



External audit 2014 management letter: progress report on actions

Outcome requested	Audit and Risk Committee is invited to note the progress of the implementation of the external audit recommendations from the 2014 management letter.
Executive Summary	<p>The detailed recommendations arising from the 2014 external audit and recommendations from prior years are replicated in Appendix 1.</p> <p>The 2014 external audit management letter contained one new recommendation, and two prior year issues to implement (one of which was in progress at year end 2014):</p> <ol style="list-style-type: none"> 1) Completeness of performance related bonus contracts: HR do not believe that there are any further contracts containing performance related bonuses. The arrangement with the academic identified has now ceased. The Director of HR will be involved in any future discussion if such a bonus is proposed in future by a school/institute or Professional Services directorate. 2) Completeness of the disclosure of related parties: the guidance and form requesting disclosure of related party interests have been redesigned to ensure better understanding of the information required to be collected which in turn should enable more complete disclosures. 3) Nil NBV Assets: the guidance requested improvements to accounting for fixed assets to clear out and verify the fixed asset register. This process is now almost complete and has been incorporated in both the timetables for year end 2015 financial statements and the implementation of FRS102. <p>Additionally the management letter contained prior IT audit recommendations which were anticipated to be implemented as the IT transformation project progressed. An update on these is currently being requested from IT services and will be provided for the ARC meeting.</p>
QMUL Strategy	Compliance with external audit
Internal/External regulatory/statutory reference points:	HEFCE audit code
Strategic Risks:	External audit considers all risk areas.
Equality Impact Assessment:	Not required

Subject to prior and onward consideration by:	Reviewed by QMSE 25 August 2015
Confidential paper under FOIA/DPA	No
Timing	QMSE; ARC
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Date	19 August 2015
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6. Internal controls

Accounting systems and systems of internal control

Management are responsible for developing and implementing systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. As auditors, we review these arrangements for the purposes of our audit of the financial statements and our review of the annual governance statement.

Summary of significant internal control deficiencies

We have set out below details of significant deficiencies in internal control identified during the audit. The purpose of our audit is for us to express an opinion on the financial statements. This includes consideration of internal control relevant to preparation of the financial statements in order to design appropriate audit procedures. It does not extend to expressing an opinion on the effectiveness of internal control. Therefore the matters being reported are limited to those deficiencies that we identified during the audit and that we have concluded are of sufficient importance to merit being reported to those charged with governance.

We note that where control matters have previously been raised by your internal auditors, we have included in this report management's progress in order to address these control points in the year.

Deficiency	Recommendation	Management's response
Completeness of performance related bonuses in contracts	<p>During a review of the remuneration committee meeting minutes we identified a performance related bonus which was claimed by an academic employee covering the period 2009-13. This had not previously been accounted for or disclosed.</p> <p>We recommend that management perform an exercise to ensure any and all other such instances are captured and provided for where necessary, and for senior officers are disclosed as appropriate in the accounts.</p>	<p>Agreed. HR will advise of employment contracts with bonus components, so these can be assessed for any liability.</p> <p>Responsibility: HR director Timeframe: 31 January 2015</p>

Follow-up of prior year recommendations

We reviewed management's implementation of recommendations made in our prior year report to the Audit Committee presented in November 2013. We have summarised the response and provided our evaluation, based on the audit work we have undertaken in respect of internal controls this year.

Prior year issue	Management's implementation	Current status
Completeness of accrued income at the year end	In the prior year we recommended that management perform a yearend review of certain income contracts to ensure that income is being correctly accrued in the financial year. Management agreed to perform a review of such income contracts.	We did not identify any issues of this nature as part of our 2013/14 audit. We therefore consider this recommendation to be implemented.
No contract register is maintained and completeness of operating leases	In the prior year we recommended that management creates a contracts register (which also covers all leases) which details the key information for each contract entered into. This should be reviewed annually to ensure the data captured is up to date.	As part of our audit procedures we obtained the most recent contract register from procurement which confirmed the register is regularly maintained and includes key relevant information on significant contracts within QMUL. In addition, we have confirmed through our audit procedures that a register of all finance leases is maintained and this also includes historic finance leases which were identified as part of a specific review by management. We therefore consider this recommendation to be implemented by management.
Nil NBV assets	In the prior year we noted a significant number of nil net book value (NBV) assets on the fixed asset register (FAR). We noted this again in the current year. In addition we observed that the fixed asset register is made up of transactions rather than complete assets in most instances. This makes it difficult to distinguish assets from one another and makes housekeeping of the FAR much more difficult.	As in the prior year, management are aware of this issue. Management's intention is to bring a new fixed asset module into Agresso which will allow management to make a number of improvements to the accounting for fixed assets, and to clear out the fixed asset register and maintain it in a more effective way going forward. This can also be combined with a physical verification exercise to establish that all assets recorded are in use. This process will align with the FRS102 balance sheet restatement process which will also take place during 2014/15. We understand this will include a re-valuation of all QMUL property and therefore management have determined that performing these two projects in unison will be most efficient. We therefore conclude that, whilst our recommendation has not yet been implemented, appropriate steps are under way in order to achieve it.
Duplicate supplier information	In the prior year we recommended that management perform a full review of their supplier listing and, where duplicate records exist, these are amalgamated as required.	Management were aware of this issue in the prior year when it was raised as a recommendation and procurement were already underway with a process to implement it. Management are now at the end of this review process and have confirmed that where duplicate accounts exist these are for specific purposes. It was also confirmed that this review is now embedded into processes and occurs on a continuous basis. We did not identify any issues with duplicate supplier accounts as part of our audit; we therefore consider this recommendation to be implemented.

