



Annual Report of Audit and Risk Committee 2016–17

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|--|---|
| <b>Outcome requested</b>                   | Council is asked to <b>approve</b> the Annual Report of the Audit and Risk Committee for 2016–17, which must be submitted to HEFCE by 01 December 2017.   |
| <b>Executive Summary</b>                   | <p>Under the HEFCE Memorandum of Assurance and Accountability the Committee is required to produce an Annual Report for submission to Council and HEFCE. The report must include the Committee’s conclusions on the adequacy and effectiveness of:</p> <ul style="list-style-type: none"> <li>• QMUL’s risk management, control and governance arrangements;</li> <li>• arrangements for promoting economy, efficiency and effectiveness;</li> <li>• arrangements for the management and quality assurance of data submitted to HESA, the Student Loans’ Company, HEFCE and other funding bodies.</li> </ul> <p>The report should also record the Committee’s work in relation to:</p> <ul style="list-style-type: none"> <li>• the internal and external auditors;</li> <li>• QMUL’s arrangements in respect of risk management, value for money and data quality;</li> <li>• the audit of the annual financial statements.</li> </ul> <p>The report covers the 2016–17 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>The following papers referred to in this report are included in the background reading for Council members:</p> <ul style="list-style-type: none"> <li>• Internal audit annual report</li> <li>• External audit annual report</li> <li>• Value for money annual report</li> </ul> |
| <b>QMUL Strategy:</b>                      | 6. To achieve and sustain financial strength to enable our academic ambitions, through a balanced portfolio of activities.  |
| <b>Internal/External reference points:</b> | HEFCE Memorandum of Assurance and Accountability;<br>CUC Handbook for Members of Audit Committees in Higher Education Institutions.   |
| <b>Strategic Risks</b>                     | 11. Financial strength through a balanced portfolio of activities;<br>12. Cost control, VFM and expenditure;<br>13. Maintain effective and constructive governance;<br>15. Security of people, assets and data; appropriate contingency arrangements for facilities and functions.  |

|  |   |
|--|---|
| <b>Subject to onward consideration by:</b> | The final version of this report was approved by Audit and Risk Committee by email circulation following its meeting on 14 November 2017. It will be submitted to HEFCE following consideration by Council. |
| <b>Confidential paper under FOIA/DPA:</b>  | No  |
| <b>Equality Impact Assessment</b>          | Not required  |
| <b>Timing:</b>                             | Submission to Council on 30 November 2017 and HEFCE by 01 December 2017.  |
| <b>Author:</b>                             | Sian Marshall, Assistant Registrar (Council and Governance)   |
| <b>Date:</b>                               | 15 November 2017  |
| <b>Senior Management/ External Sponsor</b> | David Willis, Chair of Audit and Risk Committee   |

## Audit and Risk Committee Annual Report 2016–17

### 1. Introduction

- 1.1. This is the Audit and Risk Committee's Annual Report for the 2016–17 financial year. It has been prepared in accordance with and reference to the HEFCE Memorandum of Assurance and Accountability and the CUC Handbook for Members of Audit Committees in Higher Education Institutions.

### 2. Committee Constitution

- 2.1. The Committee reviewed progress at each meeting against the annual business plan for 2016–17.

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

*External Members of Council*

David Willis (Chair)  
Kathryn Barrow  
Monica Chadha

*Co-opted External Members*

Nadim Choudhary  
Melissa Tatton

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

*Representatives of the Senior Executive and other senior officers*

|                        |  |
|------------------------|--|
| Professor Edmund Burke | Vice-Principal (Science and Engineering) |
| Laura Gibbs            | Chief Operating Officer                  |
| Joanne Jones           | Finance Director                         |
| David Marks            | Deputy Director of Strategic Planning    |
| Jonathan Morgan        | Academic Registrar and Council Secretary |
| Catherine Murray       | Director of Strategic Planning           |
| Janice Trounson        | Deputy Director (Financial Controls)     |

