



## Annual Report of Audit and Risk Committee 2021–22

<b>Outcome requested</b>	Council is asked to <b>consider</b> the Annual Report of the Audit and Risk Committee for 2021–22.
<b>Executive Summary</b>	<p>Under the CUC Audit Committees Code of Practice, the Committee should produce an annual report for submission to the Accountable Officer and the governing body. The report must include the Committee’s conclusion on the adequacy and effectiveness of:</p> <ul style="list-style-type: none"> <li>• Queen Mary’s risk management, control and governance arrangements;</li> <li>• arrangements for promoting economy, efficiency and effectiveness;</li> <li>• arrangements for the management and quality assurance of data submitted to HESA, the Student Loans’ Company, OfS and other funding bodies.</li> </ul> <p>The report should also record the Committee’s work in relation to:</p> <ul style="list-style-type: none"> <li>• the External Auditors’ management letter;</li> <li>• the Internal Auditors’ annual report;</li> <li>• Queen Mary’s arrangements in respect of risk management, value for money and data quality;</li> <li>• the annual financial statements.</li> </ul> <p>The report covers the 2021–22 financial year and 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>
<b>QMUL Strategy:</b>	
<b>Internal/External reference points:</b>	CUC Handbook for Members of Audit Committees in Higher Education Institutions.
<b>Strategic Risks</b>	<p>14. Strategy implementation 15. Incident management and business continuity 16. Compliance</p>
<b>Subject to onward consideration by:</b>	The final version of this report was approved by Audit and Risk Committee by email circulation following its meeting on 09 November 2022.
<b>Confidential paper under FOIA/DPA:</b>	No
<b>Equality Impact Assessment</b>	Not required
<b>Timing:</b>	Annual report
<b>Author:</b>	Nadine Lewycky, Assistant Registrar (Governance)

<b>Date:</b>	14 November 2022
<b>Senior Management/ External Sponsor</b>	Peter Thompson, Chair of Audit and Risk Committee

## **Annual Report of Audit and Risk Committee 2021–22**

### **1. Introduction**

1.1. This is the annual report of the Audit and Risk Committee for the 2021–22 financial year. Under the CUC Audit Committees Code of Practice, the Committee should produce an annual report for submission to the Accountable Officer and the governing body. The report must include the Committee’s conclusion on the adequacy and effectiveness of:

- 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, OfS and other funding bodies.

### **2. Committee Constitution**

2.1. The Committee reviewed progress at each meeting against the annual business plan for 2021–22.

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

#### *External Members of Council*

David Willis (Chair to December 2021)

Peter Thompson (Member until December 2021; Chair from January 2022)

Celia Gough (from January 2022)

Alix Pryde

#### *Co-opted External Members*

Simona Fionda

James Hedges

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

Karen Kröger      Chief Financial Officer

Jonathan Morgan      Chief Governance Officer and University Secretary

Ghazwa Alwani-Starr      Chief Operations Officer (December 2021-July 2022)

Dr Sharon Ellis      Chief Operations Officer (from July 2022)

Dr Catherine Murray      Director of Strategic Planning

Janice Trounson      Deputy Director (Financial Controls)

#### *Representatives of the Internal Auditors*

Charles Medley      KPMG

Neil Thomas      KPMG

#### *Representatives of the External Auditors*

Michelle Hopton      Deloitte (to February 2022)

Craig Wisdom      Deloitte (to February 2022)

James Aston      BDO (from February 2022)

Sarah Durrant      BDO (from February 2022)

2.4. Isabelle Jenkins, 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 27 September 2022. No amendments were suggested to the Terms of Reference for 2022–23. The Terms of Reference are appended as Annex A.

2.7. *Committee Effectiveness*  
The Committee’s Terms of Reference require it to review its effectiveness on an annual basis. A review of effectiveness took place in summer 2022 and was reported to the Committee in September 2022. Throughout 2021–22, Committee meetings were conducted through a mix of in person and online meeting technology. There were no issues that prevented the Committee from discharging its responsibilities effectively.

**3. Meetings of the Committee**

- 3.1. The Committee met on the following dates since the start of 2021–22:
- 29 September 2021;
  - 09 November 2021;
  - 16 March 2022;
  - 23 June 2022;
  - 27 September 2022;
  - 09 November 2022.

