



Annual Report of Audit and Risk Committee 2019–20

Outcome requested	Audit and Risk Committee is asked to note the first draft of the Annual Report for 2019–20. The final report will be submitted to Council in November.
Executive Summary	<p>Under the Office for Students (OfS)'s Terms and conditions of funding for higher education institutions, the Committee is required to produce an Annual Report for submission to Council and the OfS. The report must include the Committee's conclusions on the adequacy and effectiveness of:</p> <ul style="list-style-type: none"> • Queen Mary's risk management, control and governance arrangements; • arrangements for promoting economy, efficiency and effectiveness; • arrangements for the management and quality assurance of data submitted to HESA, the Student Loans' Company, the OfS and other funding bodies. <p>The report should also record the Committee's work in relation to:</p> <ul style="list-style-type: none"> • the internal and external auditors; • Queen Mary's arrangements in respect of risk management, value for money and data quality; • the audit of the annual financial statements. <p>The report covers the 2019–20 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>Information to be added following this meeting or when available has been highlighted in red.</p>
QMUL Strategy:	Financial sustainability
Internal/External reference points:	Office for Students Terms and conditions of funding; CUC Handbook for Members of Audit Committees in Higher Education Institutions.
Strategic Risks	<p>11. Delivery of Estates and IT enabling plans</p> <p>12. Improved cash generation to enable investment</p> <p>14. Strategy implementation</p> <p>15. Incident management and business continuity</p> <p>16. Compliance</p>
Subject to onward consideration by:	A second draft of this report will be considered by the Committee on 10 November 2020 before going to Council.

Confidential paper under FOIA/DPA:	No
Equality Impact Assessment	Not required
Timing:	Submission to Council on 19 November 2020 and to the OfS by February 2021.
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Date:	21 September 2020
Senior Management/ External Sponsor	David Willis, Chair of Audit and Risk Committee

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1. Introduction

- 1.1. This is the annual report of the Audit and Risk Committee for the 2019–20 financial year. The report has been prepared with reference to the Office for Students' (OfS) Terms and Conditions of Funding for Higher Education Institutions and Regulatory Notice 2. It also refers to the CUC Handbook for Members of Audit Committees in Higher Education Institutions. It forms part of the evidence through which Queen Mary gives assurance to the OfS about the use of public funds.

2. Committee Constitution

- 2.1. The Committee reviewed progress at each meeting against the annual business plan for 2019–20.

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

External Members of Council

David Willis (Chair)
Kath Barrow (to December 2019)
Monica Chadha (to September 2020)
Alix Pryde (from January 2020)
Melissa Tatton (from January 2020)
Peter Thompson

Co-opted External Members

Simona Fionda (from February 2020)
Melissa Tatton (to December 2019)

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

Representatives of the Senior Executive and other senior officers

Professor Colin Bailey	President and Principal
Louise Parr-Morley	Interim Finance Director
Jonathan Morgan	Chief Governance Officer and University Secretary
Catherine Murray	Director of Strategic Planning
Janice Trounson	Deputy Director (Financial Controls)

Representatives of the Internal Auditors

Jessica Hargreaves	KPMG
Neil Thomas	KPMG

Representatives of the External Auditors

Jonathan Gooding	Deloitte (to June 2020)
Julian Reeve	Deloitte
Craig Wisdom	Deloitte (from July 2020)

- 2.4. Luke Savage, Treasurer and Chair of the Finance and Investment Committee, had access to the papers circulated to the Audit and Risk Committee via the board management software Convene. Arrangements were in place to facilitate appropriate liaison between the two committees.

- 2.5. *Secretary to the Committee*

Dr Nadine Lewycky	Assistant Registrar (Governance)
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2.6. *Terms of Reference*

The Committee reviewed its Terms of Reference at its meeting on 01 October 2020 and made no amendments. The Terms of Reference are appended as Annex A.

2.7. *Committee Effectiveness*

The Committee's Terms of Reference require it to review its effectiveness on an annual basis. Due to the coronavirus pandemic, the Chair and Committee Secretary agreed to postpone the annual effectiveness review until early 2021. In June 2020, the Committee moved to virtual meetings via Zoom to ensure the continuance of effective governance. There have been no issues that have prevented the Committee from discharging its responsibilities effectively.

3. Meetings of the Committee

3.1. The Committee met on the following dates since the start of 2019–20:

- 03 October 2019;
- 11 November 2019;
- 23 January 2020
- 12 March 2020;
- 10 June 2020;
- 23 July 2020;
- 02 September 2020;
- 01 October 2020
- 29 October 2020
- 10 November 2020.

