

AUDIT AND RISK COMMITTEE
Wednesday 03 June 2015

CONFIRMED MINUTES

Present:

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| David Willis (Chairman) | Kathryn Barrow (dial-in) (minutes 2014.059-072, 084) | Elizabeth Hall |
| Richard Learwood (dial-in) | Melissa Tatton | |

In attendance:

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| Sue Barratt (External Audit) | Nirmal Borkhataria | Eleanor Crossan |
| Paul Cuttle (Internal Audit) | Professor Susan Dilly | Gemma Donaldson |
| Joanne Jones | Zarah Laing (minute 2014:072) | Sian Marshall |
| Jonathan Morgan | Professor David Sadler (minute 2014:062) | Mike Shore-Nye |
| Neil Thomas (Internal Audit) | Paul Thomas (External Audit) | Janice Trounson |

Apologies

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| Simon Linnett | David Marks | Prof W J Spence |
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Part 1: Preliminary Items

2014.059 The Chairman:

- [a] welcomed the External Auditors; Jo Jones, Finance Director; Eleanor Crossan, Governance Administrator; and Professor David Sadler, Vice-Principal (International) who were attending their first meetings of the Committee.
- [b] thanked Nirmal Borkhataria, who would be leaving QMUL at the end of June, for his contribution as Interim Finance Director;
- [c] thanked Professor Susan Dilly, Vice-Principal (Student Experience, Teaching and Learning) for her significant contribution to the work of the Committee and the development of QMUL's risk management framework.

Executive Summary and Minutes of the meeting 04 February 2015 [ARC2014/41]

2014.060 The Committee **confirmed** the executive summary, non-confidential and confidential minutes of the meeting on 04 February 2015.

Matters Arising [ARC2014/42]

2014.061 The Committee **received** the following matters arising from the minutes of the meeting on 04 February 2015.

Minute 2014.004 [h] Deep dive risk report: Health and Safety [Paper ARC2014/03]

- [a] *Minute 2014.061[a] is confidential.*
- [b] Members **agreed** that further updates on progress should be reported under matters arising until the necessary consents were in place.

Whistleblowing cases since the last meeting [Oral report]

- [c] It had been clarified that the Public Interest Disclosure Policy was reviewed and revised in 2013–14 to ensure compliance with the Enterprise and Regulatory Reform Act 2013 and the changes made to the Public Interest Disclosure Act 1998. The policy was fully compliant and did not require further review.

Counter-Terrorism and Security Act [Oral report]

- [d] It was expected that changes to the legislation would be sought following the election of a majority Conservative government in order to introduce into law those elements of the original Bill which were not passed. A briefing paper would be circulated to members which sets the legislation in the context of universities' responsibilities to promote freedom of speech.
- [e] The legislation would be added to the legal compliance register and members would receive a report on QMUL's compliance at the meeting in September.
- [f] The implications of the Act had been suggested as a potential topic for discussion at the Council residential conference in November.

Internal audit reports [ARC2014/35]

- [g] The President and Principal had reported to Council in February that the Vice-Principal (Research) had been asked to consider an appropriate mechanism for reporting to Council on the proportion of research costs, including overheads, to be recovered from the research grants awarded. An update would be sought on this matter.

Committee effectiveness review: summary report [ARC2014/38]

- [h] Three applications for co-opted membership of the Committee had been received following the publication of an advertisement in the QMUL Alumni newsletter. The Chairman intended to meet with prospective candidates for an informal conversation regarding the role.
- [i] The dinner planned for members had been cancelled and would be rearranged. Horizon scanning would be considered at the Council residential conference and would allow members the opportunity to feed into this process later in the year. It was suggested that the Committee might consider the impact of the general election result as part of this activity.

Quality-related research (QR) research degree programme (RDP) supervision fund allocation

- [j] Postgraduate research student data is returned annually to HESA as part of the annual data return and is used to determine the QR RDP supervision fund allocation. QMUL, with three other institutions, had been subject to a pilot audit of the 2011–12 HESA data return by HEFCE.
- [k] *Minute 2014.061[k] is confidential.*

Actions:

- [b] Chief Operating Officer
[d], [g], [i] Council Secretariat

Part 2: Risk Management

‘Deep dive’ risk report (International Partnerships) [ARC2014/43]

2014.062 The Committee **received** the ‘deep dive’ risk report on the theme of international partnerships. The following points were made:

