

AUDIT AND RISK COMMITTEE
10 November 2016

CONFIRMED MINUTES

Present:

David Willis (Chairman)	Kathryn Barrow	Monica Chadha
Nadim Choudhary	Melissa Tatton	

In attendance:

Sue Barratt (External Audit)	Professor Edmund Burke	Eleanor Crossan
Paul Cuttle (Internal Audit)	Ian Douglas	Laura Gibbs
Joanne Jones	Lavine Mahtani (External Audit)	Jonathan Morgan
Phillipa Scott	Janice Trounson	

Apologies

Neil Thomas (Internal Audit)	Paul Thomas (External Audit)
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Part 1: Preliminary Items

Welcome

- 2016.019 The Chairman:
- [a] Welcomed Lavine Mahtani from Deloitte to her first meeting of the Committee.
 - [b] Welcomed Phillipa Scott, Financial Accounting Manager, and Ian Douglas, Head of Information Security, who were attending the meeting.

Executive Summary and Minutes of the meeting 02 June 2016 [ARC2016/14]

- 2016.020 The Committee **agreed** the non-confidential and confidential minutes, and the executive summary, of the meeting on 02 June 2016. It was agreed that a note should be added to the minutes confirming that the statement on compliance with the Modern Slavery Act 2015, which had been approved at the previous meeting, did not need to be included in the Financial Statements.

Matters Arising [ARC2016/15]

- 2016.021 The Committee **received** the following matters arising from the non-confidential minutes of the meeting on 02 June 2016.

'Deep dive' into emergency planning and business continuity

- [a] A further update on the progress of schools, institutes and services in producing incident response and business continuity plans would be presented at the next meeting of the Committee.

Strategic Risk Register

- [b] The Strategic Risk Management Group would discuss the sustainability of expansion within the School of Business and Management, given the reliance on this area to deliver against stretching recruitment and financial targets, at its next meeting in December 2016.
- [c] The full Strategic Risk Register was circulated and discussed at the Council meeting on 26 October 2016.

Report on data quality and returns to HEFCE, HESA and the SLC

- [d] The Committee received a paper on the assurance of data shared with the Student Loans Company.

Internal audit

- [e] The Chief Operating Officer would present proposals to the next meeting of the Committee for a revised mechanism for reporting on progress with internal audit recommendations.
- [f] The Internal Audit Annual Report for 2015-16 had been revised to show the correct number of reviews undertaken in the Head of Internal Audit Opinion.
- [g] The IT Planning review had been removed from the Internal Audit Operational Plan for 2016-17. Identification of a replacement review would be reported once this had been agreed by QMSE.
- [h] The Committee confirmed that it did not require a deep dive presentation on the National Student Survey at the present time.

Part 2: Risk Management

Deep dive risk report (cyber security) [ARC2016/16]

2016.022 The Committee **received** a deep dive presentation on cyber security. The following points were made:

- [a] The report highlighted the priority that cyber security is given by the Government, on a par with terrorism and international military conflict, and the specific threats faced by universities, including breaches of student, staff, research or clinical data, the loss of intellectual property and anti-competitive behaviours.

- [b] A VMWare report in February 2016 on the impact of cyber security breaches, based on a survey of 50 UK universities, stated that 79% of universities felt they had suffered reputational damage, 74% had halted research projects and 77% felt that a breach had the potential to impact on national security.
- [c] A breach at QMUL in January 2014, involving research undertaken with the Ministry of Defence, had been politically motivated and was subsequently reported in the national press. A task and finish group made recommendations to QMSE in 2015 about strengthening resilience and cyber security policy and practice.
- [d] Considerable progress had been made in building resilience on centrally-managed IT systems, but QMUL 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.
- [e] The Head of Information Security confirmed that white hacking and penetration testing were conducted by an independent firm on specific systems. Any monitoring of individuals required authorisation by the relevant senior officer.
- [f] The Committee requested more information about the protocols for routinely removing access to corporate systems when an individual leaves the university. It was recognised that retaining an institutional email account in certain circumstances was common practice in higher education, in particular where there is ongoing collaboration on teaching and research, but the Committee was concerned that this should operate on a sufficiently formal basis to allow appropriate oversight.
- [g] The Committee noted the disappointing uptake of training and that consideration should be given to making training mandatory if up take did not improve. The focus should be to raise awareness of the significant threats to individuals in both their professional and personal lives.
- [h] The Committee recommended to the Chief Operating Officer that cyber security should be the subject of an internal audit review in the near future.
- [i] The Chairman thanked the Head of Information Security for attending this item.

