AUDIT & COMPLIANCE COMMITTEE

Unconfirmed Minutes of the Twentieth meeting of the Audit & Compliance Committee held on 3 November 2011

Present: Mr D Spence (Chair)
Mr S Cooksey
Mrs E Horwood
Mr M Newlands

In Attendance: Professor P Layzell (Principal)
Ms K Kerr (College Secretary and Head of Governance)
Mr S Higman (Registrar and Director of Operations)
Mr G Robinson (Director of Finance)
Mrs J Febry (Assistant Director of Finance)
Mr M Evans (Internal Auditor) (Not for item 7.1)
Ms P Seera (Deloitte Touche) (Not for items 7.1, 7.2, 9 onwards)
Ms H Bygrave (Deloitte Touche) (Not for items 7.1, 7.2, 9 onwards)
Professor J Zanker (Professor of Neuroscience) (For item13.2)
Mrs R Knight (Secretary)

1. MEMBERSHIP & TERMS OF REFERENCE

The Committee received and noted the revised Terms of Reference, circulated on 26 September 2011.

2. MINUTES

The Committee confirmed the Minutes of the meeting held on 20 July 2011 (M11/45 – M11/79). The Minutes were signed by the Chair.

3. MATTERS ARISING

3.1 The Committee noted that the revised Gifts and Hospitality Policy had been approved and was published on the College website.

3.2 The Committee received a report on recent Data Protection breaches (ACC/11/19). It was noted that the investigation into how student photographs were unprotected online was ongoing. Questions about the incident involving the loss of the personal laptop were held for item 13.2 when a member of the Research Ethics Committee would be present.

3.3 Following M11/63 the Committee noted that a programme of anti-bribery training was planned for 2011 – 12 including training for Council members at the away day on 21st November 2011.
4. **ANNUAL ACCOUNTS AND FINANCIAL STATEMENTS**

4.1 The Committee reviewed the RHUL Consolidated Financial Statements for 2010/11 (ACC/11/20). The Director of Finance summarised the main points in the accounts.

It was noted that the income of £132.2m was within £0.1m of the previous year’s total. This was related to the fall in core teaching grants and a fall in overseas student numbers, which had been well-documented throughout the year, offset by continued growth of research grant and contract income and some other income increases.

Expenditure had decreased slightly compared to the year ended 31 July 2010 as a result of a reduction in staff costs, including the costs of the voluntary severance scheme held in 2009/10 and its effect on staff costs in 2010/11. The national pay settlement for 2010/11 had been low. Additionally there had been some reductions in operating costs, for example the costs associated with PC support had been reduced by upgrading PCs.

It was noted that the Students Union constitution had been amended in April and that the College could not demonstrate a “dominating influence” over the Student Union, and therefore from this date had stopped consolidating their results. This was reflected in the account figures and notes throughout as applicable.

The value of assets had increased. The picture collection had been re-valued within endowment assets. The reduction of current asset investments and increase in cash arose because more deposits were being held in money market funds, which were included within cash.

The creditor balance was lower than last year, partly because grants received in advance for the HEFCE capital funding round ending in April 2011 had been spent. There had been an increase in debtors associated with the increase in research grant and contract income and summer trading activity, but it was noted that this needed to be monitored closely.

The Committee noted the positive financial outcome, and that this was better than had been forecast. However, the future shift in funding from the Funding Council to income from students meant the finances would change dramatically and there would be greater risk to teaching income.

4.2 The Committee considered the financial report on the Founders Endowment Fund (ACC/11/21). It was noted that the Founder’s Restoration Fund was allocated half the income of the endowment. In 2010-11 this was spent on restoring the quads and this project
expenditure exceeded the income allocated in the year by £308k, therefore spending some of the opening balance of unspent funds.

4.3 The Committee considered the Financial Statements for Royal Holloway Enterprise Limited. It was noted that the accounts showed a drop in income, which reflected the reliance on a small number of activities. It was noted that the new Vice Principal for Research had experience in this area and would review the strategy for commercial income.

