



Annual Report of Audit and Risk Committee 2014–15 (Draft 2)

Outcome requested	Audit and Risk Committee is asked to note the second draft of the Annual Report for 2014–15. The report will be completed incrementally as the year progresses with the final report submitted to Council in November.
Executive Summary	<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"> • QMUL'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, HEFCE 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 External Auditors' management letter; • the Internal Auditors' annual report; • value for money; • the annual financial statements; • any HEFCEAS reports, or other evaluations. <p>The report has been revised to include only the key recommendations relating to internal audit reports rated amber-red or red, or those receiving any high priority recommendations.</p> <p>Information to be added following this meeting or when information is available has been highlighted in red.</p>
QMUL Strategy:	6. To achieve and sustain financial strength to enable our academic ambitions, through a balanced portfolio of activities.
Internal/External reference points:	HEFCE Memorandum of Assurance and Accountability; CUC Handbook for Members of Audit Committees in Higher Education Institutions.
Strategic Risks	11. Financial strength through a balanced portfolio of activities; 12. Cost control, VFM and expenditure; 13. Maintain effective and constructive governance; 15. Security of people, assets and data; appropriate contingency arrangements for facilities and functions.
Subject to onward consideration by:	The final version of this report will be submitted to Council for approval in November 2015 and then to HEFCE.
Confidential paper under FOIA/DPA:	No
Equality Impact	Not required

Assessment	
Timing:	Submission to Council on 24 November 2015 and HEFCE by 01 December 2015.
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Date:	17 August 2015
Senior Management/ External Sponsor	David Willis, Chairman of Audit and Risk Committee

Audit and Risk Committee Annual Report 2014–15

1. Introduction

- 1.1. This is the Audit and Risk Committee's Annual Report for the 2014–15 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 2014–15.

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

External Members of Council

David Willis	(Chairman)
Kathryn Barrow	
Elizabeth Hall	
Richard Learwood	(from November 2014)

Co-opted External Member

Melissa Tatton

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

Representatives of the Senior Executive and other senior officers

Nirmal Borkhataria	Interim Finance Director (from January to June 2015)
Professor Susan Dilly	Vice-Principal (Student Experience, Teaching & Learning) (until July 2015)
Joanne Jones	Finance Director (from June 2015)
David Marks	Deputy Director of Strategic Planning
Jonathan Morgan	Academic Registrar and Council Secretary
Mike Shore-Nye	Chief Operating Officer
Jane Tirard	Director of Finance (until December 2014)
Janice Trounson	Deputy Director (Financial Controls)

Representatives of the Internal Auditors

Neil Thomas	KPMG
Nick Rolfe	KPMG (until December 2014)
Paul Cuttle	KPMG (from December 2014)

Representatives of the External Auditors

Clive Everest	PWC (until December 2014)
Claire Eustace	PWC (until December 2014)
Sue Barratt	Deloitte (from February 2015)
Paul Thomas	Deloitte (from February 2015)

- 2.4. Simon Linnett, Treasurer and Chairman 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)
(from January 2015)

Hayley Simpson

Governance Administrator (from September to
December 2014)

2.6. *Terms of Reference*

The Committee reviewed and made recommendations to Council on the revision of its Terms of Reference at its meeting on 10 September 2014, which were approved by Council on 10 February 2015. The following amendments were made:

- to confirm that recommendations on the appointment of auditors should be made to Council at least annually;
- to confirm that a competitive tendering process for audit services should be commissioned at least every 5–7 years, as recommended in the CUC Handbook for Members of Audit Committees;
- to replace references to the Financial Memorandum with references to the Memorandum of Assurance and Accountability between HEFCE and Institutions;
- to draw together the terms of reference currently dealing with the oversight of External and Internal Auditors, given that they were substantially the same.

2.7. *Effectiveness Review*

An effectiveness review was undertaken in autumn 2014, which made the following recommendations:

- to establish a comprehensive induction for new Committee members and to provide routine refresher training for existing members;
- to eliminate unnecessary paperwork and to ensure that papers are the required length and appropriately written for Committee members;
- to introduce the key topic of ‘horizon-scanning’ to enable the Committee to reflect on external factors which may impact on QMUL;
- to establish a formal skills matrix for when vacancies arise on the Committee.

3. Meetings of the Committee

3.1. The Committee met on the following dates from the start of the 2014–15 financial year:

- 10 September 2014;
- 11 November 2014;
- 04 February 2015;
- 03 June 2015;
- 14 September 2015;
- 12 November 2015.