Action Chief Operating Officer [f, g, h]

Ian Douglas left the meeting.

Whistleblowing cases since the last meeting [Oral report]

2016.023 The Director of Finance **reported** that there had been no cases reported under the Public Interest Disclosure Policy since the last meeting.

Part 3: External audit

External audit:

2016.024 The Committee **received** the External Auditors' Report for 2015-16 and the draft Letter of Representation. The following points were made:

- [a] The audit was substantially complete. The work in respect of the subsidiary and associated companies, except for Nanoforce, was also complete. The outstanding work would have no material effect on the group audit. The work on the Strategic Review had been completed and no substantive changes were required.
- [b] Deloitte confirmed there had been no changes to the approach nor the key areas identified during the planning period, and that the materiality thresholds had been applied as agreed. There were no new issues emerging that had not already been communicated to the Committee.
- [c] The Finance and Investment Committee had received the Financial Statements at its meeting on 08 November 2016. Members of that committee had been asked to provide comments on the Strategic Review to the Finance Director and their comments were now being incorporated into the document.
- [d] The Committee considered in detail the risks around covenant compliance and going concern, the external auditors having highlighted the possibility of a delay or failure in securing the renewal of an existing loan facility, which was due to expire in April 2017.
- [e] *Minutes 2016.024[e] is confidential.*
- [f] The Chairman said that he had discussed the renewal of the loan facility with the Treasurer after the meeting of the Finance and Investment Committee, where this matter had been discussed, and received assurances about the risk of not securing the required facility at the appropriate time.
- [g] Deloitte confirmed they were satisfied that a material uncertainty did not exist relating to the group going concern assumption.
- [h] On the basis of these assurances, the Committee was satisfied that the risk exposure in relation to the loan facility was not significant and did not impact the going concern assumption.
- [i] Deloitte confirmed that, in their view, QMUL had exercised careful judgement when making the necessary assumptions inherent in the transition to the new accounting framework.
- [j] There had been significant improvement in the audit of capital projects and the issues reported in the previous year had not recurred. New assets appeared on the fixed asset register at the correct date and were being depreciated appropriately. This would remain a high risk area owing to the size and value of capital projects.

- [k] The valuation of land and buildings formed a significant area of work. The Deloitte valuers considered the inputs and assumptions used to be acceptable.
- [l] The recommendations arising from the 2014-15 audit had been implemented with one exception, carried forward to the current year.
- [m] The Committee had an initial discussion about QMUL's readiness for a controls reliance approach to future audits. Deloitte had tested the design, implementation and operating effectiveness of controls over key business processes. There were three recommendations—two relating to research grant income and one to assets (carried forward from the previous year)—that would potentially allow them to take a controls reliance approach over these areas in future.
- [n] The Committee requested confirmation of the implementation timetable for the Research Grant Management system. It was **agreed** to report back to the Committee whether it was possible to implement the recommended improvements to the recording and reporting of expenditure on grants, or whether further discussion as to the approach would be needed.
- [o] A reference to a student residences agreement, signed since year-end, had been added to paragraph 32 of the Letter of Representation.
- [p] The Committee sought and received specific assurances from the Chief Operating Officer, the Director of Finance, the Vice-Principal (Science and Engineering) representing QMSE on strategic risk management, and the Academic Registrar and Council Secretary that the Representation Letter could be signed on behalf of Council.
- [q] The Committee **agreed to recommend** to Council the Letter of Representation subject to a minor amendment to correct the cross-referencing to the Financial Statements, and to replace references to 'the Board' with 'Council'.
- [r] The Committee **agreed** that it would be useful to consider the 'navigating uncertainty' section of the report with the horizon scanning exercise at its February meeting.

