



Annual Report of Audit and Risk Committee 2018–19

Outcome requested	Audit and Risk Committee is asked to note the first draft of the Annual Report for 2018–19. The final report will be submitted to Council in November.
Executive Summary	<p>Under the Office for Students (OfS)'s Terms and conditions of funding for higher education institutions, the Committee is required to produce an Annual Report for submission to Council and the OfS. The report must include the Committee's conclusions on the adequacy and effectiveness of:</p> <ul style="list-style-type: none"> • Queen Mary's risk management, control and governance arrangements; • arrangements for promoting economy, efficiency and effectiveness; • arrangements for the management and quality assurance of data submitted to HESA, the Student Loans' Company, the OfS and other funding bodies. <p>The report should also record the Committee's work in relation to:</p> <ul style="list-style-type: none"> • the internal and external auditors; • Queen Mary's arrangements in respect of risk management, value for money and data quality; • the audit of the annual financial statements. <p>The report covers the 2018–19 financial year and, as required by HEFCE, records any significant issues up to the date of signing the report and the Committee's consideration of the financial statements for the year.</p> <p>Information to be added following this meeting or when available has been highlighted in red.</p>
QMUL Strategy:	Financial sustainability
Internal/External reference points:	Office for Students Terms and conditions of funding; CUC Handbook for Members of Audit Committees in Higher Education Institutions.
Strategic Risks	<p>11. Delivery of Estates and IT enabling plans</p> <p>12. Improved cash generation to enable investment</p> <p>14. Strategy implementation</p> <p>15. Incident management and business continuity</p> <p>16. Compliance</p>
Subject to onward consideration by:	A second draft of this report will be considered by the Committee on 11 November 2019 before going to Council.

Confidential paper under FOIA/DPA:	No
Equality Impact Assessment	Not required
Timing:	Submission to Council on 21 November 2019 and OfS by 03 December 2019.
Author:	Nadine Lewycky, Assistant Registrar (Governance)
Date:	20 September 2019
Senior Management/ External Sponsor	David Willis, Chair of Audit and Risk Committee

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1. Introduction

- 1.1. This is the annual report of the Audit and Risk Committee for the 2018–19 financial year. The report has been prepared with reference to the Office for Students' (OfS) Terms and Conditions of Funding for Higher Education Institutions and Regulatory Notice 2. It also refers to the CUC Handbook for Members of Audit Committees in Higher Education Institutions. It forms part of the evidence through which Queen Mary gives assurance to the OfS about the use of public funds.

2. Committee Constitution

- 2.1. The Committee reviewed progress at each meeting against the annual business plan for 2018–19.

- 2.2. Members of the Committee (none of whom have executive authority):

External Members of Council

David Willis (Chair)

Kathryn Barrow

Monica Chadha

Peter Thompson

Co-opted External Members

Nadim Choudhary (to 31 July 2019)

Melissa Tatton

- 2.3. The following attended meetings of the Committee on a regular basis:

Representatives of the Senior Executive and other senior officers

Professor Colin Bailey President and Principal

Joanne Jones Director of Finance and Resources

Jonathan Morgan Registrar and Secretary

Catherine Murray Director of Strategic Planning

Janice Trounson Deputy Director (Financial Controls)

Representatives of the Internal Auditors

Jessica Hargreaves KPMG

Neil Thomas KPMG

Representatives of the External Auditors

Jonathan Gooding Deloitte

Julian Reeve Deloitte

- 2.4. Luke Savage, Treasurer and Chair of the Finance and Investment Committee, had access to the papers circulated to the Audit and Risk Committee via the board management software Convene. Arrangements were in place to facilitate appropriate liaison between the two committees.

- 2.5. *Secretary to the Committee*

Dr Nadine Lewycky Assistant Registrar (Governance)

- 2.6. *Terms of Reference*

The Committee reviewed its Terms of Reference at its meeting on 11 June 2019 and made no amendments.

2.7. *Committee Effectiveness*

The Committee’s Terms of Reference require it to review its effectiveness on an annual basis. The Committee Secretary accordingly held a series of structured meetings and phone calls with members to gather feedback. Feedback indicated that the Committee was working effectively overall. Opportunities for improvements include: more discussion in meetings on items of strategic importance; the quality of information to the committee in written papers and oral presentations; the format of deep dive reports and presentations; opportunities to have informal discussions outside of meetings about strategic issues; and using the revised Strategic Risk Register to guide Committee business.

