Minutes of the Audit and Compliance Committee meeting held on Tuesday 4 November 2014 at 9.45am in the Principal’s Meeting Room.

Present: Mr David Spence (Chair)
Ms Colette Wilson
Mr Mark Newlands
Mr Majid Hawa

In attendance: Professor Paul Layzell (Principal)
Mr Simon Higman (Registrar and Secretary)
Mr Graeme Robinson (Director of Finance) (from item 3)
Ms Jenny Febry (Deputy Director of Finance) (from item 6)
Mrs Kay Trinder (Internal Audit Manager)
Mr James Aston (BDO Partner)
Mr Richard Neil (Deloitte Senior Manager)
Mr Richard Evans (Deloitte Director) (from item 6)
Mrs Rachel Knight (Deputy College Secretary and Secretary to the Committee)

1. MINUTES
CONFIRMED and signed the minutes of the meeting held on 24 July 2014 (M14/30 – M14/59) with one amendment. Richard Evans (Deloitte Director) attended the meeting, not Richard Neil.

2. MATTERS ARISING FROM THE MINUTES
NOTED that Committee members received the Terms of Reference and Escalation Memorandum for the Debt Fundraising Oversight Group as Council members (Council minute 14/192) on 1 October 2014. NOTED that on 23 October 2014 Committee members received a copy by circulation of the minutes from the meeting of the Debt Fundraising Oversight Group held on 23 September 2014 (FC/14/42).

3. COMPLIANCE
Research Ethics Committee
RECEIVED an update on the implementation of revised Research Ethics Approval framework, including an outline of the roles of Council, Audit and Compliance Committee and the Research Ethics Committee and a summary of the meeting held on 16 September 2014 and the extra-ordinary meeting held on 16 October 2014. (ACC/14/17)

NOTED that the role of this Committee was to satisfy itself that the process for considering research ethical issues was adequate and applied appropriately, not to make ethical judgements. The Committee would receive a further presentation at the meeting in February 2015, when the process and associated training was finalised, in order to provide assurance that the process and policies were robust. The framework was expected to be fully implemented for Internal Audit scrutiny and robustness after a year of operation. Given the size of the institution this would provide adequate time for the process to experience common ethical quandaries and the practical experience required to make an audit judgement.

DISCUSSED the three stage ethical approval process finalised at the extra-ordinary meeting, particularly the reliance of checks on the self-assessment stage. It was expected that random checks would be carried out to provide assurance that the self-assessment was being completed correctly.

AGREED that the Committee would receive the final structure in February 2015, and feedback about how it was working would be incorporated into the Research Ethics Annual Report. It was expected that the process would be included in the 2015/16 internal audit programme.
4. **RISK MANAGEMENT**

RECEIVED the revised risk management policy and Strategic Risk Register (ACC/14/18). It was noted that the register included a couple of minor mistakes, but that the colour coding was correct.

NOTED that the recommendations from this Committee had been completed, including the inclusion of cyber security on the Strategic Risk Register. Work was continuing on the risks around project delivery and external threats. The Committee expressed surprise that none of the residual risks were coded in red. It was noted that the countermeasures outlined in the register were being re-written because they were not clear, in that it was difficult to identify which measures were already in existence and which measures were proposed. The Committee discussed risk tolerance and appetite, focused on the difference between immediate and creeping intolerance. It was noted that the tip point between the two was not articulated on the register, and that the definitions and expressions of the intolerances of individual risks needed to be developed further.

The Principal confirmed that he found the Strategic Risk Register to be a useful tool, noting that there was currently a shift in the priority of the top risks from recruitment and admissions to infrastructure and buildings. A new emerging risk was the reliance on third party contractors and suppliers, particularly when third parties were involved in large projects and programmes. The Committee discussed whether the possibility of a strike should be articulated on the register. It was noted that the real risk was the USS problem, a consequence of which was a deterioration of industrial relations and the possibility of a strike. The risk related to the sector, and most of the College's competitors were in the same situation as the College. The College would continue to monitor the situation and the risk may be reflected on the register in due course.

REQUIRED that a paragraph outlining the role of the Audit and Compliance Committee should be brought to the February meeting to add to section 4.2 of the risk management policy.

5. **EXTERNAL AUDIT**

RECEIVED the External Auditors Report (ACC/14/22).

NOTED the report overview and that the audit had been completed subject to the outstanding matters outlined to the Committee. Auditing standards required some audit risk areas, including Going Concern, to be marked as significant. It was noted that this was not a judgement regarding the College. It was confirmed that the External Auditors were satisfied with all the testing and documentary evidence received to date and that there were no Grade 1 deficiencies identified. The Management Letter outlined 3 grade 2 points which were discussed by the Committee. It was noted that the management response to the identified deficiency regarding the removal of “super user” access rights for some members of the Agresso implementation team required updating because this had not been completed by the end of October 2014, but was being attended to as a matter of priority.

