

OfS Risk and Audit Committee annual report 2019/20

Issue

1. The Risk and Audit Committee's annual report and formal opinion to the board and to the chief executive as Accounting Officer.

Recommendations

2. The board is invited to receive the annual report of the Risk and Audit Committee (Annex A) including its formal opinion on the effectiveness of the OfS's control systems.

Further information

3. Available from Kate Lander, chair of the Risk and Audit Committee.

Member's interests

4. Kate Lander, Gurpreet Dehal and Katja Hall are members of the Risk and Audit Committee.

Background

5. As part of its terms of reference, the Risk and Audit Committee (RAC) is formally required to provide the board and the chief executive as Accounting Officer with an annual report summarising its conclusions from the work it has carried out during the year and its formal opinion on the effectiveness of the OfS's control systems.
6. The formal opinion will be published in the OfS's annual report and accounts for 2019/20.

Discussion

7. RAC members have had several opportunities to comment on the report and in advance of its meeting on 15 May 2019, and have signed it off 'in principle'. Formal approval will be given when it meets.
8. Any amendments arising from discussions at that meeting will be reported to the board orally by the chair of the RAC.

Recommendation: The board is invited to receive the annual report of the Risk and Audit Committee including its formal opinion on the effectiveness of the OfS's control systems.

Communications and engagement

9. The annual report and formal opinion will form a public board paper on the OfS website, giving a positive message to the sector, government departments and other public bodies about the high standard to which we operate.

Paper publication date

10. This paper and the report will be published following the board meeting.

Annex A: Office for Students Risk and Audit Committee Annual report 2019/20 (covering the period 1 April 2019 to 31 March 2020)

Introduction

The Risk and Audit Committee (“the committee”) is a committee of the Office for Student’s (OfS) board. The remit of the committee is to provide assurance to the board on the comprehensiveness and reliability of the processes relating to corporate governance, risk management and internal control in place at the OfS. This remit does not extend to matters of risk, control and governance at the English higher education providers regulated by the OfS.

Under its terms of reference (attached), the committee is required to produce an annual report to the board to advise on these processes and to set out how we have discharged our duties throughout the year. The report also gives a brief indication of the focus of our work in 2020/21.

The OfS formally came into operation on 1 April 2018 and the committee was formed to coincide with this. Much of our work in the first year was focussed on helping the organisation to establish new processes and ways of working. This has continued in our second year of operation where we have supported the wider OfS as it delivers its ongoing business activities. In addition, we have considered processes created at the inception of the organisation, recommending where these can be improved as the OfS evolves and develops, and fulfils its full regulatory obligations.

A significant change for the committee this year has been the appointment of a new Head of Internal Audit who has provided a fresh perspective on the approach to internal audit activity at the OfS and to our work in considering the outcomes. This has contributed to improving our own effectiveness and enabled us to provide better informed advice and assurance to the OfS board.

This report takes into account known impacts of the coronavirus (COVID-19) pandemic on OfS and its work up to 31 March 2020.

Business of the Committee

Risk management

Building on the advice and guidance we provided last year, we have continued to work with OfS staff to ensure the establishment of a framework for the management of strategic and corporate risk at OfS, and the practice for establishing appropriate mitigations. This has included improving the way in which risk is reported to us, with more detail and clarity being provided on risk scoring, appetite and trajectory.

From the evidence provided to the committee at each of our meetings, we are able to assure the board that the organisation has a robust and effective risk management framework. In addition, a comprehensive risk register has been produced which is regularly reviewed and challenged by directors, both independently and collectively at the director’s group. A full risk management policy has been published internally, and, as a result, a better understanding of risk has been embedded across the organisation. This is evidenced by the increased number of risks on the register, reflecting an overall improvement in identifying potential risks.

A review carried out by Internal Audit in the autumn provided us with significant assurance on the effectiveness of the risk management process at OfS and the seriousness with which it is regarded across the organisation. The review identified some areas for improvement, and we will ensure these are taken forward by management.

