



**Annual Report of Audit and Risk Committee 2015–16**

<b>Outcome requested</b>	Council is asked to <b>consider</b> the Annual Report of the Audit and Risk Committee for 2015-16 for onward submission to HEFCE.
<b>Executive Summary</b>	<p>Under the HEFCE Memorandum of Assurance and Accountability the Audit and Risk Committee is required to produce an Annual Report for submission to HEFCE. The report must include the Committee's conclusions on the adequacy and effectiveness of QMUL's arrangements for:</p> <ul style="list-style-type: none"> <li>• risk management, control and governance;</li> <li>• promoting economy, efficiency and effectiveness;</li> <li>• the management and quality assurance of data submitted to HESA, the Student Loans' Company, HEFCE, and other funding bodies.</li> </ul> <p>The report records the Committee's work in relation to:</p> <ul style="list-style-type: none"> <li>• the internal and external auditors;</li> <li>• QMUL's arrangements in respect of risk management, compliance, value for money and data quality;</li> <li>• the audit of the annual financial statements;</li> <li>• recommendations from the HEFCE Assurance Review which took place in February 2016.</li> </ul> <p>The report covers the 2015-16 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>At the time of writing the fee for Deloitte's audit services was being finalised (see section 5.1). We will provide an update at the meeting.</p>
<b>QMUL Strategy:</b>	6. To achieve and sustain financial strength to enable our academic ambitions, through a balanced portfolio of activities.
<b>Internal/External reference points:</b>	HEFCE Memorandum of Assurance and Accountability. CUC Handbook for Members of Audit Committees in Higher Education Institutions. HEFCE Assurance Review 2016. Council Effectiveness Review 2014.
<b>Strategic Risks</b>	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.
<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 10 November

	2016. It will be submitted to HEFCE following consideration by Council.
<b>Confidential paper under FOIA/DPA:</b>	No
<b>Equality Impact Assessment</b>	Not required. The report does not contain any policies or decisions which have potential equality impacts.
<b>Timing:</b>	Submission to Council on 21 November 2016 and HEFCE by 01 December 2016.
<b>Author:</b>	Rachel Soper, Assistant Registrar (Council and Governance)
<b>Date:</b>	15 November 2016
<b>Senior Management/ External Sponsor</b>	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 in reference to, the HEFCE Memorandum of Assurance and Accountability and the CUC Handbook for Members of Audit Committees in Higher Education Institutions.
- 1.2. This report also 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 December 2015)
		Emma Bull (Interim Chief Operating Officer from January 2016 until July 2016)
		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 without any cross-membership.

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 more explicit its role with respect to data assurance.

2.7. *Effectiveness Review*

All of the recommendations arising from the Council 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 populated to assist succession planning when vacancies arise on Council and its committees.

During 2015-16, members of the Committee 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 Committee welcomed a new external member in March 2016 and the Council Secretariat will continue to work with paper authors to make 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.

	14-09-15	12-11-15	04-02-16	02-06-16	03-10-16	10-11-16
K Barrow	✓	✓	✓	✓	✓	✓
M Chadha	n/a	n/a	n/a	✓	✓	✓
Nadim Choudhary	n/a	✓	✓	x	x	✓
E Hall	✓	✓	n/a	n/a	n/a	n/a
R Learwood	x	n/a	n/a	n/a	n/a	n/a
M Tatton	✓	✓	✓	✓	✓	✓
D Willis	✓	✓	✓	✓	✓	✓

#### 4. Internal Audit

- 4.1. Internal audit services in 2015-16 were provided by KPMG for a fee of £99,756 plus VAT. As required by the Committee's terms of reference, a tender exercise will be undertaken for internal audit services to be provided from 2017-18 onwards and planning for this is underway.
- 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 in 2015-16, and in October in 2016-17.
- 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. There were no points from this meeting that the Committee needed to draw to the attention of Council.
- 4.4. Seven scheduled reviews agreed in the 2015-16 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.
- 4.6. A further review was commissioned by the Chairman 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, namely the Maths Building refurbishment project. Further information is provided in paragraphs 4.9-4.11.
- 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.