DISCUSSED the identified deficiency regarding the production of in-year balance sheets. It was noted that the intention was now to produce these on a quarterly basis from the second quarter of 2014-15. Due to the post-implementation workload it had not been possible to achieve this in 2013-14. The Committee discussed the importance of in year balance sheets in confirming the year-to-date position. Some institutions produced monthly balance sheets, but it was important to consider the balance between the resources required to produce the balance sheets against the benefit and accuracy that they would bring. The Committee acknowledged that the production of half yearly and quarterly balance sheets would be a significant improvement. The Committee debated the management response to the identified deficiency regarding the review of journal postings created by Finance staff, which was to carry out a monthly high-level review based on a sample. It was noted that the risk of journal errors was less when the management accounting team was as stable as it currently was, but that with staff turnover there was greater risk, however this could be mitigated by the appropriate training and supervision.
REQUIRED confirmation when the actions concerning user accounts were complete and an updated response to the identified deficiencies in the management letter.

DISCUSSED the Draft Representation Letter. It was noted that the letter was standard and not unique to the College. It was noted that the term ‘Board’ needed to be amended to read ‘Council’. The Committee also discussed the items listed as ‘Changing landscape’, and received reassurance that the College was preparing for the implementation of FRS102 from 2015-16.

6. ANNUAL ACCOUNTS AND FINANCIAL STATEMENTS
RECEIVED the RHUL Consolidated Financial Statements for 2013/14 reviewed by the Finance Committee on 23 October 2014 (ACC/14/23a – c). It was noted that the Committee received an updated pages 11 and 12 detailing committee membership with revised wording of committee responsibilities on 3 November 2014. The Committee noted the increased surplus and some changes affecting the disclosures including the revised disclosure of higher paid staff emoluments which were stated before salary sacrifice, the write off of expired fixed assets and the amalgamation of some categories of expenditure in the disclosure notes. In relation to future prospects, it was noted that from 2015 / 16 the student control number cap would be removed but based on the successful recruitment in 2014/15, the College was in a better position to handle the changed dynamics and risks that this was expected to bring. The USS and SAUL valuation exercises were noted and the financial impact of the scheme deficits was discussed. The Principal confirmed that he was happy to sign off the accounts, and acknowledged that it had been a good year for the College.

RECOMMENDED the annual accounts and financial statements to Council for signature subject to the minor amendments circulated.

RECEIVED the financial report on the Founders Endowment Fund (ACC/14/24). The report was required to provide the Founders Endowment Fund Trustees with assurance that the income from the sale of the pictures had been used for the intended purpose. It was noted that in 2013 / 14 the Founders Restoration Fund income exceeded expenditure in the year by £371k, but that a condition survey was underway and this would identify a programme of expenditure. The Founders Endowment Fund activity was included within the general audit of the College accounts.

RECEIVED the Financial Statements for Royal Holloway Enterprise Ltd (ACC/14/25).

NOTED that the audited accounts were included in the External Auditors report. In 2013 / 14 the turnover and profit had increased. 5% of turnover was retained by the company and the remaining profit was transferred to the College as a gift aid payment.

RECOMMENDED the financial statements for approval by the RHE board.

7. INTERNAL AUDIT
RECEIVED the Internal Audit Managers Report (ACC/14/19).

NOTED that the 2013 /14 audit plan had been completed and that the 2014 / 15 plan was underway. It was felt that College management had engaged with the Internal Audit programme and that good progress had been made over the year. The Internal Audit Manager identified the follow-up audits and checks that were scheduled to be completed by internal resources. It was noted that 3 of the audit reports with outstanding recommendations had been removed from the report since the last meeting, but that there were still 4 audit reports which contained recommendations over 1 year old. It was expected that the recommendations from the Sustainability and Carbon Management reports would be completed by the end of 2014, and that the recommendations from the Recording, management and control of precious assets were not likely to be completed until 2016.
The Committee expressed concern that the recommendation from the Data Integrity – HEFCE audit report had apparently not been completed. The recommendation was that a staff procedural manual should be written. It was noted that this task was more complex than it appeared, and that the College did not compare unfavourable to the sector in this regard. Staff and HEFCE changes had caused the delay, and the College agreed that the recommendation would be reprioritised for the end of the current year.

REQUIRED the College to notify the Committee when the recommendation has been completed.

