Matters Arising

Outcome requested:	Audit and Risk Committee is asked to **note** the matters arising from the minutes of the meeting held on 08 June 2021.
Executive Summary:	N/A
QMUL Strategy: strategic aim reference and sub-strategies	The effective management of the Queen Mary's governance arrangements underpins the ability to achieve the strategic aims.
Internal/External regulatory/statutory reference points:	N/A
Strategic Risks:	N/A
Equality Impact Assessment:	Not required
Subject to prior and onward consideration by:	Considered by the Committee only.
Confidential paper under FOIA/DPA	No
Timing:	N/A
Author:	Nadine Lewycky, Assistant Registrar (Governance)
Date:	20 September 2021
Senior Management/External Sponsor:	David Willis, Chair of Audit and Risk Committee

Actions from meeting of 08 June 2021

Minute no.	Action	Person responsible	Progress
2020.067[d]	**Committee Terms of Reference, Membership and effectiveness review [ARC2020/53]** Core financial systems were covered on a three-year cycle by internal audit. The direction of travel in corporate governance was towards control catalogues and annual reports. This was about three to four years away for universities. The Committee may want to start reflecting in the next two to three years about how it can be built into business as usual for the finance department and the Committee. The Chief Financial Officer would draft a paper on the future direction for the Committee to consider.	Chief Financial Officer	BEIS recently undertook a comprehensive consultation on “Restoring trust in audit and corporate governance”, within which there are proposals for enhanced internal controls over financial reporting for entities which fall in scope. Currently Queen Mary would not fall in scope, but the consultation proposes a potential increase in the scope of institutions that would need to comply, and this could include QMUL. The University provided a response to the consultation. This response and the accompanying briefing note were considered by SET and the Chair of ARC; they are provided for the information of the Committee. The consultation closed on 8 July 2021 and outcome of the consultation has not yet been published. It is not anticipated that any changes required under the consultation would be required for 3-4 years, which provides time for the University to take appropriate steps. An initial conversation has been held with KPMG who will be sharing some tools to assist with developing the plan. A paper will be presented for the Committee on the proposed direction at a future meeting.
2020.067[f]	**Committee Terms of Reference, Membership and effectiveness review [ARC2020/53]** The Committee **agreed** that a paragraph (3.6) should be added to the terms of reference on regular reporting of cyber security.	Committee Secretary	Reference to reporting on cyber security has been added to the terms of reference for 2021-22. The Committee is asked to **confirm** that they are satisfied with the updated ToR which has been appended to the matters arising.
2020.068[g]	**Annual schedule of business 2021–22 [ARC2020/54]** The Committee **agreed** to receive a deep dive presentation on admissions at the September meeting and to discuss the two other deep dives for 2021–22 at that meeting.	Committee Secretary	A deep dive on admissions trends has been scheduled for this meeting.
2020/069[a]	**Draft agenda for the next meeting [ARC2020/55]**	Committee Secretary	The final draft of the internal audit plan and the cyber security bi-annual report have been included on the agenda for this meeting.

	The Committee **noted** the draft agenda for the next meeting on 29 September 2021 with the addition of the final review of the internal audit plan 2021–22 and the cyber security bi-annual report.		

Briefing paper on the Department for Business, Energy and Industrial Strategy (BEIS) Consultation: Restoring trust in audit and corporate governance

1. Purpose of the paper

This paper provides an overview of the current BEIS consultation on potential measures to improve the UK's audit, corporate reporting and corporate governance systems. It details how these might impact Queen Mary and proposes responses to the most relevant questions.

2. Overview of the consultation

The government (through BEIS) has published a consultation document which sets out a package of measures aimed at improving the UK's audit, corporate reporting and corporate governance systems. It takes account of views expressed in responses to the Government's initial consultations on the recommendations made the following three reports:

1. The market structure – the Competition and Markets Authority's (CMA) market study on the audit of FTSE 350 companies.

   The review showed an unhealthy dominance of the statutory audit market by a small number of audit firms.

2. The regulator – the Kingman review of the Financial Reporting Council (FRC)

   The review showed the existing regulator lacked the necessary powers to hold auditors and directors sufficiently to account.