In the coming year and as the OfS matures as an organisation, we will continue to review all areas of risk management, seek assurance on current and emerging risks and support the board in its own risk discussions. This will be particularly important to enable us to understand the impact of coronavirus on any current and future risks for the OfS.

Internal Audit

Following a tender exercise, KPMG was appointed to provide internal audit services to the OfS for three years with effect from April 2019.

We have worked with KPMG to agree an internal audit plan for the year and routinely receive updates from the Head of Internal Audit on progress made against this plan, the recommendations arising from his work, the management response and their progress in implementing the recommendations. In particular, KPMG has reviewed and reported on the following:

- Registration fees invoicing process
- Risk management
- Financial systems
- Digital, data and technology transition
- Update on cyber security recommendations
- Data quality assurance process
- HE providers financial sustainability

We were advised that no significant issues have been identified, providing us with assurance that the internal processes under consideration are well controlled. Where recommendations have been made, we were assured that these have been positively accepted by management. The Head of Internal Audit will continue to provide us with regular updates on progress with implementing these recommendations.

As a result of coronavirus and the need for OfS staff to work from home, it was not possible for KPMG to carry out the workshops planned as part of the cyber assurance internal audit. This element of work would have fully completed the 2019/20 internal audit plan. However, we did receive assurance on this activity from a report on the outcomes of initial work to follow up on previous cyber security recommendations with plans to complete the follow on work as soon as is practically possible.

We received further assurance that arrangements were in place between KPMG and the outgoing internal auditors, EY, for the effective handover of all outstanding recommendations arising from

previous internal audit work. KPMG has continued to monitor and test the progress being made by management during the year and we have received regular updates on this.

Internal audit opinion

The basis for forming our opinion is as follows:

- An assessment of the design and operation of the underpinning Assurance Framework and supporting process: and
- An assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of these areas.

Our overall opinion for the period 1 April 2019 to 31 March 2020 is of:

Significant assurance with minor improvement opportunities

In the areas considered in the scope of work, significant assurance with minor improvement opportunities can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

External Audit

As a public sector body, the OfS is obliged to use the National Audit Office (NAO) as its external auditor who provides its audit opinion to Parliament and not to the board. The NAO operate externally to the OfS and offer the committee an independent view.

In 2019 the OfS produced its first set of accounts (covering the 15 month financial period 1 January 2018 to 31 March 2019) and these were approved by the OfS board in May 2019. We subsequently received reassurance from the NAO that its post-audit findings had been accepted and were being taken forward by management.

In relation to the OfS's 2019/20 financial statements, we discussed the NAO's interim management report at our meeting in February 2020 and, in May, the final audited accounts and the NAO's management letter with its proposed unqualified opinion. The management letter also set out its key observations and recommendations arising from the audit process. We were assured that relevant matters had been picked up with OfS management. On the basis of this information and our discussions with the NAO, the committee recommends the 2019/20 annual report and accounts to the board.

Assurance processes

Throughout the year we have had the opportunity to consider a number of other internal control arrangements, in particular, a comprehensive assurance map setting out the OfS's "three lines of defence" mapped against its strategic risks. We are assured that this indicates a high level of control and organisational resilience, with particular focus on the most significant strategic risks.

We have been kept informed of the OfS's cyber security arrangements on a regular basis and confirmation that the recommendations identified in previous reports have been followed up. We

look forward to receiving a further update from Internal Audit in due course to provide us with ongoing assurance that good progress continues to be made in this area.

The chief executive routinely provides us with a comprehensive update on matters relating to the OfS and its work, in particular the on-going process of registering higher education providers and the arrangements for monitoring those providers already on the OfS Register; and managing relationships with both the Designated Data Body and the Designated Quality Body. Whilst the OfS operates in a high risk environment we were assured that robust and effective internal control processes were in place.

Since the onset of coronavirus the chief executive has kept us updated on how business continuity has been maintained at the OfS and the activities of the organisation in response to the crisis.

During the reporting period we were alerted to a small number of information security incidents and internal control errors which had occurred. We were assured that none of these were significant or resulted in financial loss to the organisation. Through our discussions with officers, we received satisfactory assurance that corrective action has been taken.

