



Students' Union

Imperial College London
Internal Audit 2020-21

—
January 2021

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Status of report

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Distribution

To (for action):	CC (for information):
— Tom Flynn (Managing Director)	— Ian Walmsley (Provost)
— Jayne Hufford (Head of Finance)	

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Executive summary

Conclusion

We have reviewed the processes, controls and governance arrangements in place over financial planning for the 2020/21 academic year and we have determined that there was a robust control environment in place which facilitated budget setting and scrutiny. We identified that improvements to the disaster recovery plans and formalisation of financial planning procedures would further enhance the control environment.

Through our fieldwork we identified that the Union does not have a disaster response plan in place to be used during times of crisis, as presented by the COVID-19 pandemic. In addition, during the pandemic there was minimal communication between and oversight by the College. We recognise the need for the Union to have autonomy from the College. However, during a time of crisis it is important that both organisations work together. Therefore, we recommend that the Union develop a disaster response plan. This should consider how it aligns to the College's disaster recovery plan and the opportunity for there to be a collaborative element to for extraordinary circumstances which impact both the College and Union. This will ensure a co-ordinated and consistent approach is being implemented by both organisations.

The budgeting and forecasting process for the 2020/21 academic year was significantly changed from prior years as a result of the COVID-19 pandemic. Social distancing and remote learning severely impacted the ability of the Union to operate and given that the Union's core services are funded through a combination of a block grant from the College and income generated through its commercial activities the financial health of the Union was challenged. As a result the Union implemented an iterative budget setting process to enable changes in the operating environment to be built in throughout the year with re-forecasting to take place every six months to ensure the budgets are based on up to date information. The Union assimilated a wide variety of information sourced both internally and externally to develop a sensitivity analysis which identified three possible scenarios. This ensured a variety of outcomes were considered to enable well informed decisions to be made regarding the future operations of the Union. The budgets have been reviewed and scrutinised by both the Finance and Risk Committee and the Union Board of Trustees to ensure adequate oversight and assessment of the budgets.

We recognise that the budget setting process enabled the Union to be reactive and flexible; however, the process was developed in response to the changing government restrictions which impacted the Union's activities and thus the process has not been formalised. As such there is a risk that when Union activities increase and new staff are hired there will be a lack of experience in the budget setting process. Consequently, we recommend the Union formalise its budget setting policy and set out guidelines for staff involved to ensure a consistent approach is taken and that future budget setting appropriately aligns with the Union's strategy and objectives.

Background

The activities of the Students' Union ('Union') have been significantly impacted as a result of COVID-19 with only 20% of students on campus and restrictions placed on clubs and societies, the Union is now operating completely remotely. As a result of the anticipated reduction in commercial income the Union has made large organisational changes, including reducing permanent staffing levels, in order to ensure its long term financial viability.

In order to incorporate the uncertainty associated with the COVID-19 pandemic, the 2020/21 budget setting process was changed from previous years, moving from a two to a four phase approach to enable the changing environment to be incorporated into the process. The Union is currently in phase three of this process and the final budget for 2020/21 was presented to the Board of Trustees in October.

As a result significant changes which have been made coupled with the unprecedented challenges being faced by the Union, financial planning activities are key to ensuring that Management are able to make informed decisions. Comprehensive financial planning will enable the Union to react to changes in the environment to ensure it remains on track and provide clear direction for organisation. However, given the challenging financial environment coupled with significant staff changes provides the financial planning arrangements for 2020/21 are significantly different from prior years.

Section one

Executive summary

Objectives

The objectives of our review are shown below.

Objective	Description of work undertaken
Objective one Financial Planning	We evaluated the process and controls in place over development of the Union's financial strategy, plan, budget and forecasting. This included consideration of; <ul style="list-style-type: none">• Alignment to the strategic objectives of the Union• Sequencing of activities;• Policies and guidance in place;• Information assimilated;• Analysis performed.
Objective two Governance and monitoring arrangements	We assessed the governance and monitoring arrangements in place over the financial strategy, plan, budget and forecasts.
Objective three Follow up of prior year recommendations	We followed up on all recommendations raised in prior year reviews which had not been implemented at the most recent Audit and Risk Committee, in November, and performed sample testing where relevant to support Management's assessment of the implementation status of these recommendations.