*Representatives of the Internal Auditors*

|             |      |
|-------------|------|
| Neil Thomas | KPMG |
| Paul Cuttle | KPMG |

*Representatives of the External Auditors*

|             |          |
|-------------|----------|
| Sue Barratt | Deloitte |
| Paul Thomas | Deloitte |

- 2.4. Simon Linnett (until 28 October 2017) and Luke Savage (from that date), Treasurer and Chair of Finance and Investment Committee, receives copies of the papers circulated to the Committee. Arrangements are in place to facilitate appropriate liaison between the two committees.

- 2.5. *Secretary to the Committee*

|               |   |
|---------------|---|
| Sian Marshall | Assistant Registrar (Council and Governance)<br>(from June 2016)  |
| Rachel Soper  | Assistant Registrar (Council and Governance)<br>(until June 2016) |

2.6. *Terms of Reference*

The Committee reviewed its Terms of Reference at its meeting on 02 October 2017 and made no amendments.

2.7. *Committee Effectiveness*

The Committee's Terms of Reference require the Committee to review its effectiveness on an annual basis. During 2016–17, members were invited to complete an effectiveness survey. The results showed that the Committee was working effectively but there was scope for improvement in a number of areas, including induction and development; the format of deep dives; and, mechanisms for engagement with good practice and lessons learned in relation to the operation of the Committee.

**3. Meetings of the Committee**

3.1. The Committee met on the following dates from the start of 2016–17:

- 03 October 2016;
- 10 November 2016;
- 07 February 2017;
- 01 June 2017;
- 02 October 2017;
- 14 November 2017.

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

|             | 03-10-16 | 10-11-16 | 07-02-17 | 01-06-17 | 02-10-17 | 14-11-17 |
|-------------|----------|----------|----------|----------|----------|----------|
| K Barrow    | ✓        | ✓        | x        | ✓        | x        | ✓        |
| M Chadha    | ✓        | ✓        | ✓        | ✓        | ✓        | ✓        |
| N Choudhary | x        | ✓        | ✓        | x        | ✓        | ✓        |
| M Tatton    | ✓        | ✓        | ✓        | ✓        | ✓        | ✓        |
| D Willis    | ✓        | ✓        | ✓        | ✓        | ✓        | ✓        |

**4. Internal Audit**

4.1. Internal audit services in 2016–17 were provided by KPMG for a fee of £89,853 plus VAT. As required by the Committee's Terms of Reference, a tender exercise was undertaken for internal audit services to be provided from 2017–18 onwards and KPMG were reappointed as QMUL Internal Auditors.

4.2. The total number of days allocated to internal audit during 2016–17 across all areas was 170 compared to 190 during 2015–16. No restrictions were placed on the work of the Internal Auditors in 2016–17, and the Committee considered progress reports on the 2016–17 audit at its meetings in February, June and October.

4.3. The Internal Audit Annual Report for 2016–17 was considered by the Committee at its meeting on 02 October 2017. 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 02 October 2017. There were no points from this meeting that the Committee needed to draw to the attention of Council.

4.4. Eight scheduled reviews agreed in the 2016–17 operational plan were completed during this reporting period and the Committee received individual reports from each review. One review, IT, was removed from the plan on the request of management. Two further reviews from the 2015–16 operational plan were also considered by the Committee during this reporting period.

