



cutting through complexity

Queen Margaret University

Internal audit report 2014.09

HE governance review

15 December 2014

This report is for:

Action

*Irene Hynd, University
Secretary*

Information

Audit Committee

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The contacts at KPMG in connection with this report are:

Andy Shaw

Director, KPMG LLP

Tel: 0131 527 6673

Fax: 0131 527 6666

andrew.shaw@kpmg.co.uk

Michael Wilkie

Senior Manager, KPMG LLP

Tel: 0141 300 5890

Fax: 0141 204 1584

michael.wilkie@kpmg.co.uk

Beth Grieve

Assistant Manager, KPMG LLP

Tel: 0131 527 6729

Fax: 0131 527 6666

bethany.grieve@kpmg.co.uk

Introduction

In accordance with the 2014-15 internal audit plan of Queen Margaret University ("the University"), as approved by the Audit Committee, we have performed an internal audit of HE governance.

The specific objectives, scope and approach, as agreed with management, are detailed in appendix one.

Background

In June 2011, the Cabinet Secretary for Education and Lifelong Learning commissioned a review of higher education governance to consider:

- whether governance arrangements within Scottish higher education demonstrate appropriate democratic accountability;
- proposals for change which respect the autonomy of higher education institutions while ensuring transparency of arrangements; and
- the effectiveness of governance and management within institutions.

The review reported in February 2012 and made several recommendations including the drafting of a new governance code under the supervision of the Committee of Scottish Chairs and the Scottish Code for Good HE Governance ('the Code') was published by the steering group in July 2013 for adoption on a 'comply or explain' basis within annual reports dated 31 July 2014. Universities in Scotland are expected to comply with the Code's Main Principles and to observe its supporting guidelines, with any exceptions disclosable in the corporate governance statement of the annual audited financial statements.

The University has mature governance arrangements which are set out in its statutory instrument and its standing orders. Court is responsible for all strategic and operational objectives of the University and comprises up to 24 individuals drawn from elected staff, senior management, students, and lay members. Operationally, leadership of the Court is the responsibility of the Chair who is appointed from amongst the lay membership of Court according to the terms set out in the University's current Statutory Instrument.

The University Court has three key responsibilities, namely to:

- approve the strategic direction of the University;
- carry out the objectives of the University; and
- ensure the institution's financial sustainability.

Key findings and recommendations

We identified no ‘critical’ and no ‘high’ risk graded recommendations in the course of our work.

We identified one ‘moderate’ and two ‘low’ graded recommendations.

The findings identified during the course of this internal audit are summarised below. A full list of the findings and recommendations are included in this report. Management have accepted the findings and agreed reasonable actions to address the recommendations.

	Critical	High	Moderate	Low
Number of internal audit findings	-	-	1	2
Number of recommendations accepted by management	-	-	1	2

Our review indicated that the University has made significant progress in implementing the requirements of the new Scottish Code of Good HE Governance and its main principles. The recommendations arising from KPMG’s review of arrangements relate to best practice implementation of the supporting guidelines.

The ‘moderate’ risk graded recommendation is in respect of formalisation of processes for reviewing the annual performance of the Chair.

The two ‘low’ graded recommendations are set out in the action plan which starts on page 14 and relate to:

- ensuring regular review of operated policies; and
- enhanced disclosure of Court’s responsibility regarding strategic direction and review of KPIs.

Areas of good practice

Our review identified areas of good practice:

- The University has performed a self-evaluation of its compliance to the requirements of the new Code and, where non-compliance areas have been identified, steps have been taken to pro-actively address these.
- Advertisements for new Court members for the 2014-15 year were written in consultation with the Equality Challenge Unit to facilitate equality and diversity within the lay membership, in line with the Equality Act 2010. The University is working to achieve an informal target of 40% female Court membership, and this target has been set as a result of benchmarking activities to other institutions.
- The University has appointed a dedicated governance officer to assist the Court Secretary in their duties.