<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.

4.8. 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 on the Maths Building refurbishment project at its meeting on 02 June 2016. The report was subsequently presented to Finance and Investment Committee and Council. The Committee discussed in depth a recommendation regarding the roles of executives and non-executives on capital project boards. 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.

- 4.10. The review of the Maths Building refurbishment project identified a number of contracts which had been agreed, but were not signed. The Committee therefore requested an immediate review to identify any similar contract risks on all current estates projects with a report to the Committee within six months. This was in addition to the internal audit review of Contract Management scheduled for 2016-17, in which it was requested that a broad sample should be tested. At its meeting in October 2016, the Committee received confirmation that there had been a review in May 2016 of contracts on all current estates capital projects. Legal advice had been taken by QMUL and all outstanding contracts were signed by the end of July 2016.
- 4.11. In order to provide assurance to the Committee that all of the recommendations from the review of the Maths Building refurbishment project had been embedded, it was **agreed** that Internal Audit conduct a follow-up review. This review has been included in the Internal Audit Operational Plan for 2016-17.
- 4.12. The Committee, following consideration and scrutiny of the management responses and the monitoring of the implementation of agreed actions arising from all the internal audit reviews undertaken, considered that appropriate actions and controls had been put in place to address the recommendations made.
- 4.13. The Committee considered the 2016-17 draft Internal Audit Operational Plan at its meeting in June 2016. A revised plan, incorporating the Committee's feedback, was agreed at its meeting on 03 October 2016.

## **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 comprises two elements: £118.8k for the audit of the University Group; and £15-£25k for FRS102 transition work. The latter fee is still to be finalised therefore the total audit fee will be in the range of £133.8k to £143.8k.
- 5.2. Members attended a private meeting with the External Auditors immediately after the Committee meeting held on 10 November 2016. There were no points arising from the private meeting that the Committee needed to draw to the attention of Council.
- 5.3. The Committee considered the External Audit Plan for 2016-17 at its meeting on 04 February 2016.
- 5.4. The External Auditors' Report and management response for 2015-16 was considered by the Committee on 10 November 2016.
- 5.5. The Committee gave detailed consideration to the going concern assumption in the context of the expiry of an existing loan facility in April 2017. The Committee received assurances from the Director of Finance about the schedule for the tender process to secure a new facility, ongoing discussions with lenders, and contingency arrangements in the event of failure to secure the required facility before the expiry of the current facility. The Committee was advised that the Finance and Investment Committee had reviewed and would monitor the arrangements for securing a new loan facility and that the risk of not securing the required facility was considered to be low. The Committee was satisfied that the financial statements should be prepared on a going concern basis.
- 5.6. The External Auditors' Report included recommendations on the management and reporting of research grants and contracts and the communication of the completion of projects, which, if implemented, would allow a controls reliance approach in areas of future audits. The recommendations, included in Annex C, have been accepted by

QMUL and will be monitored by the Committee to ensure that effective controls are in place.

- 5.7. The Committee discussed with the External Auditors the general progress being made to move to a controls reliance approach in future audits. In particular, the Committee requested further discussion should it not prove possible to implement the recommendation relating to research grant reporting on existing systems and thus move to a controls reliance approach in this area.
- 5.8. The Committee noted that implementation of prior year recommendations on internal controls had been completed, save for one recommendation which was substantially complete. Overall, the External Auditors conclude that the financial reporting control environment appears to be robust.
- 5.9. The External Auditors' Report concluded that there were no serious audit issues to report.

