AUDIT AND RISK COMMITTEE
Wednesday 14 November 2018

CONFIRMED MINUTES

Present:

David Willis (Chair)	Kath Barrow	Monica Chadha
Melissa Tatton		

In attendance:

Professor Colin Bailey	Jonathan Gooding (External Audit)	Jessica Hargreaves (Internal Audit)
Joanne Jones	Dr Nadine Lewycky	Jonathan Morgan
Dr Catherine Murray	Julian Reeve (External Audit)	Neil Thomas (Internal Audit)
Janice Trounson	Professor Colin Grant [minute 2018.023])	Ian McManus and Rebecca Jones [minute2018.028]

Apologies

Nadim Choudhary	Peter Thompson

Part 1: Preliminary Items

Welcome

2018.018 [a] The Chair welcomed everyone to the meeting.

[b] The Committee noted that there was a significant amount of business on the agenda. In future, items not essential for external accountability purposes would be moved to later meetings in the schedule.

Action: [b] Council Secretariat

Executive Summary and Minutes of the meeting 04 October 2018 [ARC2018/15]

2018.019 The Committee **confirmed** the non-confidential and confidential minutes and **noted** the executive summary of the meeting on 04 October 2018.

Matters Arising [ARC2018/16]

2018.020 The Committee **received** a report on the matters arising from the minutes of the meeting on 04 October 2018. The following points were noted in discussion:

Staff recruitment

[a] Equality and diversity issues may be raised outside of the formal grievance process and may not therefore have been reported. This had been discussed with the Director of HR so that future reporting would take this into account.

Horizon Scanning

[b] The paper on contingency planning would come to the Committee in March 2019.

Progress report on internal audit recommendations

[c] The Director of Estates, Facilities and Capital Development would be asked to provide a deadline for completion of the action arising from the 2016/17 internal audit.

Action: [c] Director of Estates, Facilities and Capital Development

Part 2: External Audit

Audited Financial Statements [ARC2018/17]

2018.021 The Committee **considered** the draft Audited Financial Statements 2017–18. The following points were noted:

[a] Provision had not been made in the accounts for the outstanding payment of £8.1m from BUPT. BUPT had a good track record of paying and credit rating, and would suffer reputational damage if it failed to pay. Payment was expected in January in line with last year. The contract between BUPT and Queen Mary did not specify when payment should be made, which was contingent on tax clearance being given by the Chinese government. Discussions were ongoing about adding an addendum to the contract to set the timing of payment. Finance and Investment Committee had considered and agreed with the accounting decision and rationale.

[b] Provision had not been made in the university accounts for the £2.2m debt owed by the Malta subsidiary to the university, which would not appear in the consolidated accounts. Progress towards profit had been slower than expected but the Executive was confident that the situation was improving. The deficit largely resulted from lower than expected tuition fee income due to difficulties in recruiting students at the full fee rate. Delays to the construction of the medical school and the lifting of the cap on student numbers in UK medical schools had made recruitment challenging. The external auditors felt that it would be more prudent to include a provision but that the decision not to would still be acceptable.

[c] The programme in Malta was being kept under review. The Committee asked whether the university would be exposed to any contracts or commitments that could become onerous if it was decided not to proceed with the programme in future. Queen Mary would be liable for lease costs as the facilities were being provided by the Maltese government. The university was seeking compensation for the delays in the construction of the medical school and anatomy centre. The main risk was reputational if it became necessary to move students to London. The university would also incur a fine for exceeding student cap numbers.

[d] The £5m payment for membership in the Turing institute had been accounted for in full in the year notwithstanding that it would be paid in five annual instalments, which was in line with the accounting treatment used by other universities.

[e] In relation to the disclosures on the remuneration of the President and Principal, in calculating the multiple of median pay, OfS guidance this year allowed for agency staff to be excluded from the calculation provided the exclusion was explained. The OfS would be using these responses to inform guidance for next year.

[f] The Committee requested that the section on risk be redrafted to better describe the risks associated with not achieving the new university strategy and mitigating actions. The key risks should be aligned to the university's new strategy and risk appetite statement. The Committee noted that few KPIs had been included but that the current set of KPIs was being revised as part of the university strategy. The section would be re-drafted and circulated to the Committee, which **agreed** to recommend the audited Financial Statements to Council subject to the above amendments.

Action: [f] Finance Director

Final report to the Audit and Risk Committee on the audit for the year ended 31 July 2018, including Management Representation Letter [ARC2018/18]

2018.022 The Committee **considered** the final report on the audit for the year ended 31 July 2018 from the external auditors. The following points were noted:

[a] The Committee noted that the audit work was largely complete and that the documentation would be finalised over the next few days. The report concluded that the financial reporting control environment appeared to be robust and there were no material control matters to be drawn to the attention of the Committee. The report made three recommendations in relation to fixed assets and one in relation to the cash management of a subsidiary.