Areas of good practice

- ✓ The Union developed a measured and decisive approach to financial planning under extreme circumstances which not only protected its core activities but also enabled the impact of the changing environment to be built in.
- ✓ The budget setting process used information from a wide range of sources and included scenario planning which ensured a number of possible outcomes were considered.
- ✓ Regular reporting of budgets to Board of Trustees and Finance and Risk Committee ensured adequate scrutiny and oversight of the budget.

Areas for development

- The Union does not have a disaster response plan in place to be used during times of crisis. In addition, during the pandemic there was minimal communication between and oversight by the College (**recommendation one**).
- We raised one low priority recommendation related to the development of policy and guidelines for budget setting.

Recommendations

We summarise below the recommendations raised and followed up as a result of our review:

	High	Medium	Low	Total
Recommendations raised in previous reports	-	5	4	9
Recommendations implemented	-	(1)	-	(1)
Recommendations raised in this report	-	1	1	2
Total recommendations outstanding	-	5	5	10

Acknowledgement

We would like to thank the staff involved in this review who helped us complete our work:

Recommendations

This section summarises the recommendations that we have identified as a result of this review. We have attached a risk rating to these recommendations as per the following table:

Risk rating for recommendations raised		
<p>1 High priority (one): A significant weakness in the system or process which is putting at serious risk achieving strategic objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that strategic risks will occur. Require immediate attention.</p>	<p>2 Medium priority (two): A potentially significant or medium level weakness in the system or process which could put at risk achieving strategic objectives. In particular, having the potential for adverse impact on reputation or for raising the likelihood of strategic risks occurring.</p>	<p>3 Low priority (three): Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving strategic objectives. These are generally issues of good practice that could achieve better outcomes.</p>

#	Risk	Recommendation	Management response
1	2	<p>Disaster response plan</p> <p>The Union does not have a disaster response plan in place to be used during times of crisis. In addition, during the pandemic there was minimal communication between and oversight by the College, until August 2020 at which point a financial planning paper was presented. The Union was not involved in the command structure operating during the pandemic. Whilst we recognise the need for the Union to have autonomy from the College. However, during a time of crisis it is important that both organisations work together.</p> <p>We recommend that the Union develop a disaster response plan. This should consider how it aligns to the College's disaster recovery plan and the opportunity for there to be a collaborative element to for extraordinary circumstances which impact both the College and Union. This will ensure a co-ordinated and consistent approach is being implemented by both organisations.</p>	<p>Agreed</p> <p>The Union will develop a range of contingency plans for disaster response</p> <p><i>Responsible officer:</i> Managing Director</p> <p><i>Due date:</i> August 2021</p> <p><i>Evidence to confirm implementation:</i> Disaster response plan which has been approved by the Union and shared with the College.</p>
2	3	<p>Policy and guidelines for budget setting process</p> <p>A significant portion of the budgeting process has been in response to the changing government restrictions which impact the Union's activities. As such, alignment of budget with strategy has been of reduced significance throughout the year. The restructuring process has involved a change to the workforce at the Union. When activities scale up in future, this will involve hiring a number of new staff, many of whom will likely be involved in the budget setting process.</p> <p>We recommend the Union formalise its budget setting policy and set out guidelines for staff involved to ensure a consistent approach is taken and that future budget setting appropriately aligns with the Union's strategy and objectives.</p>	<p>Agreed</p> <p>The Union is currently working with College to develop a new financial model. The Finance & Risk Committee will use the outcome of these discussions to consider a new Finance & Budget policy in March 2021.</p> <p><i>Responsible officer:</i> Managing Director/Director of Finance and Resources</p> <p><i>Due date:</i> April 2021</p> <p><i>Evidence to confirm implementation:</i> Written budget setting policy and guidance for 2021/22 academic year.</p>

Financial planning, governance and monitoring arrangements

We have documented the process in place over financial planning for the 2020 – 21 academic year including governance and monitoring arrangements. We have set out below a summary of the controls and our commentary on their design.

