Queen Mary University of London

External Audit 2015 Management Letter: Implementation progress report

Outcome requested:	Audit and Risk Committee is requested to **note** progress on the implementation of the external audit 2015 management letter recommendations.
Executive Summary:	Appendix 1 details the recommendations and management responses arising from the 2015 external audit. The 2015 external audit management letter contained five recommendations (three medium and two low): 1) **Initial project appraisal and review (M):** This recommendation has been implemented. There is a monthly review of expenditure with appropriate journals to transfer any incorrectly categorised spend. The budgets for 2016–17 will be split between Capital and Revenue at the outset. 2) **Project completion and sign off (M):** There are in-year reviews in place to understand the completeness of projects, particularly where the projects are multi-phased. The Financial Management team have staff dedicated to liaising with both estates and IT staff to facilitate the review. 3) **Training and clarity of responsibility (M):** Three general training sessions for Finance, Estates and IT staff have been held this year (Sept, Jan & March). A further session with IT staff was undertaken in April and a specific session with Estates staff is scheduled for 7 June. 4) **Evidence for expenditure against grants (L):** all staff have been reminded of the need to retain appropriate supporting information for journals. 5) **Research accounting matters (L):** extensive work has been undertaken on research contracts to ensure their correct treatment for transitioning to FRS102. We will ensure expenditure is recognised in the appropriate period by reviewing the year end recognition process. Additionally Deloitte has suggested a workshop with both Finance and Estates staff to clarify the information required for the audit. This has been scheduled for 21 July 2016. To also note that the Federal Family Education Loan Programme amounted to $1.9m for 2015–16 so comfortably below the $3m threshold for producing US GAAP accounts. There were a number of prior year recommendations from PwC external audits relating to IT which were being resolved by the IT Transformation Project. The implementation of these recommendations will be reviewed in light of: • Their current relevance given IT solutions change rapidly and these recommendations are approximately 4 years old.

	• The outcome of the options for the continuance of the IT Transformation Project and the extent to which this project will address recommendations still requiring implementation.
QMUL Strategy:	Compliance with external audit
Internal/External regulatory/statutory reference points:	HEFCE audit code
Strategic Risks:	N/A
Equality Impact Assessment:	Not required
Subject to prior and onward consideration by:	QMSE 17^{th} May 2016
Confidential paper under FOIA/DPA	No
Timing:	These actions relate to the 2015 external audit.
Author:	Janice Trounson, Deputy Director of Finance, Financial Controls Joanne Jones, Director of Finance
Date:	16 May 2016
Senior Management/External Sponsor:	Emma Bull, Interim Chief Operating Officer

Insight and findings

Accounting for capital projects

Our testing in this area identified a number of control weaknesses which impacted our work and also led to adjustments being made by management to the financial statements.

We therefore have a number of recommendations for improvements in this area, focussed on three main areas.

(Note, we have assigned these “Medium” priority as they relate to a significant risk area).

Deloitte Recommendation	Priority	Management response
Initial project appraisal and review As part of our work we reviewed the project budgets, which included an initial assessment of whether costs were capital or revenue in nature. We were not given evidence of any formal Finance review of these assessments. We recommend that these project budgets are reviewed by an appropriate member of the finance team, in order to sign-off on the proposed accounting for the project elements in advance of project start. Additionally we recommend that this is reviewed on an ongoing basis in the light of costs incurred to date and changes to project scope and plans so that the accounting split between revenue and capital expenditure is reconsidered to ensure that it remains in line with the actual nature of the costs incurred. Again this should have appropriate sign-off by Finance.	Medium	Agreed. We will implement these recommendations during the 2015/16 financial year.
Project completion and sign-off Our testing noted a number of projects where work was complete and the section of the building (for example a whole floor) was now ready for use, but where the asset remained on the assets under construction listing. At this point assets should be transferred from assets under construction and into the main fixed asset register, with depreciation commencing from that date. As the majority of the errors noted relate to assets completed close to the year end date, there is not a significant depreciation impact on the income and expenditure account, and this is primarily a balance sheet reclassification. However, it demonstrates that the process by which the Finance team are notified that projects are completed is not operating in a timely manner. We recommend that: • when each project reaches completion, a mechanism is in place so that the finance team are notified promptly that the project should be transferred to the in-use assets. • Multi-phase projects are monitored more closely to identify when individual phases are complete.	Medium	Agreed. We will implement these recommendations during the 2015/16 financial year.
Training and Clarity of Responsibility In view of the high turnover of staff in both Estates & Facilities and Finance we would recommend that all relevant personnel are fully briefed and trained on their respective responsibilities in the Fixed Assets process and on QMUL policies and procedures in relation to fixed assets, including the importance of the distinction between capital and revenue and the importance of the timeliness and accuracy of information about projects, including disposals of old assets, being provided to Finance.	Medium	Agreed. We will implement these recommendations during the 2015/16 financial year.

It is often a complex matter to determine accounting for these projects, and we would be pleased to offer to run a workshop with representatives from both the main finance team and the capital projects team together in order to explain further the information we need to be able to audit these balances effectively, and also how this information is important in helping the finance function to prepare true and fair financial statements on a timely basis. There would be no charge for this workshop. We have found this to be helpful in other institutions.

Insight and findings

We have the following insights and findings from our work

Deloitte Recommendation	Priority	Management response
Evidence for expenditure against grants In one example in our testing, no evidence had been retained in relation to expenditure incurred against a grant. The person who had entered the transaction has subsequently left the employment of the university, and the supporting documentation was unable to be located. Whilst this was an isolated instance, and confined to an item well below our clearly trivial threshold we recommend that Management remind their team that records should be maintained to support all such transactions	LOW	This was an isolated instance and the staff member has since left the organisation. We will remind other team members of their responsibilities to retain appropriate supporting information for journals.
Research accounting matters Our testing noted a number of instances in relation to incorrect cut-off of research expenditure, where revenue recognised in the year to 31 July 2015 was in relation to prior year expenditure, owing to late receipt of invoices and recognition. We recommend that management update their controls to ensure that expenditure on contracts is recognised in the correct period. As this relates to research matters, there is no net impact on the Income and Expenditure account Additionally, owing to the large volume and varied nature of research contracts, a detailed analysis of this area is critical in assessing the accounting impact of research contracts on the transition to FRS102, and will require a significant investment of Management's time prior to the implementation in the 31 July 2016 financial statements.	LOW	We will work tighten our controls relating to expenditure on contracts to ensure expenditure is recognised in the correct period.
Federal Family Education Loan Program The total loans for 14/15 is $2.5m, we recommend that management monitor this limit is as the College will require a US GAAP conversion audit every three years should the total loan reach $3m.		