[b] The auditors confirmed that no material differences had been identified, nor were there a significant number of smaller differences which aggregated would have been above the threshold. The auditors would add a sentence to the report to confirm this. A line would also be added to reconfirm judgment relating to the £2.2m debt owed by the Malta subsidiary to the university.

[c] A loss of equipment worth £78k from the Engineering building had been reported at the last meeting and more reporting would be done around that risk.

[d] The Committee sought and received assurances from the President and Principal, Finance Director and the Registrar and Secretary on behalf of QMSE that the Letter of Representation could be signed on behalf of Council.

[e] The Committee **approved** for recommendation to Council the Letter of Representation.

Actions: [b] Deloitte; [c] Finance Director

Part 3: Risk Management

Deep dive: Transnational Education in China [ARC2018/19]

2018.023 The Committee **received** the report on Transnational Education in China. The following points were noted:

[a] The university's educational partnerships in China performed well in 2017–18 contributing £5.7m to the surplus. Financial risks related to not meeting student recruitment targets, fluctuating exchange rates and failure to repatriate funds. Queen Mary was exposed to less risk than some other universities because engagement was spread across a network of partners. Despite the risks, financial performance was strong enough to remain an attractive business.

[b] The new Global Engagement Strategy emphasised growth with excellence which would underpin the pursuit of new partnerships going forward. The university would seek to diversify market share in other countries including Singapore, South Korea, the US, Japan and Canada, while recognising the scale and quality of partnerships in China. There was minimal risk that China would not remain open to educational partnerships for the foreseeable future.

[c] Queen Mary would also look to set up partnerships in new sectors, such as policy and industry, which offered the opportunity to develop impactful research. Our partnership with NPU provided an opportunity to work with industry in driving development in western China.

[d] Committee members were pleased to hear that our Chinese partners excelled in their subject areas, and agreed that this should be more widely publicised. Maintaining the high quality of education in China was a priority, and it was subject to the same quality control as in London. Staff engagement in the partnerships was strong because of the quality of the partners in their fields. Wellbeing of staff who taught on the Chinese programmes was managed through an HR policy overseen by an HR partner and TNE operations manager in the faculty.

[e] Following a summer 2018 review of the Partnerships Board, a Task and Finish Group reporting to the VP (International) and the Finance Director would be set up to review governance arrangements and annual performance of TNE activities. A Steering Group would be created to oversee the management of the joint programmes and report to the new Global Engagement Executive.

[f] New Chinese legislation in relation to data protection could present a risk to information security. Queen Mary and other universities were working with the Chinese ministry to reach an agreement on the holding of data. Students had been informed about where their data was being held.

[g] The sustainability and reputation of Malta was a concern, but could provide an entry into public health concerns in North Africa.

Strategic Risk Management:

- **Strategic Risk Register**
- **Risk Appetite Statement [ARC2018/20]**

2018.024 The Committee **considered** the revised risk appetite statement and the updated strategic risk register. The following points were noted:

[a] The risk appetite statement had been amended to reflect comments made by Committee members. “People” had been placed at the top of the risk diagram, and a “0” had been added to indicate areas where the university would have no risk appetite. The Strategic Risk Register was being revised and would align with the risk appetite statement. The Committee **agreed** to recommend for approval to Council the risk appetite statement.

[b] Members were pleased to see the improvements made to the Strategic Risk Register. Members agreed that the use of the Strategic Risk Register to actively manage risk would encourage a new culture towards risk management and compliance. The Committee requested a mapping exercise be done to show how risk appetite mapped on to the Strategic Risk Register.

Action: [b] QMSE

Whistle blowing cases since the last meeting [Oral report]

Minute 2018.025[a] is confidential.

Part 4: Statutory and Regulatory Compliance

Assurance arrangements for statutory returns [ARC2018/21]

2018.026 The Committee **received** a report on the assurance arrangements that are in place for statutory returns. It was noted that:

[a] The report showed that Queen Mary’s arrangements for assurance of data quality were in line with the sector and were proportionate to the level of risk associated with each return. The Committee **agreed** that the report showed that Queen Mary had adequate arrangements in place for assurance of data quality.

Legal compliance report [ARC2018/22]

2018.027 The Committee **considered** the annual report on legal compliance. The following points were noted:

[a] The report covered compliance with all areas except for Health and Safety which was addressed under a separate item. The Committee’s responsibilities in relation to the Prevent Duty had changed. Council would not be required to submit a separate report to the OfS as in previous years, but would report on data about Prevent-related incidents during the year. Council was still required to make the same compliance assessments in paragraph 16.

