REPORT OF THE AUDIT & RISK ASSURANCE COMMITTEE TO THE COUNCIL AND THE DIRECTOR

Year ended 31 July 2024

Significant Issues

1. The committee's opinion is set out at the conclusion of this report.

2. The current environment of heightened political and economic uncertainty around the world presents a number of risks to the College, some of which could crystallise with little warning. The College is alive to these risks and the Committee keeps future scenarios and possible mitigating actions under review.

3. In common with other HEIs, and other enterprises relying on digital technology, the College is at risk of cyber-attack or other breach of security, and criminal capability continues to become more sophisticated. Indeed during the year the College was subject to an attack but handled the recovery smoothly, fortunately with no financial impact. Progress has been made in improving the College's resilience and work to reduce this risk continues. The Committee is monitoring the larger program of the College's digital strategy development.

Membership and meetings

4. The membership of the Committee in 2023/24 was:

   Independent members of Council

   Andrew Ratcliffe, Chair; member of RCM Council July 2014 - July 2024, appointed to Committee August 2014 - July 2017, extended to July 2020 and again to July 2023

   James Williams; member of RCM Council October 2020 – July 2025, appointed to Committee May 2021 – July 2024

   Paula Walter; member of RCM Council July 2022 – July 2027, appointed to the Committee February 2022 to July 2025

   Peter Holgate; Chair Designate, member of RCM Council March 2023 – July 2028, appointed to the Committee March 2023 – July 2026

5. From September 2024 the membership of the Committee will be as follows:

   Independent members of Council

   Peter Holgate, Chair; member of RCM Council March 2023 – July 2028, appointed to the Committee March 2023 – July 2026

   Peter Dart; member of RCM Council January 2015 – July 2025, appointed to Committee August 2024 – July 2025

   Paula Walter; member of RCM Council July 2022 – July 2027, appointed to the Committee February 2022 to July 2025

6. The Committee met three times during the year on 25 September 2023, 7 November 2023 and 9 May 2024 and has met twice subsequently on 26 September 2024 and 13 November 2024. Paula Walter was unable to attend the meeting on 7 November 2023, otherwise all members attended all meetings during the year. Terms of office on the Audit & Risk Assurance Committee for both independent members of Council and for co-opted members are for three years, renewable.

7. The Secretary to the Committee was Sharon Moloney, Clerk to Council and Governance Services Manager. Nicholas Seager, Registry Information & Systems Manager, attends meetings as Assistant Secretary. The Director (Professor Colin Lawson until Aug 2024, James Williams from September 2024), Deputy Director (Kevin Porter),

Director of Finance & Technology (Rachel Harris) and Head of Finance (Jas Rooprai) also attend meetings of the Committee. Other Directorate members attend as needed.

8. Representatives of the internal audit service, KCG, and of the external auditors, MHA MacIntyre Hudson, attended meetings regularly during the year. The committee has the opportunity to meet privately with both the internal and external auditors throughout the year.

9. This report was discussed in draft at the September 2024 meeting and finalised and agreed at the November 2024 meeting.

Terms of reference

10. The terms of reference are reviewed on an annual basis and the Committee reviewed its terms of reference at the meeting held on 26 September 2024. The Committee has adopted the model in the revised 'CUC Higher Education Audit Committees Code of Practice', published in May 2020 and, as for all College Committees, includes the promotion of Equality, Diversity and Inclusion and regular reflection on how the work of the Committee might support the EDI strategy. The Committee's name was changed in summer 2023 from Audit Committee to Audit & Risk Assurance Committee to reflect a change in its terms of reference to become the primary governance committee responsible for overseeing the College risk management activities and planning (which had formerly been a responsibility of the Finance & General Purposes Committee).

Risk Management

11. The Audit & Risk Assurance Committee has kept under review the College's arrangements for risk management. The Committee received the annual report on risk management at the September 2024 meeting, noting that the College undertakes substantial and regular in-year review of the Risk Register. As set out above, from September 2023, the Committee now has a fuller role for risk management.

