



**Minute of the Meeting of the Audit Committee  
held at 5.30 p.m. on 12 March 2009  
in the Lord Provost Elder Room, Old College**

**Present:** Ms G Stewart (Convener)  
Mr D Bentley  
Professor S Monro  
Ms A Richards  
Mr M Sinclair  
Professor A Smyth

**In attendance:** Mr M D Cornish, The University Secretary  
Mr N Paul, Director of Corporate Services  
Mr J Gorringe, Director of Finance  
Mr A Digance, Assistant Director of Finance  
Mr H McKay, Chief Internal Auditor  
Ms K Crichton, Internal Auditor  
Mr M Rowley KPMG, External Auditor Director  
Mr S Reid, KPMG, Director  
Dr K Novosel, Head of Court Services

**1 MINUTE OF THE MEETING HELD ON 20 NOVEMBER 2008**

**Paper A**

The Minute of the meeting held on 20 November 2008 having previously been circulated was approved as a correct record.

**2 MATTERS ARISING**

**2.1 Private Meeting with Internal and External Auditors**

The Convener confirmed that meetings had taken place between members of the Audit Committee and Internal and External Auditors. The meeting with Internal Audit had been most helpful, particularly the opportunity to talk with all members of the Internal Audit Team; no significant points had been raised. At the meeting with the External Auditors they had confirmed that there were no further issues that had arisen in respect of the Annual Accounts for the year ended 31 July 2008 which required to be brought to the attention of the Committee; follow up items from the 2006/2007 audit had been satisfactorily progressed.

**2.2 Membership**

**Paper B**

The Audit Committee welcomed the appointment of Mr Martin Sinclair with immediate effect until 31 August 2012.

**2.3 Severance Arrangements**

The Committee noted that at its previous meeting there had been debate on the role of the Audit Committee in reviewing severance payments. The University Secretary intimated that the Scottish Funding Council required that Court have in place a monitoring process to consider early retirement and voluntary severance packages where the salary of the individual involved was over £70,000 or where the package amounted to more than £100,000; Court had asked that the Audit Committee undertake this function on its behalf.

The Committee noted the various procedures and guidelines in place regarding early retirement and voluntary severance including the robust procedure for authorising individual cases and that Court had most recently approved these arrangements on 20 October 2008.

The role of the Audit Committee was to be satisfied that proper procedures had been followed including that the individual cases had been properly authorised and that the agreement reached met the criteria and was within the limits set by Court; in exceptional circumstances if the agreement was beyond the limits set by Court that this had been appropriately authorised. In order to discharge this role the Audit Committee relied on information presented by the Chief Internal Auditor who had full access to all relevant documentation. It was confirmed that it was not the role of the Audit Committee to form a view on the reasonableness of any settlement.

The Audit Committee further noted that in respect of the Remuneration Committee its remit only related to the most senior members of staff and any early retirement or voluntary severance package for any member of the senior management team would be referred to the Remuneration Committee for consideration; it did not have a role in regard to the University's wider early retirement/voluntary severance arrangements.

The Audit Committee noted the very comprehensive statement on its role in respect to severance arrangements and was content with the current process.

## **FOR DISCUSSION**

### **3 FINANCE FOLLOW UP OF EXTERNAL AUDIT REPORT**

**Paper C**

The Committee noted that this was the second report it had received as part of the new arrangements to monitor the items identified by External Audit in the action plan contained within its Highlights Memorandum. Seven items had been identified in respect of the 2007/2008 External Audit and the Committee noted the updated information on progress to date to take forward the agreed actions for each, particularly welcoming the process to review the current arrangements to finalise the annual accounts. The Audit Committee further noted that KPMG was content with progress to date and that these items would be routinely followed up as part of the 2008/2009 external auditing process.

### **4 EXTERNAL AND INTERNAL AUDIT APPRAISAL METHODOLOGY**

**Paper D**

The Audit Committee noted that it had previously been agreed following its review of the CUC Handbook for Members of Audit Committees in Higher Education Institutions that a formal process should be undertaken to review the performance of External and Internal Audit on an annual basis. Audit Committee members were asked to consider and approve the methodology to be adopted to take forward these reviews.

#### External Audit

The Audit Committee asked that a draft report be prepared by officers of the University for consideration at its next meeting based on consideration of the broad headings of the check list for the evaluation of External Auditors as contained in the CUC Handbook.

The Audit Committee was further content that in addition to this draft report it would seek the oral views of the Director of Finance and the Chief Internal Auditor on their experiences and opinions of the performance of the External Auditors at its next meeting as part of the review process.