[b] The annual meeting of the Channel Panel had met and discussed the risk register, training and other actions. Key risks related to reputation in balancing academic freedom and freedom of speech with Prevent, and having the technology in place to deliver and monitor compliance training.

[c] A list of actions had been identified for the coming year. Compliance training would be launched in January and would be offered online to a larger group of individuals, including students. Policies relating to Freedom of Speech and invitations to speakers at events would be updated to include commercial events.

[d] An external review of compliance arrangements and policies would be completed alongside the Council external effectiveness review. The arrangements for obtaining legal advice, including the balance between in-house and external services, would be reviewed again in 2019 to ensure that they remain fit for purpose.

[e] The legal compliance areas were set out in Annex A. Areas with activities which extended into other jurisdictional regions had been monitored and none had been material enough to be reflected in the report.

[f] The Committee **agreed** that the arrangements for complying with the Prevent Duty were satisfactory and recommended that Council would be able to give the necessary assurances to the OfS.

[g] The Committee concluded that it was satisfied that Queen Mary has adequate and effective measures in place to secure compliance with applicable law and regulation.

Health, Safety and Fire Annual Report [ARC2018/23i] and Interim update on compliance management [ARC2018/23ii]

2018.028 The Committee **considered** the annual report on health, safety and fire and **received** an update on compliance management covering the period from the end of the report.

Annual report

[a] The Committee **agreed** that the 2016–17 objectives from the Health and Safety Strategy were process rather than outcomes focused, and should be revisited by the Health and Safety Advisory Group. Going forward, this group should focus on ensuring that actions had been closed off rather than relying on the Schools.

[b] The Committee **agreed** that the section on conclusions was an improvement on previous reports but that it should focus on the issues Council would want to consider.

[c] Improvements had been made to the compliance structure, including the introduction of a compliance and quality team distinct from the operational team. The Committee was pleased to hear that there had also been a noticeable improvement recently in the culture in that staff felt that they were able to raise issues.

[d] The Committee requested an interim report on Health and Safety for its June meeting.

Interim update on compliance management

[e] Minute 2018.028[e] is confidential.

[f] Minute 2018.028[f] is confidential.

[g] Minute 2018.028[g] is confidential.

Action: [d] Interim Director of Health and Safety

Value for Money Annual report [ARC2018/24]

2018.029 The Committee **noted** a report on the progress in relation to Value for Money targets in 2017/18. The following points were noted:

[a] The OfS had yet to issue guidance on how it would assess Value for Money (VfM). An efficiency return was not required this year but universities were still expected to demonstrate that they were delivering VfM for student outcomes. The Russell Group was developing a consistent presentation of VfM on university websites which would reflect the nature of research intensive universities.

[b] An annual VfM report would be retained for internal tracking and VfM would be discussed by the Committee throughout the year. The metrics had been agreed at a previous Committee meeting and showed that the university was improving in the areas of cash generation and TRAC(T) data. The Committee agreed that it could provide the necessary opinion in its annual report and would discuss VfM at its March meeting when hopefully the OfS position would be clearer.

Action: [b] Council Secretariat

Review of Financial Regulations and Scheme of Delegation of Financial Authority [ARC2018/25]

2018.030 The Committee **considered** the updated Financial Regulations and Scheme of Delegation of Financial Authority. It was noted that:

[a] Paragraph 1.3 of the Scheme of Delegation of Financial Authority will be amended to read that the document would now be reviewed every 3 years.

[b] The Committee **agreed** to recommend to Council for approval the updated policies.

Action: [a] Finance Director

Travel and Expenses Policy [ARC2018/26]

2018.031 The Committee **considered** and **agreed** to recommend to Council for approval the refreshed Travel and Expenses Policy.

Part 5: Financial Control

Fraud/financial irregularities occurring since the last meeting [Oral report]

Minute 2018.032[a] is confidential.

Part 6: Committee Management and Report

Audit and Risk Committee Annual Report 2017–18 Draft 2 [ARC2018/27]

2018.033 The Committee **considered** the second draft of the Audit and Risk Committee Annual Report. It was noted that:

[a] There were no changes proposed to the current draft.

[b] The Committee **agreed** that the final draft would be circulated to members following the meeting for approval before submission to Council.

Actions: [b] Council Secretariat

*Draft agenda for the next meeting [ARC2018/28]

2018.034 The Committee **received** the draft agenda for the next meeting on 13 March 2019 and noted that an item on Value for Money would be added.

Action: Council Secretariat