Actions Finance Director [n]

2016.024 The Committee **received** the audited 2015-16 Financial Statements, including the restatement of the 2014-15 financial performance. The following points were made:

- [a] The Chairman had been through the Financial Statements in detail and fed back his editorial comments to the Finance Directorate.
- [b] No substantive issues were raised in discussion and the Committee **agreed** to feed back any detailed comments to Phillipa Scott by the end of the following day.

[c] The Committee was advised that the same presentation, including the use of a large number of charts, had been used as in previous years, but that it was opportune to review the format for future years in light of the transition to the new accounting framework.

[d] The Committee **agreed**:

- i. to recommend the 2015-16 Financial Statements to Council, subject to minor editorial amendments reflecting feedback from members of the Committee, members of Finance and Investment Committee and QMSE;
- ii. to delegate authority to the Chairman to sign off the final draft of the 2015-16 Financial Statements on behalf of Committee after the above amendments had been incorporated.

[e] Deloitte commended the quality of the Financial Statements and reported that the audit had proceeded very smoothly this year. The Committee expressed its congratulations to the Finance Directorate.

Phillipa Scott left the meeting.

Part 4: Statutory and Regulatory Compliance

Legal compliance [ARC2016/18]

2016.025 The Committee **received** the annual legal compliance report. The following points were made:

- [a] The paper should be marked confidential under legal privilege.
- [b] QMUL's legal compliance framework comprised three parts: the identification of relevant legislation; the work to address current concerns; and the infrastructure and resources (policies, guidelines, training and professional expertise) in place to provide compliant and effective solutions.
- [c] The pace of regulatory change in many areas remained a challenge. There was considerable expertise among members of staff in Professional Services with responsibility for compliance, who keep their knowledge up to date through training and engagement with peer networks. The Chief Operating Officer, for example, received regular briefings and updates through membership of the Association of Heads of University Administration, which is advised by a legal firm on the implications for higher education of changes to legislation.
- [d] External legal advice had been sought on issues as they arose and periodically on more general issues, including the coverage of the legal compliance register. The Committee **agreed** that there should be an external review of specific parts of the legal compliance register next year, including health and safety.

- [e] There was a challenge, inherent within a devolved organisation, of ensuring and monitoring compliance with institutional policy, mitigated by strategies such as mandatory training and raising awareness of the expertise available within QMUL. Where instances of non-adherence to policy had been identified, these had been reported upwards and acted upon.
- [f] The Committee underlined the importance of finalising the work of updating the HR Code of Practice, in order to provide clarity to staff and to ensure clear alignment between policy and practice.
- [g] The Committee confirmed that it was satisfied that QMUL had appropriate mechanisms in place to ensure compliance with relevant legislation. There was work in progress to address areas of partial compliance in the area of health and safety, on which the Committee had received assurances previously through the internal audit review of health and safety at its meeting on 03 October 2016, and the annual report from the Director of Health and Safety at its meeting on 04 February 2016.
- [h] The Committee requested circulation of the Equality and Diversity strategic objectives and action plan. It was agreed to consider whether these should be a topic for a deep dive.
- [i] The Committee **agreed** the following statement for inclusion in its annual report:

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

Actions Academic Registrar and Council Secretary [d]
 Council Secretariat in liaison with Equality and Diversity Manager [h]

Prevent Duty [ARC2016/19]

2016.026 The Committee **received** the Prevent Duty annual report, including the updated risk register. The following points were made:

- [a] Responding to the obligations under the Prevent Duty required an appropriate balance to be struck between monitoring and safeguarding. It was important to be clear for what purpose actions were being, especially as QMUL was at risk of adverse press.
- [b] The initial assessment had been completed earlier in the year and reviewed by Melissa Tatton and the Chairman before submission. HEFCE had confirmed in July that QMUL had ‘regard to the Prevent Statutory Guidance’ and recommended that there should be further clarification on the arrangements in place to manage central faith facilities and to respond to any issues arising from their use. A student and staff group was being established in response to discuss this and

other faith-related issues. There was also discussion of involving local faith leaders in the future.