- [a] Professor David Sadler joined QMUL as its first Vice-Principal (International) in September 2014. The role involved oversight of all significant partnerships activity through Professor Sadler’s chairmanship of Partnerships Board. The Board was responsible for both international and UK partnerships, including large scale research collaborations and any initiatives carrying significant reputational risk. The Board received annual reports on QMUL’s main partnerships, including BUPT, Nanchang and Warwick, to monitor and review the success and benefit to QMUL of individual partnerships, and to ensure good practice was shared across initiatives and the institution.
- [b] It was included in the Partnerships Board’s terms of reference that large scale or major projects would require an additional level of consideration and oversight by QMSE, which was determined on a case by case basis. A review of the threshold for seeking QMSE approval was to be conducted at the end of the academic year.
- [c] The International Strategy was currently under development and would soon be submitted for approval by QMSE.
- [d] The main risks identified were as follows:
- 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;
 - lack of integration of international partnerships activity into QMUL core business.

- [e] The development of a new medical school in Malta provided some mitigation for the reliance on China for overseas partnerships and the flying-faculty model. All partnership activity carried a certain level of risk but QMUL was exposed to a higher level of reputational risk should any issues arise with the programmes in BUPT, Nanchang and Malta.
- [f] The changing political and economic environment of overseas partnerships was monitored through market intelligence activity undertaken by the International Office, the development of relationships with overseas embassies and consulates, and advice from organisations such as the British Council and the UUK International Unit. There was a reliance on the school or institute to notify the institution of any emerging issues.
- [g] Each new partner was subject to a due diligence process, which considered the risks of collaborating with the partner and the county of location, and the likely stability of the country. The Board reviewed the Register of Collaborative Provision on an annual basis and had mechanisms in place for terminating partnerships as required.
- [h] It was noted that ‘partnerships’ was the only risk group (10) in the Strategic Risk Register that remained red with controls in place. This was attributed to the risks associated with the major UK partner, Barts Health NHS Trust, which had been placed in special measures following a report by the Care Quality Commission, rather than reflecting the current assessment of risks associated with China. The risk score had previously been affected by a worsening relationship with BUPT, which had since been resolved.
- [i] The Chairman thanked the Vice-Principal (International) for the comprehensive report.

Strategic risk management

- **Risk register [ARC2014/44]**
- **Risk Management Policy [ARC2014/45]**
- **Risk appetite [ARC2014/46]**

2014.063 The Committee **received** the quarterly report on QMUL’s strategic risk management framework. The following points were made:

- [a] Exposure to risk had reduced since the last report to the Committee; this was the first time that there had been no increase in exposure.
- [b] The Strategic Risk Management Group (SRMG) had last met prior to the general election and would be in a position to consider the impact on risk exposure after the emergency Budget to be announced on 08 July 2015. It was expected that cuts would be made to non-ring fenced departmental budgets.

2014.064 The Committee **approved** the Risk Management Policy. The following points were made:

- [a] Revisions to the policy had been made to clarify the current approach to risk management and the delineation of responsibilities between SRMG, QMSE,

Audit and Risk Committee and Council. The layout of the policy had also been improved.

- [b] Members **noted** that Council no longer received the full risk register owing to concerns that a snapshot of the current risk exposure without further context was unhelpful. Members **agreed** that Council should receive the risk register on an annual basis with information provided as context about the direction of travel and the steps to be taken to return risk exposure to amber or green. It was suggested that the risk register could be appended to the stocktake with a short summary on risk exposure.
- [c] Members **agreed** that an additional paragraph should be added to the policy to clarify that Audit and Risk Committee reports to Council on an annual basis on the mechanisms for and adequacy of risk management processes, which would enable Council to review the approach to risk management and be assured that appropriate mechanisms were in place. The annual report would also be revised to clarify Council's role in relation to risk management.