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

	03/10/19	11/11/19	23/01/20	12/03/20	10/06/20	23/07/20	02/09/20	01/10/20	29/10/20	10/11/20
K Barrow	X	X	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M Chadha	✓	✓	X	✓	✓	✓	✓	N/A	N/A	N/A
S Fiona	N/A	N/A	N/A	✓	✓	✓	✓			
A Pryde	N/A	N/A	✓	✓	✓	✓	✓			
M Tatton	✓	✓	✓	✓	✓	✓	✓			
P Thompson	✓	✓	✓	✓	✓	✓	✓			
D Willis	✓	✓	✓	✓	✓	✓	✓			

4. Internal Audit

4.1. Internal audit services in 2019–20 were provided by KPMG for a fee of £84,950 (plus £10,000 contingency) plus VAT. KPMG was reappointed as Queen Mary's Internal Auditors in April 2017 for a period of four years following a tender process.

4.2. The total number of days allocated to internal audit during 2019–20 across all areas was 140, which was the same as 2018–19. No restrictions were placed on the work of the Internal Auditors in 2019–20. The Committee considered progress reports on the 2019–20 audits at its meetings in March, June, September and October 2020.

4.3. The Internal Audit Annual Report for 2019–20 was considered by the Committee at its meeting on 01 October 2020. 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 01 October 2020. **There were no points from this meeting that the Committee needed to draw to the attention of Council.**

- 4.4. **Seven** scheduled audits agreed in the 2019–20 operational plan were completed during this reporting period and the Committee received individual reports from each audit.
- 4.5. Internal audit verdicts are classified according to a series of assurance levels, identified in the following table:

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.

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

Review	Outcome (rating)	Number of Recommendations		
		High	Medium	Low
Cyber security	Amber-Red	4	4	3
Contracting	Amber-Green	0	3	2
Strategic KPIs, Part 1	N/A	0	1	2
Library Services	Amber-Green	0	2	2
Financial management	Green	0	0	2
Faculty Governance	Amber-Green	0	2	1
IT Asset Management	Amber-Red	0	5	0

- 4.7. The Committee received the internal audit report on Cyber security on 12 March 2020, which gave a rating of ‘partial assurance with improvements required’ (amber-red). The audit assessed the adequacy of Queen Mary’s cyber security framework, specifically the leadership and governance; information risk management; operations and technology; human factors; and legal and compliance processes in place. The report found that important improvements were needed to strengthen the cyber governance structure, cyber strategy, process, and awareness of cyber risks within the university.
- 4.8. The Committee raised questions about accountability for cyber security in the institution, noting that the Head of Information Security role had been vacant for some time. All key compliance roles would have dual reporting lines to their formal line manager and either to the University Secretary or the President and Principal. The Committee discussed the persistence of locally-managed systems throughout the university. Recent cyber-attacks had been handled well by the central IT team and were received positively in Schools. There was now an appetite to decommission local systems.

- 4.9. The Committee discussed how cyber incidents should be reported in future. The Committee agreed that it should receive reports of data breaches where incidents led to a notification to the Information Commissioner's Office; was material; and could lead to reputational damage.
- 4.10. The Committee received the internal audit report on IT asset management on 02 September 2020, which gave a rating of 'partial assurance with improvements required' (amber-red). The audit assessed the processes in place for the purchasing of IT equipment and for the return of university-issued IT equipment. The report found that IT assets were being purchased directly by academic departments or individuals outside the central processes. The report also found that individual line managers were considered responsible for the return of university equipment but that this was not regularly communicated.
- 4.11. The Committee heard that although the central processes were effective, buy in from departments was not consistent. Understanding why departments were not complying would be important for improvement. The Committee heard that the current leavers process did not flag where equipment needed to be returned. A new process has been put in place between HR and IT so that IT can contact leavers about their equipment.
- 4.12. The Committee received an update at its meeting on 02 September 2020 on the business continuity report which had received an initial rating of 'no assurance' (red) in February 2019. The updated audit report gave the area a rating of 'significant assurance with minor improvement opportunities' (amber-green). The report consisted of follow up work, reviewing management actions against the findings, and consideration of the newly designed processes against good practice in the Higher Education sector for business continuity management. The report found that two of the three red rated recommendations had been completed fully, and one red and four amber recommendations were partially completed. A full time Business Continuity Manager had been appointed in August 2019, but this post was vacant between January and April 2020. A Business Continuity Group had been established to oversee the Business Continuity project, be responsible for ensuring that risks related to crisis management, business continuity, and technology resilience and recovery, are mitigated to a level in line with Queen Mary's risk tolerance. The Committee asked for clarity as to how the Business Continuity Group would be reporting into the Committee.
- 4.13. The Committee noted that the vacancy in the Business Continuity Manager role had a negative impact on the ability of the university to fully implement the recommendations. The Committee noted that internal audit had flagged the impact on governance of vacancies in key compliance areas previously. The Committee noted that this year's legal compliance report would identify key compliance roles. The Committee asked for any vacancies in these roles to be flagged up in the matters arising.
- 4.14. The Committee said that there was a balance to be struck between recruiting the right individual and the risks that were being carried by having a vacancy in this area. The Committee encouraged management to consider what mitigating actions and interim measures could be put in place when these gaps occurred in future.
- 4.15. The Committee agreed to consider the 2020–21 Internal Audit Operational Plan in two phases. The first draft plan was considered at its meeting on 10 June 2020. **The Committee approved the final plan at its meeting on 10 November 2020.**