In noting the OfS strategic objective of being an efficient and effective regulator, we have been assured that the organisation continues to deliver economy and efficiency through its work. During the year we had the opportunity to comment on the internal value for money strategy which is now being embedded throughout the OfS and its work.

Membership and meetings

During the reporting period, the Committee met 4 times. Members of the Committee for the period under review were:

Name	Status	Term of office	Meetings attended
<i>Kate Lander (chair)</i>	OfS board member and Committee chair	Appointed to the board until 30 June 2022	4/4
<i>Gurpreet Dehal</i>	OfS board member	<i>Appointed to the board until 31 December 2021</i>	4/4
<i>Katja Hall</i>	OfS board member	Appointed to the board until 31 December 2022	3/4
Suzanne McCarthy	Independent member	Appointed to the Committee until 11 July 2021	4/4
Margaret Monckton	Independent member	Appointed to the Committee until 11 July 2020	4/4
Colin Wilby	Independent member	Appointed to the Committee until 11 July 2021	4/4

Brief biographies of all members, including any declared interests, are available on the OfS website at <https://www.officeforstudents.org.uk/about/who-we-are/our-board-and-committees/>.

The internal and external auditors, the chief executive, the Director of Resources, Finance and Transformation regularly attend meetings to assist the committee in carrying out its duties. Other senior managers attend as required.

The committee also held closed meetings with both the Head of Internal Audit and the NAO without OfS officers present.

Risk and Audit Committee effectiveness

During the year we undertook a review of our own effectiveness, the results of which were largely positive. We will continue to use the learning points from the review to develop our work.

Future work of the Committee

In addition to a review of our own effectiveness, in 2020/21 the committee will:

- Continue to advise on finessing the risk management framework as the organisation matures, including carrying out a programme of deep dives into specific areas of risk.
- Provide assurance to the board on the processes adopted by the OfS in carrying out its regulatory activities.
- Seek assurance on the robustness of internal controls in light of coronavirus.
- Carry out any work requested by the board.

Risk and Audit Committee formal opinion

Our formal opinion covering the period 1 April 2019 to 31 March 2020 is provided below. This will be published in the OfS's annual report and accounts for 2019/20.

OfS Risk and Audit Committee formal opinion

Given the opinions of both the Head of Internal Audit and the NAO as expressed in their annual reports, and the other information available to us from our work during the year, the Risk and Audit Committee can provide the OfS chief executive, as Accounting Officer, with reasonable assurance that the OfS's processes relating to corporate governance, risk management and internal control are working satisfactorily. During the reporting period, we do not believe that these processes have been adversely affected as a result of coronavirus.

We are satisfied with the quality of the work provided by our new provider of Internal Audit and with the services of the NAO. Through this work, we are able to take a measured view and receive assurance on the quality and effectiveness of financial reporting and internal control within the OfS.

In respect of our own performance, we consider that the Committee has worked effectively with Internal Audit to ensure the focus of our work is relevant to the risks facing the OfS and we have challenged appropriately. We have supported the chief executive and management in their work and offered constructive challenge where required. In carrying out these activities, we believe we have fully discharged our responsibilities in accordance with our terms of reference.

This opinion is intended to give reasonable rather than absolute assurance of effective controls. It informs the chief executive's governance statement.

Office for Students – Risk and Audit Committee: terms of reference

Purpose

1. The board of the Office for Students (OfS) has established a Risk and Audit Committee (RAC) as a committee of the board to support it and the OfS accounting officer by advising on the comprehensiveness and reliability of the processes relating to corporate governance, risk management and internal control.
2. This remit does not extend to the matters of risk, control and governance at the English higher education providers regulated by the OfS.
3. Except where explicitly delegated otherwise, the RAC acts only in an advisory capacity and has no executive or decision making powers.