## **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 officers from QMUL 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. 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, where it noted that the risk exposure had increased in a number of areas which remained in the high risk category even after current controls. This largely reflected the volatile and challenging external environment in which QMUL and other higher education institutions are now operating and stressed the importance of improving performance in areas significantly within QMUL's control. Accordingly and at the request of the Committee, the full Strategic Risk Register was presented to Council at its meeting on 26 October 2016 and the attention of Council drawn to the areas of high risk exposure.
- 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.

- 7.4. The Head of Internal Audit Opinion states that the 'risk management framework in place is founded on a systematic risk management process and does provide appropriate assurance to Council. The risk management framework reflects the organisation's key objectives and risks and is reviewed on a timely basis.'

**8. Legal Compliance**

- 8.1. The Committee considered a report on QMUL's legal compliance framework at its meeting on 10 November 2016. 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 QMUL has adequate and effective measures in place to secure compliance with applicable law and regulation.
- 8.3. The Committee has monitored the development of QMUL's compliance with its obligations under the Prevent Duty. The Committee considered separate reports on QMUL's compliance with the Prevent Duty at its meetings on 04 February 2016 and 10 November 2016, and members of the Committee reviewed the initial self-assessment prior to its submission to HEFCE in March 2016.

- 8.4. On the basis of HEFCE's conclusion in July 2016 that QMUL had 'regard to the Prevent Statutory Guidance' and the evidence presented at the meeting on 10 November 2016, including the responses to the actions from the initial assessment phase, a revised risk assessment and evidence of ongoing engagement by senior officers at QMUL, the Committee confirms that throughout the academic year and up to the date of approval, QMUL:
- has had due regard to the need to prevent people being drawn into terrorism (the Prevent Duty);
  - has provided to HEFCE all required information about its implementation of the Prevent duty;
  - has reported to HEFCE in a timely way all serious issues related to the Prevent duty.

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

- 9.1. The Committee considered an annual report at its November 2016 meeting and noted that QMUL was required to submit the report as part of the Annual Accountability Returns for the first time this year. The Committee also considered a deep dive report into value for money as reported in paragraph 7.3(c).
- 9.2. A member of the Committee has been appointed as VfM lead.
- 9.3. The Committee was satisfied that the reports provide evidence of significant progress both in expanding the breadth of activity and in achieving value for money, and welcomed the progress made in reducing staff costs as a percentage of income. The Committee also received assurance that a benchmarking analysis of staff costs is underway and will be used as far as possible in the 2016-17 planning rounds.
- 9.4. 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 the course of our work, we identified areas where we believe that Queen Mary University of London could improve value for money, and reported these to management in our assignment reports. During 2015/16 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 of London to secure value for money in the use of resources."

## **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 HESSES 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. The Committee received a report on the TRAC return at its meeting on 04 February 2016. The process and results had been reviewed by the TRAC Advisory Group comprising both Professional Services and academic staff. The Chairman had attended a briefing meeting with staff from the Finance Department on 27 January 2016 and had confirmed on behalf of the Committee that the return could be signed off by the President and Principal and submitted to HEFCE by the deadline of 29 January 2016. In future, the Chairman would be invited to attend the annual meeting of the Group that would consider and sign off the TRAC report. Based on the information received, the Committee confirmed compliance with the procedures for completion of the TRAC return.
- 12.4. The Committee received a presentation on the management of external data returns at its meeting on 03 October 2016. The presentation provided contextual information about the number and nature of data returns, the interactions between them and how they are used to determine funding levels and in the compilation of league tables. It described internal and independent mechanisms used by management to obtain assurance about the quality of data and the robustness of returns.

### **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 and the Head of Internal Audit Opinion.
- (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 the Head of Internal Audit Opinion.
- (iii) *The management and quality assurance of data*  
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 the data quality reviews undertaken annually by the Internal Auditors, specifically the HESSES review with no recommendations resulting, reports from management about the arrangements for ensuring the robustness and integrity of external data return, the External Auditors opinion based on its review of correspondence relating to the HESA return with HEFCE 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 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.  
21 November 2016

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 2016–17**

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 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 and to HEFCE.

