

**AUDIT AND RISK COMMITTEE**  
**Thursday 02 June 2016**

**CONFIRMED MINUTES**

**Present:**

David Willis (Chairman)	Kathryn Barrow	Monica Chadha
Melissa Tatton		

**In attendance:**

Alison Anderson	Monique Arthur	Sue Barratt (External Audit)
Emma Bull	Eleanor Crossan	Steve Exley
Professor Simon Gaskell	Joanne Jones	Simon Linnett
Jonathan Morgan	Philippa Scott	Rachel Soper (Secretary)
Neil Thomas (Internal Audit)	Janice Trounson	

**Apologies**

Professor Edmund Burke	Nadim Choudhary	Paul Cuttle (Internal Audit)
David Marks	Paul Thomas (External Audit)	

**Part 1: Preliminary Items**

**Welcome**

2015.068 The Chairman:

- [a] Welcomed Monica Chadha, who had recently joined the Committee, to her first meeting.
- [b] Welcomed the President and Principal and the Chair of Finance and Investment Committee, who were attending for the item on the Internal Audit of the Maths Building Refurbishment.
- [c] Welcomed Philippa Scott, Alison Anderson and Rachel Soper, who were attending their first meeting of this Committee.

**Executive Summary and Minutes of the meeting 02 June 2016 [ARC2015/47]**

2015.069 The Committee **confirmed** the Executive Summary, non-confidential and confidential minutes of the meeting on 04 February 2016.

**Matters Arising [ARC2015/48]**

2015.070 The Committee **received** the following matters arising from the non-confidential minutes of the meeting on 04 February 2016.

**Trade Effluent Consents**

- [a] An update on the licensing process for trade effluents was provided and it was noted that discussions were ongoing between QMUL and Thames Water.

#### **‘Deep dive’ risk report (impact and innovation)**

- [b] The VP (Research) would provide an update to Council on actions taken in response to the ‘deep dive’ risk report (impact and innovation) as part of his scheduled report in February 2017.

#### **Horizon scanning exercise**

- [c] A horizon scanning exercise, attended by the President and Principal and to include consideration of the level of risk carried by the institution and the impact of the White Paper, would be an item for the first meeting of the Committee in 2016-17.

#### **Internal audit services**

- [d] It was confirmed that the current contract for internal audit services was extendable to July 2017 and that the re-tender process had been incorporated into the annual schedule of business.

#### **Prevent duty compliance**

- [e] The assessment had been scrutinised by a sub-group of the Committee, approved by QMSE and circulated to Council prior to submission to HEFCE in April 2016.

#### **Modern Slavery Act**

- [f] *Minute 2015.070[f] is confidential.*

#### **External audit plan 2015-16**

- [g] *Minute 2015.070[g] is confidential.*

- [h] *Minute 2015.070[h] is confidential.*

## **Part 2: Risk Management**

### **Deep dive’ risk report (emergency planning and business continuity) [ARC2015/49]**

2015.071 The Committee received a ‘deep dive’ risk report on emergency planning and business continuity. The following points were made:

- [a] The aim of the emergency planning and business continuity framework was to create a culture across the institution in which people would be able to respond appropriately to incidents.

- [b] Good progress was being made, with faculties, schools and Professional Services producing business impact analyses and

incident response guides. The CCLS documents were highlighted as good examples and had been developed following a real incident. Whilst many of these documents were still work in progress, it was a priority for there to be functioning documents in place in all areas by the start of the next academic year.

- [c] IT back up and restoration processes were in place, and resilience measures were tested frequently.
- [d] Communication was integral to successful emergency planning and business continuity considerations, and the Committee was pleased to hear that a workshop had been scheduled with the Marketing and Communications team to explore these issues.
- [e] 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.
- [f] It was **agreed** to report back to the Committee at its meeting in October 2016 on progress of the schools submitting plans, highlighting any concerns, and to ensure that there was comprehensive coverage across the institution.

*Action:* Assistant Director Estates and Facilities [f]

### **Strategic risk management [ARC2015/50]**

2015.072 The Committee **received** the quarterly report on QMUL's strategic risk management framework. The following points were made:

- [a] Risk exposure had increased in relation to cost control, value for money and expenditure (risk 12). The paper reported the increase in risk rating being due to the underlying surplus position and a number of contractual issues with IBM in relation to the schools applications migration project, which formed part of the IT transformation programme. However, it was noted that it also related to the major issues reported in respect of the Maths Building refurbishment project and the need to ensure that the cost base did not increase at a greater rate than growth in turnover.
- [b] Staff costs as a percentage of turnover were forecast to be higher (i.e. worse) than target, at approximately 60%. This was in part due to less than forecast income from tuition fees and research grants, as well as an increase in staff costs caused by increased employer pension contributions. Future forecasts were being rebased, but it was clear that whilst turnover was growing, the associated cost base was also increasing and consequently surplus levels were being at best maintained and not increasing in line with QMUL's aspirations.
- [c] The annual VfM report would be presented to the next meeting and would have to address these issues and any under-performance against the agreed metrics.