3. Meetings of the Committee

3.1. The Committee met on the following dates since the start of 2018–19:

- 04 October 2018;
- 14 November 2018;
- 13 March 2019;
- 11 June 2019;
- 03 October 2019;
- 11 November 2019.

3.2. The following table records attendance at meetings by members.

	04-10-18	14-11-18	13-03-19	11-06-19	03-10-19	11-11-19
K Barrow	X	✓	X	✓		
M Chadha	✓	✓	✓	✓		
N Choudhary	✓	X	✓	X	N/A	N/A
M Tatton	✓	✓	✓	✓		
P Thompson	✓	X	✓	✓		
D Willis	✓	✓	✓	✓		

4. Internal Audit

4.1. Internal audit services in 2018–19 were provided by KPMG for a fee of £84,950 plus VAT. KPMG was reappointed as Queen Mary’s Internal Auditors in April 2017 for a period of four years following a tender process.

4.2. The total number of days allocated to internal audit during 2018–19 across all areas was 155 compared to 155 during 2017–18. No restrictions were placed on the work of the Internal Auditors in 2018–19. The Committee considered progress reports on the 2018–19 audits at its meetings in March, June and October 2019.

4.3. The Internal Audit Annual Report for 2018–19 was considered by the Committee at its meeting on 03 October 2019. A summary of the internal audit findings is attached as Annex B (to be added). Members attended a private meeting with the Internal Auditors ahead of the Committee meeting on 03 October 2019. There were no points from this meeting that the Committee needed to draw to the attention of Council.

4.4. Eight scheduled audits agreed in the 2018–19 operational plan were completed during this reporting period and the Committee received individual reports from each audit.

4.5. Internal audit verdicts are classified according to a series of assurance levels, identified in the following table:

Assurance level	Classification
Green	Priority three only, or no recommendations i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process.
Amber-green	One or more priority two recommendations i.e. that there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring.
Amber-red	One or more priority one recommendations or an identified need to improve the systems in place to enable achievement of strategic aims and objectives. i.e. the weakness or weaknesses identified have a fundamental impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks.
Red	One or more priority one recommendations and fundamental design or operational weaknesses in the area under review. i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and / or objectives; or result in an unacceptable exposure to reputational or other strategic risks.

4.6. The outcomes of the reviews undertaken is summarised in the following table:

Review	Outcome (rating)	Number of Recommendations		
		Level one	Level two	Level three
Student Experience: Admissions	Amber/Red	1	4	1
Managing partnerships	Amber/Green	0	4	3
Financial Management: Payroll and Procurement	Amber/Green	0	3	1
School audit: The Blizzard Institute	Amber/Green	0	1	3
School audit: Centre for Commercial Law Studies	Amber/Green	0	1	3
Research overheads	Amber/Green	0	1	1
Business continuity	Red	3	4	0
Overseas working	Amber/Red	2	3	0
Research Governance				

4.7. The Committee received the internal audit report on Business continuity on 13 March 2019. The audit assessed the adequacy of Queen Mary's business continuity procedures and supporting documentation against good practice for Higher Education and the ISO22301 standard for business continuity management. The report found that there were no detailed business continuity plans in place at central or local level, and that there were gaps in governance in this area.

4.8. The Committee expressed concern with the length of time that these gaps had been allowed to persist, and felt that these could indicate oversight in other areas. The Committee asked to be made aware of gaps in other key compliance roles. This would be included as part of the annual legal compliance report to the Committee in November.

4.9. The Committee also requested that management prepare an annual report on business continuity that would be used to drive continuous improvement and would cover the key compliance areas; responsibilities and reporting lines; the relevant policies; a summary of events over the course of the year; and a plan for the following year.

4.10. The Committee received the internal audit report on Overseas working on 11 June 2019. The audit assessed the design of the processes in order to enable Queen Mary to monitor which staff are working overseas and gain assurance that the risks to their travel have been appropriately considered. The Committee heard that while some Schools demonstrated good practice in identifying and monitoring overseas working

arrangements for staff, practices varied across Schools and there was no central monitoring in place. An Overseas working policy is in place but is out of date and there is no guidance relating to short term overseas working. HR records were incomplete with regards to the locations of staff working permanently overseas.