4.5. Internal audit verdicts are classified according to a series of assurance levels, identified in the following table:

| <b>Assurance level</b> | <b>Classification</b>  |
|------------------------|--|
| <b>Green</b>           | Priority three only, or no recommendations<br>i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process.   |
| <b>Amber-green</b>     | One or more priority two recommendations<br>i.e. that there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring.  |
| <b>Amber-red</b>       | One or more priority one recommendations or an identified need to improve the systems in place to enable achievement of strategic aims and objectives.<br>i.e. the weakness or weaknesses identified have a fundamental impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks. |
| <b>Red</b>             | One or more priority one recommendations and fundamental design or operational weaknesses in the area under review.<br>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:

| <b>Review</b>  | <b>Outcome (rating)</b> | <b>Number of Recommendations</b> |           |             |
|--|-------------------------|----------------------------------|-----------|-------------|
|  |                         | Level one                        | Level two | Level three |
| Animal welfare   | Amber-green             | 0                                | 1         | 4           |
| Capital projects (contract management)                             | Amber-green             | 0                                | 1         | 2           |
| Financial management   | Amber-green             | 0                                | 1         | 3           |
| Health and Safety (2015–16)  | Amber-green             | 0                                | 1         | 2           |
| Research degree data   | Amber-green             | 0                                | 1         | 3           |
| Research overhead recovery (2015–16)                               | Amber-green             | 0                                | 1         | 2           |
| School of Languages, Linguistics and Film                          | Amber-green             | 0                                | 1         | 3           |
| Student complaints and appeals                                     | Amber-green             | 0                                | 2         | 0           |
| Student housing: Compliance with the UUK/GUILD HE code of practice | Amber-green             | 0                                | 3         | 1           |
| Translation of student numbers                                     | Amber-green             | 0                                | 0         | 3           |

4.7. The Committee, following consideration and scrutiny of the management responses and the monitoring of the implementation of agreed actions, considered that appropriate actions and controls had been put in place to address the recommendations made.

4.8. The Committee considered the 2017–18 draft Internal Audit Operational Plan at its meeting on 01 June 2017. A revised plan, incorporating the Committee’s feedback, was agreed at its meeting on 02 October 2017.

## **5. External Audit**

5.1. Deloitte were appointed as QMUL’s External Auditors for 2016–17. The fee for 2016–17 in respect of audit services was £122k plus VAT. Members attended a private meeting with the External Auditors ahead of the Committee meeting held on 14

November 2017. 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 the External Audit Plan for 2016–17 at its meeting on 07 February 2017.
- 5.3. The External Auditors' Report and management response for 2016–17 was considered by the Committee on 14 November 2017. The report included recommendations in relation to accounting for research grant income, major capital projects and fixed assets, 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 there were no serious audit issues to report.

## **6. Approval of Financial Statements**

- 6.1. At its meeting on 14 November 2017 the Committee recommended that Council should approve the Financial Statements 2016–17. Council's decision at its meeting on 30 November 2017 was to [insert Council's decision] the Financial Statements.

## **7. Risk Management**

- 7.1. QMUL's approach to risk management is set out in its risk management framework which was reviewed during 2014–15. The annual Internal Audit Operational Plan is aligned with identified risk areas.
- 7.2. The Committee received and discussed the Strategic Risk Register during 2016–17 at its meetings in October 2016, February 2017, June 2017 and October 2017. At the request of the Committee, the Register was substantially reviewed during 2016–17 to ensure an appropriate focus on specific risks rather than areas of QMUL activity, consistent application of the scoring mechanism and the identification of a single risk owner for each risk. The revised Register was presented to Council at its meeting on 19 October 2017.
- 7.3. Reports on strategic risk were provided to Council by the Chair of Audit and Risk Committee at its meetings on 26 October 2016, 16 February 2017, 10 July 2017 and 19 October 2017.
- 7.4. The Committee received deep dive reports in the following areas:

### **[a] *Cyber security***

The report had outlined the risks faced by universities in the area of cyber security, including breaches of student, staff, research or clinical data, the loss of intellectual property and anti-competitive behaviours. QMUL had taken steps to mitigate against these risks by building resilience on centrally-managed IT systems, but continued to face challenges with locally-managed legacy systems, the increasing use of mobile technologies, the move to cloud services, and ever-evolving methods of attack. This was an area of risk that the Committee would keep under review during 2017–18.