## Insurance cover level options [ARC2015/51]

2015.073 *Minute 2015.073 is confidential.*

## Whistleblowing cases since the last meeting [Oral report]

2015.074 The Finance Director **reported** that there had been no cases reported under the Public Interest Disclosure Policy since the last meeting.

## Part 3: Internal and External Audit

### Progress report on FRS102

2015.075 The Committee **received**:

- Restated opening balance sheet at 31 July 2014 and 2014-15 financial statements [ARC2015/52a];
- Draft accounting policy changes [ARC2015/52b];
- Depreciation policy [ARC2015/52c]; and
- oral updates on the external audit of the restated opening balance sheet at 31 July 2014, 2014-15 financial statements and the renegotiation of bank covenants.

The following points were made:

- [a] the bank covenants had not yet been renegotiated but were expected to be within existing limits for this financial year. The position for future years would be reassessed once the forecasts had been completed. It was **agreed** that any issues arising from engagement with the banks would be reported to the Committee through the Chair.
- [b] In response to questions about how other institutions had responded to the introduction of the new accounting standards, it was reported that some competitors were expected to have taken advantage of revaluation options, but that all institutions part of USS would be affected by the pension requirements. It was also expected that the approach adopted by QMUL with respect to government grants would be adopted by most HEIs.
- [c] It was not expected that banks would look any less favourably on HEIs, but there could be an impact should an HEI fail in the future.
- [d] Since the Depreciation Policy had been written, an issue had come to the attention of the Finance Department concerning the expected lifetime of an asset, and consequent need for additional flexibility in the part of the policy relating to freehold improvements and leasehold improvements.
- [e] The Committee **approved** the draft accounting policy changes and **approved** the depreciation policy **subject to minor amendment** to be reviewed and agreed by Kath Barrow on behalf of the Committee.

*Actions:* Finance Director [a], Finance Director and Kath Barrow [e]

### **External audit recommendations from 2014-15 [ARC2015/53]**

2015.076        The Committee **received** the update on the external audit recommendations from 2014-15. Thanks were expressed to Deloittes for their assistance with training.

### **Internal Audit reports [ARC2015/54]**

2015.077        The Committee **considered** the internal audit reports into:

- Finance systems (accounts payable and expenses)
- Data Quality: HESES return
- Examination cycle
- Refurbishment of the Maths Building

The following points were made:

- [a] The first three audits were conducted in line with the internal audit plan for 2015–16. The Chairman of Council and the President and Principal jointly commissioned a review by Internal Audit into concerns about the robustness of the governance processes around the Maths Building refurbishment project
- [b] The review of the accounts payable and expenses processes and controls received a rating of 'significant assurance with minor improvement opportunities' (amber-green). There were two medium priority (level two) and two low priority (level three) recommendations.
- [c] The review revealed several violations of the Expenses Policy in the sample tested. Expenses claims that were in breach of the policy were challenged by the Deputy Finance Director and payment made only on receipt of an acceptable explanation. However, further work was required to ensure approvers within schools were challenging or rejecting claims appropriately in the first instance, providing clear explanations for approving claims outwith the Expenses Policy, and that clear escalation procedures were in place.
- [d] The review of the systems in place to support the Higher Education Students Early Statistics Survey (HESES) return received a rating of 'significant assurance' (green). There were no recommendations.
- [e] The review of the examination cycle process received a rating of 'significant assurance with minor improvement opportunities' (amber-green). There were three medium priority (level two) and five low priority (level three) recommendations.
- [f] The processes associated with the examination cycle were both complex and numerous and involved staff from many different areas of the institution, but were generally considered to work very well.

- [g] Availability of adequate exam space was identified as an issue with the potential to worsen as student numbers increase.
- [h] Whilst the deadline for completing the actions relating to the recommendation in respect of uploading marks to the student records system was April 2017, it was confirmed that they were being implemented for the end of year examinations taking place this summer and would be implemented for in-year assessments in the next academic year, the corresponding marks having already been entered this year.
- [i] The Committee found the process, control and comments diagrams in the audit reports very helpful.
- [j] *Minute 2015.077[j] is confidential.*
- [k] *Minute 2015.077[k] is confidential.*
- [l] *Minute 2015.077[l] is confidential.*
- [m] *Minute 2015.077[m] is confidential.*
- [n] *Minute 2015.077[n] is confidential.*
- [o] *Minute 2015.077[o] is confidential.*
- [p] *Minute 2015.077[p] is confidential.*
- [q] *Minute 2015.077[q] is confidential.*
- [r] *Minute 2015.077[r] is confidential.*
- [s] *Minute 2015.077[s] is confidential.*
- [t] *Minute 2015.077[t] is confidential.*
- [u] *Minute 2015.077[u] is confidential.*
- [v] *Minute 2015.077[v] is confidential.*

### **Progress report on HEFCE data audit recommendations [ARC2015/55]**

2015.078      The Committee **confirmed** that the action plan addressing the recommendations from the HEFCE audit of data used to inform the funding allocations for research degree supervision was complete and the Chair would write to HEFCE to this effect.

