Minutes of the Audit and Compliance Committee meeting held on Monday 2 November 2015 at 10am in the Principal’s Meeting Room.

Present:  
Mr David Spence (Chair)  
Ms Colette Wilson  
Mr Majid Hawa  
Ms Tina Harris

Apologies:  
Mr Mark Newlands

In attendance:  
Professor Paul Layzell (Principal)  
Mr Simon Higman (Registrar and Secretary)  
Ms Jenny Febry (Deputy Director of Finance)  
Mrs Kay Trinder (Internal Audit Manager)  
Mr James Aston (BDO Partner)  
Mr Richard Evans (Deloitte Director)  
Mrs Rachel Knight (Deputy College Secretary and Secretary to the Committee)

1. TERMS OF REFERENCE AND MEMBERSHIP  
RECEIVED verbal confirmation that the terms of reference and membership were not expected to change in 2015-16. It was noted that the Chair’s second period of office expires at the end of the current academic year.

2. MINUTES  
APPROVED and signed the minutes of the last meeting held on 27 July 2015 (M15/28 – 65) following one amendment. Minute 15/40 noted a figure of £132k reimbursement which was corrected to £92k.

3. MATTERS ARISING FROM THE MINUTES  
RECEIVED the Council agenda business plan 2015 – 16 (ACC/15/22).

4. EXTERNAL AUDIT  
RECEIVED the External Auditor’s Report (ACC/15/23). The audit had been substantially completed and the position was comparable to the same time last year. There were no unexpected matters to be resolved before audit completion and the External Auditors anticipated a clean audit opinion.

NOTED that there was a single accounting issue related to the submission of claims for the Research and Development Expenditure Credit (RDEC). The College intends to make a claim to cover 2013/14 and 2014/15 but work has not yet started work on these claims, which will be completed in 2016. This is not a change to College policy, and although the External Auditors do not agree with this stance they recognise that it is not uncommon in the sector. Given that there is no material adjustment required the External Auditors accepted the College position. The Committee were satisfied that there was no impact on subsequent issues and agreed to recommend the report to Council.

DISCUSSED the presented schedule of audit adjustments. The Committee acknowledged that there were no requests for corrections.

NOTED that the contents of the draft Representation Letter were standard and that there were no exceptions for the College. The Secretary and Registrar confirmed that all material had been disclosed appropriately and that there were no allegations or suspected activity that would affect the financial statements if disclosed.
NOTED that the grade 2 deficiencies included in the 2014 management letter had been resolved. The minor recommendation in the 2015 management letter was similar to recommendations included in a number of Internal Audit reports, particularly relating to the operational discipline of control mechanisms.

DISCUSSED the various matters identified of importance looking forwards, particularly the Resource Accounting and Budgeting (RAB) charge and the Consumer Credit Regulations. The College had begun to identify whether any of its activities required authorisation.

REQUIRED a report on progress at its February meeting.

5. **ANNUAL ACCOUNTS AND FINANCIAL STATEMENTS**

RECEIVED and reviewed the RHUL Consolidated Financial Statements for 2014/15 (ACC/15/24a – c).

NOTED that the financial statements were as presented to the Finance Committee on 22 October 2015 with one exception outlined in the overview paper (ACC/15/24a). Additionally the elected student member vacancy had been filled and the statements to be presented to Council amended accordingly.

DISCUSSED why the surplus was significantly ahead of the financial forecasts, particularly the growth since Period 9. It was noted that the forecasts did not take into account significant underspends in the non-staff budgets, which were common across academic departments. Additionally the English language courses had performed better than expected over the summer period, and this had contributed to the surplus increase. The Committee understood that there was a historical tendency to account prudently and that in 2014/15 only the positive variances had occurred. The forecast method was being reviewed to identify improvements, for example, to ensure that assumptions were challenged before they were rolled forwards. The Committee considered that although it was common across the sector to report a surplus that percentage of the College surplus was significant and would attract external attention. They were satisfied that the beginning of the major investment plan did explain the surplus, but observed that staff costs had decreased proportionately since 2013/14 and were lower than the sector mean.

REVIEWED the public benefit statement, the operating and financial review and the corporate governance statement. The Chair of the Committee had commented on these pages prior to the presentation to the Finance Committee.

REQUIRED the amendment of the statement of application of the CUC code to recognise that the publication of the revised code in December 2014 the Council had applied and met the primary elements of the revised Code. The self-assessment had demonstrated that there was broad compliance but had identified improvements to strengthen governance in a number of areas and work had been ongoing throughout the year overseen by the Committee and the Council Executive.

REQUIRED minor amendments to the operating and financial review to ensure that the tone was not defensive.

REQUIRED a check of the membership of Council given that the membership for Council Executive listed a former member.

AGREED that the revised changes should be circulated to the Committee and the Chair of the Finance Committee. It was expected that the changes would be minor and that Council would be alerted to the changes in the cover paper.
RECEIVED the statement on Going Concern (ACC/15/24c). It was good practice to produce the statement but it did not form part of the submission to HEFCE.

RECOMMENDED that the analysis formed the basis of the approval as a Going Concern.

RECEIVED and CONSIDERED a financial report on the Founders Endowment Fund (ACC/15/25). The report demonstrated that the fund income was applied in accordance with the conditions of the trust. The financial statements did include the accounts of the fund and were included in materiality considerations. It was noted that 50% of the fund surplus would be used for the upkeep of Founder’s including the refurbishment of Founders entrance and the picture gallery.