3. The audit product – the Brydon review into the quality and effectiveness of audit

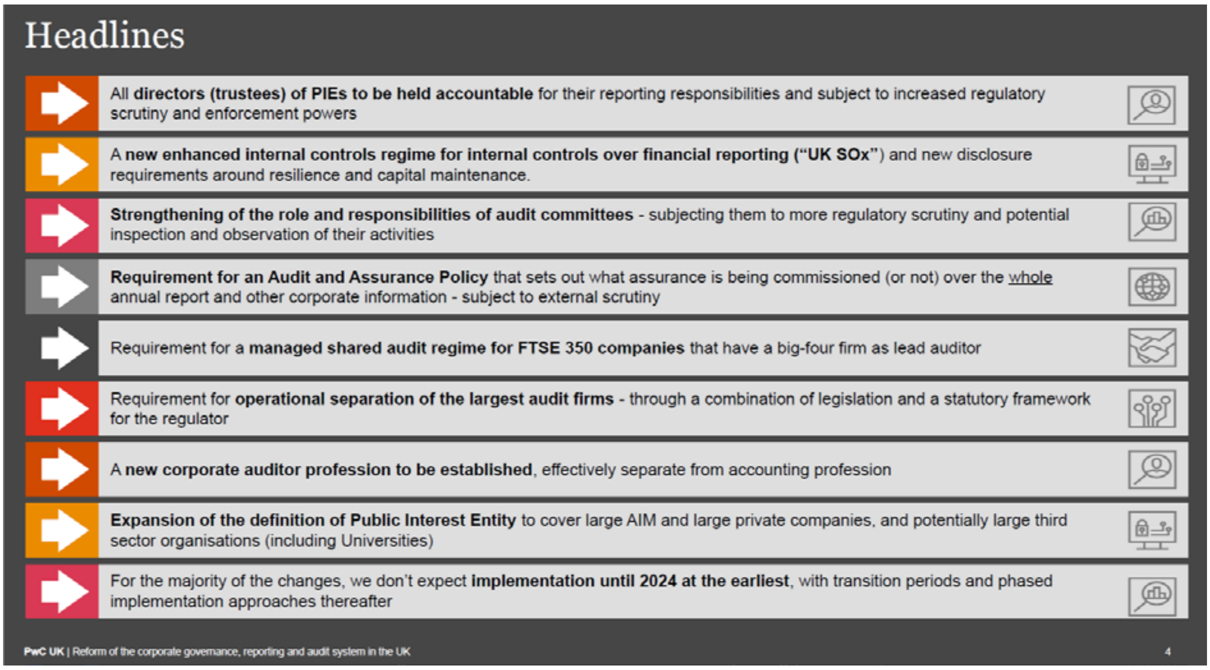
   The review concluded that statutory audit needs to become more informative and higher expectations should be placed on both directors and auditors to deliver more useful information to the users of the accounts.

Through this consultation, the Government is seeking views on its intended reforms, both individually and as a whole. This includes looking for evidence on their likely impact and suggestions for how they might be improved.

The context of the consultation is that, post Covid and post Brexit, the Government believes that Britain's economy will be boosted by open and competitive markets, making it a world class destination for investment. This requires investors, financial markets and those who depend on the largest companies to rely on the information these companies publish. Trust has been damaged by large corporate failures (such as Carillion and BHS) and evidence of the need for an improvement in audit standards, resulting in the need to strengthen the UK's audit and corporate governance framework.

3. Summary of proposals

The BEIS consultation is proposing reform of not just audit but broader corporate governance, reporting and regulation. The table below highlights the main proposals.



4. Group of companies to which the reforms will apply

Recognising that the businesses that influence and impact public confidence and perceptions of corporate Britain are not just those that are publicly traded, the Government proposes to extend the UK's definition of Public Interest Entities.

The paper notes that the reforms need to be coordinated within a wider regulatory framework for business in the UK. It goes on to note that regulators need to ensure that the regulatory burden should be proportionate, and that overlaps should be avoided.

Public Interest Entities (PIEs)

PIEs are currently defined as: entities whose transferable securities are admitted to trading on a UK regulated market (informally – listed companies); credit institutions (informally – banks); or insurance undertakings.

There is a recommendation that this definition be extended to include:

- Large AIM companies (market capitalisation > €200m); and
- Large private companies (either based on (>2,000 employees, or >£200m turnover and >£2bn balance sheet) or >500 employees and >£500m turnover)
- Large third sector organisations (for example, universities, charities and housing associations). This could be based on the £100m turnover threshold previously used by the FRC to inspect charity audits.

All PIEs will be subject to most of the proposals in the consultation. This will include all universities with listed debt (who already meet the UK PIE definitions), and depending on the measure used, could include the majority of universities in future. The consultation notes that many third sector organisations will already be subject to sector regulation (e.g. the Charity Commission) but is open to large third sector entities being classed as PIEs where they meet a suitable threshold to avoid a gap in regulation.

5. **Timetable for change**

The consultation considers whether there is scope for the measures to be introduced in stages or after a transitional period. Some of the proposals are likely to be applied to premium listed companies initially, and then after 2 years to all PIEs.

