



Annual Report of Audit and Risk Committee 2015–16

Outcome requested	ARC is asked to recommend the Annual Report for 2015–16 to Council for onward submission to HEFCE.
Executive Summary	<p>Under the HEFCE Memorandum of Assurance and Accountability the Committee is required to produce an Annual Report for submission to Council and HEFCE. The report must include the Committee's conclusions on the adequacy and effectiveness of:</p> <ul style="list-style-type: none"> • QMUL'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, HEFCE, and other funding bodies. <p>The report records the Committee's work in relation to:</p> <ul style="list-style-type: none"> • the External Auditors' management letter; • the Internal Auditors' annual report; • QMUL's arrangements in respect of risk management, value for money and data quality; • the annual financial statements. <p>It also takes account of the HEFCE Assurance Review which took place in February 2016.</p> <p>The report covers the 2015-16 financial year and, as required, records any significant issues up to the date of signing the report and its consideration of the financial statements for the year.</p>
QMUL Strategy:	6. To achieve and sustain financial strength to enable our academic ambitions, through a balanced portfolio of activities.
Internal/External reference points:	HEFCE Memorandum of Assurance and Accountability; CUC Handbook for Members of Audit Committees in Higher Education Institutions. 2016 Assurance Review report Effectiveness surveys
Strategic Risks	11. Financial strength through a balanced portfolio of activities; 12. Cost control, VFM and expenditure; 13. Maintain effective and constructive governance; 15. Security of people, assets and data; appropriate contingency arrangements for facilities and functions.
Subject to onward consideration by:	The final version of this report was approved by Audit and Risk Committee by email circulation following its meeting on 10 November

	2016. The report will be submitted to HEFCE following approval by Council.
Confidential paper under FOIA/DPA:	No
Equality Impact Assessment	Not required
Timing:	Submission to Council on 21 November 2016 and HEFCE by 01 December 2016.
Author:	Rachel Soper, Assistant Registrar (Council and Governance)
Date:	28 September 2016
Senior Management/ External Sponsor	David Willis, Chairman of Audit and Risk Committee

Audit and Risk Committee Annual Report 2015–16

1. Introduction

- 1.1. This is the Audit and Risk Committee's Annual Report for the 2015–16 financial year. It has been prepared in accordance with and reference to the HEFCE Memorandum of Assurance and Accountability and the CUC Handbook for Members of Audit Committees in Higher Education Institutions.
- 1.2. It takes account of the recommendations from the HEFCE Assurance Review which took place at QMUL in February 2016.

2. Committee Constitution

- 2.1. The Committee reviewed progress at each meeting against the annual business plan for 2015–16.
- 2.2. Members of the Committee (none of whom have executive authority):

External Members of Council	David Willis (Chairman)
	Kathryn Barrow
	Monica Chadha (from March 2016)
	Elizabeth Hall (from August 2015 until December 2015)
	Richard Learwood (from August 2015 until October 2015)
Co-opted External Members	Nadim Choudhary (from October 2015)
	Melissa Tatton

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

Representatives of the Queen Mary Senior Executive	Chief Operating Officer	Mike Shore-Nye (from August 2015 until January 2016)
		Emma Bull (Interim Chief Operating Officer from until)
		Laura Gibbs (from July 2016)
	Vice-Principal (Science and Engineering)	Professor Edmund Burke (from October 2015)
Other senior officers	Finance Director	Joanne Jones
	Deputy Director (Financial Controls)	Janice Trounson
	Academic Registrar and Council Secretary	Jonathan Morgan
	Head of Strategic Planning	Alison Anderson
	Deputy Director of Strategic Planning	David Marks

Representatives of the Internal Auditors	KPMG	Neil Thomas
	KPMG	Paul Cuttle
Representatives of the External Auditors	Deloitte	Sue Barratt
	Deloitte	Paul Thomas

2.4. Simon Linnett, Treasurer and Chairman of Finance and Investment Committee, receives copies of the papers circulated to the Committee. Arrangements are in place to facilitate appropriate liaison between the two committees.

2.5. *Secretary to the Committee*

Sian Marshall	Assistant Registrar (Council and Governance) (from August 2015 to May 2016)
Rachel Soper	Assistant Registrar (Council and Governance) (Maternity Cover) (from June 2016)
Eleanor Crossan	Governance Administrator

2.6. *Terms of Reference*

The Committee reviewed and made recommendations to Council on the revision of its Terms of Reference at its meeting on 02 June 2016, which were approved by Council on 28 June 2016. Amendments were made:

- to clarify the maximum appointment terms of both the internal and external auditors, 5 years and 7 years respectively;
- to make explicit its role with respect to data assurance.