RECEIVED and CONSIDERED the Financial Statements for Royal Holloway Enterprise Ltd (ACC/15/26). These financial statements were audited and considered separately to the College accounts. The Committee expressed disappointment at the decline in turnover, and were reassured that the statement did not account for the total research and enterprise activity of College. It was noted that one or two big contracts had a big impact on the RHE accounts. It was noted that the RHE Board meeting would meet on 12 November 2015.

6. INTERNAL AUDIT
RECEIVED the Internal Audit Manager’s report (ACC/15/27). The 2014/15 internal audit plan had been completed and the 2015/16 plan was underway. The Committee was pleased to note that the number of audit recommendations had declined with the removal of 12 audit reports from the list. There were still some recommendations which had been outstanding for over 1 year, and the Committee considered each in turn. They concluded that there were reasonable explanations for implementation delays but that going forwards they needed to be resolved more expeditiously.

AGREED that they would receive a progress update by circulation in January 2016.

NOTED a concern that a number of the internal audit recommendations related to serious operational issues in HR, particularly concerning staff training and payroll. The Committee observed that HR problems were common throughout the papers presented, although they did recognise that some of the problems were a result of limitations on the rate of IT change. Consultants had been retained to review the HR provision, and were expected to report their findings regarding the service structure imminently.

NOTED there had been no further allegations of or suspicions of fraud, and that the fraud reported to the police in November 2014 remained subject to police investigation.

RECEIVED a report from Deloitte regarding Internal Audit progress, including the final Data Security and Data Protection Audit Report (ACC/15/28). The Committee focused on data security report which contained a number of substantive points included fundamental priority 1 recommendations. The management response had disagreed with some of these recommendations, and whilst this was a risk appetite decision there was some concern that these had not been properly discussed with the Secretary and Registrar and the Principal. Managers needed to clarify and explain why they accepted these risks, particularly given the College’s reputation as a place of excellence for teaching and research in information security. Again, some of the timeframes for the completion of the recommendations were lengthy. It was acknowledged that a number of the recommendations were complex and would benefit from being broken down into smaller units with a timetable for each. The Committee also recognised that some of the recommendations related to cultural problems, and that the Director of IT was not responsible for resolving them. Embedding processes and training was a long process and the execution and discipline of basic ‘hygiene’ tasks was an organisational concern.
AGREED that the Committee would receive a revised timeframe for the recommendations by circulation in January 2016.

RECEIVED the Internal Auditor's Annual Report 2015–16 (ACC/15/29) which had been updated since the draft considered at the July meeting to reflect progress. It was noted that the report stated that the recommendations made in the Health and Safety audit report had not been implemented because of resource constraints. This did not sit comfortably with the financial statements which recorded a surplus and low staff costs. This would be resolved as a matter of priority by the Secretary and Registrar.

NOTED that the internal auditor's opinion was to provide reasonable assurance that the College has an adequate and effective system of governance, internal controls, risk management and value for money for the year ended 31 August 2015. Having considered the number of priority 1 recommendations and the key observations per audit area the Committee questioned the presentation of the annual opinion. There was concern that the infographics regarding the numbers of each priority recommendation did not support the words of the opinion. It was explained that the audit reports and the annual opinion both used the same terminology of "reasonable assurance" as defined by HEFCE for the overall opinion but that they did not have the same meaning in the audit reports which would be better as "substantial" assurance. The Committee took comfort in that the opinion was from Deloitte and that they had tested across a range of institutions. It was also noted that at the end of 2013/14 the Committee challenged Deloitte to take a harder line when auditing to effect change. Equally the 2014/15 plan had concentrated on weak areas and a number of audits had been completed in departments were it was hard to achieve "reasonable" assurance.

AGREED that the following changes would be made to the annual report;
- To amend the paragraph beginning "our opinion has considered work... to reflect a change in the overall control environment" to ensure the opinion does not contradict the infographic
- To expand the same paragraph by including a statement on the direction of travel
- To add a paragraph relating to fraud.

The revised report would be circulate to the Committee as soon as possible.

7. VALUE FOR MONEY
RECEIVED and NOTED a report regarding Value for Money (measured against the framework) (ACC/15/30). Submitting this report to HEFCE was optional, but given that the College submitted a report last year the intention was to submit again. Last year the Committee had requested more student facing metrics and these had been added to the Value for Money plan. This plan was reviewed by the Planning and Resources Committee throughout the year, but was not an integral part of the report.

AGREED that the Value for Money report would be checked against the public benefit statement to ensure that there were no notable omissions or contradictions.

8. ANNUAL REPORT TO COUNCIL
RECEIVED and CONSIDERED a draft of the Committee's Annual Report to Council (ACC/15/31).

REQUIRED the following changes;
- that the reference in paragraph 18 to a historical fraud was removed and the report updated to reflect the internal audit managers' report.
- That paragraph 9 was updated to reflect the revised Internal Audit report. The amended report would be circulated to the Committee prior to circulation to Council.
8. **HEFCE ANNUAL ASSURANCE**
RECEIVED the Annex E return (ACC/15/32). It was noted that the College had reported that the Finance Director had left and notified the interim Director. 15/101

RECEIVED and APPROVED the proposed sign off process for the TRAC (Transparent Approach to Costing) Return (ACC/15/33). 15/102

9. **COMPLIANCE**
**Research Ethics Committee**
RECEIVED a summary of the meeting held on 6 October 2015 (ACC/15/34). The Committee noted the contents of the summary, but were not satisfied that they had understood the technical terms used in the report. They expressed concern that the revised research ethics process did not appear to be live. 15/103

REQUIRED confirmation of whether the revised process was live. 15/104

10 **DATE OF THE NEXT MEETING**
NOTED that the date of the next meeting was 15 February 2016, 10.30am in the Principal’s Meeting Room. 15/105