

## **Annex A – Office for Students Risk and Audit Committee**

### **Annual report 2018-19 (covering the period 1 April 2018 to 31 March 2019)**

#### **Introduction**

The Risk and Audit Committee (“the committee”) is a committee of the Office for Students (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, value for money and internal control in place at the OfS. This remit does not extend to the 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 an indication of the focus of our work in 2019-20.

The OfS formally came into operation on 1 April 2018 and the committee was formed to coincide with this. During the reporting period the committee formally met 5 times. As a newly established committee, our immediate focus has been to support the OfS with the introduction of number of new processes and to provide advice, in particular, advising on the development of a robust risk management framework at the OfS and considering on-going and future internal audit arrangements.

During the year, the committee has been able to build on the advice and assurance it provides to the OfS board, aided by the early appointment of three independent members to the committee. We are committed to developing our input further as both the committee and the OfS continue to mature. To assist us with this, in 2019-20 we will carry out a review of our own effectiveness and use this as an opportunity to identify ways in which we can develop our work further.

#### **Business of the Committee**

##### **Risk management**

Since the start of the year, the committee has had significant involvement in the establishment of a new risk management framework relating to the operation of the OfS. As part of this we have taken the opportunity to offer advice and guidance on the development of the overall approach to the structure and formal reporting of risk as well as challenging the OfS Directors’ Group (the OfS’s management) on the assessment of the organisation’s agreed strategic and corporate risks, as well as considering and commenting on the appropriateness of the proposed mitigations in an uncertain and volatile external environment.

From the evidence provided to the committee at each of our meetings, we are able to assure the board that significant progress has been made in the establishment and implementation of an effective risk management framework for the OfS, and that a comprehensive risk register has been produced. In addition, we have confidence that an appropriate understanding of risk is being embedded across the organisation which, in turn, is informing daily decision making.

As the OfS matures and takes on its additional powers, we will continue to challenge management appropriately across all areas of risk management, seek assurance on new and emerging risks and continue to support the board in its discussions on risk appetite.

## **Internal Audit**

To ensure continuity following the closure of the OfS's predecessor body, the Higher Education Funding Council for England (HEFCE), the organisation continued to use the services of EY to provide its internal audit function for 2018-19.

We worked with EY to agree an internal audit plan for the year and routinely received 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, EY have reviewed and reported on the following:

- The readiness and subsequent effectiveness of the registration process
- The effectiveness of cyber security controls
- Data protection / GDPR compliance
- The governance of the on-going Digital Data and Technology programme
- The effectiveness of finance, payroll and HR controls
- The effectiveness of OfS's systems, processes and controls for anticipating financial failures and managing or monitoring market exit
- The governance of OfS's transformation programme.

We were advised that no significant issues had been identified, providing us with assurance that the internal processes under consideration were well controlled.

EY have continued to monitor progress in implementing relevant actions arising from previous work carried out as part of the HEFCE internal audit plan and we were assured that these were being taken forward by OfS management in an appropriate and timely manner. We expect Internal Audit to continue with this work in the coming year.

### Internal Audit opinion

Based on his work throughout the year, the Head of Internal Audit has provided his formal opinion (below) on the adequacy of risk management, control and governance processes at the OfS. This opinion is intended to give reasonable rather than absolute assurance of effective controls.

#### **Internal audit opinion**

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a conclusion as to the adequacy and effectiveness of the OfS's risk management, control and governance processes.

Based on the internal audit work performed during 2018-19, in our opinion there was adequate and effective risk management, control and governance processes to provide reasonable assurance over the achievement of the OfS's objectives and the management of key risks. While individual reviews identified that there are elements of the system of internal control requiring improvement, the overall system of internal control enables the OfS to achieve its objectives and manage its principal risks. Where recommendations have been raised, management have taken action to implement identified recommendations on a timely basis.

### Internal Audit from 2019 onwards

During the year we considered both OfS's and our own requirements from the internal audit function, and agreed that an external supplier of this service is better placed to provide us with independent advice. To that end, we supported management in the procurement of an internal audit provider and agreed with their recommendation to award this contract to KPMG for 3 years to 2022.