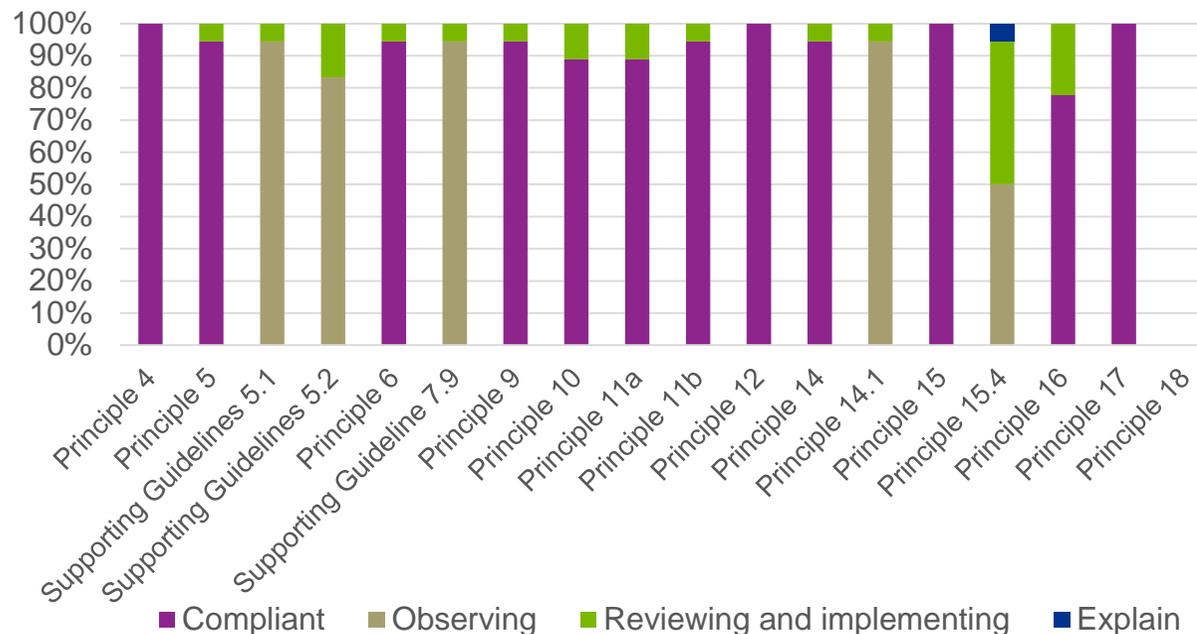
Summary of internal audit findings: benchmarking

We outline the main findings from the review.

The Code: one year into implementation

Following first-time adoption of the Code in annual reports for 2013-14, the steering group circulated a draft report benchmarking institutional progress in implementing 12 of the Code's Main Principles and three of its supporting guidelines. The results of this review are summarised below.

Number of Scottish Higher Education Institutions compliant with each of the Principles of the Scottish Code of Good HE Governance



Within this report, four institutions were noted as having 100% compliance with the 12 Main Principles, including Queen Margaret University

On the following pages, the 18 principles of the Code are summarised along with KPMG's assessment of the University's compliance to both these and the supporting guidelines which may become future areas for compliance under Scottish Funding Council outcome agreements.

In the table opposite we have provided a summary of the Main Principles within the Code and the University's current governance arrangements in relation to each. The table is shaded to indicate potential areas of focus for management as it further implements the requirements of the Code over 2014-15.

Key

Current arrangements satisfy Principle and guidelines.

Minor amendments identified to ensure compliance with supporting guidelines

Three or more amendments identified to ensure compliance with supporting guidelines