Responsibilities

4. The RAC will advise the OfS board and accounting officer on:
 - The processes for the assessment and management of OfS's current and future risks
 - The robustness of the OfS's systems for identifying and monitoring internal control processes
 - The appointment of the OfS's internal audit provider and Head of Internal Audit, and the planned activity and results of this service
 - The OfS's accounting policies and annual financial statements, including both the interim accounts and final audited accounts, the completion report and OfS response, and the governance statement
 - The strategy, remuneration and work of the National Audit Office (NAO) for the audit work undertaken on the annual accounts
 - The adequacy and timeliness of management response to issues identified by both internal and external audit, and any relevant reports from the NAO, government, the OfS's sponsor department or other third parties
 - The adequacy of controls and processes relating to health, safety and environment, counter-fraud, bribery and whistleblowing within the OfS
 - Processes and assurances relating to arrangements for information security and cyber security within the OfS
 - Any other matter upon which the board has asked for assurance or advice.

Authority

5. The RAC is authorised by the OfS board to:
 - Seek any information it needs from any employee of the OfS and any others with whom it has an accountability relationship
 - Seek information from the internal auditors and the NAO (in their capacity as external auditors). The Head of Internal Audit and the NAO will have confidential access to the chair of the RAC
 - Procure specialist ad-hoc advice (including legal advice) at the expense of the OfS up to £10k per annum or as agreed by the board.

Membership

6. The members of the RAC, including its chair, are appointed by the OfS chair. Members will have a mix of skills and experience to provide a range of expertise to cover the activities of the OfS, including at least one member with relevant qualifications and experience in accounting and finance.
7. Members are normally appointed for a period of three years. Re-appointment for up to three further years is subject to satisfactory appraisal by the RAC chair and approval by the OfS chair.
8. The chair of the RAC must be:
 - A non-executive member of the OfS board but not its chair to ensure the independence of the RAC
 - Independent of providers on the OfS register.
9. The RAC will consist of:
 - Up to three non-executive members of the OfS board (including the RAC chair)
 - Up to three independent members.
10. The validity of any proceedings of the committee shall not be affected by a vacancy among the members or by any defect in the appointment of a member. The quorum necessary for the transaction of the business of the committee shall be three members, including at least one member of the OfS board.
11. The RAC may co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience.
12. A register of declared interests for all members of the RAC will be published on the OfS website. If it is deemed that a member has an actual or perceived conflict of interest then any relevant paper(s) may be withheld or the member asked to leave the meeting for the duration of the discussion at the discretion of the chair. If the conflict is significant or likely to be long-term, then the member may be asked to step down from the RAC.
13. All members of the RAC are legally indemnified against negligence by the Department for Education.

Meetings

- The RAC will normally meet at least three times a year. The chair of the RAC may convene additional meetings as they deem necessary
- In the absence of the RAC chair, the meeting will be chaired by another member that is also a member of the OfS board
- While only members have a right to attend, meetings of the RAC will normally be attended by the accounting officer, the Director of Resources, Finance and Transformation, the clerk to the

committee, the Head of Internal Audit and a representative of the NAO in their capacity as external auditors

- The RAC may also require any other officials of the OfS to attend to assist it with its discussions on any matter
- The RAC may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters
- Individually, the accounting officer, executive directors, the clerk to the committee, the Head of Internal Audit and the NAO may, through the chair, request to meet with RAC members to discuss a confidential matter.

Reporting

- The RAC will formally report in writing to the OfS board after each meeting. This will be complemented, where necessary, by an oral report from the RAC chair at the board meeting.
- RAC meetings shall be minuted and draft minutes circulated to members as soon as possible after the meeting.
- The RAC will provide the OfS board and the accounting officer with an annual report, timed to support finalisation of the annual report and accounts (including the governance statement) summarising its conclusions from the work it has done during the year.
- The terms of reference for the RAC will be reviewed on an annual basis. The OfS board will be asked to approve any changes to the terms of reference.
- The RAC's main duties shall be described in the OfS's annual report and accounts.

Other

14. The RAC may set up a sub-committee to provide advice on any of the above issues. The membership and terms of reference of any sub-committee shall be agreed by the RAC chair.
15. The RAC will review its own effectiveness annually and report outcomes to the OfS board.