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

	29/09/21	09/11/21	16/03/22	23/06/22	27/09/22	09/11/22
S Fiona	✓	✓	✓	✓	✓	✓
C Gough	N/A	N/A	✓	X	✓	✓
J Hedges	✓	✓	✓	✓	✓	✓
A Pryde	✓	✓	✓	✓	✓	✓
P Thompson	✓	✓	✓	✓	✓	✓
D Willis	✓	✓	N/A	N/A	N/A	N/A

**4. Internal Audit**

- 4.1. Internal audit services in 2021–22 were provided by KPMG for a fee of £111,800 plus VAT. KPMG’s appointment with the university as the internal auditors ended on 31 July 2022. Following a competitive tender process, KPMG was reappointed as Queen Mary’s Internal Auditors from 01 August 2022 for a period of four years.
- 4.2. The total number of days allocated to internal audit during 2021–22 across all areas was 122. No restrictions were placed on the work of the Internal Auditors in 2021–22. The Committee considered progress reports on the 2021–22 audits at its meetings in September 2021, March 2022 and June 2022.
- 4.3. The Internal Audit Annual Report for 2021–22 was considered by the Committee at its meeting on 27 September 2022. A summary of the internal audit findings is attached as

Annex B. Members attended a private meeting with the Internal Auditors ahead of the Committee meeting on 27 September 2022. There were no points from this meeting that the Committee needed to draw to the attention of Council.

4.4. Nine scheduled audits agreed in the 2021–22 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:

<b>Assurance level</b>	<b>Classification</b>
<b>Green</b>	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.
<b>Amber-green</b>	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.
<b>Amber-red</b>	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.
<b>Red</b>	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:

<b>Review</b>	<b>Outcome (rating)</b>	<b>Number of Recommendations</b>		
		High	Medium	Low
Student retention	Green-Amber	0	2	0
Staff payments and IR 35	Green-Amber	0	1	1
UUK student accommodation	Green-Amber	0	1	2
Faculty governance	Green-Amber	0	2	4
Core financial systems	Green-Amber	0	1	1
Capital planning	Green-Amber	0	2	3
Master planning	Amber-Red	0	3	3
Donors and donations	Green-Amber	0	1	2
Benefits realisation	Amber-Red	0	3	1

4.7. Seven of the nine internal audit reports received by the Committee this year had been rated 'significant assurance with minor improvement opportunities' (amber-green) with no high priority recommendations. All recommendations had been cleared and there were no overdue recommendations. The Committee commended management for the recent improvements in ratings and for improving the time taken to implement recommendations.

4.8. The Committee considered the internal audit report on Master planning at its meeting on 27 September 2022. The review received a rating of 'partial assurance with

improvements required' (amber-red) with three medium-level recommendations for control design and three low-level recommendations for operating effectiveness. The review found that the criteria for implementing the master plan in practice was subjective and proposed actions to improve consistency. Gaps were identified in the content of the master plan when benchmarked against other master plans. Strategic boards were focused on operational delivery and governance documents, such as terms of reference, needed to be updated. The Committee discussed the timeframes for delivering an updated master plan. KPMG confirmed following the meeting that the actions relating to the current master plan were expected to be completed this year with a wider piece scheduled for completion in 2023.

- 4.9. The Committee considered the internal audit report on benefits realisation at its meeting on 09 November 2022 which was rated 'partial assurance with improvements required' (amber-red). There were three medium-level and one low-level recommendations. Improvements had been identified in the way that benefits could be presented in Estates documentation for infrastructure projects so that it more closely reflected discussions. Good practice from the Strategic Delivery Office would be shared.
- 4.10. The Committee discussed the proposed areas for inclusion in the 2022–23 Internal Audit plan and five-year plan at its meeting on 23 June 2022. The Committee asked for the audits on information governance and security, and staff engagement to be prioritised for 2023–24. The Committee approved the final plan at its meeting on 27 September 2022 but asked for the sequencing of audits in the later years of the five-year plan to be revisited. The Committee approved a change to the internal audit plan at its meeting on 09 November 2022 to include compliance with the UUK code for student accommodation in the place of the Estates strategy.