Actions:

- [b] Deputy Director of Strategic Planning, Council Secretariat
- [c] Council Secretariat

2014.065 The Committee **received** a paper on risk appetite. The following points were made:

- [a] The Committee had first discussed risk appetite in June 2014 and agreed to reconsider the matter once the new risk register had been fully embedded.
- [b] QMSE had reviewed the proposed model for integrating risk appetite into the risk register and had raised concerns that the model would cause confusion and would not add value to the risk management framework. It was instead proposed that the consideration of risk appetite should be trialled by being incorporated into the project methodology for a large scale and/or strategically significant project that required approval by Council. If this framework were adopted it would be the responsibility of QMSE to ensure delivery of a project by managing and mitigating risk within the defined appetite.
- [c] Members **agreed** that the proposed trial was appropriate and the incorporation of appetite more widely appeared to have limited merit. It was noted that the informal use of risk appetite across the institution already enabled QMUL to be ambitious and to achieve the desired outcomes through the mitigation of risk. It was suggested that cost mitigation actions could be included in project plans.
- [d] It was further suggested that the terminology should be used in the horizon scanning exercise at the residential conference to embed risk appetite into discussions about future plans and that the COO/Head of Planning should ensure this approach was trialled for an appropriate project in the autumn term.

Action:

- [d] Chief Operating Officer/Head of Planning

HEFCE Annual Assessment of Institutional Risk [ARC2014/47]

2014.066 The Committee **received** the HEFCE Annual Assessment of Institutional Risk 2013–14, which had been received by Council at the meeting on 19 May 2015. It was noted that the overall assessment was ‘not at higher risk’.

MHRA inspection: report [ARC2014/48]

2014.067 *Minute 2014.067 is confidential.*

Whistleblowing cases since the last meeting [Oral report]

2014.068 The Interim Finance Director **reported** that there had been no cases reported under the Public Interest Disclosure Policy since the last meeting.

Part 3: Financial Control

Fraud/Financial irregularities occurring since the last meeting [Oral report]

2014.069 The Interim Finance Director **reported** that there had been no cases of fraud or financial irregularity reported since the last meeting.

Value for Money: update [ARC2014/49]

2014.070 The Committee **received** an update on progress against the value for money (VfM) targets. The following points were made:

- [a] The Committee had reported to Council and HEFCE on the adequacy and effectiveness of QMUL’s VfM arrangements during its previous annual report. HEFCE had previously raised concerns regarding the robustness of the Committee’s conclusions in relation to VfM but no further concerns had been raised. This report provided an update on progress with the targets set.
- [b] *Minute 2014.070[b] is confidential.*
- [c] *Minute 2014.070[c] is confidential.*
- [d] *Minute 2014.070[d] is confidential.*
- [e] Future reports would be revised to take account of the recommendations from the VfM internal audit report. Further embedding of VfM activities in the faculties was required and would be included in the report.
- [f] The Chairman said that he was reassured by the inclusion of new posts in the Budget approved at the last meeting of Council. There was a danger that seeking to achieve an aspirational surplus target might threaten medium and long term investment opportunities and plans. The new posts confirmed QMUL was still seeking to invest in staff where there were strong business cases to do so.

FRS102: impact review [ARC2014/50]

2014.071 The Committee **received** a paper on the potential impact of the introduction of new financial reporting standard FRS102. The following points were made:

- [a] QMUL would be required to comply with and present its 2015–16 financial statements in accordance with the new accounting principles and reporting formats introduced by the Financial Reporting Council in Financial Reporting Standard 102 (FRS102). The transition arrangements in FRS102 required institutions to restate their 2014–15 audited financial statements and the opening balance sheet for that year.
- [b] The change to international accounting standards would require significant changes in the way QMUL's financial statements are presented. QMUL would be required to make a number of accounting policy choices, including how to account for revenue and capital government grants and whether to take advantage of the one-off opportunity to revalue the estate on first adoption of FRS102, which would then become the deemed cost. QMUL had commissioned Jones Lang LaSalle to undertake the valuation of the estate.
- [c] Pension liabilities would require a one off adjustment to the net balance sheet. Revaluations every three years would require further one off adjustments, which would create volatility.
- [d] An implementation schedule would be provided by Finance in order to clarify the timetable and responsibilities for key decisions to be made. A workshop would then be organised for members of Audit and Risk Committee and Finance and Investment Committee.
- [e] It would be necessary to model the impact on the different accounting policy choices on both the balance sheet and the I&E account, and the reporting and budget processes. Sector guidance was available that would aid scenario planning.