5. EXTERNAL AUDIT MATTERS

The External Auditors Report (ACC/11/23) and Letter of Representation (ACC/11/23a) was received by the Committee. The External Auditors assured the Committee that they were able to sign the unmodified opinion. They commented on the financial results they had seen elsewhere in the sector for 2010-11 and that these were also healthy.

It was noted that the College’s income had remained the same, whilst other institutions were recording a dip. Additionally, the College did not have to account for a pension deficit because there were no FRS 17 liabilities. The College had a significant loan balance, but most of this was due to be paid after five years. By no longer consolidating the Student Union accounts the College was now in line with the majority of institutions in the sector, very few of which consolidated their student union accounts. It was

AGREED

That the change to the consolidation of the Student Union accounts should be reflected in the Responsibilities and Membership of Council.

The External Auditors confirmed that the bank confirmation letters for a deposit balance of £2m had now been received.

The key audit risks identified in the External Auditors audit plan were HEFCE funding and data quality; application of funds in accordance with the terms of the financial memorandum with HEFCE and for specific purposes; income recognition; and change of investment manager. It was confirmed that completed planned testing results were satisfactory for all these areas.

The picture collection had increased in value by £2m. It was noted that the College had chosen the high auction value. This was to reflect the realistic market value of a private sale and was not a change in policy. The Committee asked the External Auditors how they had assessed Christie’s competence and were satisfied that the appropriate assurances had been gained.

It was noted that the External Auditors had recommended that the College
could improve its management accounts control by producing quarterly balance sheets. The Committee agreed that this would help support management decisions in the tough financial climate, but accepted that the workload would not be manageable without appropriate planning. Therefore they supported the management decision to produce a balance sheet at the half-year point in 2011-12.

In relation to the representation letter, the Committee confirmed that it was satisfied that the College was a going concern. The Committee discussed how the liabilities of the USS pension scheme related to the going-concern. It was expected that the ongoing deficit of USS would be reduced following changes to the scheme benefits. Formal confirmation of the outcome of the triennial revaluation was not expected until early 2012, although it was expected that, in the light of the scheme changes, extra contributions would not be required. It was

AGREED

That for the review of the 2011-12 Financial Statements by the Committee, management should provide a paper to support the going concern and loan covenant representations, and additional information to support these for 2010-11 would be provided to the Council meeting.

The Letter of Representation was approved, subject to an amendment to point 14 suggested by the Chair prior to the meeting.

The External Auditors thanked the Director of Finance and Assistant Director of Finance for their contribution.

6. **INTERNAL AUDIT MATTERS**

6.1 The Committee received the Internal Auditor's Operational Report (ACC/11/24) and noted that:

Nine audit reports had been completed with Grant Thornton’s support since the last Committee meeting.

Audit certificates had been provided for six EU projects funded under various programmes. A number of projects had been extended into 2011/12.

The police investigations into the credit card fraud previously reported to the Committee were ongoing. Finance had implemented actions to strengthen the understanding of policies and controls relating to use of a College credit card. Card holders and recognised authorisers were required to read and sign the updated policy, submission times and signatures approving expenditure had been revised. Work was currently underway on an audit of Payments on the College Purchasing Card.

The draft report on Cash Handling Practices and Records at the
College shop had been discussed with relevant management and had been issued as formal drafts. Responses were currently being considered by management. It was noted that the College shop was by far the biggest area of cash use on campus.

6.2 The Committee received the Internal Auditor's Annual Report 2010-11 (ACC/11/25). It was noted that the report was written to meet the specific obligations required by HEFCE.

It was noted that all the agreed audits from the approved audit plans from 2009-10 and 2010-11 had been completed. This was recognised as a major achievement.

The Committee discussed the Internal Auditor's opinion and conclusions regarding risk management and value for money. The importance of these areas in the current climate was recognised. The Committee reviewed further information on risk management presented to the Committee by the senior management team (ACC/11/25a). It was noted that better presentation of risk management consideration by management would be of value. It was

AGREED

That the Planning and Resources Committee would in future provide regular written reports to the Committee regarding risk management issues and how these had been addressed. This would be a standing item in the future.

That the Internal Auditor would update his report to recognise paper ACC/11/25a and to reflect the Committee’s decision.