5. External Audit

- 5.1. Deloitte were appointed as Queen Mary's External Auditors for 2019–20. The fee for 2019–20 in respect of external audit services was £126,600 plus VAT. Members attended a private meeting with the External Auditors ahead of the Committee meeting

held on 10 November 2020. There were no points arising from the private meeting that the Committee needed to draw to the attention of Council.

- 5.2. The Committee considered and approved the External Audit Plan for 2019–20 at its meeting on 12 March 2020.
- 5.3. The External Auditors' Report and management response for 2019–20 was considered by the Committee on 10 November 2020. The report included recommendations in relation to the accounting of fixed assets, research expenses, operating lease disclosure and foreign exchange differences, all of which have been accepted by QMUL. The Committee gave detailed consideration to these recommendations, included in Annex C, which will be monitored by the Committee to ensure that effective controls are in place.
- 5.4. The External Auditors' Report concluded that the audit identified no material issues. The External Auditors stated that the financial reporting control environment appears to be robust and no material control matters were drawn to our attention.

6. Approval of Financial Statements

- 6.1. At its meeting on 10 November 2020 the Committee recommended that Council should approve the Financial Statements for 2019–20 subject to amendments to: the presentation of the strategy, and the relationship between the strategic objectives and key risks; and the completion of the note on the President and Principal's remuneration with text approved by the Chair of the Remuneration Committee. Council's decision at its meeting on 19 November 2020 was to approve the amended Financial Statements. The Committee will discuss the two issues at its next meeting.

7. Risk Management

- 7.1. Queen Mary's approach to risk management is set out in its risk management framework which was reviewed by internal audit in 2017–18. The annual Internal Audit Operational Plan is aligned with identified risk areas.
- 7.2. The Committee received and discussed the Strategic Risk Register during 2019–20 at its meetings in October 2019, March 2020 and October 2020. The Committee also considered the Covid-19 Risk Register in June and October 2020. The Committee received a new risk management policy in October 2019 which outlined the responsibilities and processes for risk management.
- 7.3. The Committee discussed in detail the university's initial response to the Covid-19 pandemic and public health response and plans for return to campus. In March 2020, an update was provided on the governance arrangements put in place to oversee the university's business continuity planning processes. Key business activities that had been prioritised were education and assessment activities and preparations for REF. Systems that supported business critical activities and the learning environment were being prioritised.
- 7.4. The Committee received update on plans for the 2020–21 academic year in June and July 2020. Certain aspects of the 2030 Strategy had been accelerated, particularly in relation to blended learning. Applications from overseas students had increased but enrolments remained at risk due to the international reputation of the UK during the Covid-19 crisis. The re-opening of campus facilities was being phased and mitigations were being implemented where social distancing was not possible. A behaviour code had been developed and would be shared with staff and students. Risk assessments for the institution, buildings and individual areas were shared with staff. The University was liaising with Tower Hamlets in the event of a local lockdown.