2.7. *Effectiveness Review*

All of the recommendations arising from the effectiveness review undertaken in autumn 2014 have either been completed or are in progress. In particular,

- a tailored and comprehensive induction for new Committee members is now provided and work is ongoing to determine appropriate development activities and refresher training for existing members;
- 'horizon-scanning' has been incorporated into the annual schedule of business, enabling the Committee to reflect on external factors which may impact on QMUL;
- a formal skills matrix has been developed and is being populated to assist succession planning when vacancies arise on Council and its committees.

During 2015-16, members were invited to complete an effectiveness survey. The key issues identified concerned succession planning and the quality and quantity of information provided to the Committee. The Council Secretariat will continue to work with paper authors to continue making improvements in this area.

3. Meetings of the Committee

3.1. The Committee met on the following dates from the start of the 2015–16:

- 14 September 2015;
- 12 November 2015;
- 04 February 2016;
- 02 June 2016;
- 03 October 2016;
- 10 November 2016.

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

	10-09-14	11-11-14	04-02-15	03-06-15	14-09-15	12-11-15
K Barrow	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Nadim Choudhary	n/a	n/a	n/a	n/a	n/a	<input type="checkbox"/>
E Hall	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
R Learwood	n/a	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	x	n/a
M Tatton	x	<input type="checkbox"/>	x	<input type="checkbox"/>	<input type="checkbox"/>	x
D Willis	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

4. Internal Audit

- 4.1. Internal Audit Services in 2015-16 were provided by KPMG for a fee of £insert plus VAT. As required by the Committee's terms of reference, a tender exercise would be undertaken for internal audit services to be provided from 2017-18 onwards.
- 4.2. The total number of days allocated to internal audit during 2015-16 across all areas was 225 compared to 230 during 2014-15. No restrictions were placed on the work of the Internal Auditors in 2015-16, and the Committee considered progress reports on the 2015-16 audit at its meetings in November, February, and June.
- 4.3. The Internal Audit Annual Report for 2015-16 was considered by the Committee at its meeting on 03 October 2016. 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 03 October 2016.
- 4.4. Seven scheduled reviews agreed in the 2014-15 operational plan were completed during this reporting period and the Committee received individual reports from each review.
- 4.5. One review, Translation of Student Numbers, was not completed, but has been incorporated in the 2016-17 operational plan. [drafting to be settled once scope of review has been agreed]
- 4.6. An additional review was commissioned by the Chair of Council and the President and Principal during this reporting period to review project management and governance arrangements in respect of a major capital project (the refurbishment of the Maths Building). The report was considered by the Committee at its meeting on 02 June 2016 before being presented to Council at its meeting on 28 June 2016. Further information is provided in paragraph 4.9.
- 4.7. 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.

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

Review	Outcome (rating)	Number of Recommendations		
		Priority one	Priority two	Priority three
Partnerships and collaboration	Amber green	0	2	2
School of Medicine and Dentistry	Amber green	0	1	2
Data quality: HESES	Green	0	0	0
Examination cycle	Amber green	0	3	5
Finance systems Accounts payable and expenses	Amber green	0	2	2
Health and Safety	Amber green	0	1	1
Research overhead recovery (follow-up)	Amber green (previously amber-red)	0	1	2
Refurbishment of the Maths Building	Amber red	5	6	2

4.9. The Committee received the internal audit report of the issues arising from the Maths Building refurbishment project at its meeting on 02 June 2016. The report was subsequently presented to Finance and Investment Committee and Council.

4.10. The Committee discussed in depth Recommendation 9, regarding the roles of executives and non-executives on project boards.

4.11. It was the opinion of the Committee that:

- [a] there were clear benefits to having both members of the executive and non-executives on high-value estates project boards (in a co-chairing arrangement, for example), but the reporting lines should be distinguished so that the executive member was responsible for reporting formally to the executive-chaired Estates Strategy Board, leaving the non-executive member to raise issues and provide separate assurance as required through Council and its committees;
- [b] it was critical to the success of complex estates projects that the individuals who chaired the project boards possessed relevant skills and experience and it was recognised that the role required a substantial commitment. The pool from which the individuals were drawn and the training and development they were given was

therefore as important as the issue of their executive or non-executive role; and

[c] in order for project boards and their chairs to be able to operate effectively, there must be an effective and professional secretariat service.

4.12. It was further **agreed** that there should be an immediate review to identify similar contract risks on all current estates projects with a report to the Committee within six months. This would be in addition to the internal audit review of Contract Management currently scheduled for 2016-17, in which it was requested that a broad sample should be tested.

4.13. In order to provide assurance to the Committee that all recommendations had been implemented and embedded, it was **agreed** that Internal Audit conduct a follow-up review. The Committee considered the report at its meeting on 10 November 2016 and *insert opinion*.

4.14. The Committee, following consideration and scrutiny of the management responses and the monitoring of the implementation of agreed actions arising from all the reviews undertaken, considered that appropriate actions and controls had been put in place to address the recommendations made.