3.2. The following table records attendance at meetings by members and regular attendees. Their roles and responsibilities are identified in 2.2–2.4 above.

	10-09-14	11-11-14	04-02-15	03-06-15	14-09-15	12-11-15
K Barrow	✓	✓	✓	✓		
E Hall	✓	✓	✓	✓		
R Learwood	n/a	✓	✓	✓		
M Tatton	x	✓	x	✓		
D Willis	✓	✓	✓	✓		

S Barratt	n/a	n/a	n/a	✓		
N Borkhataria	n/a	n/a	✓	✓		
P Cuttle	n/a	n/a	✓	✓		
S Dilly	✓	✓	✓	✓	n/a	n/a
C Eustace	x	✓	n/a	n/a	n/a	n/a
C Everest	✓	x	n/a	n/a	n/a	n/a
J Jones	n/a	n/a	n/a	✓		
D Marks	✓	✓	x	x		
S Marshall	✓	✓	✓	✓		
J Morgan	✓	✓	✓	✓		
N Rolfe	✓	✓	✓	n/a	n/a	n/a
M Shore-Nye	✓	✓	✓	✓		
H Simpson	✓	✓	n/a	n/a	n/a	n/a
N Thomas	x	✓	✓	✓		
P Thomas	n/a	n/a	n/a	✓		
J Tirard	✓	✓	n/a	n/a	n/a	n/a
J Trounson	✓	✓	✓	✓		

4. Internal Audit

- 4.1. Internal Audit Services in 2014–15 were provided by KPMG for a fee of **XXXX** plus VAT. The Committee's terms of reference require that market testing be conducted every seven years; a tender exercise would be undertaken in due course for internal audit services to be provided from 2017–18 onwards. The Committee considered progress reports on the 2014–15 audit at its meetings in November, February, and June.
- 4.2. The Committee confirmed the 2014–15 Internal Audit Operational Plan and the Audit Strategy 2013–18 at its meeting in June 2014. The total number of days allocated to internal audit across all areas was **XX** compared to 230 during 2013–14. No restrictions were placed on the work of the Internal Auditors in 2014–15.
- 4.3. The Internal Audit Annual Report for 2014–15 was considered by the Committee at its meeting on **14 September 2015**. 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 14 September 2015.
- 4.4. 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.

- 4.5. 'Green' assurance verdicts were given in 3 areas:
- Student Housing: Compliance with the UUK code of practice
 - Strategic risk management
 - Core Financial Systems: Accounts payable and Procurement
- 4.6. 'Amber-green' assurance verdicts were given in 5 areas:
- Points based immigration/data quality
 - School of Biological and Chemical Sciences
 - Value for money
 - Emergency Response Plan
 - Core Financial Systems: Payroll. This review received a high priority (level one) recommendation regarding the timely and effective management of overpayments by HR and Finance staff.
- 4.7. 'Amber-red' assurance verdicts were given in 2 areas:
- Staff development spend. It was recommended that:
 - Staff development activities should be centrally co-ordinated to ensure value for money.
 - A suite of courses should be developed and update annually to ensure the common needs of the academic departments and professional services are met.
 - An engagement plan for faculties and professional services should be developed to improve awareness of the courses and activities available.
 - Research Overhead Recovery. It was recommended that:
 - A plan for maximising overhead recovery should be developed and documented within the 2016 update to the Research Strategy.
 - Overhead rates should be reported on a quarterly basis.
 - Staff should be reminded to complete costing forms, which should specify the reason for recovery below the required rates. Research contracts should not be signed off until costings have been completed.
- 4.8. A total of 0/10 completed internal audit verdicts were classified as 'red' (0% of total areas audited), 2/10 in 2014–15 were classified as 'red-amber' (20% of total areas audited). There was a single high priority (level one) recommendation arising from the internal audit of Core Financial Systems: Payroll.
- 4.9. 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.
- 5. External Audit**
- 5.1. Deloitte were appointed as QMUL's External Auditors for 2014–15. The auditors' fee for 2014–15 in respect of audit services was £120k. Members attended a private meeting with the External Auditors ahead of the Committee meeting held on 14 September 2015.
- 5.2. During 2014–15 the External Auditors carried out work in the following areas for QMUL: XXXX.

- 5.3. The Committee considered the External Audit Plan for 2014–15 at its meeting on 03 June 2015.
- 5.4. The External Auditors' Report and Management response for 2014–15 was considered by the Committee in XXXX. The Report concluded that [insert comments on findings and key accounting issues and management responses].