- [c] The Academic Registrar and Council Secretary had attended a briefing by HEFCE about the reporting requirements that would form part of the annual accountability return, noting that this was a transitional year. Institutions were required to report back on actions identified during the initial assessment phase, update the Prevent risk register and demonstrate how they had maintained engagement with the Prevent agenda.
- [d] Members of staff with specific responsibilities under the Prevent Duty had kept themselves up to date though ongoing engagement with peer networks at the local and national levels and within the Russell Group. There was also regular liaison with the Regional Prevent Co-ordinator.
- [e] QMUL continued to provide online guidance on Prevent for all students and staff. Many staff had received more specialised training, but this was still work in progress, with the publication of sector-wide training materials having been delayed.
- [f] QMUL had confirmed its position, similar to other Russell Group institutions, with respect to internet filtering following the publication of guidance by JISC.
- [g] QMSU was more active in its opposition to the Prevent Duty this year. Although there continued to be good communication between QMSU and QMUL on this topic, and agreement on the need to safeguard and support individual students, the risk register had been updated to reflect the increased reputational risks associated with student campaigns.
- [h] The Committee **agreed** that the assurances required by HEFCE could be provided by Council on the basis of the initial assessment and response received from HEFCE in July 2016, the annual report and ensuing discussion.

Part 6: Financial Control

Value for money annual report [ARC2016/20]

2016.027 The Committee **received** the VfM annual report. The following points were noted in discussion:

- [a] Monica Chadha had taken on the role of committee lead on VfM.
- [b] This was the first year that HEFCE required submission of a VfM report as part of the annual accountability return. In the following year, there would be a prescribed format for the report, potentially with a broader scope. The Chief Operating Officer was planning to prepare a draft report based on the new HEFCE guidance early in the next calendar year, liaising with the committee lead as appropriate, to ensure that

Council was aware of HEFCE's requirements and the basis of any assurances that it would need to provide.

[c] *Minute 2016.027[c] is confidential.*

[d] *Minute 2016.027[d] is confidential.*

[e] Benchmarking and analysis of staff costs would be presented to Finance and Investment Committee at its meeting on 13 December 2016. This would start the process of understanding why QMUL remained adrift of its comparators on this measure.

[f] The full analysis of the Uniforum data, benchmarking Professional Services costs wherever they are located, would not be available until March 2017. However, there were early indications of opportunities to realise efficiencies which would be considered in the forthcoming Planning and Accountability Review (PAR). The Uniforum data would enable us to better understand whether our relatively high staff costs as a percentage of turnover were attributable to academic or professional service activities or not outsourcing.

[g] The Committee **agreed** that it could give a positive opinion on QMUL's arrangements for achieving Value for Money based on the annual report, which described a strong portfolio of related activity, the analysis of the staff costs and the benchmarking analysis now being progressed.

[h] The Chairman congratulated the Chief Operating Officer on her report.

[i] It was agreed that the report would be updated to show the revised staff costs analysis and should be included in the additional reading for Council at its meeting on 21 November 2016.

Action Chief Operating Officer [i]

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

2016.028 The Director of Finance **reported** that there had been no cases of fraud or financial irregularities reported since the last meeting.

Part 7: Committee Management and Reporting

Audit and Risk Committee Annual Report for 2015-16 Draft 2 [ARC2016/21]

2016.029 The Committee **received** the draft Audit and Risk Committee Annual report 2015–16 and **agreed** the process for finalising the report after the meeting.

***Draft Agenda for next meeting [ARC2016/13]**

2016.030 The Committee **received** the draft agenda for the next meeting on 10 November 2016.

Any other business

2016.031 **UUK report Changing the culture**

- [a] The Committee **noted** the publication of the UUK report entitled 'Changing the culture' on sexual harassment in universities.
- [b] The previous guidance dated from the 1990s and universities were now expected to be more pro-active in addressing instances of sexual harassment, rather than deferring entirely to police investigations.
- [c] The Committee requested a report on QMUL's response to the UUK report covering staff-student and student-student issues, and asked that the QMSU President be invited to attend for that item.

Action [c] Chief Operating Officer and to liaise with Council Secretariat on timing of report