-term financial sustainability of the University. The Committee received a dedicated paper on the management response to the Uniac audit of the FSP – Part 2. Uniac also focussed on the University's strategy for sustainability and the 3E's when reviewing the OneKeele project.

As a standard service from Uniac, value for money was considered as an integral part of each review and for each audit, Uniac gave a specific conclusion on the efficiency and economy of the University's systems and processes.

The Committee observed how the External Audit Plan had a broadened scope since 2020 in the consideration of Going Concern, with increased requirements from this reporting period that included risks to the sustainability of the University from the ongoing impact of Covid-19.

The Committee noted the continuing adoption of and improvement in financial procedures and management practices designed to support the achievement of value for money, institutional effectiveness and sustainability.

6. Management & Quality Assurance of Data Submitted to Regulatory Bodies

The Committee reviewed and gained assurance that arrangements for the management and quality of data submitted to HESA, OfS and other funding bodies were adequate and effective. As part of the Management and Quality of Data Annual Report, the Committee also received the Data Returns Register, which summarised each of the main institutional returns, the lines of assurance, the purpose and the quality assurance procedures – also noting the Sign-off Procedure that was in place.

Having undertaken a detailed follow-up of prior data reviews, Uniac concluded within their Annual Report that the University's arrangements for ensuring the accuracy of its data returns were **adequate and effective**.

During the year, the Committee considered the Uniac annual data return audit – this year being the Access and Participation Plan. It was also recognised that the following audits included some actions that either directly or indirectly would result in improvements in data management: procurement cards, IT/GDPR, budget management.

The Research Integrity & Governance Annual Report, which included an outline of the compliance with the Research Concordat and legislative requirements, is received by ARC annually and offers assurance in the management and quality assurance of University research data. The report also outlined how the University promotes a culture of integrity throughout its research activities.

The Committee also received assurance on the management and quality assurance of data through the reporting on the status of the University's IT infrastructure and cyber security, which included a review of the measures implemented within the University to ensure compliance with information governance requirements.

7. Overall Conclusion

The Audit & Risk Committee presents this annual report to provide assurance to the University's Council and Accountable Officer for consideration before the members' responsibility statement in the annual financial statements is signed.

On the basis of the information provided to it, including assurances received from the executive, the External Audit Report, the Internal Auditor's Reports, its discussions with the external and internal auditors:

The Audit and Risk Committee can confirm that it is satisfied with the adequacy and effectiveness of the institution's arrangements for:

- risk management, control and governance (the risk management element includes the accuracy of the statement of internal control included with the annual statement of accounts);
- sustainability, economy, efficiency and effectiveness; and
- management and quality assurance of data submitted to regulatory bodies.