Main Principles	Summary description	Current governance arrangements
Governing body	<ul style="list-style-type: none"> Every Higher Education Institution shall be headed by an effective governing body, which is unambiguously and collectively responsible for overseeing the Institution's activities. 	<ul style="list-style-type: none"> The Court is the governing body of Queen Margaret University as established by statutory instrument, the Queen Margaret University, Edinburgh (Scotland) Order of Council' 2007. The powers of Court are set out in sections 3 and 4 of this Order. The responsibilities of the Court are also set out in the Court Members' handbook ('the handbook'), which refers to the Code, and states that the Court is responsible for the activities of the University. The University does not make specific reference to the protection of academic freedom within its policies or the handbook, however provisions relating to academic freedom are communicated in the contracts of academic staff.
Legal Obligations	<ul style="list-style-type: none"> The governing body shall ensure compliance with the governing instruments of the Institution, as well as other appropriate legal obligations including any arising in connection with its charitable status. 	<ul style="list-style-type: none"> The Court Members' handbook sets out members' requirements in respect of the Charities and Trustee Investment (Scotland) Act 2005. The general duties of Court members acting as trustees are also set out, as well as specific duties such as reporting to OSCR, updating charity details on the Scottish Charity Register, and maintaining financial records. The committee remits within the handbook and appendices state that committees are responsible for reviewing the various policies operated by the institution. KPMG review indicated that some policies are not reviewed on an annual basis. <p style="text-align: right;">Recommendation one</p>
Conduct of Members	<ul style="list-style-type: none"> The governing body and its individual members shall at all times conduct themselves in accordance with accepted standards of behaviour in public life which embrace selflessness, integrity, objectivity, accountability, openness, honesty and leadership. 	<ul style="list-style-type: none"> The members of Court are required to sign a Code of Conduct. This refers to a number of the principles, with the full Nolan principles set out within an appendix of the handbook. The principles are further communicated within the Court's Statement of Primary Responsibilities.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
Frequency of meetings	<ul style="list-style-type: none"> ■ The governing body shall meet sufficiently regularly and not less than four times a year, in order to discharge its duties effectively. Members of the governing body shall attend its meetings regularly and actively participate in its proceedings. 	<ul style="list-style-type: none"> ■ The Court meets five times a year, at a minimum. ■ The Standing Orders dictate that the number of members constituting a quorum is seven court members. ■ The Standing Orders set out regulations regarding the conduct of meetings in areas such as voting, rescinding decisions, extraordinary meetings and declaring business reserved.
Statement of Primary Responsibilities	<ul style="list-style-type: none"> ■ The governing body shall adopt a Statement of Primary Responsibilities which shall include provisions relating to: <ul style="list-style-type: none"> ➢ approving the mission and strategic vision of the Institution, long-term business plans, key performance indicators (KPIs) and annual budgets; ➢ appointing the Head of the Institution (the Principal) as chief executive officer and putting in place suitable arrangements for monitoring his/her performance; ➢ ensuring the quality of Institutional educational provision; <p style="text-align: right;">...continued</p>	<ul style="list-style-type: none"> ■ The statement outlines the key responsibilities of Court, namely: <ul style="list-style-type: none"> – approving the mission and strategic vision of the University; – appointing the Principal and monitoring his/her performance; – ensuring the quality of educational provision within the University; – ensuring adherence to the Scottish Funding Council financial memorandum; and – establishing and monitoring control systems over risk, finance, complaints and conflicts of interest. ■ There is no specific reference to Court's responsibility to monitor the University's performance against KPIs and annual plans. <p style="text-align: right;">Recommendation two</p>