## **5. External Audit**

- 5.1. The contract for external audit services with Deloitte expired on 28 February 2022. The external audit contract was tendered during 2021 and BDO were appointed as Queen Mary's external auditors for 2021–22 which was approved by the Committee in November 2021. The fee for 2021–22 in respect of external audit services was £184,083 plus VAT. Members attended a private meeting with the External Auditors after the Committee meeting held on 09 November 2022. The External Auditors informed members that the audit had involved more work than originally estimated and indicated that they were seeking an additional fee to meet some of the costs incurred. There were no points arising from the private meeting that the Committee needed to be drawn to the attention of Council.
- 5.2. The Committee considered and approved the External Audit Plan for 2021–22 at its meeting on 23 June 2022.
- 5.3. The External Auditors' Report and management response for 2021–22 was considered by the Committee on 09 November 2022. Eight audit adjustments were identified during the work. There were no additional significant audit risks identified. The report did not identify any non-compliance with Group accounting policies or the applicable accounting framework. The audit identified a Prior Period Adjustment in respect of the classification of investments between current and non-current and an error in a previous note disclosure. These have no impact on the reported surplus for the year. No significant accounting policy changes had been identified. There were no matters in the financial statements that the External auditors wished to draw attention to by way of emphasis of matter.

## **6. Approval of Financial Statements**

- 6.1. At its meeting on 09 November 2022 the Committee recommended that Council should approve the Financial Statements for 2021–22. Council's decision at its meeting on 17 November 2022 was to approve 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 2021–22 at its meetings in September 2021, March 2022, June 2022 and September 2022. Reports on strategic risk were provided to Council by the Chair of the Audit and Risk Committee at its meetings on 07 October 2021, 18 November 2021, 31 March 2022, 07 July 2022 and 06 October 2022
- 7.3. The Committee reviewed the budget assumptions and key risks highlighted for the 2022–23 budget and five-year plan in June 2022. The Committee focused on risks in the areas of international student recruitment; pay inflation; utilities cost inflation; and non-pay inflation. The Committee discussed the increased inflationary risk and its impact on the contingency. An inflationary risk of two-thirds of the contingency was identified as a future check point.
- 7.4. The Committee considered bi-annual reviews of cyber security at its meetings in September 2021, March 2022 and September 2022. The Committee heard that risks had been minimised on centrally-managed hardware and software and that the risks on locally managed equipment were low. The Committee discussed the university's work towards ISO27001 accreditation. The Committee discussed the low level of completion rates for the university's mandatory cyber security training and were informed of the steps being taken to improve take up. The number of data breaches reported annually to the Information Commissioner's Office was one or less in the last five years. The Committee was impressed with the progress made in improving the university's resilience and responsiveness in cyber security in recent years.
- 7.5. The Committee sought additional information from management and the internal auditors on key external risks throughout the year. Key risks included inflation and costs; the impact of the geo-political climate on international student recruitment; UK government policy and funding; industrial relations and the USS pension scheme. The Committee considered the severity and likelihood of risks, institutional resilience and review timeframes. The Committee considered the potential impact of external risks on the budget assumptions and forecasts. The external risks were used to guide the Committee's discussions on deep dive topics and to inform the internal audit plan.
- 7.6. The Committee received deep dive reports in the following areas:

[a] *International student recruitment*

At its meeting on 29 September 2021, the Committee received a presentation on recent trends in international student recruitment. The Committee received an update on plans to support international student growth in line with the 2030 Strategy and a summary of the key external risks. The Committee heard that the university's international student recruitment was strong and returning to pre-pandemic levels. Strategic growth was focused on our four largest markets in the far East but that growth in the rest of the world would help to maintain diversity among the student population. The number of EU students travelling to the UK was 30-50% lower than before Brexit. These figures were expected to stabilise and would be mitigated by higher tuition fees. The Committee heard that the biggest risk to international student recruitment was the geopolitical situation between Britain and China which could impact the number of students travelling to the UK.

- 7.7. 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 09 November 2022. The framework comprises identification of relevant legislation, current areas of work, and the infrastructure of policies, guidelines, training and professional expertise. 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.

- 8.2. The Committee considered the Prevent Duty Annual monitoring return for 2021–22. No Prevent-related cases were reported during the period. As all key staff completed induction or refresher training in 2020–21, our focus in 2021–22 was to increase the number of staff receiving broader welfare or safeguarding training. The Committee was satisfied, on the basis of the information provided, that the university had due regard for the requirements of the Prevent Duty and agreed to recommend approval to Council.

## **9. Value for Money (VFM)**

- 9.1. The university's approach to Value for Money (VfM) is outlined in the front narrative section of the financial statements which was considered by the Committee in draft at its meeting on 27 September 2022.