Process	Control	KPMG Commentary
Sensitivity analysis conducted by Interim Managing Director and Interim Director of Finance.	1. Identified three potential scenarios	<ul style="list-style-type: none"> ✓ Information was gathered from wide range of sources including; 2019/20 budget, management accounts, minutes of meetings, processes and procedure documents and draft budgets put together by budget holders. ✓ As a result of COVID-19 initial draft budgets from May 2020 were no longer appropriate therefore the budget setting process was adjusted to reflect the changed operational environment. – No policies or guidelines were in place for budget setting (recommendation one). – The Union presented a financial recovery plan to the College in February 2020. However, there was no engagement or communication between the College and Union in response to COVID-19 as part of a formal disaster response governance process (recommendation two).
Budget scenarios reviewed by Union Board of Trustees in July 2020.	2. Three potential scenarios assessed	<ul style="list-style-type: none"> ✓ Due to continued government restrictions and ongoing COVID developments, the Union determined that the worst case scenario would be the most likely outcome for the Union. ✓ We have reviewed minutes and confirmed that the budgets were revisited following a requirement to reflect the reality of the likely situation for 2020-21.
Union restructure initiated by budget review in July 2020	3. Proposal ratified by Union Board of Trustees	<ul style="list-style-type: none"> ✓ Based on the proposed budgets, which all resulted in a deficit, the Union initiated a restructuring process with the aim of protecting core charitable functions. The detailed proposal also identified a need to increase flexibility and saleability, by reducing fixed costs. ✓ We reviewed minutes and confirmed that the proposed staffing restructure was scrutinised at Union Board of Trustees, and that questions were raised relating to the changes in roles.
Budget revised following restructure and finalised in October 2020	4. Budget scrutinised by Union Finance and Risk Committee 5. Budget ratified by Union Board of Trustees 6. Monthly management accounts presented to Union Board of Trustees	<ul style="list-style-type: none"> ✓ Budgets assumed; no income from bars and a 50% reduction in retail income, no external bookings and consistent grant from the College over the 2020 – 21 academic year. ✓ We have confirmed in minutes that the College continue to provide ICU with the annual block grant for 20/21 in line with 19/20 ✓ We have confirmed in minutes that there was scrutiny at Finance and Risk committee, and at Board of Trustees relating to confidence in the finalised budget, and use of reserves. ✓ In response to the fast-changing landscape and to ensure the Union could respond quickly to new government guidelines the Union updated its governance as follows; Board of Trustee meetings increased to Monthly with scrutiny as its main objective and Finance and Risk Committee meetings moved to quarterly, with policy and procedure development as its main objective.
Re-forecasted budget Approved	7. Approved by Union Board of Trustees in February 2021	<ul style="list-style-type: none"> ✓ Re-forecasted budget is currently being prepared. This will take the most recent government restrictions into consideration and their potential impact on the Union.

Follow up of prior year recommendations

We conducted follow up of recommendations made in prior year reports and obtained responses on the current status of the recommendation from Management.