Approval of Financial Statements

- 5.5. At its meeting on XXXX the Committee proposed that Council should [insert Committee's recommendation] the adoption of the Financial Statements 2014–15. Council's decision at its meeting on XXXX was to [insert Council's decision] the Financial Statements.

6. Risk Management

- 6.1. During 2014–15 QMUL developed a new strategic plan for 2014–2019 and to complement this activity a new strategic risk register was developed, revising both its content and format from previous versions. This development process involved members of the Audit and Risk Committee and Lead Officers and sought comments and observations from members of Council.
- 6.2. The Committee reviewed QMUL's risk management framework during 2014–15 in conjunction with the Internal Auditors and Queen Mary Senior Executive (QMSE). A revised risk management policy was approved by the Committee at the meeting on 03 June 2015, in response to the Internal Auditors' recommendations, and which sought to remove repetition; to clarify the relationship between a number of groups and committees; to include refer to the HEFCE Memorandum of Assurance and Accountability; and to accurately reflect Council's role and responsibilities for risk management at QMUL.
- 6.3. *Occupational Health and Safety Directorate Deep Dive*
The primary areas of risk for the Directorate were governance, the safety of the QMUL estate, the provision of accurate information, funding and reputation. The Committee received a detailed report on the controls in place to mitigate risks in the above areas. Where risks could not be managed down to acceptable levels – in the case of fire safety and hazardous waste disposal – action plans were developed to identify resources and timescales required for acceptable risk mitigation, and interim risk control measures put in place. Updates on these key risk areas were received at subsequent meetings during 2014–15.
- 6.4. *Student Experience Deep Dive*
The student experience risk group was used as a test case for a new format of deep dive. Each occurrence of a risk in this category was extracted in order to verify that risk management processes and the new risk register were embedded within the institution. The Committee was satisfied that the report provided assurance that the management of risk was effective within the institution. Further training would be provided to address the small number of issues highlighted in relation to the use of risk registers by staff across the institution.
- 6.5. *International Partnerships Deep Dive*
The main risks identified in the area were damage to QMUL's reputation; over-reliance on China for overseas partnerships activity and the existing QMUL Joint Programme model of collaboration; an imbalance across faculties in the current portfolio of overseas partnerships; gaps in the monitoring of partnerships in support of strategic objectives once up and running; and a lack of integration of international partnerships activity into QMUL core business. Partnerships Board plays a key role in the oversight and monitoring of both international and UK partnerships, including large scale research collaborations and other initiatives carrying reputational risk, with

additional oversight of large scale or major projects by QMSE. There is a robust due diligence process to consider the risks of collaborating with specific partners and in specific countries, as part of the approval process. Members were satisfied that the report provided assurance that the management of risk in relation to international partnerships was effective.

7. Legal Compliance

7.1. The Committee considered the legal compliance exceptions report at its meeting on XXXX. The Committee was satisfied with the improvement in areas of serious non-compliance, which had also been added to the Committee's internal audit recommendation tracker.

XXXX Add summary of findings

7.2. [The Committee was satisfied that the Senior Executive had appropriate processes in place to meet the legal requirements of QMUL. Where exceptions were present appropriate plans were in place to ensure legislation was met and risks were mitigated].

8. Value for Money (VFM)

8.1. The Committee considered an annual report on value for money at its XXXX meeting. In addition, it considered the recommendations from the HEFCE Annual Assessment of Institutional Risk which concerned QMUL's compliance with the accountability obligations set out in the HEFCE Memorandum of Assurance and Accountability and other HEFCE guidance, and QMUL's financial sustainability, at its XXXX meeting.

8.2. The Committee came to the following judgement in relation to the promotion of economy, efficiency and effectiveness.

[Insert consideration of VFM report and other VFM controls, including Agresso compliance progress.]

9. Public Interest Disclosure (Whistleblowing)

9.1. XX cases of Public Interest Disclosure were reported between September 2014 and November 2015.

10. Fraud Investigations

10.1. Insert cases of fraud investigations

11. Data quality and integrity

11.1. During 2014–15 the Internal Auditors undertook a review of data quality relating to HESA and HESSES. The review was graded 'XXXX'.

12. Opinion

12.1. 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*
[insert opinions]
- (ii) *Value for money*
[insert opinions]
- (iii) *The management and quality assurance of data*
[insert opinions]

13. **Work of the Executive**

13.1. The Audit and Risk Committee wished it to be recorded and reported to Council that
[insert Committee opinion on the work of the Executive over the past year.]

David Willis
Chairman, Audit and Risk Committee.

Insert date

Annex A: Terms of Reference

Annex B: Summary of internal audit findings

Annex C: Summary of external audit findings