

# REPORT OF THE AUDIT COMMITTEE TO THE COUNCIL AND THE DIRECTOR FOR THE YEAR ENDED 31 JULY 2020



## Significant Issues

The Audit Committee's role is to advise and assist the Council in respect of the entire assurance and control environment of the College. In line with its responsibility on behalf of Council, to oversee and monitor the College's system of internal control, including its audit and risk management framework, the Committee's opinion on the management and control environment is set out at the conclusion of this report. Without qualification of that opinion, the Committee draws attention to the following issues faced by the College:

- The most significant financial risk from the Covid-19 pandemic is the risk to student numbers. The College has planned staff and operating cost savings, along with a pay and recruitment freeze for 2020/21. A new red risk has been added to the Risk Register regarding Covid-19 and its potential to affect both sustainability and standards at the College.
- The impact of Brexit on the recruitment of EU students and the retention of staff is still uncertain, Mitigation plans are in hand but, at the least, it is likely that College's obligations under UKVI will increase.
- Covid-19 has seriously affected the ABRSM. No donation is expected from them in 2020/21 and it is likely that any subsequent donations will be reduced.
- ICT risks and controls and digital development – the risk that the College could suffer a debilitating cyber-attack/security breach are increased by home working and cyber-attacks have increased generally across both private and public sectors during the COVID-19 pandemic. The Committee continues to monitor the larger programme of the College's digital strategy.
- The Government has made positive statements about OfS specialist institution funding, but up to a quarter of this funding could be at risk. The review, expected to start in summer 2020, has been delayed
- There is the likelihood of a rise in employer contributions to the USS pension scheme following the outcome of its actuarial valuation as at 31 March 2020, in addition to the increases already planned for October 2021.

Each of these risks is concerning in themselves but their accumulation is also placing strain on the College's staff. Continued effort is needed to manage and mitigate their potential effects.

## Membership and meetings

The membership of the Committee in 2019/20 was:

### *Independent members of Council*

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

**Andrew Haigh**; member of RCM Council July 2011 - July 2021, appointed to Committee July 2013 – July 2018, extended to July 2021.

**Vacancy**; there was a vacancy during 2019/20 which has now been filled by the appointment of Catherine Clarke.

### *Co-opted members*

**John Heywood** appointed to Committee August 2014 - July 2017, extended to July 2020.

**Joanna Matthews** appointed to the Committee August 2019 – July 2022.

The Committee met three times during the year on 3 October 2019, 7 November 2019 and 21 May 2020 and has met twice subsequently on 1 October 2020 and 11 November 2020. Joanna Matthews was unable to attend the meeting on 3 October 2019, otherwise all remaining members attended all meetings during the year. Council committee members serve for renewable three-year terms. Council independent membership is for up to two five-year terms. The terms for co-opted members of the Committee are for three years, renewable.

The Secretary to the Committee was the Registry Information & Systems Manager and Assistant Clerk to the Council, Nic Seager, to 30 November 2019. From 1 December 2020, the Secretary has been the Clerk to the Council, Charlotte Martin. Nic Seager has continued to attend meetings as Assistant Secretary. The Director (Professor Colin Lawson), Deputy Director (Kevin Porter) and the Director of Finance (Marcus McDonald to November 2019, Rachel Harris from November 2019) also attend meetings of the Committee. Other Directorate members attend as needed.

The Committee expressed its thanks to its outgoing co-opted member, John Heywood whose period of office concluded in July 2020.

Representatives of the internal audit service, KCG, and of the external auditors, BDO, attended meetings regularly during the year. There are periodic private meetings between the Committee and both the internal and external auditors.

This report was discussed in draft at the October meeting and finalised and agreed at the November meeting.

### **Terms of reference**

The Audit Committee's terms of reference followed the model in the Committee of University Chairmen publication 'Handbook for Members of Audit Committees in Higher Education Institutions' and as referred to in the 2008 HEFCE Audit Code of Practice that formed part of the HEFCE Financial Memorandum. The Committee reviewed its terms of reference at the meeting held on 1 October 2020 and adopted the model in the revised 'CUC Higher Education Audit Committees Code of Practice', published in May 2020.

### **Risk management**

The Audit Committee has kept under review the College's arrangements for risk management. The Committee received the annual report on risk management at the October 2020 meeting, noting that the College was keeping its Risk Register under frequent review given the continuing turbulent environment for Higher Education and the economy as a whole. Academic risk is also considered by the Committee and in October 2020, the BMus Review, presented by the Director of Programmes, was considered. The Committee also received the internal auditors' annual report, in which their opinion was that "the control framework over the College's risk management arrangements provides substantial assurance that associated risks material to the achievement of the College's objectives are adequately managed and controlled". Accordingly, there were no recommendations.

### **Control and Governance**

The Audit 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

Within the Strategic Plan, the College is committed to “a robust sustainability programme to secure the long-term financial future of RCM”. The Financial Sustainability Strategy is concerned with overall sustainability and generation and management of financial resources required for the Strategic Plan objectives. The Audit Committee has considered risk management reports, sustainability assessments, the annual sustainability assurance report and an annual report on performance against Key Performance Indicators. The Finance & General Purposes Committee considers budget proposals, scenario planning and medium/long term financial planning.