6.3 The Committee received revised follow-through procedures for the completion of final Internal Audit Reports (ACC/11/26). It was

AGREED

That every audit should have an accompanying timetable with dates.

That the procedures would be amended to reflect that the final report should contain management actions rather than recommendations.

That the close-out meeting would include a response to the audit findings and was to be compulsory for all audits.

That the amended procedures would be agreed by circulation.

6.4 The College Secretary updated the Committee on the proposals for additional Internal Audit resource for 2011/12. The new Head of
Procurement had advised that the College would need to make sure that the process of obtaining quotes did not interfere with the other audit tenders.

The Committee discussed the importance of ensuring that there were sufficient resources to deal with recommendations made by the Internal Audit process. This was related to the ongoing review of administrative services across the College. The College was trying to speed up the process of implementing agreed audit recommendations by transferring responsibility from Committees to individuals, and by requiring those individuals to agree actions and reasonable time scale for their implementation.

7. **FINANCIAL MATTERS**

7.1 The Committee received a report about the tendering of the Internal and External audit services (ACC/11/27). Although it was likely that the tendering process would constitute a lot of work, it was noted that HEFCE required the college to re-tender every seven years unless there was a good reason not to do so. The tender would have to be completed within EU guidelines as the value exceeded the EU tender threshold. The Committee AGREED

That a sub-group would oversee the process. The members of the group would be confirmed by circulation.

That the tender for the External Audit should be completed first. Any unsuccessful bidders could then, if they wished, be considered for the Internal Audit process.

7.2 The Committee discussed the approval process for the TRAC (Transparent Approach to Costing) Return (ACC/11/28). It was AGREED

That the return would be approved by circulation subject to discussion by teleconference if required.

8. **VALUE FOR MONEY**

The Committee received a report about value for money activity in the College (ACC/11/29). The report followed the HEFCE template. It was noted that although the College did not have a separate explicit value for money agenda or targets, value for money considerations were embedded in the decision making process, annual plans and investment at different levels. However, the Committee accepted the Internal Auditor’s concerns that there were not sufficient documented reviews reflecting on measurable targets where possible. It was
AGREED

That in future management would ensure that progress in the three value for money principles of economy, efficiency and effectiveness, was demonstrated through regular and documented review of the outcomes of projects and initiatives.

9. FRAUD REGISTER

The Committee received details of new entries in the College Fraud Register (ACC/11/30).

10. HEFCE MATTERS

The Committee provided the Principal with the required assurance to confirm that the institution has met its obligations to HEFCE under the Financial Memorandum and other duties.

11. ANNUAL REPORT TO THE COUNCIL

The Committee received a draft of their Annual Report (ACC/11/32). It was

AGREED

That a revised version reflecting the conclusions regarding risk management and value for money matters would be circulated for agreement.

12. MAJOR INCIDENT MANAGEMENT PLANNING

The Committee received an update on Major Incident Management Planning (ACC/11/33).

13. COMPLIANCE

13.1 Health and Safety

The Committee noted that the Health and Safety Committee meeting was held on 27 October and that the minutes will be available at the February meeting of the Committee.

13.2 Research Ethics

The Committee noted that the Ethics Committee meeting scheduled for 4 October 2011 was postponed and arrangements were being made for a new date. The Committee received the Research Ethics Annual Report (ACC/11/34). Professor Zanker described the College research ethics procedures and the work that the Research Ethics Committee had done over the past year, including the College’s
response to the loss of the personal laptop.

14. COMMUNICATION

14.1 Items for dissemination in the College
It was agreed that the new Internal Audit follow-through procedures should be disseminated as appropriate.

14.2 Items not for publication under the Freedom of Information Act
It was agreed that information regarding the Audit Tendering should not be published without applying the appropriate exemptions under the Freedom of Information Act 2000.

15. DATE OF NEXT MEETING

The Committee noted that the next meeting will be on Wednesday 29th February 2011 at 10am in the PMR

16. ANY OTHER BUSINESS

There were no other items of business

Rachel Knight
Deputy College Secretary
17 November 2011