Prior year issue	Management's implementation	Current status
<p>Lack of supporting documentation for manual journals</p>	<p>In the prior year we recommended that management maintain supporting documentation for all manual journals posted to ensure there is a clear audit trail. In addition the policy for secondary review of journals was not applied consistently across departments.</p>	<p>During our audit procedures all supporting documentation for journals was made available to us and we did not identify any issues with authorisation of journals.</p> <p>We therefore consider this recommendation to be implemented, but we also request that management continue to communicate this message to staff on the basis that manual journals represent a significant risk.</p>
<p>Completeness of related parties</p>	<p>We identified an undisclosed related party transaction in both the 2012/13 and the 2013/14 audits which management agreed to adjust for in the financial statements.</p> <p>Given this control weakness has been identified in two consecutive years we recommend that management perform a completeness review at future year ends.</p> <p>The undisclosed item found in 2013/14 was a transaction with GMEC Management for £35,000. This related party interest was not declared on the return for one of the University's Professors.</p>	<p>Whilst management perform a general ledger search to identify transactions in the ledger with related parties disclosed by the relevant individuals, we recommend that management perform a completeness review of the disclosures made to ensure all related parties are identified.</p> <p>Management comment: Agreed. We will review our process for ensuring completeness of Related Party disclosures</p>

Below we have included an update on the prior IT audit recommendations, which were originally made in our 2010/11 audit. We are aware however that the university is currently investing significantly in core IT functions as part of the IT Strategy 2010-15 and the control recommendations are currently being addressed as part of this strategy. As these actions are in train we have not tested or otherwise assured the management responses, but will do so in future years once these are complete.

Ref	Issue and recommendation	Open	Significant advance	Resolved	Management response
1	Anti-virus Management should consider disallowing users to disable the automatic virus updates.		✓		2013/14 update: With the introduction of the managed desktop service for PS staff approximately half of the University PC's and laptops are now compliant. The project for School client devices is aiming to be complete by July 2015 when the University will be compliant.
2	Vulnerability assessments/Penetration testing Central IT should consider performing penetration tests / vulnerability assessments of the core University network on an annual basis.		✓		2013/14 update: Under the transformation programme we have implemented new Cisco ASA and VSG firewalls, and we have also implemented Intrusion Protection. We are migrating applications one by one to this new environment and this process will be completed by December 15. We have undertaken a penetration test in the new environment for one of our key authentication systems (idcheck) and others will take place over the coming year.
3	Disaster Recovery Plans and Procedures There has been no full disaster recovery (DR) test during the last 12 months and changes are recommended to the plan.	✓			2013/14 update: A full DR test has not been undertaken. This will take place once all applications are migrated to the two new datacentres in 2015. As each application is being developed, DR plans are being created and resilience and DR built in by design.
4	Capacity and Performance management Management should formalise their capacity and performance management procedures.	✓			2013/14 update: Within the new datacentres, capacity planning and monitoring has been built in by design. By the end of 2015 all application will have been migrated.
5	Review of changes to sensitive data Management should establish a process where changes to high risk data sets are logged, and details of these changes reviewed and signed off on a quarterly basis.	✓			2013/14 update: Changes to sensitive data such as supplier details are logged but currently are not reviewed on a periodic basis.
6	Password parameters Management should consider strengthening the current password parameters, to adhere to generally accepted good practice standards.			✓	2013/14 update: This has been implemented passwords now need to be changed every six months.

Ref	Issue and recommendation	Open	Significant advance	Resolved	Management response
7	<p>User administration Management should consider implementing a process whereby a list of leavers is sent to the various IT departments to ensure the system access for these users is removed timely. This should be done on a monthly basis, and would be sent by the payroll department.</p>	✓			<p>2013/14 update: This process is still not in place and will be implemented as part of the Identity and Access Management which is delayed to August 2015</p>