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
Statement of Primary Responsibilities (continued)	<ul style="list-style-type: none"> ➤ ensuring adherence to the funding requirements specified by the Scottish Funding Council in its Financial Memorandum and other funding documents; ➤ ensuring the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, clear procedures for handling internal grievances and 'whistleblowing' complaints, and for managing conflicts of interest; and ➤ monitoring institutional performance against plans and approved KPIs. <ul style="list-style-type: none"> ■ This Statement shall be published widely, including in the Annual Report and on the Institution's website, along with identification of key individuals (chair, vice-chair (if any), ■ Principal, chairs of key committees, other members and senior officers) and a broad summary of the responsibilities that the governing body delegates to management and also those responsibilities which are derived directly from the instruments of governance. 	<ul style="list-style-type: none"> ■ The Statement of Primary Responsibilities of Court is available on the website and within the annual report. ■ Information on the Court is provided on the University website. This lists the members and provides a biography, as well as providing a contact email address for the Court secretary. The specific membership of each committee (including the convenor of such) is not included, however individual biographies of Court members include their committee responsibilities. ■ The handbook and appendices set out the powers delegated to committees and management by Court.
Responsibilities of members	<ul style="list-style-type: none"> ■ All members shall exercise their responsibilities in the interests of the Institution as a whole rather than as a representative of any constituency. The Institution shall maintain and publicly disclose a current register of interests of members of the governing body on its website. 	<ul style="list-style-type: none"> ■ The handbook states that members of Court are responsible for exercising their responsibilities in the interests of the University. ■ Testing indicated that three registers of interest, for new Court members, had not yet been uploaded onto the University website for public however these have subsequently been uploaded.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
The Chair	<ul style="list-style-type: none"> The chair shall be responsible for the leadership of the governing body, and be ultimately responsible for its effectiveness. The chair shall ensure the Institution is well connected with its stakeholders, including staff and students. 	<ul style="list-style-type: none"> The Court Members' handbook states that the Chair of Court is responsible for providing leadership to the Court, presiding over meetings and working closely with the Principal. The Chair has the delegated authority of the Court to take action in relation to business matters that do not merit discussion at Court meetings. The Chair also has the power to take action for the exercise of any powers conferred on the Chair by the Standing Orders or delegated to the Chair by the Court. Where this power is exercised, a report to the Court must be provided at the next meeting following the action. The Code recommends that institutions identify an intermediary for Court members to allow for anonymous concerns on the Chair's performance to be raised and the Vice-Chair has been proposed to fulfil this role. Processes regarding the annual review of performance for the Chair should be formalised and communicated. <p style="text-align: right;">Recommendation three</p>
The Head of the Institution	<ul style="list-style-type: none"> The Principal shall be responsible for providing the governing body with advice on the strategic direction of the Institution and for its management, and shall be the designated officer in respect of the use of Scottish Funding Council funds and compliance with that Funding Council's Financial Memorandum. The Principal shall be accountable to the governing body which shall make clear, and regularly review, the authority delegated to him/her as chief executive, having regard also to that conferred directly by the instruments of governance of the Institution. 	<ul style="list-style-type: none"> The handbook states that the Principal is responsible for the operational management of the University. In exercising these responsibilities, the Principal is subject to the control and direction of the Court. The role descriptions, set out in the appendices to the handbook, state that the Principal is the designated officer within the University for use of Scottish Funding Council funds. This is also enshrined in the financial regulations of the institution.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
Governing body members	<ul style="list-style-type: none"> There shall be a balance of skills and experience among members sufficient to enable the governing body to meet its primary responsibilities and to ensure stakeholder confidence. The governing body shall draw up and make public a full evaluation of the balance of skills, attributes and experience required for membership of the governing body, which shall inform the recruitment of independent members of the governing body. The membership of the governing body shall be regularly assessed against this evaluation. The governing body, having due regard to applicable law, shall establish appropriate goals and policies in regard to the balance of its independent members in terms of equality and diversity, and regularly review its performance against those established goals and policies. 	<ul style="list-style-type: none"> Court is aware of the need to maintain a balance of skills, and an informal skill register was drawn up to aid appointments, thus ensuring the continuation of this balance. The skills register was drawn up using existing information collected from <i>ex officio</i> job applications and Court register of interests. The skills register is not publicly available, however advertisements for new appointments based on this register are published to facilitate recruitment of lay members. Advertisements for new Court members were published in the local media, online, and within specialist publications to target new markets and satisfy equality and diversity requirements. Management consulted with the Equality Challenge Unit on the effective methods for targeting appointments. The University Court has a standing Nominations Committee and the remit of this committee is outlined in the handbook. In June 2014, it was agreed that the committee would be responsible for drafting equality and diversity targets for Court membership, and their recommendations have subsequently been adopted by the Court.