### **[b] *Social media***

The key risk from social media was to reputation arising from inappropriate postings, comments made in a personal capacity perceived as corporate statements, activity on channels not managed by QMUL, and a lack of capacity to monitor channels out of hours. Whilst the increased usage of social media could pose a risk to QMUL, the Committee acknowledged that social media campaigns had been very successful and it was essential to embrace social media as a key communication tool, with

opportunities for instantaneous interaction being particularly important to QMUL's target demographic.

- 7.5. 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 QMUL's legal compliance framework at its meeting on 02 October 2017. The framework comprises identification of relevant legislation, current areas of work, and the infrastructure of policies, guidelines, training and professional expertise.

- 8.2. On the basis of the information provided, the Committee was satisfied that QMUL has adequate and effective measures in place to secure compliance with applicable law and regulation.

- 8.3. The Committee considered a report on QMUL's compliance with the Prevent Duty at its meeting on 14 November 2017, which provided evidence of active implementation of relevant policies and procedures, as well as training of key members of staff and ongoing engagement by senior officers at QMUL. On the basis of the evidence presented at the meeting on 14 November 2017, including a revised risk assessment, the Committee recommends to Council that QMUL can confirm to HEFCE that throughout the academic year and up to the date of approval, QMUL:

- has had due regard to the need to prevent people being drawn into terrorism (the Prevent Duty);
- has provided to HEFCE all required information about its implementation of the Prevent duty;
- has reported to HEFCE in a timely way all serious issues related to the Prevent duty.

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

- 9.1. The Committee considered an annual report on value for money at its meeting on 14 November 2017. The Committee noted that value for money was now defined as economy (spending less), efficiency (spending well), effectiveness (spending wisely) and equity (spending fairly). The Committee was satisfied that the report provided evidence of significant progress in embedding value for money within QMUL activities and processes, particularly as part of the annual planning process, although noted that actions to address some of the issues identified through benchmarking were still in the course of development and/or implementation. The Committee received assurance that initiatives were focused on promoting economy, efficiency, equity and effectiveness across the breadth of QMUL activity.

- 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. During 2016/17 we have not made any findings in the course of our work that would lead us to question the arrangements in place at Queen Mary University of London to secure value for money in the use of resources."

## **10. Public Interest Disclosure (Whistleblowing)**

- 10.1. The Committee received a report of one disclosure under the whistleblowing policy between September 2016 and November 2017. An investigation is currently ongoing into a potential case of research misconduct and further information will be reported to the Committee once the investigation is concluded.

## **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 2016 and November 2017:

- [a] The disappearance of a number of microscopes from the Faculty of Science and Engineering with a value of around £50k. The matter was reported to HEFCE in line with the requirements of the Memorandum of Assurance and Accountability between HEFCE and institutions.
- [b] Preventative action had been taken in consequence of QMUL becoming aware that external individuals may be seeking to use the QMUL name to procure products.
- [c] The falsification of a supplier invoice by a member of staff which had resulted in no financial impact to QMUL or other organisations.
- [d] QMUL's Internal Auditors had been asked to review transactions made by the subsidiary company Mary Education Management Advisory (Beijing) Co. Limited. The review had not commenced at the point of signing this report.

## **12. Data quality and integrity**

12.1. A data quality review forms part of the annual Internal Audit Operational Plan. During 2016–17, the Internal Auditors undertook a review of research degree data. This review was rated as 'significant assurance with minor improvement opportunities' (amber-green).

12.2. The Committee received a report on the TRAC return at its meeting on 07 February 2017. The process and results had been reviewed by the TRAC Advisory Group comprising both Professional Services and academic staff and the Chair of Audit and Risk Committee.

12.3. The Committee received a report on the management and quality assurance of external data returns at its meeting on 14 November 2017. The report provided contextual information about the number and nature of data returns, the interactions between them and how they are used to determine funding levels and in the compilation of league tables. It described internal and independent mechanisms used by management to obtain assurance about the quality of data and the robustness of returns.