Risk	Recommendation	Original response and December 2020 update
2017 - 2018 Report		
2	<p>Review of Risks</p> <p>Expected frequencies for reviewing risks held on the operational risk registers have not been formally defined to provide assurance that the information reviewed by management remains current and appropriate. An expected review date is incorporated into the risk register, though there is not a consistent basis on which this is set. 21 of the 80 risks held on the operational risk register were overdue for review based on the scheduled review date, 12 of these were overdue by at least three months. A further 18 risks did not have a planned review date set.</p> <p>As part of the risk management policy a formal frequency for review of risks should be established. The union may want to consider setting different frequencies depending on the level of risk, with higher rated risks requiring more frequent review. At defined intervals, such as every six months, a holistic review should be undertaken to also consider the completeness of the risk register in each area.</p> <p>Scheduled review dates entered into the risk register should be set in line with this policy and reports circulated to risk owners on a monthly basis of those risks that are overdue for review.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>A formal operational risk management procedure is to be circulated to all risk owners by 31 October which will set out the varied approach to reviewing risks which will be dependent on the level of risk. Risks with a score of 25 or above (where the probability is very likely and impact serious) will be reviewed more frequently than low rated risks. Risk owners are to review such risk monthly, discuss with their SMG lead bi-monthly, met with the Head of Finance and Resources termly and any exceptions reported to Finance and Risk Committee (board sub-committee) annually.</p> <p>Risk owners' attention will be drawn to the importance of updating the online risk register accordingly. Risk owners will ensure that controls and pending controls are in place which will be reviewed by their respective Strategic Manager at least bi-monthly. The Head of Finance and Resource (Risk Lead) will review risks at least on a termly basis and the Finance & Risk Committee (board sub-committee) will be receive exception reports annually. This process will be rolled out during October and November 2018 and be embedded by June 2019.</p> <p>Responsible Officer: Managing Director</p> <p>Revised due date: June 2019</p> <p><i>Update December 2020</i></p> <p>Revised due date: March 2021</p> <p>Status: Partially implemented</p> <p>KPMG Testing:</p> <p>We reviewed approved Risk Management Policy which was approved by Board in December 2020 and confirmed that it includes the following;</p> <ul style="list-style-type: none"> - Review Operational Plan and Departmental Risk Register termly which includes review of risk controls and risk tolerance - Strategic risk register reviewed annually by full Board of Trustees - Risk Register is a standing item on Finance and Risk Sub-Committee (which meets quarterly) <p>The new Strategic Risk Register is currently being developed alongside the strategic plan and will be approved by the Board in March 2021.</p>
2	<p>Identification of risk controls</p> <p>The risk register includes a section to document the controls being implemented to mitigate risks that have been identified. Each control is marked as implemented or pending implementation and expected to have a due date attached to it where implementation is pending. Five of the 80 risks on the risk register have been identified as requiring treatment but do not have any controls established against them. A further 31 risks had pending controls either with no due date set or overdue for implementation.</p> <p>As the Union implements formal reviews of the risk register a review of the status of pending controls should be incorporated. Where controls are overdue for implementation this should be set out as part of exception reporting to the Finance and Risk Committee to enable oversight of any bottlenecks preventing implementation.</p>	<p>Responsible Officer: Managing Director</p> <p>Revised due date: June 2019</p> <p><i>Update December 2020</i></p> <p>Revised due date: March 2021</p> <p>Status: Partially implemented</p> <p>KPMG Testing:</p> <p>We reviewed approved Risk Management Policy which was approved by Board in December 2020 and confirmed that it includes the following;</p> <ul style="list-style-type: none"> - Review Operational Plan and Departmental Risk Register termly which includes review of risk controls and risk tolerance - Strategic risk register reviewed annually by full Board of Trustees - Risk Register is a standing item on Finance and Risk Sub-Committee (which meets quarterly) <p>The new Strategic Risk Register is currently being developed alongside the strategic plan and will be approved by the Board in March 2021.</p>
3	<p>Review of risk tolerance</p> <p>The risk register includes two risks where the target risk score has been set at 80, for which current risk scores are significantly lower and further actions have been identified as required to manage the risk.</p> <p>A review should be undertaken to identify risks where the risk conclusion is that further treatment is required but the current risk score is at or below the target to assess whether further controls are required and if so whether the target and current risk scores have been set appropriately.</p>	<p>Responsible Officer: Managing Director</p> <p>Revised due date: June 2019</p> <p><i>Update December 2020</i></p> <p>Revised due date: March 2021</p> <p>Status: Partially implemented</p> <p>KPMG Testing:</p> <p>We reviewed approved Risk Management Policy which was approved by Board in December 2020 and confirmed that it includes the following;</p> <ul style="list-style-type: none"> - Review Operational Plan and Departmental Risk Register termly which includes review of risk controls and risk tolerance - Strategic risk register reviewed annually by full Board of Trustees - Risk Register is a standing item on Finance and Risk Sub-Committee (which meets quarterly) <p>The new Strategic Risk Register is currently being developed alongside the strategic plan and will be approved by the Board in March 2021.</p>