4.15. The Committee considered the 2016-17 draft Internal Audit Operational Plan at its meeting in June 2016. *The Plan was confirmed* [I don't think this is quite right. We requested that the Internal Auditor review budgeting and management accounts. We remitted discussion of the precise scope to management. I thought that we were expecting a revised operational plan to reflect this and other changes discussed at the June meeting]

5. External Audit

5.1. Deloitte were appointed as QMUL's External Auditors for 2015–16. *The fee for 2015-16 in respect of audit services was £120k and £4k in relation to work on the Federal Family Education Loan Program loan return.* Members attended a private meeting with the External Auditors ahead of the Committee meeting held on 10 November 2016, during which Deloitte advised they had no issues to raise beyond those already included in the report, and that QMUL had cooperated fully throughout the audit process.

5.2. The Committee considered the External Audit Plan for 2016-17 at its meeting on 04 February 2016.

5.3. The External Auditors' report and management response for 2015-16 was considered by the Committee on 10 November 2016. The Committee gave detailed consideration in particular to the following issues:

- *insert*

5.4. *The report concluded that (there were no serious audit issues to report/the following issues must/should be addressed).* The report included recommendations in relation to *insert....*

6. Approval of Financial Statements

6.1. The 2015-16 Financial Statements were prepared in accordance with the new financial reporting standard (FRS 102) and the new Statement of Recommended Practice (SORP) for higher and further education applicable from 1 August 2015.

6.2. Members of the Committee attended a workshop held on 24 November 2015 alongside members of Finance and Investment Committee and senior QMUL officers, to gain a better understanding of the impact of the transition to the new standards and to agree the principles to be applied where discretion was permitted.

6.3. At its meeting on 02 June 2016, the Committee approved changes to the Accounting and Depreciation policies arising from the adoption of the new standards.

6.4. The Committee received a report on the external audit of the restated opening balance sheet as at 31 July 2014 and 2014-15 Financial Statements in FRS102 format at its meeting on 10 November 2016.

6.5. Audit outcome - insert

6.6. At its meeting on 10 November 2016 the Committee recommended that Council should approve the adoption of the Financial Statements for 2015–16. Council's decision at its meeting on 21 November 2016 was to [insert Council's decision] the Financial Statements.

7. Risk Management

7.1. QMUL's approach to risk management is set out in its risk management framework which was reviewed during 2014-15. The internal audit plan was aligned with identified risk areas.

7.2. The Committee received and discussed the Strategic Risk Register during 2015-16 at its meetings in October 2015, February 2016 and June 2016. It also considered the Strategic Risk Register at its meeting on 03 October 2016.

7.3. The Committee received deep dive reports in the following areas: impact and innovation, emergency planning and business continuity and value for money.

[a] *Impact and innovation deep dive*

The main risks relating to impact and innovation were financial, given these areas attracted funding and were prominent on the political agenda in relation to higher education, and reputational as impact scores formed part of the methodology for a range of league tables. The case studies included within the report highlighted a need for better coordination of impact and innovation activity across QMUL as a key factor in making improvements and managing risk in these areas. QMSE had agreed additional investment in staff to address this issue, and would consider the case for additional staff recruitment in some disciplines where it could be more challenging to evidence impact case studies. The intellectual property policy had been revised to encourage and incentivise academic staff to develop their impact work, which was also promoted through appraisal and mentoring. The preparation of the report had usefully highlighted that there was a need to improve and standardise the recording of risk and controls across faculty and school/institute risk registers, being taken forward by the Strategic Planning Office working with the Vice-Principal (Research)'s team. The Committee was assured that the report provided evidence that effective mechanisms were in place to manage risk in relation to impact and innovation.

[b] *Emergency planning and business continuity deep dive*

The Committee received a report describing the progress being made by faculties, schools and Professional Services to ensure that they had business impact analyses and incident response guides in place. As communication was integral to successful emergency planning and business continuity considerations, the Committee was pleased to hear that a workshop had been scheduled with the Marketing and Communications team to explore these issues. It was confirmed that there were no

areas within QMUL of particular concern and that, compared to other institutions, good plans were in place and had been utilised in real incidents.

[c] *Value for money deep dive*

The report on value for money, used an extract of the Strategic Risk Register and subsidiary registers (faculty, Professional Services, cross-cutting, etc.) to examine the approach to risk management in this risk area and the alignment of risk across the institution. Value for money activity is largely driven by Professional Services and requires further embedding within the faculties, which had been highlighted by a recent internal audit of value for money activity. The Committee was satisfied that the report provided further assurance regarding the effectiveness of mechanisms for achieving value for money.