## **10. Public Interest Disclosure (Whistleblowing)**

- 10.1. The Committee received two reports of a disclosure under the whistle blowing policy between September 2021 and November 2022.

## **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. There were no incidents reported to the Committee between September 2021 and November 2022.

## **12. Data quality and integrity**

- 12.1. A data quality review forms part of the annual Internal Audit Operational Plan. During 2021–22, the Internal Auditors undertook one data quality review. The review of the *Core financial systems* received an overall assurance rating of 'significant assurance with minor improvement opportunities' (amber-green) and had one medium and one low recommendation. The rating was driven by a largely well designed and implemented control framework with potential improvements around timely recoding of asset disposals.

- 12.2. The deadline for the submission of the annual TRAC return was 31<sup>st</sup> March 2022 but will return to 31<sup>st</sup> January for the next cycle. As for the previous cycle there was no TRAC-Teaching submission and the future of that element of TRAC remains uncertain. The only notable change to the guidance was the removal of the requirement for formal sign off by a committee. This requirement was introduced for the previous reporting cycle but was not well received across the sector, as it often led to a requirement for additional committee meetings to be scheduled. A time allocation survey was completed in 2020/21 and will be used for 3 years. The response rate to the survey met the threshold required but, as for previous surveys, did require some concerted effort from Finance and School and Institute managers. In 2021, an internal audit review of our TRAC processes made two recommendations: the implementation of a materiality tracker and the adoption of the TRAC Assurance Checklist. Both of these recommendations were implemented for the 2020-21 return, which was submitted in

March 2022. The Finance team with responsibility for compiling the submission attend the annual TRAC workshop each September, and are active in the regional group which meets through the year.

### **13. Opinion**

13.1. In accordance with 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 2021–22, the regular updates of the Strategic Risk Register, the deep dive 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 achieve economy, efficiency and effectiveness. This is evidenced by the value for money section of the front of the accounts 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 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 robustness and integrity of external data returns; and the Committee's oversight of progress implementing recommendations arising from either internal or external review.

Peter Thompson  
Chair, Audit and Risk Committee  
Xx November 2022

Annex A: Terms of Reference

Annex B: Head of Internal Audit Opinion

Annex C: External Audit Report – Recommendations and management responses considered by the Committee on 09 November 2022.

## **Audit and Risk Committee Terms of Reference 2022–23**

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, including a biannual report on cyber security.
  - 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 one annual *in camera* meeting with representatives of internal audit and one annual *in camera meeting* with representatives of external audit, 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.

# DRAFT Head of Internal Audit Opinion 2021/22

## **Draft opinion on value for money for the period 1 August 2021 to 31 July 2022**

We consider that Queen Mary University London has adequate and effective arrangements to achieve economy, efficiency and effectiveness. During the course of our work, we identified areas where we believe that Queen Mary University London could improve value for money, and reported these to management in our assignment reports. During 2021/22 we have not made any other findings in the course of our work that would lead us to question the arrangements in place at Queen Mary University London to secure value for money in the use of resources.

## **Draft opinion on data quality for the period 1 August 2021 to 31 July 2022**

In 2021/22 we reviewed data quality arrangements the University has in place over performance information and raised no high priority actions.

**Our overall draft conclusion on data quality arrangements is 'significant assurance with minor improvement opportunities' (amber-green).**

## **Commentary**

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety. Our opinion covers the period 1 August 2021 to 31 July 2022 inclusive, and is based on the audits that we completed in this period.

## **The design and operation of the Assurance Framework and associated processes**

The University Risk Framework reflects the University's key objectives and risks and is regularly reviewed. The Executive reviews the Risk Framework annually and the Audit and Risk Committee reviews whether the University's risk management procedures are operating effectively.

## **The range of individual opinions arising from risk-based audit assignments, contained within our risk-based plan that have been reported throughout the year**

As at 31 July 2022 we had raised no high priority actions in the period and have no high priority actions from previous periods which are still being implemented.

The status of actions is reported to each meeting of the Audit and Risk Committee. Overall the organisation is implementing the actions raised as a result of our work to address the issues

identified. This does not prevent us from issuing 'significant assurance with minor improvements'. The organisation has directed us towards areas where there have been concerns in terms of operation or performance in year.