Follow up of prior year recommendations

Risk	Recommendation	Original response and December 2020 update
2018 - 2019 Report		
<p>2</p>	<p>Business case requirements</p> <p>Business cases are only currently required for capital investments that are not included within the annual capital plan. There is not a control to assess whether projects put forward within the operating plan provide the most effective value for money in utilising the Union's funds prior to being included.</p> <p>Thresholds for approving business cases are set out in the financial procedures. These require all business cases to be approved by the Union President and Managing Director. There is not a threshold above which approval is required by a committee.</p> <p>The financial regulations should be updated to require all proposed investments to have a business case completed prior to the project commencing. This should consider both capital and revenue projects. A threshold should be set above which business cases are required to be approved by the Finance and Risk Committee.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>As part of the introduction of a new Business planning process, short scoping papers are now required to be reviewed by Leadership as a decision is made as to whether a full Business Case should be developed.</p> <p>The Union's Financial regulations are overdue for a review which will be undertaken during the winter 2019 then presented for approval at the February 2020 Finance and Risk Committee.</p> <p>Responsible Officer: Head of Financial Resources</p> <p>Revised due date: February 2020</p> <p><i>Update December 2020</i></p> <p>The Union has launched a project in October 2020 that has the remit for both developing a new strategic plan, as well as setting the parameters for a new planning and budgeting round process. Part of this will involve a formal project plan / business case process, where major decisions will be approved via the Leadership Group of the Union. We have started the review of our financial policies and procedures which is due to be completed by 10 March 2021.</p> <p>Responsible Officer: Managing Director/Director of Finance and Resources</p> <p>Revised due date: March 2021</p> <p>Status: Not yet implemented</p>

Follow up of prior year recommendations

Risk	Recommendation	Original response and December 2020 update
2019 - 2020 Report		
<p>2</p>	<p>Consolidation of Finance and Risk Committee reporting</p> <p>The Finance and Risk Committee currently receives a separate finance report for each month since the last meeting and detailed budget statements at a cost centre level for each month. This provides more detail than is required to scrutinise the financial performance, which could be more effectively provided with a single finance report summarising performance for the period to date.</p> <p>A single finance report should be prepared for the financial performance in the period up to the committee meeting. This should provide an overview of income and expenditure performance and narrative setting out the cause of key variances as well as a forecast for the year and the primary balance sheet. The Balance Sheet and detailed notes to the Balance Sheet in the current reporting and the cost centre budget statements should be removed from current reporting and replaced with a summary analysis of the working capital position.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>Monthly reports will continue to be generated as these are sent to Board members on a monthly bases.</p> <p>A summary report will be prepared for each committee providing an overview of the financial performance since the previous meeting.</p> <p>Responsible Officer: Head of Financial Resources</p> <p>Revised due date: April 2020</p> <p><i>Update December 2020</i></p> <p>Status Implemented</p> <p>KPMG Testing: We have reviewed the monthly reports and accompanying commentary to confirm that these have been updated.</p>
<p>2</p>	<p>Cash flow monitoring</p> <p>The Union is not currently preparing cash flow forecasts to monitor expected liquidity movements over in the short to medium term and any actions that may be required in order to respond to cash pressures.</p> <p>A rolling 12 month cash flow forecast should be prepared to set out a high level overview of the expected cash receipts and expenditure during the period and the anticipated cash balance. This should be included within the reporting to the Finance and Risk Committee.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>Cash flow reporting will be introduced from April 2020.</p> <p>Responsible Officer: Head of Financial Resources</p> <p>Revised due date: April 2020</p> <p><i>Update December 2020</i></p> <p>The Union recently liquidated its £1.5m investment to bolster cash reserves. We also carried out a high level cashflow forecast as part of the audit going concern review. Even faced with a reasonable worst case scenario, the forecast suggested that the Union has sufficient cash to sustain its current operating levels until the end of 2021/22. We are now working on a more detailed cashflow forecast which will be included in the Board reports once finalised.</p> <p>Responsible Officer: Director of Finance & Resources</p> <p>Revised due date: March 2021</p> <p>Status: Not yet implemented</p>