Governing body members	<ul style="list-style-type: none"> The governing body shall have a clear majority of independent members, defined as both external and independent of the Institution. A governing body of no more than 25 members represents a benchmark of good practice. 	<ul style="list-style-type: none"> The Court currently has a total of 22 members and consists of two student representatives (one being the President of Students' Union) which is in line with the maximum number of members recommended by the Code. KPMG review confirmed that the Court comprises a clear majority of independent, non-executive members. This assumes that an 'independent' member is defined as an individual who is not a staff member or student of the University.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
<p>Governing body members</p>	<ul style="list-style-type: none"> ■ Appointments of the chair, and of members appointed by the governing body, shall be managed by a nominations committee, normally chaired by the chair of the governing body (except where the committee is managing the appointment of the chair's successor) and which includes at least one appointed staff member (that is a member of the staff of the Institution who has been elected or nominated and as a result serves on the governing body) and one student member of the governing body. To ensure rigorous and transparent procedures, the nominations committee shall prepare and publish written descriptions of the role and the capabilities desirable in a new member, based on a full evaluation of the balance of skills and experience of the governing body. ■ When selecting a new chair, a full job specification including a description of the attributes and skills required, an assessment of the time commitment expected and the need for availability at unexpected times shall be produced. In developing such a job description arrangements shall be put in place to consult staff and students before it is finalised. The selection process shall include a formal interview of short-listed candidates. ■ When vacancies arise in the position of the chair, or in any of the members appointed by the governing body, they shall be widely publicised both within and outside the Institution. 	<ul style="list-style-type: none"> ■ The University has a Nominations Committee and the remit is set out in the appendices to the handbook. The committee is charged with making recommendation for appointments to Court, and Court are then responsible for accepting or rejecting these recommendations. The committee is chaired by the Chair of the University Court. ■ The Chair is selected from the lay membership of the Court, thereby ensuring independence in character. The University is seeking to open up appointments to individuals out with the existing Court membership, and is seeking to amend the statutory instrument to accommodate this change.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
Induction	<ul style="list-style-type: none"> The chair shall ensure that new members receive a full induction on joining the governing body, that thereafter opportunities for further development for all members are provided regularly in accordance with their individual needs, and that appropriate financial provision is made to support such training in accordance with criteria determined by the governing body. In its Institution's Annual Report the governing body shall report the details of the training made available to members during the year to which that Report relates. 	<ul style="list-style-type: none"> The Court Members handbook sets out that new members will receive a full induction and that regular opportunities for further development will also be provided where required. This training will be given the financial support of the University. Details of training made available to members is to be included in the annual governance statement in the University's Annual Report for the year ended 31 July 2014.
The secretary	<ul style="list-style-type: none"> The secretary to the governing body shall be responsible for ensuring compliance with all procedures and ensuring that papers are supplied to members in a timely manner containing such information, and in such form and of such quality, as is appropriate to enable the governing body to discharge its duties. All members shall have access to the advice and services of the secretary to the governing body, and the appointment and removal of the secretary shall be a decision of the governing body as a whole. 	<ul style="list-style-type: none"> The secretary to Court is the University Secretary. Duties charged to the Secretary include: <ul style="list-style-type: none"> collating the register of interests for members, although onus is on the member to disclose this to the Secretary 'as soon as practicable'; approving the out-of-pocket expenses of the members of Court, in line with the University's financial regulations; issuing notice of Court meetings to members at least five days prior to meetings; including items for discussion at Court meetings following discussion with the Chair. The University Secretary completes a register of interest which is available on the Court webpage.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
Conduct of meetings	<ul style="list-style-type: none"> ■ The proceedings of the governing body shall be conducted in an appropriately transparent manner, with information and papers published quickly and fully, except when matters of confidentiality relating to individuals, the wider interest of the Institution, including the observance of contractual obligations, or the public interest demands. ■ The governing body shall also ensure that the Institution has in place appropriate arrangements for engaging with the public and the wider communities which it serves. 	<ul style="list-style-type: none"> ■ Court minutes and agendas are published on the University webpage for public review. Minutes are also made available on the University intranet site for along with supporting papers, facilitating review by staff and students.
Remuneration	<ul style="list-style-type: none"> ■ The governing body shall establish a remuneration committee to determine and review the salaries, terms and conditions (and, where appropriate, severance payments) of the Principal and such other members of staff as the governing body deems appropriate. ■ The policies and processes used by the remuneration committee shall be determined by the governing body, and the committee's reports to the governing body shall provide sufficient detail to enable the governing body to satisfy itself that the decisions made have been compliant with its policies. 	<ul style="list-style-type: none"> ■ The University has a Remuneration Committee that is responsible for setting the salaries, terms and conditions of senior management. The University has recently undertaken a review of the terms of reference for this committee and the updated terms were presented at the October 2014 meeting of Court. ■ The Court receives the minutes of each Committee meeting and is required to acknowledge them as received at each Court meeting. The cover sheet for the minutes details any decisions made by the Committee that require Court approval.