Actions:

[d] Director of Finance, Council Secretariat

Part 4: Statutory and Regulatory Compliance

Fire safety report [ARC2014/51]

2014.072 The Committee **received** the fire safety report. The following points were made:

- [a] The report covered the period September 2014 to April 2015 and highlighted the main achievements and improvement opportunities in the area of fire safety, which were as follows:
 - the introduction of a proactive risk assessment strategy had enabled the schedule of fire risk assessments to be brought back on track following delays owing to staff shortages;
 - the introduction of a fire 'seek and search' mechanism had significantly reduced the number fire service attendances to QMUL;

- achievement of the minimum standard of compliance with fire protective measures, with further work planned to ensure full compliance;
 - improved staff engagement and training uptake;
 - improved processes had been implemented for fire safety during building refurbishment and design;
 - improved handover processes and control of small building works to ensure fire safety measures were in place throughout projects.
- [b] The Chairman said that fire safety had previously been highlighted as an area of risk but the Committee could be assured that mechanisms were in place to ensure compliance and the management of risks.
- [c] Members **agreed** that a dedicated report on fire safety would not be required during 2015–16 given that this was no longer an area of particular concern and that an update would be provided in the annual Occupational Health and Safety report.

Review of Financial Regulations and Scheme of Delegation of Financial Authority [ARC2014/52]

2014.073 The Committee **received** the revised Financial Regulations and Scheme of Delegation of Financial Authority for review ahead of consideration by Finance and Investment Committee and Council.

Insurance renewal process 2015–16 [ARC2014/53]

2014.074 The Committee **received** an update on the insurance renewal process for 2015–16.

Update on legal compliance exceptions report [Oral report]

2014.075 The Committee **received** an oral report from the Academic Registrar and Council Secretary on the legal compliance exceptions report. The following points were made:

- [a] On an annual basis leads for specific compliance areas were asked to complete a report and a summary was provided to Audit and Risk Committee.
- [b] The Council Secretariat was to undertake a review of the legal compliance register and exceptions report to ensure that the process was comprehensive, covering all emerging and historical legislation; and that it provided the Committee with a clear overview of the current risks and the extent of compliance, in addition to assurance that appropriate mechanisms were in place. It was acknowledged that small breaches could cause significant reputational damage.
- [c] The participation of senior staff in sector networks enabled new legislation to be identified and acted upon, which was not considered to be an issue. The trade effluent consent issue had highlighted the need to ensure that long-standing legislation was captured in the register.

[d] It was suggested that the report to the Committee might include case studies of issues that had arisen during the previous year to outline the process and risks identified.

[e] It was noted that QMUL was unusual, as a large institution, not to have an in-house General Counsel or legal function. A PAR bid had been submitted for a General Counsel but was not approved for the coming academic year.

Part 5: Internal and External Audit

Internal audit reports [ARC2014/54]

2014.076 The Committee **considered** the internal audit report on core financial systems, which had received an amber-green rating for payroll and green for accounts payable and procurement. The following points were made:

[a] One high priority (level one) recommendation had been made in relation to the management of overpayments. The Internal Auditors considered the management response to be less robust than was desirable for a high priority recommendation but a further payroll review to be undertaken by KPMG would enable this action to be appropriately followed up.

[b] The new Director of HR would oversee the completion of actions in response to all the recommendations made.

2014.077 The Committee **considered** the internal audit report on risk management, which had received a green rating. The following point was made:

[a] The Chairman congratulated the Vice-Principal (Student Experience, Teaching and Learning) and staff in Planning on the positive internal audit report, which confirmed that robust procedures were in place for risk management.

2014.078 The Committee **considered** the internal audit report on the emergency response plan, which had received an amber-green rating. The following points were made:

[a] The scope of the audit was primarily limited to consideration of the governance structures in place and had highlighted the need to improve the implementation of the emergency response plan in the faculties.

[b] Members **agreed** that a 'deep dive' report on emergency planning and business continuity should be scheduled for late 2015–16 or early 2016–17.

[c] The appointment of a dedicated Business Continuity Manager would likely be delayed until the beginning of August.

Action:

[b] Council Secretariat

2014.079 The Committee **considered** the internal audit report on value for money, which had received a green-amber rating. The following points were made:

- [a] The report included a list of examples of the value for money activities implemented at other institutions, which would enable QMUL to augment the work already being undertaken.
- [b] The Value for Money Committee had discussed and agreed an action plan. The final version of the VfM report to be considered in November would be improved in response to the recommendations. It was not intended that the VfM report would include the KPIs aligned to the QMUL Strategy given that this was covered in the annual stocktake presented to Council.
- [c] A VfM strategy was to be developed and would be submitted to the Committee with the report.