#### **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 regularities:
  - 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 HEFCE 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 HEFCE'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 Chairman 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 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.

# Head of Internal Audit Opinion

## 2015/16 Head of Internal Audit Opinion to Queen Mary University of London

*Basis of opinion for the period 1 August 2015 to 31 July 2016*

Our internal audit service has been performed in accordance with KPMG's internal audit methodology which conforms to the 'Memorandum of assurance and accountability between HEFCE and institutions'. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) or International Standard on Assurance Engagements (ISAE) 3000. HEFCE requires that we comply with applicable ethical requirements, including independence requirements, and that we plan and perform our work to obtain sufficient, appropriate evidence on which to base our conclusion.

### Roles and responsibilities

The Governing Body is collectively accountable for maintaining a sound system of internal control and is responsible for putting in place arrangements for gaining assurance about the effectiveness of that overall system.

The Head of Internal Audit (HoIA) is required to provide an annual opinion in accordance with the 'Memorandum of assurance and accountability between HEFCE and institutions', based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (i.e. the system of internal control). This is achieved through a risk-based programme of work, agreed with Management and approved by the Audit and Risk Committee, which can provide assurance, subject to the inherent limitations described below.

The opinion does not imply that the HoIA has covered all risks and assurances relating to the organisation. The opinion is substantially derived from the conduct of risk-based plans generated from robust and Management-led risk and assurance processes.

### Opinion

Our opinion is set out as follows:

- Basis for the opinion;
- Overall opinion; and
- Commentary.

The basis for forming our opinion is as follows:

- An assessment of the design and operation of the risk management framework and supporting processes; and
- An assessment of the range of individual assurances arising from our risk-based internal audit assignments that have been reported throughout the period. This assessment has taken account of the relative materiality of these areas.

### Opinion on risk management, control and governance for the period 1 August 2015 to 31 July 2016

Significant with minor improvements can be given on the overall adequacy and effectiveness of the organisation's framework of risk management, control and governance. During the course of our work we did identify weakness in the operation of the control environment associated with the Maths Refurbishment Project, each of the points identified has been agreed for action as a recommendation with management.

### Opinion on value for money for the period 1 August 2015 to 31 July 2016

We consider that Queen Mary University of London has adequate and effective arrangements in place to promote economy, efficiency and effectiveness. During the course of our work, we identified areas where we believe that Queen Mary University of London could improve value for money, and reported these to management in our assignment reports. During 2015/16 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 of London to secure value for money in the use of resources.

### Opinion on data quality for the period 1 August 2015 to 31 July 2016

In 2015/16 we carried out a review on data quality arrangements relating to the HESSES return. This review was rated as 'significant assurance' and no recommendations were raised.

### 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 2015 to 31 July 2016 inclusive, and is based on the eight audits that we completed in this period.



# Head of Internal Audit Opinion

Overall our review found that the risk management framework in place is founded on a systematic risk management process and does provide appropriate assurance to Council. The risk management framework reflects the organisation's key objectives and risks and is reviewed on a timely basis. It was last reviewed by Council in November 2015.

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

We issued one 'partial assurance with improvements required' assurance ratings in respect of 2015/16 assignments. This review related to the maths refurbishment project and included five high priority recommendations. Management accepted the recommendations, has produced detailed actions plans for implementing remedial actions and we have agreed to include a follow up on this area as part of our 2015/16 internal audit plan.

The above findings do not prevent us from issuing a draft 'significant with minor improvements' assurance opinion in respect of the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. Management has either implemented or is implementing the recommendations raised in the maths refurbishment project. We are satisfied that these do not materially adversely effect Queen Mary University of London 's control environment to impact on our ability to provide a Head of Internal Audit Opinion.