- 7.5. The Committee received a deep dive presentation into Risk 14 – Strategy implementation at its meeting on 03 October 2019. The presentation reported on the actions taken to bring the risk back into tolerance by Q1 2020. These included the initial set up of the Strategy Delivery Team; a revision to the budget setting process and student number planning for the longer term; and a refinement of the KPIs. The enabling plans were at varying stages of maturity and were expected to be completed by Q1 2020. The Committee was reassured by the updates and agreed that good progress had been made.
- 7.6. Reports on strategic risk were provided to Council by the Chair of the Audit and Risk Committee at its meetings on 10 October 2019, 21 November 2019, 26 March 2020, 9 July 2020, and 27 August 2020.
- 7.7. The Committee received deep dive reports in the following areas:

[a] *Strategy implementation*

The Committee heard that the risk area was due to be back in tolerance by Q1 2020. Activity undertaken since June 2019 included the appointment of an interim Director of Strategy Delivery who was starting to build the Strategy Delivery Team (formerly the Project Management Office). Enabling plans were being discussed by the Senior Executive Team (SET) and would form the focus on an away day. A new budget planning process had been defined to consider the longer timeframe of the strategy. The governance process and its interface with corporate governance and management was laid out. The management data to monitor the strategy would be subject to internal audit this year. KPMG was asked to provide their opinion and said that the approach to the strategy implementation showed a high level of rigour and integration.

[b] *Student experience*

Overall student satisfaction had been declining year on year and was impacted by the industrial action and coronavirus crisis. Responding to the coronavirus crisis had accelerated the reassessment of programmes. Work was being done on student voice and assessment and feedback which were showing improvements. The Committee commented on the great variation in satisfaction with teaching quality between subject areas and noted the impact of leadership on this area. The newly-established Queen Mary Academy and the Heads of Schools leadership programmes would help to equip managers and leaders to deal with any issues and clarify expectations and responsibilities. Incentives for Schools were available through the Queen Mary Academy and the Principal's teaching prizes. Unplanned growth in certain subjects had impacted negatively on the student experience and it was imperative to ensure that the necessary infrastructure was in place. Council would have oversight of student experience through the KPI reporting.

[c] *IT resilience and security*

The Committee heard that the development of the IT enabling plan was underpinned by stakeholder engagement. The coronavirus pandemic had accelerated the move to online teaching and learning and remote working. A security framework had been developed but the overall score was low. The Committee sought assurance that risks could be identified and remedied quickly and this was done through the risk register. We had been the target of two large external cyber-security attacks and were liaising with the National Cyber Security Centre on our infrastructure. The Committee asked the Chief Information Officer to prepare criteria for assessing whether a cyber-attack or data breach should be reported to the Committee. Draft criteria were provided at the Committee meeting in September. Our cyber risk in China had not increased with the recent political situation. The delivery of blended learning would present challenges. The Committee would receive updates on service portfolio reviews.

- 7.8. The Head of Internal Audit Opinion considers that significant assurance with minor opportunities for improvement can be given on the overall adequacy and effectiveness of the organisation's framework of risk management, control and governance.

8. Legal Compliance

- 8.1. The Committee considered a report on Queen Mary's legal compliance framework at its meeting on 10 November 2020. 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 Queen Mary has adequate and effective measures in place to secure compliance with applicable law and regulation.

9. Value for Money (VfM)

- 9.1. The Committee received an update on the university's approach to Value for Money (VfM) at its meeting on 01 October 2020. In light of the fact that the Office for Students had not issued direct guidance on the format of VfM reporting, the Committee resolved in March 2019 to meet its own responsibilities in relation to VfM by monitoring the same metrics as in previous years.
- 9.2. 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."

10. Public Interest Disclosure (Whistleblowing)

- 10.1. The Committee received no reports of disclosures under the whistle blowing policy between September 2019 and November 2020.

11. Serious incidents, including fraud and loss of assets

- 11.1. Under the Financial Regulations, any suspicion of bribery, fraud, or other irregularity must be reported immediately to the Chief Operating Officer. The following matters were reported to the Committee between September 2019 and November 2020:

[a] In October 2019 it was reported that, during a fixed asset verification, it was discovered that some low value microscopes in the School of Biological and Chemical Sciences had gone missing. The police had been notified and an investigation was ongoing. Since the discovery, improvements had been made to the security of lab equipment. As a reportable event, the OfS would be notified once the investigation was concluded.

[b] In March 2020 it was reported that some Queen Mary students from certain countries had been targeted by a scam offering to pay their tuition fees at a discount through an agent. This had occurred across the sector and we were aware of five students at Queen Mary who had been approached. As online payments were managed through a third party, Queen Mary was working with the rest of the sector and the relevant authorities to ascertain liability.