12. During 2023/24, the Committee continued to monitor the developments in the College's ICT arrangements and progress in completing risk mitigation projects. The Committee also considered the College's review of sexual misconduct and harassment policies.

Control and Governance

13. The Audit & Risk Assurance Committee has kept under review the College's arrangements for control and governance and this is supported by the Internal Auditors' Annual Opinion. The Internal Auditors reach their opinion by examining the design and operation of controls over the College's financial, operational and strategic processes and by assessing governance processes and procedures, as well as progress made in implementing recommendations made in prior years.

Sustainability

13. Within the Strategic Plan RCM is committed to "a robust sustainability programme to secure the long-term financial future of RCM". The Financial Sustainability Strategy is concerned with the College's overall sustainability, and generation and management of financial resources required for Strategic Plan objectives. It includes the following targets:
   - maintain operating cash (updated to include the undrawn balance on the RCF) in the range 60 to 120 days;
   - achieve a five-year rolling-average surplus of £300,000; and
   - invest at least £1million per annum in approved infrastructure strategies.

14. The College expects to achieve these targets in 2024/25 and all future years of the financial forecast.

15. At its meeting in May 2024 the Committee received the College's Carbon Management Plan annual report which shows progress against the College's goal progressively to reduce its emissions with the target of achieving net zero by 2035.

16. The Budget for 2024/25, as presented to Council in July 2024, shows a surplus of £0.7m, although the "operating surplus" is £2.7m enabling the College to plan capital expenditure of £1.6million in 2024/25.

17. From 2024/25 onwards the College expects to return to stronger surpluses with growth in income, principally fee income, higher than cost inflation going forward.

Economy, efficiency and effectiveness – Value for Money (VfM)

18. The Audit & Risk Assurance Committee received the annual report on VfM in 2023/24 at its September 2024 meeting. The College's VfM approach was also examined by the internal auditors and their opinion included in their annual report was "we provide **satisfactory assurance** that the Royal College of Music maintained adequately designed and effective arrangements for risk management, control and governance, and for economy, efficiency and effectiveness".

19. The VfM strategy and operation is overseen by Directorate and is embedded in the scrutiny of all Directorate decision-making. The strategy was fully reviewed in 2019/20, having also been considered by Finance & General Purposes Committee and Council as part of this process, and is due to be reviewed again in 2024/25. The key change to the strategy and policy has been to make more explicit the objective to seek value for money to support the student experience which aligns with the OfS's changing approach to considerations of VfM.

Management and quality assurance of data submitted to regulatory bodies

20. The Committee has taken advice from the Internal Auditors on the arrangements for the management and quality assurance of data submitted to HESA, the OfS, the SLC, Research England and other funding bodies. Internal audit have not undertaken any work on the management and quality assurance of data submitted to external bodies but rather taken assurance from management in this area.

21. The College's data quality statement and record was presented to the Committee at its September 2024 meeting. The statement includes strategic statements about the College's approach to data quality, together with a chart of named Directorate members responsible for each of the College's statutory returns and the corresponding senior staff sign-offs for each return.

Internal Audit

22. During the year ended 31 July 2024, the internal audit service was provided by KCG, of which the College is a member, on a daily rate basis, with increases reviewed annually by the KCG Board. Their appointment was for an initial five-year period from 1 August 2006 to 31 July 2011. The Audit & Risk Assurance Committee reviewed the appointment of the internal auditors in June 2011, October 2017 and again in May 2024 and resolved that provision of internal audit services by KCG (and membership of KCG) continues to be appropriate for the RCM. The number of audit days allocated for 2023/24 was 56 (61.5 delivered) and 56 days have been allocated for 2024/25.