**KPMG LLP**

**Chartered Accountants**

**9 September 2016**

# Other significant findings

## Internal control and risk management

As part of our audit approach we tested the design and implementation and operating effectiveness of controls over your key business processes. We noted a number of areas for improvement which would potentially allow us to take a controls reliance approach over certain of these areas in future years.

	Observation	Deloitte recommendation	Management response
<b>Controls over grant income – use of paper index cards</b>	Per management, the purpose of the control is to prompt the team to review particular grants which are expected to meet milestones as per the grant agreement and is considered an appropriate control to address the risk that the income is not recognised in the correct period. However this method is very outdated and highly open to manual error due to the volume of grants which require review.	An electronic process which can record when a review was performed and when it will be next required would provide much greater control and therefore reduce the risk that grants which are due to be reviewed are missed.	This process will become automated with the implementation of the Research Grant Management System (RGMS). The milestones will be built into phase 1 and will then feed through to phase 2 which relates to the post award activities
<b>Controls over research grant income – Review of expenditure</b>	<p>On a quarterly basis the Grants Admin Team perform a reconciliation from Agresso to the applicable invoice or payment profile, reviewing items of expenditure for any items which are not valid.</p> <p>Expenditure coded/allocated to grants does not always have the detail needed to enable scrutiny for any potential ineligible expenditure (which also impacts the related revenue recognised).</p> <p>While more detail is available on a grant-by-grant basis, there is a risk that inappropriately coded expenditure on research grants may go undetected.</p>	Implement changes at the point of recording of expenditure on grants in Agresso so to include more detail on the nature of the expenditure.	The Joint Research Management Office (JRMO), Finance and IT will work together to see if the reports can be improved.

# Other significant findings

## Internal control and risk management

As part of our audit approach we tested the design and implementation and operating effectiveness of controls over your key business processes. We noted a number of areas for improvement which would potentially allow us to take a controls reliance approach over certain of these areas in future years.

	<b>Observation</b>	<b>Deloitte recommendation</b>	<b>Management response</b>
<b>Assets in the course of construction – completion criteria</b>	We note the improved control environment in general over this key account balance. However, the process in place to communicate the completion of projects internally still requires improvement. This is particularly important over year end, so to ensure that all projects are appropriately accounted for.	An appropriate control should be implemented whereby completions are communicated on a more regular and timely basis (in line with the financial reporting process).	Agreed, we will ensure that there is a robust process for communicating completions in place.

# Other significant findings

## Updates on prior year control findings

Area and impact	Prior year recommendation	2016 update	Status
<p data-bbox="255 564 443 651"><b>Initial project appraisal and review</b></p> <p data-bbox="255 683 371 705"><b>MEDIUM</b></p>	<p data-bbox="488 462 1426 810">As part of our work we reviewed the project budgets, which included an initial assessment of whether costs were capital or revenue in nature. We were not given evidence of any formal Finance review of these assessments. We recommend that these project budgets are reviewed by an appropriate member of the finance team, in order to sign-off on the proposed accounting for the project elements in advance of project start. Additionally we recommend that this is reviewed on an ongoing basis in the light of costs incurred to date and changes to project scope and plans so that the accounting split between revenue and capital expenditure is reconsidered to ensure that it remains in line with the actual nature of the costs incurred. Again this should have appropriate sign-off by Finance.</p>	<p data-bbox="1462 383 1785 405"><b>Management comment:</b></p> <p data-bbox="1462 414 1794 699">Since February 2016 any project presented to Estates Strategy Board for approval now includes an assessment of the accounting treatment, therefore this is known before the project progresses.</p> <p data-bbox="1462 737 1798 890"><b>Audit comment:</b> Our testing did not identify any misstatements relating to the capital/revenue split of projects</p>	<p data-bbox="1830 625 1951 647">Complete</p>
<p data-bbox="255 1101 421 1187"><b>Project completion and sign-off</b></p> <p data-bbox="255 1219 371 1241"><b>MEDIUM</b></p>	<p data-bbox="488 957 1426 1273">Our testing noted a number of projects where work was complete and the section of the building (for example a whole floor) was now ready for use, but where the asset remained on the assets under construction listing. At this point assets should be transferred from assets under construction and into the main fixed asset register, with depreciation commencing from that date. As the majority of the errors noted relate to assets completed close to the year end date, there is not a significant depreciation impact on the income and expenditure account, and this is primarily a balance sheet reclassification. However, it demonstrates that the process by which the Finance team are notified that projects are completed is not operating in a timely manner. We recommend that:</p> <ul data-bbox="488 1276 1384 1417" style="list-style-type: none"> <li>• when each project reaches completion, a mechanism is in place so that the finance team are notified promptly that the project should be transferred to the in-use assets.</li> <li>• Multi-phase projects are monitored more closely to identify when individual phases are complete.</li> </ul>	<p data-bbox="1462 919 1785 941"><b>Management comment:</b></p> <p data-bbox="1462 951 1776 1327">Project completion and sign-off - a process has been put in place to communicate project completion and periodic checks are carried out by Financial Accounting, notwithstanding the current audit year point requesting a further strengthening of controls in this area.</p> <p data-bbox="1462 1366 1798 1455"><b>Audit comment:</b> Our testing did not identify any project classification errors</p>	<p data-bbox="1830 1158 1951 1216">Partially completed</p>