**KPMG LLP**  
Chartered Accountants  
London  
9 November 2022

# Control environment: Significant deficiencies

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We are required to report to you, in writing, significant deficiencies in internal control that we have identified during the audit. These matters are limited to those which we have concluded are of sufficient importance to merit being reported to the Audit and Risk Committee. Please note as our work is ongoing, there may be further deficiencies to report at the conclusion of our audit.

As the purpose of the audit is for us to express an opinion on the Group’s

financial statements, you will appreciate that our audit cannot necessarily be expected to disclose all matters that may be of interest to you and, as a result, the matters reported may not be the only ones which exist.

As part of our work, we considered internal control relevant to the preparation of the financial statements such that we were able to design appropriate audit procedures. This work was not for the purpose of expressing an opinion on the effectiveness of internal control.

Area	Observation & implication	Recommendation	Management response
Missing reconciliations	<p>Through our audit work over payroll, we noted that a payroll reconciliation was not performed at year end. We would normally expect a payroll reconciliation to be performed between the payroll reports and the trial balance for the full year to ensure the accuracy and completeness of the payroll expense recorded in the trial balance. We note that a monthly reconciliation is undertaken but this does not prevent errors if amounts are back posted into the system post reconciliation.</p> <p>We requested a VAT turnover reconciliation. The purposes of this reconciliation is to reconcile the total revenue per the trial balance to the total revenue per the VAT Returns to ensure that the revenue per the VAT return is complete. Per discussions with management, we note that this is not a reconciliation that is performed due to the number of VAT exempt and zero-rated income items.</p> <p>During our testing of deferred and accrued income, we noted that no year end reconciliation was performed. We would expect that all balance sheet financial statement line items should have a year end reconciliation to confirm completeness of the amount recognised in the trial balance. This is especially necessary given the number of transactions and reversing journal entries flowing through accrued and deferred income in the year.</p>	<p>We recommend that management perform year end reconciliations for all balance sheet line item as well as payroll. Without year end reconciliations, there is a risk that the trial balance is incomplete.</p>	<p>Whilst we reconcile the monthly payroll postings we haven't before completed an annual payroll reconciliation. We will put this in place for next year end.</p> <p>In relation to the VAT reconciliation we perform alternative reconciliations that give greater assurance over the completeness of the VAT return as substantial amounts of QMUL revenue is not reportable. We have proposed that this is revisited and a walk through of our VAT return process is completed with BDO VAT specialists before the 2022/23 audit to determine the viability of this proposed reconciliation.</p> <p>We will ensure that reconciliations not currently completed for accrued income; deferred income; accruals and prepayments are completed. These will be completed in line with our existing routine monthly reconciliations.</p>

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Area	Observation & implication	Recommendation	Management response
Segregation of duties in the commercial subsidiaries	We observed limited controls within the commercial subsidiaries. The Subsidiary Finance Director carries out the bulk of the processing and recording of transactions with little oversight from the Queen Mary University of London central finance team. There is a notable lack of segregation of duties, which could result in management overriding or circumventing controls. Furthermore, there is a risk relating to contingency plans and key person dependency. If the Subsidiary Finance Director were to fall ill, or leave unexpectedly, there is a risk of losing the existing knowledge and finding someone who understands the business and accounting routines to fill the role quickly.	We recommend additional personnel are involved in the commercial subsidiaries to provide a contingency plan should the current financial director be unable to work as well as to allow for segregation of duties. We recommend that one individual prepares work, whilst a different individual reviews and approves the work. We further recommend that the commercial subsidiaries produce monthly management accounts which are reviewed by Queen Mary University of London finance team.	<p>We will review contingency plans for key personnel. The key risk would be payments so this will be reviewed to ensure that at least two individuals are involved in the payment of invoices.</p> <p>The Management Accounts are prepared and reviewed by the boards of the companies. For QMB, the main trading subsidiary, the accounts have been included within QMUL's monthly management accounts for a number of years via Agresso on an account line basis and a high level set are also sent to Financial Management each month. If non-group trading activity of the other subs increases to a significant level these will be incorporated too.</p>

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- ▶ Subsidiaries
- ▶ Independence threats and safeguards