[c] In September 2020 it was reported that there had been an incident that had highlighted control weaknesses in our monthly submission to HMRC. A manual keying error resulted in the incorrect bank details being entered. The error was not picked up through the usual control checks. Once the mistake was identified, the recall process was initiated with the bank and the funds returned the next working day. Although no money had been lost, the payment had been for £6.4m. In future, the payee's details would be included on documents which would allow for errors to be spotted during visual checks.

12. Data quality and integrity

- 12.1. A data quality review forms part of the annual Internal Audit Operational Plan. During 2019–20, the Internal Auditors undertook a review of the strategic KPIs, Part 1. This review did not receive an overall assurance rating and had one medium and two low recommendations. It was determined that there was a positive confidence level for 11 out of 19 KPIs.
- 12.2. The Committee met via conference call to consider the TRAC return on 23 January 2020 in line with the new OfS requirement for governance sign off of the return before submission. The Committee reviewed the results of the tests for reasonableness in accordance with TRAC (statement of requirement v 2.4 (July 2019) guidance section 2.1.4.2 and quality assurance in accordance with TRAC guidance section 2.1.4.3 and confirmed compliance. The Committee approved the TRAC return for submission to the OfS.
- 12.3. The Committee received a report on the management and quality assurance of external data returns at its meeting on 10 November 2020. **The report showed that Queen Mary had robust assurance processes in place which were proportionate to the risk associated with each return.**

13. Opinion

- 13.1. **In accordance with Annex C of the OfS's Terms and Conditions of Funding for Higher Education Institutions, the Committee has reached the following opinions on the adequacy and effectiveness of Queen Mary's arrangements for:**
- (i) *Risk management, control and governance***
 - (ii) *Economy, efficiency and effectiveness (Value for money)***
 - (iii) *The management and quality assurance of data returns to external bodies***

David Willis
Chair, Audit and Risk Committee
xx November 2020

Annex A: Terms of Reference
Annex B: Head of Internal Audit Opinion
Annex C: External Audit Report – Recommendations and management responses
considered by the Committee on 10 November 2020.



Audit and Risk Committee Terms of Reference 2019–20

Audit and Risk Committee is a committee of Council, mandated by the Office for Students (OfS) under the Terms and conditions of funding for higher education institutions. The Committee oversees Queen Mary University of London (QMUL)'s arrangements for external and internal audit, financial control and risk management, providing assurances in these key areas through its annual report to Council, which is shared with the OfS.

1. External and Internal Audit

- 1.1 To make recommendations to Council at least annually on the appointment of external and internal auditors.
- 1.2 To commission a competitive tendering process:
 - for external audit services at least every 7 years; and
 - for internal audit services at least every 5 years.
- 1.3 To oversee external and internal audit services by:
 - promoting co-ordination between external and internal audit services;
 - providing input to, and approving, an annual external audit strategy and internal audit plan;
 - reviewing reports and recommendations from the external and internal auditors;
 - reviewing the adequacy and implementation of the Executive response; and
 - reviewing the effectiveness and objectivity of the external and internal auditors.
- 1.4 To review the draft annual financial statements with the external auditors and recommend their adoption by Council following satisfactory resolution of matters raised.

2. Financial Control and data assurance

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

3. Risk management

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

- 3.2 To regularly consider the current status of core risks to the QMUL Strategy, through the review of data and documents presented by the Executive and derived from the Strategic Risk Register.
 - 3.3 To periodically test scores and controls in selected areas of activity through consideration of specific reports.
 - 3.4 To review the OfS's Annual Institutional Risk Assessment, audits undertaken by its Assurance Service and relevant findings by other bodies.
 - 3.5 To oversee the Public Interest Disclosure (whistle-blowing) policy and receive regular reports from the Executive on cases.
- 4. Legal and Statutory Compliance**
- 4.1 To consider an annual report on exceptions to legal and statutory compliance from the Executive, and request follow up action, including investigation and reporting where identified.
- 5. Committee evaluation**
- 5.1 To review the Committee's effectiveness and the suitability of its terms of reference annually.

Membership of Audit and Risk Committee

- No less than three and no more than five external members of Council, one of whom will be the Chair of the Committee.
- Up to two co-opted members who are external to QMUL and have relevant expertise.

Mode of Operation

1. Audit and Risk Committee meets at least three times per year. The Committee holds 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 OfS Terms and conditions of funding for higher education institutions.
3. The Committee reports to the next meeting of Council following each of its meetings in the form of an executive summary of its minutes. Specific proposals requiring Council consideration and approval are identified in the terms of reference.