# Other significant findings

## Updates on prior year control findings

Area and impact	Prior year recommendation	2016 update	Status
<p><b>Training and Clarity of Responsibility</b></p> <p><b>MEDIUM</b></p>	<p>In view of the high turnover of staff in both Estates &amp; Facilities and Finance we would recommend that all relevant personnel are fully briefed and trained on their respective responsibilities in the Fixed Assets process and on QMUL policies and procedures in relation to fixed assets, including the importance of the distinction between capital and revenue and the importance of the timeliness and accuracy of information about projects, including disposals of old assets, being provided to Finance.</p>	<p>Training and clarity of responsibility – all relevant finance staff have attended a capital training session and new finance staff joining in the year whose role involves capital have attended a one to one training session.</p>	<p>Complete</p>
<p><b>Evidence for expenditure against grants</b></p> <p><b>LOW</b></p>	<p>In one example in our testing, no evidence had been retained in relation to expenditure incurred against a grant. The person who had entered the transaction has subsequently left the employment of the university, and the supporting documentation was unable to be located. Whilst this was an isolated instance, and confined to an item well below our clearly trivial threshold we recommend that Management remind their team that records should be maintained to support all such transactions.</p>	<p>Research staff have been reminded to retain supporting documentation</p> <p><b>Audit comment:</b> Our testing did not identify any issues in this area</p>	<p>Complete</p>

# Other significant findings

## Updates on prior year control findings

Area and impact	Prior year recommendation	2016 update	Status
<p>Research accounting matters</p> <p><b>LOW</b></p>	<p>Our testing noted a number of instances in relation to incorrect cut-off of research expenditure, where revenue recognised in the year to 31 July 2015 was in relation to prior year expenditure, owing to late receipt of invoices and recognition.</p> <p>We recommend that management update their controls to ensure that expenditure on contracts is recognised in the correct period. As this relates to research matters, there is no net impact on the Income and Expenditure account</p> <p>Additionally, owing to the large volume and varied nature of research contracts, a detailed analysis of this area is critical in assessing the accounting impact of research contracts on the transition to FRS102, and will require a significant investment of Management's time prior to the implementation in the 31 July 2016 financial statements.</p>	<p>There has been some progress this year in improving cut off as a result of increased use of purchase orders within JRMO. This area will always require additional attention at year end.</p> <p>A comprehensive review of all research projects was undertaken to ensure the correct accounting under FRS102.</p> <p><b>Audit comment:</b> Our testing did not identify any cut-off issues relating to research grants</p>	<p>Complete</p>