## **13. Opinion**

13.1. In accordance with Annex A of the HEFCE Memorandum of Assurance and Accountability, the Committee has reached the following opinions on the adequacy and effectiveness of QMUL's arrangements for:

- (i) *Risk management, control and governance*  
QMUL has adequate and effective arrangements in place for risk management, control and governance. This is evidenced by the Statement of Corporate Governance and Internal Control in the Financial Statements for 2016–17, the regular updates of the Strategic Risk Register, the deep dives and discussions at the Committee and the Head of Internal Audit Opinion.
- (ii) *Value for money*  
QMUL has adequate and effective arrangements in place to promote economy, efficiency and effectiveness. This is evidenced by the value for money annual report and the Head of Internal Audit Opinion.
- (iii) *The management and quality assurance of data returns to external bodies*



QMUL has adequate and effective arrangements in place for the management and quality assurance of data submitted to HESA, HEFCE, the Student Loans Company and other public bodies. This is evidenced by the data quality reviews undertaken annually by the Internal Auditors, specifically the research degree data review, reports from management about the arrangements for ensuring the robustness and integrity of external data return, the External Auditors opinion based on its review of correspondence relating to the HESA return with HEFCE as part of the overall audit, and the Committee's oversight of progress implementing recommendations arising from either internal or external review.

14. **Work of the Executive**

- 14.1. The Audit and Risk Committee wished it to be recorded and reported to Council that the Senior Executive's contribution to the work of the Committee has been extremely positive and that the transition arrangements for the new President and Principal had been effectively managed.

David Willis  
Chair, Audit and Risk Committee.  
30 November 2017

Annex A: Terms of Reference

Annex B: Head of Internal Audit Opinion

Annex C: External Audit Report – Recommendations and management responses



## **Audit and Risk Committee Terms of Reference 2016–17**

Audit and Risk Committee is a committee of Council, mandated by HEFCE under the Memorandum of Assurance and Accountability between HEFCE and Institutions. The Committee oversees Queen Mary University of London (QMUL)'s arrangements for external and internal audit, financial control and risk management, providing assurances in these key areas through its annual report to Council and to HEFCE.

### **1. External and Internal Audit**

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

### **2. Financial Control and data assurance**

- 2.1 To review the adequacy and effectiveness of the Executive's systems for:
  - management and quality assurance of external data returns;
  - financial control;
  - obtaining value for money; and
  - responding to alleged financial irregularities.
- 2.2 In relation to alleged financial 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 HEFCE and other external bodies.

### **3. Risk management**

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

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

#### **Membership of Audit and Risk Committee**

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

#### **Mode of Operation**

1. Audit and Risk Committee meets at least three times per year. The Committee holds an in camera meeting with the representatives of internal and external audit on two occasions per year, normally immediately before scheduled meetings.
2. The Committee will prepare an annual report covering the institution's financial year and any significant issues up to the date of preparing the report. The report will be addressed to the Council and the President and Principal, summarising the activity for the year, and providing an opinion on the adequacy and effectiveness of the institution's control arrangements as required by the HEFCE Memorandum of Assurance and Accountability between HEFCE and Institutions.
3. The Committee reports to the next meeting of Council following each of its meetings in the form of an executive summary of its minutes. Specific proposals requiring Council consideration and approval are identified in the terms of reference.

# Head of Internal Audit Opinion 2016/17

## Basis of opinion for the period 1 April 2016 to 31 March 2017

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

## Roles and responsibilities

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

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

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

## Opinion

Our opinion is set out as follows:

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

The basis for forming our opinion is as follows:

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

## Opinion on risk management, control and governance for the period 1 August 2016 to 31 July 2017

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'

## Opinion on value for money for the period 1 August 2016 to 31 July 2017

We consider that Queen Mary University of London has adequate and effective arrangements in place to promote economy, efficiency and effectiveness. During 2016/17 we have not made any findings in the course of our work that would lead us to question the arrangements in place at Queen Mary University of London to secure value for money in the use of resources.