23. The following table sets out internal audit reviews and related recommendations in 2023/24:

Assignments	Recommendations by priority rating				Assurance level	Control	Risk Management	Governance	VfM	
	1	2	3	Total						
Internal control assurance – financial										
Financial Systems and Processes: Accounts receivable	-	-	-	0	**Substantial**	✓	✓	✓	✓	

Assignments	Recommendations by priority rating				Assurance level	Control	Risk Management	Governance	VfM	
	1	2	3	Total						
Internal control assurance – operational										
IT Risk and Control	1	4	4	9	Satisfactory	✓	✓	✓	✓	
Tenon Facilities Management	1	2	-	3	Satisfactory	✓	✓	✓	✓	
Safeguarding	1	1	1	3	Satisfactory	✓	✓	✓		
Internal control assurance – strategic										
Academic Quality	-	1	-	1	Satisfactory	✓	✓	✓	✓	
Equality, Diversity & Inclusion	-	1	2	3	Satisfactory	✓	✓	✓	✓	
Governance										
Governance	-	-	1	1	Satisfactory		✓	✓		
Totals	**3**	**9**	**8**	**20**						

24. The Audit & Risk Assurance Committee considered in particular those weaknesses identified by the Internal Auditors as Priority 1 recommendations and concluded that the matters had been satisfactorily remediated.

   KCG has provided its annual report. Its opinion is quoted below:

> Overall, for the year ended 31 July 2024 and at the time of reporting, we provide **satisfactory assurance** that the Royal College of Music maintained adequately designed and effective arrangements for risk management, control and governance, and for economy, efficiency and effectiveness.

External Audit

25. MHA were appointed as External Auditors with effect from Spring 2023, replacing BDO, who had undertaken the external audit of the 2021/22 accounts.

26. The Audit & Risk Assurance Committee's assessment of MHA's performance for the year is that it is satisfactory.

27. The external auditors' audit highlights memorandum for 2023/24 includes no significant recommendations. The management of the College has responded positively to the findings and recommendations.

28. The Committee had the opportunity for a private session with MHA at its meeting on 13 November 2024.

Audit & Risk Assurance Committee Opinion

29. In accordance with the OfS Terms and Conditions of Funding for Higher Education Institutions (OfS 2018.15) and having taken into account the annual report of the Internal Auditors and the Management Letter of the External Auditors, the Committee confirmed, based upon information it has received, the following statement as part of its Annual Report to the Council, and to the Director, as the Accountable Officer:

   • The Committee is satisfied that the College has effective arrangements in place for governance and risk management and control within the College as set out in the Statement of Internal Control, included with the Annual Financial Statements.

   • The Committee is satisfied with the College's arrangements for securing economy, efficiency and effectiveness and notes the progress made in this regard during 2023/24.

- The Committee is satisfied that the College has an appropriate framework in place for ensuring the management and quality assurance of data to HESA, OfS and other funding bodies.

- The Committee is satisfied that the College has arrangements in place to ensure that all forms of resources are used in a sustainable (financial, social and environmental), secure and effective manner which supports institutional success.

30. In arriving at this opinion, the Committee informs the Council and the Accountable Officer that:

- The work of KCG adequately covered aspects of all areas of the internal control system of the University for 2023/24, as part of an ongoing rolling programme.

- Representatives from the Internal Auditors and External Auditors, had the opportunity for direct access to the Director, the Chair of the Committee and, had it been necessary, the Chair of Council.

- Both the External and Internal Auditors have had unrestricted access to all records, assets, personnel and premises and have had the authority to obtain whatever information and explanations they have considered necessary.

- The Director did not have occasion to report any serious weakness, significant fraud or major accounting breakdowns to the Chair of the Committee, the Council, KCG or to OfS.

31. This opinion is based on information presented to the Committee. The annual opinion is for the 2023/24 financial year and includes any significant issues up to the date of preparing the report in November 2024.

Appreciation

32. The Committee is grateful to its auditors, KCG and MHA, for the work undertaken during the year.

Signatory

Professor Peter Holgate
Chair of Audit & Risk Assurance Committee, 13 November 2024