#### Internal Audit

The Audit Committee wished to ensure that as far as possible similar approaches were adopted for the reviews of External and Internal Audit. The check list contained within the CUC Handbook for the evaluation of Internal Audit was more extensive than that for External

Audit, containing a number of sections to be completed by various parties which the Audit Committee considered was not appropriate.

The Audit Committee was content that a draft report be prepared by officers of the University based on the headings of the sections to be completed by Audit Committee and senior officers in the same way as with External Audit. It was noted that the Internal Audit Service was currently part of a peer review benchmarking exercise and that an annual internal review of satisfaction with internal audit reports and processes was already conducted. The Committee agreed that it receive reports on the outcome of these exercises as part of its overall review process. This was likely to be at the October meeting.

## **INTERNAL AUDIT**

### **5 INTERNAL AUDIT REPORTS**

**Paper E**

The Chief Internal Auditor reported on the nine Internal Audit assignments completed since the last Audit Committee meeting.

#### Animal Hospitals – charging procedures

The Committee noted that this audit had taken place during the implementation stage of a new practice management software system and the large number of recommendations, which were all being actioned, would assist in ensuring that charging processes and procedures were appropriately put into place. The Committee however expressed concern on the significant number of fundamental control issues highlighted in the recommendations and asked that a follow up review be undertaken as soon as possible so that the Committee could be provided with a verbal update at its next meeting in June 2009.

#### Large Capital Projects – Costing of Running and Maintenance Costs

The Committee expressed some concern in respect of the final bullet point of the recommendations and considered that there might have been a misunderstanding; it would therefore be helpful if this could be clarified. The Audit Committee further suggested that it may be appropriate for the Estates Advisory Group (EPAG) to have sight of this Report but that in the first instance this should be discussed with the Convener of EPAG. The Committee further asked for a follow up to be undertaken as soon as possible.

#### NHS Use of University space

The Committee noted the outcome of this audit. Given the complexities of the contractual arrangements with the NHS and the Little France site some doubt was expressed that there was scope for re-entering negotiations on space occupancy. It was however content that the recommendations had been agreed and actions were being taken to progress this matter and would await, with interest, the outcome.

#### Risk Management – Project Risk Assessments

It was noted that there was some confusion on those projects required to create a discrete risk register which centred around the definition of what determined a “major project”. The Committee was content to note that a draft document was currently out for comment which provided guidance on this matter and that across the University in the last five years there had been significant development of a risk management approach in all areas of University work. The Committee also sought information on project management arrangements within the University noting the significant skills and experience within such areas as Estates and Buildings and ISG. It was confirmed that given the diversity of projects, the University took the approach that detailed knowledge of the project area best served the objectives of managing specific projects.

#### School of Informatics

It was noted that all the recommendations were being actively addressed.

#### School of Social and Political Science

The Committee noted the content of this routine Internal Audit Report on School activities and that all six recommendations had been agreed and were actively being addressed.

#### School of Engineering and Electronics

The Committee noted the report and was assured that Internal Audit was satisfied with the explanations for the amounts and periods covered by expenses claims. Assurances were also provided on health and safety matters including the University's monitoring arrangements.

#### Scottish Informatics and Computer Science Alliance (SICSA)

The Committee noted the report.

#### 2007/2008 TRAC Process

Internal Audit had undertaken a review of the processes to collect data to support the annual TRAC return and no issues had been identified which would suggest that the University had not applied TRAC methodology on a robust basis. It was noted that there was no longer a requirement for Internal Audit to provide assurance on the TRAC systems but it was the intention to include consideration of this matter as a part of Internal Audit's routine assessment of the University's risks in preparing its annual plan.

### **6 INTERNAL AUDIT FOLLOW UP REVIEWS**

**Paper F**

The Committee noted the three Internal Audit follow up reviews completed since its last meeting and was content with progress to date.

### **7 INTERNAL AUDIT - PROGRESS REPORT**

**Paper G**

The Committee noted that the 2007/2008 Audit Plan had now been completed and that the 2008/2009 Plan was 52% advanced after 30 weeks.

It was noted that Internal Audit had been approached by Jewel and Esk College and invited to submit a tender to provide their internal audit service; the outcome of the tender would not be known until later this month. There had been previous discussions at Audit Committee meetings on the adequacy of current resources available to Internal Audit to undertake its agreed programme of work for the University. The reason for undertaking external work was that selling Internal Audit services on a commercial basis benefited the University in a number of ways including allowing a greater flexibility to buy in additional resources, particularly to undertake specialised University audits and increasing the skill mix of the Internal Audit team. The University's reputation as an organisation with a centre of excellence in Internal Audit work was enhanced and its willingness to share services with other institutions was demonstrated. The Audit Committee was content that as it had no evidence of a decline in the quality of the service provided by Internal Audit to the University, and in view of the anticipated benefits, it supported Internal Audit tendering for external work on an appropriate scale. The Audit Committee would however continue to monitor this position carefully to ensure that the University was not being adversely affected. The Committee further suggested that it would be helpful if it could be provided with information on the income generated from and the cost of servicing the current external contracts.