Summary of internal audit findings: Code compliance (continued)

Main Principles	Summary description	Current governance arrangements
Effectiveness	<ul style="list-style-type: none"> The governing body shall keep its effectiveness under annual review. Normally not less than every five years, it shall undertake an externally-facilitated evaluation of its own effectiveness, and that of its committees, and ensure that a parallel review is undertaken of the senate/academic board and its committees. Effectiveness shall be assessed both against the Statement of Primary Responsibilities and compliance with this Code. The governing body shall, where necessary, revise its structure or processes, and shall require the senate/academic board of its Institution to revise its structure and processes, accordingly. 	<ul style="list-style-type: none"> An external review of effectiveness is currently being scheduled for 2014-15 academic year. This was confirmed in the University's internal paper on compliance against the Code, with the paper stating that an external review would be carried out by the Leadership Foundation for Higher Education by the end of the calendar year. Review of Court minutes indicated that various changes were implemented to adhere with the new Code, such as changes to Court and committee memberships, as well as to various processes.
Effectiveness	<ul style="list-style-type: none"> The governing body shall reflect annually on the performance of the Institution as a whole in meeting long-term strategic objectives and short-term KPIs. Where possible, the governing body shall benchmark institutional performance against the KPIs of other comparable institutions. 	<ul style="list-style-type: none"> The Court considers institutional performance at each meeting through review of KPIs and financial data such as management accounts. The minutes of these meetings are available publicly and the public can therefore see the actions flowing from these reviews. Benchmarking is performed against similar, 'post-1992' institutions which appears reasonable. The Court also reflects annually on performance in the annual report.
Effectiveness	<ul style="list-style-type: none"> The results of effectiveness reviews, as well as of the Institution's annual performance against KPIs and its progress towards meeting its strategic objectives, shall be published widely, including on the Institution's website and in its Annual Report. 	<ul style="list-style-type: none"> The outcome of Court effectiveness reviews are published through Court minutes and papers on the staff and student intranet, and minutes are published on the governance page of the University website. Where external effectiveness reviews are performed in upcoming years, management should ensure that the results of these are made publicly available.

The action plan summarises specific recommendations, together with related risks and management's responses.

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>1 Review of policies</p> <p>The Code states that University governing bodies should be responsible for regularly reviewing policies in relation to compliance and statutory duties, and the remits of committees include such statements. KPMG review of policies available on the University website indicated that the health and safety policy was last reviewed in 2010, and the data protection policy was last reviewed in 2003.</p>	<p>Management should ensure that Court regularly reviews and approves policies on either an annual or biennial basis. This would provide assurance that the assumptions or references included within policies are reflective of the current operating procedures of the University.</p>	<p style="text-align: center;">Low</p> <p>Accepted.</p> <p>There is a register which sets out a schedule for key policy development. The general principle is five year review, but annual review for some where there are regular test cases (appeals/complaints). The University is currently updating its policy and procedure register, the purpose of which is to take stock of all existing policies and procedures and the currency and completeness of each policy and significant procedure. From this register a program of work will be developed whereby relevant policies and procedures will be reviewed, equality impact assessed and approved in a systematic manner.</p> <p>Responsible officer:</p> <p>Assistant Secretary, Governance and Quality Enhancement</p> <p>Implementation date:</p> <p>28 February 2015</p>

Action plan (continued)

Finding(s) and risk	Recommendation(s)	Agreed management actions
2 Statement of primary responsibilities		Low
<p>The statement of primary responsibilities sets out the core activities which Court must undertake to ensure effective governance and leadership of the University.</p> <p>The Code states that one of the core responsibilities of governing bodies is to monitor institutional performance and approved KPIs. While Court's statement includes responsibilities related to approval of strategic plans and KPIs, there is no explicit responsibility set out to monitor these on an ongoing basis.</p> <p>There is a risk that if this responsibility is not expressly communicated as a power of Court, this could lead to ownership by management at an insufficiently strategic level, reducing challenge on performance and impacting on achievement of core objectives.</p>	<p>Management should ensure that the statement of primary responsibilities – within the Court handbook and annual report – is extended to include Court's responsibility to monitor strategic KPIs.</p>	<p>We agree that it would be helpful to add the statement re: KPIs (the 'how') and an update to the statement will be proposed to the Court at its next available meeting.</p> <p>Responsible officer:</p> <p>University Secretary</p> <p>Implementation date:</p> <p>Updated paper to February meeting of Court</p>