### **External Audit**

As a public sector body, the OfS is obliged to use the National Audit Office (NAO) as its external auditor which 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.

As part of the process of finalising the HEFCE accounts for 2017-18, we received the final management letter from the NAO setting out their key observations and recommendations arising from the audit process. We were assured that relevant matters have been picked up with OfS management as part of a lessons learned exercise and through on-going work.

We discussed the NAO's interim management report on the OfS's 2018-19 financial statements at our meeting in February 2019 and, in May, the final audited accounts and the NAO's proposed unqualified opinion. On the basis of this and our discussions with the NAO, the committee recommends the 2018-19 annual report and accounts to the board.

### **Assurance processes**

Throughout the year we had the opportunity to consider a number of other forms of assurance, in particular, relating to the governance processes being established at the OfS. This included advising on the following policies:

- Counter Fraud strategy
- Internal public interest disclosure (whistleblowing) policy
- Gifts and hospitality policy.

We received reports of a number of instances relating to information security / internal control failures which occurred during the year. We were assured that none of these were significant or resulted in harm or financial loss to the OfS. Through our discussions with officers, we received

satisfactory assurance that corrective action has been taken and internal controls improved appropriately.

Although not currently a core aspect of our remit, as a public sector body we have sought evidence of and been assured that the OfS has delivered value for money through the early stages of its work. As the organisation matures, with its existing functions fully established and new powers in place, we see this as an area in which the committee will have more involvement. In particular, with the introduction of registration fees the committee will want assurances over the efficiency and effectiveness of the OfS and will require an annual report to be provided to the committee.

## Membership and meetings

During the reporting period, the Committee met 5 times. Members of the Committee for the period under review were:

<b>Name</b>	<b>Status</b>	<b>Term of office</b>	<b>Meetings attended</b>
<i>Kate Lander (chair)</i>	<i>OfS board member and Committee chair</i>	<i>Appointed to the board until 30 June 2022</i>	<i>5/5</i>
<i>Gurpreet Dehal</i>	<i>OfS board member</i>	<i>Appointed to the board until 31 December 2021</i>	<i>5/5</i>
<i>Katja Hall</i>	<i>OfS board member</i>	<i>Appointed to the board until 31 December 2022</i>	<i>4/5</i>
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	3/4
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 and 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

As a newly established committee, and in the early stages of developing how we will carry out our work, we have not undertaken a formal review of our effectiveness during the reporting period but we intend to carry out such a review by the end of December 2019. Aligned to this, we will also take the opportunity to review our terms of reference to ensure they are fit for purpose.

## Future work of the Committee

In addition to this review of our own effectiveness, in 2019-20 the committee will:

- Work with the new Head of Internal Audit and agree priorities for the audit plan for the year.
- Continue to advise on the risk management framework as the process matures and develops.
- Provide assurance to the board on the processes adopted by the OfS in carrying out its regulatory activities.
- Consider the impact of registration fees on the OfS and ensure there is appropriate transparency of OfS's expenditure, and that the OfS delivers value for money.

### **Risk and Audit Committee formal opinion**

Our formal opinion for 2018-19 is provided below. This will be published in the OfS's annual report and accounts for 2018-19.

#### **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, value for money and internal control are working satisfactorily.

We are satisfied with the quality of the work provided by our external provider of internal audit services 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.

Based on our own inputs and advice, and the subsequent actions taken by management, it is our view that the committee has worked effectively with Internal Audit, ensuring the focus of the work is relevant to the risks facing the OfS. We can demonstrate that 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

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.

This remit does not extend to the matters of risk, control and governance at the English higher education providers regulated by the OfS.

Except where explicitly delegated otherwise, the RAC acts only in an advisory capacity and has no executive or decision making powers.

## Responsibilities

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
- The 2017-18 annual report and accounts for HEFCE following its planned closure at end of March 2018
- Any other matter upon which the board has asked for assurance or advice.

## Authority

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**

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.

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.

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.

The RAC will consist of:

- Up to three non-executive members of the OfS board (including the RAC chair)
- Up to three independent members.

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.

The RAC may co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience.

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.

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**

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.

The RAC will review its own effectiveness annually and report outcomes to the OfS board.