## Opinion on data quality for the period 1 August 2016 to 31 July 2017

In 2016/17 we carried out a review on data quality arrangements relating to the research degree data. This review was rated as 'significant assurance' and no recommendations were raised.

## Commentary

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Our opinion covers the period 1 August 2016 to 31 July 2017 inclusive, and is based on the eight audits that we completed in this period.

# Head of Internal Audit Opinion 2016/17

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

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

We have not issued any 'partial assurance with improvements required' or 'no assurance' reports during the year nor have we raised any high priority recommendations.



KPMG LLP  
Chartered Accountants  
London

13 November 2017

# Other significant findings

## Internal control and risk management

We have identified certain risk management and control observations, which have been detailed below:

|              | Observation   | Deloitte recommendation   | Management response, owner and timescale  |
|--------------|---|---|---|
| Fixed Assets | During our testing of expenditure capitalised to capital projects during the 2016/17 financial year, a non-material amount of expenditure that had been treated as capital was found to be revenue in nature.   | While immaterial management should ensure that they continue to regularly check and challenge items of expenditure before it is capitalised to projects.                                  | <p><u>Response:</u> We disagree with the treatment of demolition costs as revenue in this project as it was directly attributable to the capital project.</p> <p>We will continue to review all AICC expenditure for revenue items.</p> <p><u>Owner:</u> Head of Financial Accounting</p> <p><u>Timescale:</u> Immediate</p>                |
| Fixed assets | During our testing of fixed assets we noted that while componentisation has been applied it was not possible to assign values to all individual elements of a major assets. Thus as not all assets are separately identifiable management will not be able to identify items disposed of when replacements/refurbishments are made. | Management should attempt to, as best possible, ensure that where major refurbishment/replacement projects are being undertaken that any possible disposals are appropriately identified. | <p><u>Response:</u> As component assets recognised as part of the FRS102 revaluation are fully depreciated we will remove them from the fixed asset register. We will therefore be left with an asset register with separately identifiable assets</p> <p><u>Owner:</u> Head of Financial Accounting</p> <p><u>Timescale:</u> Immediate</p> |

# Other significant findings

## Internal control and risk management

We have identified certain risk management and control observations, which have been detailed below:

|                 | Observation   | Deloitte recommendation  | Management response, owner and timescale  |
|-----------------|---|--|---|
| Fixed assets    | During physical verification testing of fixed assets we were unable to verify one item of equipment as it had been sold a number of years ago.  | While the NBV of the asset in question is trivial management should ensure that when items are disposed of they are removed from the FAR and appropriately accounted for. It is recommended that a fixed asset verification process be undertaken. | <p><u>Response:</u> We plan to carry out a full verification process for separately identifiable equipment in the coming year.</p> <p><u>Owner:</u> Head of Financial Accounting</p> <p><u>Timescale:</u> 2017/18 financial year</p>  |
| Research income | <p>During our testing of the recognition of research income we noted items of expenditure, relating to the 2015/16 financial year that had not been accrued for at the 2015/16 year end.</p> <p>Similarly we also identified items of expenditure relating to the 2016/17 financial year that had not been accrued for at the 2016/17 year end.</p> | Management should ensure that all items of research related expenditure are recorded in the accounting period to which they relate.  | <p><u>Response:</u> This accruals issue was restricted to research where purchase orders had not been raised and goods receipted before the year end cut off. We will remind the department of the process to follow.</p> <p><u>Response:</u> In addition to this in 2017/18 we will undertake a thorough central review of all August expenditure to ensure it has been properly accrued.</p> <p><u>Owner:</u> Deputy Director of Finance, Financial Management</p> <p><u>Timescale:</u> August 2018</p> |