Finding(s) and risk	Recommendation(s)	Agreed management actions
<p>3 Review of Chair's performance</p> <p>The Code states that an individual should be designated as an intermediary between the Court members and the Chair so that concerns on performance can be anonymously raised. The intermediary should also be responsible for performing the review of the Chair's effectiveness.</p> <p>In June 2013, it was indicated that the Vice-Chair would be responsible for acting as intermediary and for performing the review of the Chair on a biennial basis. The resultant enhancements to the job description have not been performed, and there is a risk that Court members are not aware of this channel for open communication. In addition, there is a risk that the Chair is not subject to informal review of performance, limiting their effectiveness.</p>	<p>Management should ensure that the role description for the Vice-Chair is made available so that Court members are made aware of the informal channel to voice concerns.</p> <p>The publication of the role description should also set out the timetable for review of the Chair's performance and, where applicable, the standing orders should be expanded to include details on the procedures for reviewing performance e.g.:</p> <ul style="list-style-type: none"> ■ How the review will be performed – verbal or written. ■ Who shall be responsible for reviewing the Chair i.e. if this should include wider Court membership. 	<p style="text-align: center;">Moderate</p> <p>A role description for the Vice-Chair of Court has been developed and was considered by the Nominations Committee on 19 November 2014. The draft job description provided to the Committee for consideration and approval includes appropriate reference to the Vice-Chair's role as intermediary. Compliance with the Code and the agreement on this role has been presented to the Court throughout the year, so members have had the information on the role presented to them regularly.</p> <p>Arrangements for the review of the Chair's performance are being considered as part of a wider consideration of court effectiveness. We do not expect that to be incorporated in the Vice-Chair job description or within the Standing Orders.</p> <p>Once approved by Court, specific arrangements for the review of the Chair's performance will be appropriately publicised.</p> <p>Responsible officer:</p> <p>University Secretary</p> <p>Implementation date:</p> <p>30 April 2015</p>

Appendices

In accordance with the 2014-15 internal audit plan of Queen Margaret University (“the University”), as approved by the Audit Committee, we will perform an internal audit of HE governance.

Objective

The overall objective of the review is to ensure management and those charged with governance are adequately prepared to implement the new Scottish Code on Governance (“the Code”) across the University.

Scope

- assist management in identifying the requirements for the University in respect of the Code;
- consider the University's existing governance arrangements and the proposals for enhancement; and
- assess if the arrangements and enhancements are in line with the Code, based on a review of management's self assessment – highlighting areas of focus for management in responding to the requirements.

Approach

We will adopt the following approach in this review:

- project planning and scoping;
- identifying and agreeing key risks and controls with management;
- conducting interviews with staff to gain an understanding of processes and procedures;
- reviewing the adequacy and operating effectiveness of controls and procedures in place; and
- agreeing findings and recommendations with management.

Appendix two

Classification of internal audit findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of more than £250,000. ■ Detrimental impact on operations or functions. ■ Sustained, serious loss in brand value. ■ Going concern of the University becomes an issue. ■ Decrease in the public's confidence in the University. ■ Serious decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ■ Life threatening. 	<ul style="list-style-type: none"> ■ Requires immediate notification to the audit committee. ■ Requires executive management attention. ■ Requires interim action within 7-10 days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days. ■ Separately reported to chairman of the audit committee and executive summary of report.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of between £100,000 to £250,000. ■ Major impact on operations or functions. ■ Serious diminution in brand value. ■ Probable decrease in the public's confidence in the University. ■ Major decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ■ Extensive injuries. 	<ul style="list-style-type: none"> ■ Requires prompt management action. ■ Requires executive management attention. ■ Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within 3-6 months. ■ Reported in executive summary of report.

Classification of internal audit findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of between £25,000 to £100,000. ■ Moderate impact on operations or functions. ■ Brand value will be affected in the short-term. ■ Possible decrease in the public's confidence in the University. ■ Moderate decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required. 	<ul style="list-style-type: none"> ■ Requires short-term management action. ■ Requires general management attention. ■ Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within 6-9 months. ■ Reported in executive summary of report.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	<ul style="list-style-type: none"> ■ Potential financial impact of less than £25,000. ■ Minor impact on internal business only. ■ Minor potential impact on brand value. ■ Should not decrease the public's confidence in the University. ■ Minimal decline in service/product delivery, value and/or quality recognised by stakeholders and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment. 	<ul style="list-style-type: none"> ■ Requires management action within a reasonable time period. ■ Requires process manager attention. ■ Timeframe for action is subject to competing priorities and cost/benefit analysis, eg. 9-12 months. ■ Reported in detailed findings in report.



cutting through complexity

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