- 4.11. The Committee discussed challenges to improving the culture in Schools around recording and monitoring overseas working and what incentives or penalties could be introduced. The Committee considered that a risk assessment should be an indispensable part of the approvals process, and that approval should not be granted if this was not completed. A central tracking process would be introduced as a matter of urgency so that the university was aware of the location of staff in the event of an emergency.
- 4.12. The Committee, following consideration and scrutiny of the management responses and the monitoring of the implementation of agreed actions, considered that appropriate actions and controls had been put in place to address the recommendations made.
- 4.13. The Committee agreed the 2019–20 Internal Audit Operational Plan at its meeting on 11 June 2019.

5. External Audit

- 5.1. Deloitte were appointed as Queen Mary's External Auditors for 2018–19. The fee for 2018–19 in respect of external audit services was £129,350 plus VAT. Members attended a private meeting with the External Auditors ahead of the Committee meeting held on 11 November 2019. **There were no points arising from the private meeting that the Committee needed to draw to the attention of Council.**
- 5.2. The Committee considered and approved the External Audit Plan for 2018–19 at its meeting on 13 March 2019.
- 5.3. The External Auditors' Report and management response for 2018–19 was considered by the Committee on 11 November 2019. The report included **recommendations in relation to the accounting of research grant income, management override of controls, and the accounting of major capital projects, all of which have been accepted by QMUL. The Committee gave detailed consideration to these recommendations, included in Annex C, which will be monitored by the Committee to ensure that effective controls are in place.**
- 5.4. The External Auditors' Report concluded that **the audit identified no material issues and resulted in no material adjustments. The External Auditors stated that the financial reporting control environment appears to be robust and no material control matters were drawn to our attention.**

6. Approval of Financial Statements

- 6.1. At its meeting on 11 November 2019 the Committee recommended that Council should **approve** the Financial Statements for 2018–19 **subject to [to be inserted]**. Council's decision at its meeting on 21 November 2019 was to **[insert Council's decision]** the Financial Statements.

7. Risk Management

- 7.1. Queen Mary's approach to risk management is set out in its risk management framework which was reviewed by internal audit in **2017–18**. The annual Internal Audit Operational Plan is aligned with identified risk areas.
- 7.2. The Committee received and discussed the Strategic Risk Register during 2018–19 at its meetings in November 2018, March 2019, June 2019, **October 2019 and November**

2019. Risks in the Register have been aligned with the university's 2030 strategy. The presentation of risk, targets, deadlines and mitigating actions in the Register were improved. The Register was a live document which would be reviewed monthly by the Senior Executive. The Register would be used by the Committee to identify topics for deep dives.

7.3. Reports on strategic risk were provided to Council by the Chair of the Audit and Risk Committee at its meetings on 11 October 2018, 29 November 2018, 28 March 2019, 11 July 2019 and 10 October 2019.

7.4. The Committee received deep dive reports in the following areas:

[a] *Transnational Education in China*

Queen Mary had a depth of engagement with China distinct among universities in the Russell Group, and which yielded positive financial and reputational impacts for the university. The new Global Engagement Strategy would focus on developing the highest quality partnerships and diversify market share in new markets going forward. Ownership and oversight of risk in relation to international activity rested with the Vice-Principal (International) and risks had been maintained on a separate risk register since 2015. Main risks in this area were financial, reputational, academic and politico-legal. A Steering Group would be established to oversee the management of the joint programmes and would report to the new Global Engagement Executive.

[b] *Performance data and risks to strategy*

The Committee sought assurance on the university's capability to report on Key Performance Indicators (KPIs) in preparation for the launch of the 2030 strategy. The principles underpinning the development of the new KPIs included: outcomes-based; currency; clear links to the strategic priorities; considered at appropriate times of the year; and reportable at programme, Faculty, School and university level. The KPIs were being developed by Planning for sign off by the Senior Executive and Council. New software had been procured to improve the quality and timeliness of internal reporting. The data would be reported alongside benchmarking data for the sector and Russell Group.

7.5. The Head of Internal Audit Opinion considers that significant assurance with minor opportunities for improvement can be given on the overall adequacy and effectiveness of the organisation's framework of risk management, control and governance.

8. Legal Compliance

8.1. The Committee considered a report on Queen Mary's legal compliance framework at its meeting on 11 November 2019. The framework comprises identification of relevant legislation, current areas of work, and the infrastructure of policies, guidelines, training and professional expertise.

8.2. On the basis of the information provided, the Committee was satisfied that Queen Mary has adequate and effective measures in place to secure compliance with applicable law and regulation.