The going concern basis is fundamental to the College’s financial statements. At its November 2020 meeting the Committee considered a paper, which had already been reviewed by the Finance & General Purposes Committee, in support of that assumption after considering the financial risks described earlier. The Committee concurred with its conclusion that the going concern basis continues to be appropriate.

## Economy, efficiency and effectiveness - Value for Money (VfM)

The Audit Committee received the annual report on VfM in 2019/20 at its October 2020 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 College maintained adequately designed and effective arrangements risk management, control and governance, and economy, effectiveness and efficiency”.

In 2008/09 the College put in place a new VfM Strategy which broadened VfM scrutiny across the College, in line with the new model for VfM included in the revised HEFCE financial memorandum and associated Accountability and Audit Code of Practice. Implementation of the Strategy is led by the Deputy Director. The strategy was fully reviewed during 2019/20, having also been considered by Finance & General Purposes Committee and Council as part of this process. 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. The VfM special review undertaken in 2019/20 was: Strategic planning for continued move to digital Library services (led by Deputy Director). Since the College’s response to Covid-19 will include a significant amount of VfM activity across a range of activities, it is not planned to have a specific VfM review in 2020/21.

The Audit Committee had a private session with the Students’ Union President, in its October 2020 meeting including students’ perspectives of VfM particularly in the light of their experience during Covid-19 restrictions.

## Management and quality assurance of data submitted to regulatory bodies

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. An internal audit review of data quality is now part of the annual core internal audit cycle for the College and in 2019/20 this was ‘Data Quality Arrangements – Unistats Record’. This review resulted in **substantial** assurance and no recommendations.

The College’s data quality statement was presented to the Committee at its November 2020 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

During the year ended 31 July 2020, the internal audit service was provided by KCG, of which the College is a consortium member, on a daily rate basis, with increases reviewed annually by the Consortium Board. Their appointment was for an initial five year period from 1 August 2006 to 31 July 2011. The Audit Committee reviewed the appointment of the internal auditors in June 2011 and again in October 2017 and resolved that KCG consortium membership continues to be appropriate for the RCM. The number of audit days allocated for 2019/20 was 60 (61.5 delivered) and 54 days have been allocated for 2020/21.

Apart from core annual system reviews, the strategy adopted for internal audit by the College and the Audit Committee has been to focus on a small number of areas each year for special review in conjunction with the RCM risk register, in discussion with Directorate and the Audit Committee. The aim is to add value to the College through these special reviews. The special internal audit added value review in 2019/20 was a review of Strategic planning for the continued move to digital Library services.

The following table sets out internal audit reviews and related recommendations in 2019/20:

Assignment	Recommendations by priority rating				Assurance level
	Priority 1	Priority 2	Priority 3	Total	
<b>Financial Internal Controls</b>					
Financial Processes - Resource Finance Remote Working Controls	0	1	1	2	Satisfactory
<b>Operational Internal Controls</b>					
Student systems – admissions and enrolment	0	1	1	2	Satisfactory
IT Risk and Control (remote working)	3	4	0	7	Limited
<b>Strategic Internal Controls</b>					
REF 2021 preparedness	0	0	0	0	Substantial
OfS compliance	0	1	0	1	Satisfactory
<b>Sector Themes</b>					
Student Wellbeing	0	2	1	3	Satisfactory
<b>Risk Management assurance</b>					
Risk Management Framework	0	0	0	0	Substantial
<b>Audit Committee Assurance</b>					
Data Quality Arrangements – Unistats record	0	0	0	0	Substantial
<b>TOTAL</b>	<b>3</b>	<b>9</b>	<b>3</b>	<b>15</b>	

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

Overall, for the year ended 31 July 2020 and at the time of reporting, we provide **satisfactory assurance** that the College maintained adequately designed and effective arrangements for risk management, control and governance and economy, efficiency and effectiveness.

Our review of IT Risk and Control provided limited assurance as a result of a significant lack of investment in maintaining infrastructure to the extent that some key software and hardware is now no longer supported with risks that security weaknesses will not be fixed and a service disruption will increase. Furthermore, there is a need to invest in and develop a security training approach in order to reduce the significant risks from users unknowingly clicking and downloading malware which could be further leveraged against the security weaknesses to mount cyber-attacks such as ransomware.

The Committee held a private session with KCG at the conclusion of its meeting on 11 November 2020.

#### **External audit**

BDO was appointed as external auditors with effect from 17 May 2012 and have been reappointed annually thereafter, including via a formal tender process, inviting proposals from other firms of auditors, in 2018/19. The Audit Committee's assessment of BDO's performance for the year is that it is satisfactory.

The external auditors' audit highlights memorandum for 2019/20 includes no significant recommendations. The RCM management has responded positively to the findings and recommendations.

The Committee held a private session with BDO at its meeting on 11 November 2020.

#### **Audit Committee opinion**

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 recommends, 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 2019-20.
- 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

In arriving at this opinion, the Committee recommends to, and 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 2019-20, 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.

This opinion is based on information presented to the Committee. The annual opinion is for the 2019/20 financial year and includes any significant issues up to the date of preparing the report in November 2020.

#### **Appreciation**

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

Andrew Ratcliffe  
Chairman, Audit Committee  
11 November 2020