*Action:* Chair and Council Secretary

### **Internal audit plan 2016–17 [ARC2015/56]**

2015.079 [a] *Minute 2015.079 is confidential.*

### **Progress report on audit recommendations and areas of non-compliance [ARC2015/57]**

2015.080 The Committee **received** the progress report on internal audit recommendations and areas of non-compliance. The following points were made:

- [a] Four recommendations had been closed since the previous meeting.
- [b] Progress had been made with respect to the overdue recommendations which required input from Barts Health NHS Trust and the proposed revised deadline for completion was noted.
- [c] There remained one overdue recommendation relating to research overhead recovery and it was **agreed** that further clarification should be sought from the VP research concerning the rationale for the proposed revised deadline with a view to bringing this forward if possible.
- [d] The new Head of Learning and Professional Development was taking forward the recommendations relating to staff development needs and activities. It was the intention to have all plans in place for the start of the academic year. It was **agreed** that the stated completion date of December 2016 could not be extended.
- [e] The Governance Administrator was commended for producing a much-improved tracker document.

*Actions:* COO to liaise with VP Research [c], COO to liaise with Director of CAPD [e]

## **Part 4: Statutory and Regulatory Compliance**

### **HEFCE assessments and review [ARC2015/61]**

2015.081 The Committee **received** the Annual Assessment of Institutional Risk for 2014-15 (which assessed QMUL as 'not at higher risk'), the Assurance Review report and the HESA funding and monitoring data (FAMD) 2014-15: Funding data reconciliation exercise letter confirming all variations were below its threshold for further action. The following points were made with respect to the Assurance Review report:

- [a] The Committee was pleased to note HEFCE's conclusion that it was able to place reliance on the accountability information provided by QMUL.
- [b] There were a number of recommendations arising from the review, some relating to this Committee and concerning the opinions required in its annual report.
- [c] It was recommended that the Committee's opinions concerning Value for Money and Data Quality assurance should explicitly refer to

adequacy and effectiveness as has been done for Risk Management in previous reports.

[d] More work would be required to evidence the Committee's opinion of data quality and the robustness of the data submitted in external returns. It was noted that the Chair had been invited to approve the TRAC return this year.

[e] It was **agreed** that that a report on how the executive tests the robustness and quality of data returns would be presented to the Committee at its October meeting.

*Action:* Finance Director [e]

## **Part 5: Financial Control**

### **Fraud/Financial irregularities occurring since the last meeting [Oral report]**

2015.082 The Finance Director **reported** that there had been no cases of fraud/financial irregularity reported since the last meeting.

### **Review of policies and regulations [ARC2015/61]**

2015.083 The Committee **received** the following policies which had been updated following annual review:

- Capital Expenditure Policy
- Financial Regulations
- Scheme of Delegation of Financial Authority.

The following points were made:

[a] The Capital Expenditure Policy was the basis for the training that Finance delivers to Estates and was consistent with the expectations of Deloitte.

[b] It was **agreed to recommend** the Financial Regulations and Scheme of Delegation of Financial Authority for onward consideration by Finance and Investment Committee and approval by Council.

[c] The Committee **approved** the Capital Expenditure Policy subject to minor amendment to reflect the agreed changes to the new depreciation policy (see minute 2015.072).

*Action:* Finance Director [c]

## **Part 6: Committee Management and Reporting**

### **Committee Terms of Reference, Membership and effectiveness review [ARC2015/62]**

2015.084 The Committee **received** the terms of reference and outcomes of the effectiveness review. The following points were made:



- [a] It was **agreed** to amend the terms of reference to clarify the terms of appointment for the internal and external auditors and to make more explicit the Committee's role with respect to data quality assurance.
- [b] The effectiveness review had identified succession planning as an issue. Governance Committee would be considering succession planning and desired skillsets across Council and all its sub-committees.
- [c] Members considered whether the size of the Committee was appropriate, recognising that there had been issues of quoracy in the past. Members agreed that the current membership should be sufficient following the recruitment of Monica Chadha and Nadim Choudhary earlier this year.

*Action:* Council Secretariat [a]

### **Annual schedule of business 2016–17 [ARC2015/63]**

2015.085      The Committee **received** the annual schedule of business for 2016–17. It was **agreed** to

- [a] Provide further information about the due diligence report to be received at the next meeting
- [b] Clarify the timing of audit reports and ensure they are accurately reflected in the schedule
- [c] Communicate any future proposed changes to the internal audit plan to the Chair and Melissa Tatton.

*Actions:* Council Secretariat [a], Council Secretariat to liaise with KPMG [b] and [c]

### **RCUK assurance letter**

2015.087      The Committee **noted** the receipt of a letter from RCUK requesting QMUL provide it with a copy of the External Auditors' management report. The following points were made:

- [a] Release of this information was not a mandatory requirement and in any event, permission from External Auditors and this Committee would be required first;
- [b] The Committee felt that the request had not be well managed by RCUK and the rationale for the request had not been made clear. It **endorsed** the approach taken by the Finance Director not to release this information.

### **Draft Agenda for next meeting [ARC2015/46]**

2015.086      The Committee **received** the draft agenda for the next meeting on 03 October 2016 and noted that the meeting will take place at Whitechapel.