8.3. As part of the legal compliance report, the Committee considered Queen Mary's compliance with the Prevent Duty. The Committee was provided with evidence of active implementation of relevant policies and procedures, as well engagement from senior members of staff and training for key workers. On the basis of the evidence presented at the meeting on 11 November 2019, the Committee recommends to Council that Queen Mary can confirm to the OfS that throughout the year and up to the date of approval, Queen Mary University of London:

- has had due regard to the need to prevent people being drawn into terrorism (the Prevent Duty);
- has provided to the OfS all required information about its implementation of the Prevent duty;
- has reported to the OfS in a timely way all serious issues related to the Prevent duty;
- has reviewed, and where necessary, updated its Prevent risk assessment and action plan.

9. Value for Money (VfM)

9.1. The Committee considered an annual report on Value for Money (VfM) at its meeting on 11 November 2019. The Committee noted that guidance on reporting VfM to the OfS had not yet been issued. It was not expected that the OfS would request submission of an annual report, and the report had been prepared for internal monitoring. The Committee was satisfied that progress had been shown against the five indicators selected by the Committee to track improvements in VfM in 2017–18. The Committee received assurances that initiatives were focused on promoting economy, efficiency and effectiveness across the breadth of Queen Mary activity.

9.2. The Internal Audit Annual Report stated that “We consider that Queen Mary University of London has adequate and effective arrangements in place to promote economy, efficiency and effectiveness. During 2017/18 we have not made any findings in the course of our work that would lead us to question the arrangements in place at Queen Mary University of London to secure value for money in the use of resources.”

10. Public Interest Disclosure (Whistleblowing)

10.1. The Committee received reports of two disclosures under the whistle blowing policy between September 2018 and November 2019.

[a] An allegation relating to a disciplinary case in the security team in which an individual subject to investigation complained about the use of CCTV to monitor their movements. The matter was a disciplinary issue and was being investigated through the appropriate procedures.

[b] Concerns were raised about the application of a new policy relating to the approval of contracts in QMI. An investigation found that no misconduct had taken place but that the policy needed to be clarified. The Committee received the updated policy along with the annual report at its meeting on 03 October 2019.

11. Serious incidents, including fraud and loss of assets

11.1. Under the Financial Regulations, any suspicion of bribery, fraud, or other irregularity must be reported immediately to the Chief Operating Officer. The following matters were reported to the Committee between September 2018 and November 2019:

[a] In November 2018 a purchasing card holder passed their card and pin to a colleague who had fallen for an iTunes phishing scam. The loss to the university, net of amounts recovered, was £300. The incident was reported to ActionFraud, Barclaycard and iTunes. Information for all staff about phishing scams was published on the intranet and cardholders were sent guidance on the use of purchasing cards.

[b] In February 2019 an amendment was made to a supplier’s bank account details without following due process. This resulted in a loss to the university of £3,393.60. The incident was reported to ActionFraud, Barclaycard and the supplier. The individual responsible for processing supplier amendments no

longer works for Queen Mary. All staff responsible for making amendments were reminded of the process and system changes were put in place to ensure that any supplier changes would require additional approval.

12. Data quality and integrity

- 12.1. A data quality review forms part of the annual Internal Audit Operational Plan. During 2018–19, the Internal Auditors undertook a review of research overheads. This review was rated ‘significant assurance with minor improvement opportunities’ (amber-green).
- 12.2. The Committee received a report on the TRAC return at its meeting on 13 March 2019. The process and results had been reviewed by the TRAC Advisory Group comprising both Professional Services and academic staff and the Chair of Audit and Risk Committee.
- 12.3. The Committee received a report on the management and quality assurance of external data returns at its meeting on **11 November 2019**. The report showed that Queen Mary had robust assurance processes in place which were proportionate to the risk associated with each return.

13. Opinion

- 13.1. In accordance with Annex C of the OfS’s Terms and Conditions of Funding for Higher Education Institutions, the Committee has reached the following opinions on the adequacy and effectiveness of Queen Mary’s arrangements for:
 - (i) *Risk management, control and governance*
Queen Mary has adequate and effective arrangements in place for risk management, control and governance. This is evidenced by the Statement of Corporate Governance and Internal Control in the Financial Statements for 2018–19, the regular updates of the Strategic Risk Register, the deep dives and discussions at the Committee and the Head of Internal Audit Opinion.
 - (ii) *Economy, efficiency and effectiveness (Value for money)*
Queen Mary has adequate and effective arrangements in place to promote economy, efficiency and effectiveness. This is evidenced by the value for money annual report and the Head of Internal Audit Opinion.
 - (iii) *The management and quality assurance of data returns to external bodies*
Queen Mary has adequate and effective arrangements in place for the management and quality assurance of data submitted to HESA, the OfS, the Student Loans Company and other public bodies. This is evidenced by the data quality reviews undertaken annually by the Internal Auditors, reports from management about the arrangements for ensuring the robustness and integrity of external data returns, the External Auditors opinion based on its review of correspondence relating to the HESA return with the OfS as part of the overall audit, and the Committee’s oversight of progress implementing recommendations arising from either internal or external review.