Area	Observation & implication	Recommendation	Management response
Journal descriptions	Throughout our audit work, we noted that, in some instances, the journal descriptions do not contain a sufficient level of detail to understand the substance of the journal entry. There is a risk that incorrect or inappropriate journal entries could be missed if there is not a clear explanation of what the journal relates too.	We recommend including greater detail on the journal entry descriptions to provide clarity on the rationale of the journal entry.	Agreed - improved narrative description will aid internally as well at times of audit.
Audit readiness	We noted delays in receipt of the consolidation and draft accounts. We also noted changes to the trial balance figures. Changes to the trial balance and mapping in the draft accounts creates audit inefficiencies and may impact the materiality applied, which, in turn, impacts sample sizes. Ordinarily, we would expect to receive draft accounts and a near-final year end trial balance on the first day of the execution phase of the audit. We understand that a first-year audit requires significantly more time and input from management and there is a learning curve for the audit team. We further note that going forward, a focused extended interim testing would alleviate some pressures during the execution phase of the audit. We plan to incorporate this into the FY23 audit.	We recommend that management prepare the P14 trial balance and provide this to the audit team on the first day of the audit. We request that management advise the audit team of any expected changes to the mapping in the accounts.	<p>We would welcome substantive sample testing being undertaken during the interim audit as this alleviates avoidable pressure for both teams during the final audit.</p> <p>We have discussed with BDO and agreed a timeline for presenting the university Trial balance for 2022/23.</p>
Fixed assets useful lives	<p>During our testing of fixed assets, we noted that several assets had a nil book value, but remained in use. Where assets are used in excess of their useful lives, there is a risk that the accounting estimate is inappropriate, and that the asset is depreciated too quickly.</p> <p>We further noted that there are no controls in place to physically verify assets and therefore there is a risk that assets which have been disposed of, still exist on the fixed asset register. We note that management have implemented a review process, which is set to take place over the next two to three years.</p>	<p>We recommend that management review the useful lives of asset category to ensure that they are reflective of the actual useful lives of the assets.</p> <p>We recommend that management implement a process for departments to alert the central finance team of asset disposals. We also recommend that physical asset verifications are carried out annually.</p>	<p>We will undertake a review.</p> <p>We have a process for departments to notify finance and remind staff during the year end process, but we will instigate further reminders through the Finance Business Partners.</p> <p>We are implementing a rolling physical verification of fixed assets as agreed with the internal auditors.</p>

# Control environment: Other deficiencies

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Area	Observation & implication	Recommendation	Management response
Revenue from Chinese partners	During our testing of tuition fee income, we noted that revenue from Chinese partners is recognised based on budget rather than on invoiced amount. There is a risk that income could be fraudulently manipulated using intentionally inflated budgets. The difference between budget and actual invoiced revenue has been recorded as an unadjusted difference on page 21.	We recommend that management recognise the income from Chinese partners based on invoices raised rather than budgets prepared at the beginning of the financial year. We further recommend that management have greater oversight of this area to ensure income is appropriately recognised.	Agreed and any amounts expected to be deducted from fee repatriation to be accrued as appropriate.  The Finance Business Partner will review this area.
Agent versus principal	Through our testing of deferred income, we noted an error in the accounting treatment of fees collected on behalf of partner institutions. The amount was treated as deferred income by QMUL. Given that QMUL is acting as an agent rather than the principal and the fees are subsequently paid over to the third parties, this is not QMUL's income. Classification of the liability to be paid over to the third parties as deferred income is incorrect and should instead be classified as other payables. Although both are liabilities, the disclosure in the note would be misstated. The error identified in the current year is immaterial, however, this may not be the case in future years.	We recommend that management evaluate relationships where QMUL acts as the agent rather than the principal and implement an accounting policy. We further recommend that management review the accounting treatment of such transaction to ensure that they are being recorded and classified in the financial statements correctly.	Agreed.
Apprenticeship income	Our testing over apprenticeship income identified that apprenticeship income for future years had been grossed up for debtors and deferred income. However, there is no entitlement to this income as there is no obligation for the student to remain on the programme. The unadjusted error is noted on page 22.	We recommend that management evaluate the recognition of apprenticeship income against the recognition criteria per FRS 102 and the SORP as well as implement an accounting policy for apprenticeship income.	Agreed.
Classification of income	During our testing over revenue we identified instances where revenue had been classified incorrectly. Revenue was recognised as research income rather than other income. Given that the income was not received for research purposes, it should have been recognised as other income. Although not material in the current year, misclassifications between income streams could be material.	We recommend that management review the classification of income as part of journal reviews to ensure that income is correctly classified.	Agreed.