Follow up of prior year recommendations

Risk	Recommendation	Original response and December 2020 update
3	<p>Password change frequencies</p> <p>Permissions for the EPOS system in the bar have been updated so that only supervisors are able to authorise voids and to remove shared codes being used to approve voids. Minimum frequencies for password changes have not been able to be enforced, though managers have been requested to update their password every three months.</p> <p>At quarterly intervals a reminder should be sent to managers to set out the need for their passwords to be changed. The Systems Manager should explore whether there is technical capacity to enforce password changes for managers.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>All Managers/Supervisor are now required to change their passwords every three months and reminders are communicated across the team to do this. Voids, refunds and other metrics are being monitored every week which will help monitor compromised passwords. We are currently talking with the Orbis Tech to see if they can add a function to force password change after a limited time.</p> <p>Responsible Officer: Operations Manager</p> <p>Revised due date: February 2020</p> <p><i>Update December 2020</i></p> <p>A major staff reorganisation has taken place over the past few months and the majority of the commercial staff have been made redundant. The bars have only recently and partially reopened under a different operating model. The requirement to change passwords regularly will be re-enforced with the current team. The long term plan is to move forward with tendering for a new EPOS provider; this recommendation would be incorporated as a technical requirement in the tender. However, this is on hold due to financial constraints and the unprecedented events of the past year.</p> <p>Responsible Officer: Operations Manager</p> <p>Due Date: March 2021</p> <p>Status: Not yet implemented</p>
3	<p>Expenses guidance</p> <p>We reviewed the financial regulations and supporting guidance made available for submitting expense claims. While there is extensive guidance on the process and the evidence required to be provided we were unable to identify guidance to set out criteria for acceptable items that can be claimed through expenses.</p> <p>An additional section should be added to the training material for expense claims setting expectations of those areas considered appropriate to claim and areas for which expense claims are not expected to be appropriate.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>The financial regulations will be updated during the next review to give clarity which items are appropriate to claim and areas for which expense claims are not expected to be appropriate.</p> <p>Responsible Officer: Operations Manager</p> <p>Revised due date: February 2020</p> <p><i>Update December 2020</i></p> <p>In October 2020, the Finance & Risk Committee agreed a timeline for a corporate policies review. The review of the finance policies is due by 10 March 2020. This recommendation will be included in the review.</p> <p>Responsible Officer: Head of Finance</p> <p>Revised due date: March 2021</p> <p>Status: Not yet implemented</p>

Follow up of prior year recommendations

Risk	Recommendation	Original response and December 2020 update
<p>3</p>	<p>Approval of bar purchase orders</p> <p>There is inconsistency in the approval requirements for orders being placed from the bars and the shops. While orders generated for the shop require approval by the Retail Manager, those for the bar do not require approval when entered into the system.</p> <p>As the orders are generated by automatically comparing the recorded stock levels to established 'par' levels a review of the draft order should be undertaken prior to processing to verify that it is appropriate. This should be completed by the Bar Manager or their nominated deputy.</p>	<p><i>Original response</i></p> <p>Agreed</p> <p>Currently within the bars team all orders are entered onto E-activities and sent to the Operations Manager, Venues Manager or the Head of Commercial for approval prior to ordering. All orders require PO's to be raised in order for it to be placed.</p> <p>Responsible Officer: Operations Manager</p> <p>Revised due date: February 2020</p> <p><i>Update December 2020</i></p> <p>A major staff reorganisation has taken place over the past few months and the majority of the commercial staff have been made redundant. The bars have only recently and partially reopened under a different operating model. The approval process for purchase ordering will be re-enforced with the current team and reviewed for compliance. The commercial operation is under review and will be considered in the development of the commercial operations.</p> <p>Responsible Officer: Operations Manager</p> <p>Due Date: March 2021</p> <p>Status: Not yet Implemented</p>

Appendix three

Staff involvement and documents reviewed

We held discussions with the following staff as part of the scoping and completion of the review:

Name	Job title
Ian Walmsley	Provost
Tom Flynn	Managing Director
Jayne Hufford	Head of Finance

During our testing, we reviewed the following documents:

- Finance and Risk Committee Minutes
- Board of Trustee Minutes
- ICU Final Budget
- COVID-19 Response Impact and Planning
- Financial Recovery Plan
- Draft Budget Paper
- Block Grant Submission and Plan
- Going Concern Assurance Paper
- Management Accounts
- Roadmap to 2021
- Proposed Staffing Changes



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