14. Work of the Executive

- 14.1. **The Audit and Risk Committee wished it to be recorded and reported to Council that the Senior Executive’s contribution to the work of the Committee has been positive and the quality of debate improved by the regular attendance of the President and Principal.**

David Willis
Chair, Audit and Risk Committee
Date

Annex A: Terms of Reference

Annex B: Head of Internal Audit Opinion

Annex C: External Audit Report – Recommendations and management responses



Audit and Risk Committee Terms of Reference 2019–20

Audit and Risk Committee is a committee of Council, mandated by the Office for Students (OfS) under the Terms and conditions of funding for higher education institutions. The Committee oversees Queen Mary University of London (QMUL)'s arrangements for external and internal audit, financial control and risk management, providing assurances in these key areas through its annual report to Council, which is shared with the OfS.

1. External and Internal Audit

- 1.1 To make recommendations to Council at least annually on the appointment of external and internal auditors.
- 1.2 To commission a competitive tendering process:
 - for external audit services at least every 7 years; and
 - for internal audit services at least every 5 years.
- 1.3 To oversee external and internal audit services by:
 - promoting co-ordination between external and internal audit services;
 - providing input to, and approving, an annual external audit strategy and internal audit plan;
 - reviewing reports and recommendations from the external and internal auditors;
 - reviewing the adequacy and implementation of the Executive response; and
 - reviewing the effectiveness and objectivity of the external and internal auditors.
- 1.4 To review the draft annual financial statements with the external auditors and recommend their adoption by Council following satisfactory resolution of matters raised.

2. Financial Control and data assurance

- 2.1 To review the adequacy and effectiveness of the Executive's systems for:
 - management and quality assurance of external data returns;
 - financial control;
 - obtaining value for money; and
 - responding to alleged financial irregularities.
- 2.2 In relation to alleged financial irregularities:
 - to receive regular reports from the internal auditors and the Executive on reports received, investigations conducted and action taken; and
 - to obtain assurances that any significant losses have been appropriately disclosed and (where appropriate) reported to the OfS and other external bodies.

3. Risk management

- 3.1 To review the effectiveness of mechanisms operated by the Executive for identifying, assessing and mitigating risks (including, where appropriate, mitigation by insurance).

- 3.2 To regularly consider the current status of core risks to the QMUL Strategy, through the review of data and documents presented by the Executive and derived from the Strategic Risk Register.
 - 3.3 To periodically test scores and controls in selected areas of activity through consideration of specific reports.
 - 3.4 To review the OfS's Annual Institutional Risk Assessment, audits undertaken by its Assurance Service and relevant findings by other bodies.
 - 3.5 To oversee the Public Interest Disclosure (whistle-blowing) policy and receive regular reports from the Executive on cases.
- 4. Legal and Statutory Compliance**
- 4.1 To consider an annual report on exceptions to legal and statutory compliance from the Executive, and request follow up action, including investigation and reporting where identified.
- 5. Committee evaluation**
- 5.1 To review the Committee's effectiveness and the suitability of its terms of reference annually.

Membership of Audit and Risk Committee

- No less than three and no more than five external members of Council, one of whom will be the Chair of the Committee.
- Up to two co-opted members who are external to QMUL and have relevant expertise.

Mode of Operation

1. Audit and Risk Committee meets at least three times per year. The Committee holds an *in camera* meeting with the representatives of internal and external audit on two occasions per year, normally immediately before scheduled meetings.
2. The Committee will prepare an annual report covering the institution's financial year and any significant issues up to the date of preparing the report. The report will be addressed to the Council and the President and Principal, summarising the activity for the year, and providing an opinion on the adequacy and effectiveness of the institution's control arrangements as required by the OfS Terms and conditions of funding for higher education institutions.
3. The Committee reports to the next meeting of Council following each of its meetings in the form of an executive summary of its minutes. Specific proposals requiring Council consideration and approval are identified in the terms of reference.