The overall approach is:

- Measures that do not directly impact on businesses be brought in quickly, e.g. establishing the new regulator
- Measures with significant impacts on those regulated would be commenced quickly but there may be transition periods and/ or phasing
- Measures with significant impacts on wider business are most likely to be considered for later commencement, a transition period and/ or phasing. **In particular this would include the proposed extension of the definition of Public Interest Entities and introduction of a stronger internal controls regime.**

The general expectation is that implementation of most changes will be from 2024 at the earliest, with transition periods and phased implementation from then.

6. **Key recommendations of particular relevance to Queen Mary**

a. Internal controls over financial reporting

The consultation proposes a preferred option for strengthening internal controls over financial reporting which would require directors (trustees) to:

- carry out an annual review of the effectiveness of the company's internal controls over financial reporting;
- explain – as part of the annual report and accounts - the outcome of the annual review, and make a statement as to whether they consider the systems to have operated effectively, and how they have assured themselves of this.
- Identify any deficiencies found and set out the remedial action that is being taken.

If implemented this is likely to be applied to premium listed companies initially and extended to all PIEs after two years. Evidence from the implementation of the Sarbanes Oxley regime in the US is that workload to implement similar rules was significant.

The proposals also include new disclosures in the annual report on steps taken to detect and prevent fraud.

b. New corporate reporting on resilience, assurance and payment practices

There are proposed new reporting requirements for directors of public interest entities:

- an annual Resilience Statement, setting out how directors (trustees) are assessing the company's prospects and addressing challenges to its business model over the short, medium and long-term. This would involve better scenario planning disclosures, two reverse stress tests and material uncertainties.

- an Audit and Assurance Policy, describing directors' (trustees') approach (over a rolling three year forward look) to seeking internal and external assurance of the information they report to shareholders, including any external assurance planned beyond the scope of the annual statutory audit. This could cover assurance on information detailed in the annual report section in addition to the financial statements themselves.

As with the internal controls reporting the proposal is for these reporting requirements to be applied to premium listed companies initially and extended to all PIEs after two years.

The consultation also invites views on how company annual reports could include certain minimum reporting on supplier payment policies and practices.

7. Consultation questions

There are 98 questions in total in the consultation. The most immediately relevant are questions 6 and 7 as follows:

6. Should the Government seek to include large third sector entities as PIEs beyond those that would already be included in the definitions proposed for large companies? If so, what types of third sector entities do you believe should be included and why?

7. What threshold for 'incoming resources' would you propose for the definition of 'large' for third sector entities? Is exceeding £100m too high, too low or just right?

Given the broad nature of the consultation I propose the response Queen Mary provides to the consultation is targeted specifically at the question of whether or not universities should fall within the scope of PIEs.

Karen Kröger
Chief Financial Officer
29th June 2021

PROPOSED RESPONSE

Queen Mary University of London fully recognises and supports the need to make changes to the UK corporate governance and audit systems to help create the stable and well-regulated environment which long-term investors seek. We note that the reforms are focused on the largest companies as this is where there is greatest public interest in ensuring that audit and corporate reporting are functioning effectively.

The consultation document identifies that the proposals aim to balance the need for meaningful reform with proportionate impacts on businesses, and that the reforms need to be coordinated within a wider regulatory framework for business in the UK. It goes on to note that regulators need to ensure that the regulatory burden should be proportionate, and that overlaps should be avoided.

Within this context, we do not think that universities should be included as PIEs within scope of these proposals. As noted in the consultation document, the purpose of the inclusion of large third sector entities would be to avoid a gap in regulation. However, there are a number of existing mechanisms through which universities are held to account for effective corporate reporting and corporate governance which bridge this gap. In addition, there are regulations in place to identify risks to the financial sustainability of universities, and to require detailed plans to protect students in the event of risk to continued delivery of courses.

These existing mechanisms should be considered when assessing the proportionality of the regulatory burden. Having similar regulatory requirements from different sources will be more administratively burdensome to manage and will increase cost. If there is no clear additional benefit, then this would pose a challenge to the clear principle of value for money that is core to third sector entities.

Universities are regulated through the Office for Students (OfS) Regulatory Framework. This framework seeks to ensure value for money for students and taxpayers, and monitors the ongoing financial sustainability of individual providers and the sector as a whole. Given Universities are already subject to a bespoke regulatory regime then: (a) there is real scope for disproportionate or duplicate regulation and (b) if the OfS identifies any gaps in the assurance framework for universities it has the mechanisms to make detailed adjustments to the regulatory regime.

The OfS works constructively with other regulators and funding bodies in England, including the Charity Commission and the Competition and Markets Authority. To be a registered provider of higher education universities must satisfy a series on initial and ongoing conditions of registration. The detail below summarises how the existing regulatory mechanisms address the relevant areas identified in the scope of the consultation.