NOTED that since the papers had been circulated an allegation of fraud had been received. A member of staff apparently had set up a fraudulent supplier on the College finance systems, and £91,000 had been paid to the account. The staff had been suspended on full pay and the investigation was scheduled this week. College insurers had been notified and it was expected that legal support would be engaged to assist with legal and recovery action.

RECEIVED a report from Deloitte regarding internal audit progress (ACC/14/21).

NOTED the key issues and common themes identified in the report, particularly that IT assets could be maintained more efficiently and that third party supplier risks had emerged as a recurrent theme. A number of audits had identified that there was no set standard regarding due diligence of suppliers nor a framework to monitor third party suppliers. It was proposed to include an internal audit of Contract Management in the 2014-15 internal audit plan, and to include supplier resistance as an area of scope. The Space Management audit has identified that the College was underperforming against frequency, occupancy, and utilisation targets, and it was suggested that the recommendations should be revisited in Spring 2015. It was confirmed that the College was reviewing its timetabling policies prior to implementing a centralised timetabling system. It was recognised that the policies were inadequate and noted that this was most apparent in the joint honours system. The internal audit final report for student experience had identified an overall improvement, particularly in the non-academic experience such as careers and social provision, but the internal audit opinion was that academic provision remained more important to future students. The general management response to the audits had been positive. The Committee confirmed that it was satisfied with the level of detail in the report.

RECEIVED the Internal Auditor’s Annual Report 2013 / 14 (ACC/14/21).

DISCUSSED the draft overall assurance opinion alongside the supporting statements, and noted that it provided reasonable assurance that the College has an adequate and effective system of governance, internal control, risk management and value for money for the year ended 31 July 2014. The draft opinion incorrectly recorded an exception which would be removed from the final report. The Internal Auditors believed that 2 priority 1 recommendations placed the College in the lower quartile across the sector. The Internal Auditors confirmed that they had already received a report from the College about the alleged fraud and that they were involved in the investigation. A comment on the fraud would be added to the Internal Auditor’s Annual Report.

NOTED that Deloitte had achieved all its KPIs. The Committee questioned whether the KPIs were challenging enough, which would be discussed by the Committee when they reviewed the performance of the Internal Audit Service in a private meeting.

APPROVED the Draft Internal Audit Annual Report pending the above changes. A final version would be provided for circulation to Council as an appendix to the Committee’s annual report.
8. VALUE FOR MONEY
RECEIVED the Annual Value for Money Report 2013 / 14 (ACC/14/26).

NOTED that the report provided an assessment of Value for Money activity during the 2013 – 14 year measured against the Value for Money policy and reporting framework. The report drew from a number of sources, including measures against the College KPIs, the financial performance of the College and major projects. It was noted that the 23 initiatives and discrete activities identified in the plan would increase as the plan progressed. The Principal confirmed that he was content with the report.

CONSIDERED whether the report should be submitted to HEFCE with the Committee’s annual report.
It was noted that approximately 2/3rds of institutions did submit their report as a public record, and that in the opinion of those present the style and format of the report would not be inconsistent with other submissions. The purpose of the report was to demonstrate to HEFCE that the Committee had based their opinion on evidence, and that if the College was audited by HEFCE the report would demonstrate that, regardless of whether it was submitted.

AGREED to attach the Annual Value for Money Report 2013 / 14 to the HEFCE submission, and that the 2014 / 15 report would demonstrate how College had provided Value for Money for students.

9. ANNUAL REPORT TO COUNCIL
RECEIVED a draft of the Committee’s Annual Report to Council (ACC/14/27).

NOTED that paragraph 10 regarding bribery and fraud now required amendment. It was noted that the Committee meetings had been well attended over the year and that this should be reflected in paragraph 4. The Committee also requested that paragraph 3 should provide more supporting information on the members, for example, to note that members had a financial background. The Committee were reminded that the amended report would be circulated to the next Council meeting for acceptance as part of the annual assurance to HEFCE.

AGREED to enclose the full External Auditors report in Appendix 2.

APPROVED the Annual Report to Council pending the above changes.

10 HEFCE ANNUAL ASSURANCE
RECEIVED a paper outlining the HEFCE Annual Accountability Return (ACC/14/28).

NOTED that it was understood that the fraud case previously discussed would be reported to HEFCE as soon as appropriate, and that this would be before the Annex E Annual assurance return was signed.

AGREED that there was no known reason why the Annex Assurance Return could not be signed.

RECEIVED and AGREED the proposed sign off process for the TRAC (Transparent Approach to Costing) Return (ACC/14/29).

11 COMMUNICATION
NOTED that the Strategic Risk Register was widely distributed through the College. No other items required wider communication in the College.

12 DATE OF THE NEXT MEETING
9 February, 10 am PMR