8. Legal Compliance

8.1. The Committee considered a report on QMUL's legal compliance framework at its meeting on 10 November 2016.

8.2. During 2015-16, QMUL revised its approach to securing and providing assurance on legal compliance. An external review of the compliance register was undertaken to ensure it remained complete and up to date, and to identify compliance areas that could become relevant in future in the context of the QMUL Strategy. Following the review the legal compliance register was revised and self-assessments were undertaken by the relevant QMUL senior officers to record current compliance work and to identify any areas of non-compliance and consequent risk exposure.

8.3. *Record any particular issues raised in report or by members.*

8.4. On the basis of the information provided, the Committee was *satisfied/was not satisfied* that the Senior Executive had appropriate processes in place to meet the legal requirements of QMUL.

9. Value for Money (VfM)

9.1. The Committee considered an annual report at its November 2016 meeting and noted that submission of the report as part of the Annual Accountability Return was mandatory for this reporting period, but that QMUL had opted to submit these reports in previous years. The Committee also considered a deep dive report into value for money as reported in paragraph 7.3(c).

9.2. *Insert summary of Committee's opinion*

10. Public Interest Disclosure (Whistleblowing)

10.1. *No cases* of Public Interest Disclosure were reported between September 2015 and November 2016.

11. Fraud Investigations

11.1. *No cases* of fraud were reported between September 2015 and November 2016.

12. Data quality and integrity

12.1. A data quality review forms part of the annual internal audit operational plan. During 2015-16, the internal auditors undertook a review of the HESES return. This review was rated as 'significant assurance' (green) and no recommendations were made.

12.2. During 2014-15, HEFCE had conducted an audit of the data used to inform research degree supervision funding. QMUL had been selected as part of a pilot audit of this dataset by the funding council. QMUL was required to produce an action plan addressing the recommendations arising from the audit and the Committee received regular progress reports. The Committee confirmed at its meeting in June 2016 that it

was content that all the identified actions were complete and the recommendations implemented. The Chairman wrote to HEFCE to this effect and HEFCE notified QMUL that the audit had been formally closed on 01 July 2016. It was agreed that internal audit should include a review of research degree data in its annual plan for 2016-17.

12.3. **Insert paragraph on the TRAC summary report**

12.4. The Committee received a report on the management of external data returns at its meeting on 03 October 2016. **Insert main points.**

13. **Opinion**

13.1. In accordance with Annex A of the HEFCE Memorandum of Assurance and Accountability, the Committee has reached the following opinions on the adequacy and effectiveness of QMUL's arrangements for:

(i) **Risk management, control and governance**
QMUL 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 2015-16, the regular updates of the Strategic Risk Register, the deep dives and discussions at the Committee.

(ii) **Value for money**
QMUL has adequate and effective arrangements in place to promote economy, efficiency and effectiveness. This is evidenced by the value for money annual report, the deep dive report received at the meeting in November 2015 and **insert assurances from KPMG as appropriate**

(iii) **The management and quality assurance of data**

(iv) QMUL has adequate and effective arrangements in place for the management and quality assurance of data submitted to HESA, HEFCE, the Student Loans Company and other public bodies. This is evidenced by **[summarise key points from section 12 above after Oct meeting]**

14. **Work of the Executive**

14.1. The Committee wished it to be recorded and reported to Council that the Senior Executive's contribution to the work of the Committee has been extremely positive and that considerable progress has been made notwithstanding changes to the identity of the Chief Operating Officer over the period. The Committee is confident that the Executive seeks to learn from and to address any issues that arise in a timely way.

David Willis
Chairman, Audit and Risk Committee.
Insert date

Annex A: Terms of Reference

Annex B: Summary of internal audit findings

Annex C: Summary of external audit findings



**Audit and Risk Committee
Terms of Reference 2015–16**

Audit and Risk Committee is a committee of Council, mandated by HEFCE under the Memorandum of Assurance and Accountability between HEFCE and Institutions. The Committee oversees the College's arrangements for external and internal audit, financial control and risk management, providing assurances in these key areas through its annual report to Council and to HEFCE. More specifically, the Committee will:

1. External and Internal Audit

- 1.1 Make recommendations to Council at least annually on the appointment of external and internal auditors.
- 1.2 Commission a competitive tendering process for external and internal audit services at least every 5–7 years.
- 1.3 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 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

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

3. Risk management

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

- 3.2 Regularly consider the current status of core risks to the College's strategy, through the review of data and documents presented by the Executive and derived from the Strategic Risk Register.
 - 3.3 Periodically test scores and controls in selected areas of College activity through consideration of specific reports.
 - 3.4 Review HEFCE's Annual Institutional Risk Assessment, audits undertaken by its Assurance Service and relevant findings by other bodies.
 - 3.5 Oversee the College's 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 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 Chairman of the Committee.
- Up to two co-opted members who are external to the College 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 following 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 HEFCE Memorandum of Assurance and Accountability between HEFCE and 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.