Directors (Trustees)

In the context of universities, the relevant proposals in the consultation that relate to Directors would apply to university trustees. It is worth noting that universities do not have a board of directors in the traditional sense, with the governing body being a large body with a majority of unpaid Non-execs and plenty of staff members. The Vice Chancellors and CFOs of universities are not full voting members (in listed companies the CEO and most likely FD are both full voting directors but of a much smaller board). The Vice Chancellors are usually the accounting officer for public finance purposes, a concept not used in the private sector. Trying to retrofit Sarbanes Oxley type reforms into the governance of universities does not fit their structure and could signal the end of the unpaid non-exec.

Considering the three key areas identified in the consultation in relation to directors in turn:

i. Reporting and attestation requirements covering internal controls

Universities are required to follow the OfS's accounts direction in the preparation of their annual financial statements. Each provider must also include a 'statement of internal control' in its financial statements. The statement of internal control relates to a provider's arrangements for the prevention and detection of corruption, fraud, bribery and other irregularities. The statement must include an account of how the following principles of internal control have been applied:

a. Identifying and managing risk should be an ongoing process linked to achieving the organisation's objectives.

b. The approach to internal control should be risk-based, including an evaluation of the likelihood and impact of risks becoming a reality.

c. Review procedures must cover business, operational and compliance risk as well as financial risk.

d. Risk assessment and internal control should be embedded in ongoing operations.

e. During the year the governing body or relevant committee should receive regular reports on internal control and risk.

f. The principal results of risk identification, risk evaluation and the management review of the effectiveness of the arrangements should be reported to, and reviewed by, the governing body.

g. The governing body should acknowledge that it is responsible for ensuring that a sound system of internal control is maintained, and that it has reviewed the effectiveness of these arrangements.

h. The statement of internal control must set out any significant internal control weaknesses or failures that have arisen during the financial year or after the year end but before the financial statements are signed. Where appropriate, information about actions taken, or proposed, to deal with significant internal control weaknesses or failures should be set out.

i. The statement of internal control explains the role of external audit and internal audit in improving the internal control environment and provider's performance in the delivery of value for money.

The report from the external auditor must include a report on whether the requirements of the OfS's accounts direction have been met, fulfilling the attestation consideration.

ii. Dividend and capital maintenance decisions

The majority of universities are charities, and therefore do not make dividend payments. Reserves are recorded, and reported, as restricted or unrestricted in line with FRS 102, and are therefore clearly identifiable through the financial statements.

iii. Resilience planning

One of the conditions of OfS registration is Condition D: The provider must: i. Be financially viable. ii. Be financially sustainable. iii. Have the necessary financial resources to provide and fully deliver the higher education courses as it has advertised and as it has contracted to deliver them. iv. Have the necessary financial resources to continue to comply with all conditions of its registration

'Financially sustainable' means the OfS judges that the provider's plans and protections show that it has sufficient financial resources to fulfil conditions D(iii) and D(iv) for the period of **five years** from the date on which the judgement is made, and that it is likely to be able to operate in accordance with these plans and projections over this period. To make this assessment the OfS requires, amongst other things, financial forecast tables approved by the provider's governing body (including the current year budget and four-year forecasts for financial and student number data), details of borrowings and liquidity.

Where there are indications of concern about future financial sustainability and viability the OfS will intervene and work with the institutions on actions to improve the situation and to protect stakeholders.

In addition, the OfS requires universities to maintain an approved student protection plan, to help protect these key stakeholders. The plan includes the provider's assessment of the risks to the continuation of study of their students, the likelihood that those risks will crystallise, and the severity of the impact on students should the risks crystallise. On the basis of the risk assessment, the plan must set out the measures that the provider has put in place to mitigate those risks that it considers to be reasonably likely to crystallise.

Audit and Assurance

Under the OfS terms and conditions of funding, each university's Audit Committee is required to produce an Annual Report for submission to the governing body and the OfS which demonstrates how it has undertaken its oversight role. The report must include the Committee's conclusions on the adequacy and effectiveness of:

- the university'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, OfS and other funding bodies.

The report should also record the Committee's work in relation to:

- the internal and external auditors;
- the university's arrangements in respect of risk management, value for money and data quality;
- the audit of the annual financial statements.

Committee of University Chairs Higher Education Code of Governance

In addition to the points noted above, university governing bodies are also guided by the Committee of University Chairs HE Code of Governance. The purpose of the Code is to identify the key values and elements that form an effective governance framework. Institutions that adopt the Code confirm that they do so within the framework of publicly available reporting on corporate governance, e.g. annual reports or financial statements, providing assurance to stakeholders who need to have confidence in the governance arrangements of Higher Education Institutions (HEIs).

Queen Mary
University of London

Audit and Risk Committee
Terms of Reference 2021–22

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, including a biannual report on cyber security.

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 one annual *in camera* meeting with representatives of internal audit and one annual *in camera meeting* with representatives of external audit, 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.