Action:

- [c] Chief Operating Officer

Progress report on audit recommendations and areas of non-compliance [ARC2014/55]

2014.080 The Committee **received** the progress report on internal audit recommendations and areas of non-compliance. The following points were made:

- [a] Members acknowledged the considerable effort undertaken by the Chief Operating Officer to close down many of the outstanding recommendations.
- [b] Completion of the action regarding the level of IP participation and awareness amongst academic staff (IPG02) had been delayed owing to concerns raised by the Trade Unions regarding performance rights. It was expected that the action would be completed by September 2015.
- [c] The action relating to the independent review of payroll data and exception reporting (CFS01) would be addressed through the review to be undertaken by KPMG into the size of the payroll team and processes in place.
- [d] The action taken to address the recommendation regarding the expiration of visas (PBI04) was confirmed to comply with the recently proposed Immigration Bill.

Internal audit plan 2015–16 [ARC2014/56]

2014.081 The Committee **approved** the internal audit plan for 2015–16 and the strategy for 2015–19. The following points were made:

- [a] Audits of areas related to finance, governance, risk and data quality were conducted on an annual basis as part of the core review process. Other areas were identified in discussion with QMUL on the basis of risk and benefit to the institution, which would include partnerships and collaborations, health and safety, translation of student number records and the examination cycle in 2015–16. A follow-up review had also been requested by the Committee on research overhead recovery.
- [b] The contingency fund would enable additional reviews to be undertaken if a high risk or priority area was identified during the academic year.

- [c] The Treasurer had suggested that the internal audit on the student recruitment process should be brought forward from 2016–17. The Treasurer had expressed concern that the message reported to Council on student recruitment was generally very positive and yet it was not unusual for the Budget to be revised at the beginning of the year owing to lower than expected student enrolment.
- [d] It was noted that ambitious recruitment targets were set for schools and institutes but that it could be very difficult to predict how applications and offers would translate into student enrolment. In the current academic year, recruitment targets had been missed in a small number of schools owing to the recruitment of additional students by competitor institutions. It was suggested that the target student numbers included in the budget could be different to the aspirational recruitment targets set for schools and institutes.
- [e] The scope of the student recruitment process audit had not been agreed but was likely to focus on the processes that took place up to the point of making offers or from offer to enrolment.
- [f] Members **agreed** that the scope of the audit was such that it was not necessary to bring forward the student recruitment process audit. The Chief Operating Officer would instead discuss the approach to the target and budget setting processes with the Treasurer and provide a clear explanation to Council.
- [g] It was noted that student recruitment reports to Council compared current numbers against prior year figures rather than current year targets and did not consider the impact on the Budget, five year plan or future surplus targets. Members **agreed** that the format and content of reports to Council should be reviewed.
- [h] Members noted that no internal audit reports had been scheduled for consideration by the Committee in September and **agreed** that the timing of reporting to the Committee should be reviewed.

Actions:

[f], [h] Chief Operating Officer

[g] Chief Operating Officer, Vice-Principal (Student Experience, Teaching and Learning), Richard Learwood

Reappointment of internal auditors 2015–16 [ARC2014/57]

2014.082 *Minute 2014.082 is confidential.*

IT major incident report on preparations for Clearing 2015 [ARC2014/58]

2014.083 The Committee **received** the IT major incident report on preparations for Clearing 2015. The following points were made:

- [a] Members were assured that considerable work had been undertaken to mitigate the risk of further issues arising during Clearing 2015.

[b] Clearing activities would be overseen by the Chief Operating Officer and the Academic Registrar and Council Secretary as the new Vice-Principal (Student Experience, Teaching and Learning) would not be in post until September.

External audit plan 2014–15 and any headline issues [ARC2014/59]

2014.084 *Minute 2014.084 is confidential.*

Part 6: Committee Management and Reporting

Final annual schedule of business 2015–16 [ARC2014/60]

2014.085 The Committee **approved** the annual schedule of business for 2015–16, subject to the removal of the fire safety report from the schedule.

Action:
Council Secretariat

Audit and Risk Committee Annual report 2014–15: Draft 1 [ARC2014/61]

2014.086 The Committee **received** draft 1 of the Audit and Risk Committee Annual report for 2014–15.

Draft Agenda for next meeting [ARC2014/62]

2014.087 The Committee **received** the draft agenda for the next meeting on 14 September 2015.

Any other business

2014.088 There was no further business.