**FOR INFORMATION**

**8 SCHEDULE OF DATES OF MEETING IN SESSION 2009/2010**

**Paper H**

The Audit Committee noted the agreed dates of meetings for 2009/2010 and asked that consideration be given to rescheduling the meeting to be held on 26 November 2009.

**9 DATE OF NEXT MEETING**

The next meeting will be held on Thursday, 11 June 2009 at 5.30 pm in the Carstares Room, Old College if no other appropriate date could be determined.



**Minute of the Meeting of the Audit Committee  
held at 5.30 p.m. on 11 June 2009  
in the Carstares Room, Old College**

**Present:** Ms G Stewart (Convener)  
Mr D Bentley  
Professor S Monro  
Ms A Richards  
Professor A Smyth

**In attendance:** Mr M D Cornish, The University Secretary  
Mr N Paul, Director of Corporate Services  
Mr J Gorringe, Director of Finance  
Mr A Digance, Assistant Director of Finance  
Mr H McKay, Chief Internal Auditor  
Mr P Gough, Internal Auditor  
Mr S Reid, KPMG, Director (via telephone conferencing facility)  
Dr K Novosel, Head of Court Services

**Apologies:** Mr M Sinclair  
Mr M Rowley, KPMG

**1 MINUTE OF THE MEETING HELD ON 12 MARCH 2009**

**Paper A**

The Minute of the meeting held on 12 March 2009 having previously been circulated was approved as a correct record.

**2 MATTERS ARISING**

**2.1 Internal Audit Reports**

Animal Hospital-Charging Procedures

The Audit Committee had asked for a verbal update on progress on addressing the issues raised by this report. Internal Audit intimated that, on investigation, 15 of its 19 recommendations had either been completed or were planned to be completed as part of the financial year end procedures with actions in progress to complete the remaining four; the Hospital's financial arrangements had been improved as had drug control practices. A further follow up would be undertaken and a report presented to a future meeting of the Audit Committee. The Internal Audit Service was content with progress to date.

Large Capital Projects – Costings of Running and Maintenance Costs

At its last meeting the Committee had been of the view that there may have been some misunderstanding in respect of one of the recommendations and had asked for clarification on this matter and had further suggested that it might be appropriate to circulate the internal audit report to members of the Estates Advisory Group (EPAG).

The Convener of EPAG and the Director of Estates and Buildings had further considered this matter and the misunderstanding had now been clarified. A paper had been submitted and agreed by EPAG on the new estates development procedures to take forward the gateway process; project planning documentation would require a quantity surveyor (QS) to forecast running and maintenance costs two to three years after completion of new buildings. The Convener of EPAG was content that the paper to EPAG dealt with the issues raised by the internal audit report. It was not normal practice to present internal audit reports to EPAG and such operational issues were for the Director of Estates and Buildings to resolve.

The Audit Committee further noted that as part of the governance arrangements each large

capital project required to be approved by EPAG, the Finance and General Purposes Committee and Court.

Internal Audit confirmed it was satisfied with the responses from Estates and Buildings, that the paper to EPAG had highlighted and addressed the issues raised and that accountability arrangements for significant capital projects were sound.

## **2.2 2009/2010 Meeting Schedule**

The Committee noted that the meeting originally scheduled to be held on 26 November 2009 would now be held on Monday, 23 November at 5.30 pm in the Lord Provost Elder Room, Old College. It was further noted that the Principal, in accordance with good practice, had intimated that he would be attending the meeting on 23 November 2009 at which there would be discussion on the Annual Accounts.

## **FOR DISCUSSION**

### **3 INTERNAL AUDIT PLANS**

**Paper B**

The Committee reviewed and was content with the risk driven methodology utilised in taking forward the preparation of the Strategic and Annual Internal Audit Plans noting that Internal Audit was satisfied that it was appropriate for the University to be classified as “risk defined”. The robust process to identify potential audit assignments was also noted and that the proposed plans took full cognisance of the risks identified in the University Risk Register and those of Colleges, Support Groups and subsidiary companies. The Committee was assured that these processes resulted in the overall plans being adequate to provide it with the necessary information to comment on the University’s internal control environment; it noted that the Risk Management Committee provided additional assurances on the actions being taken to mitigate identified risks. The liaison with External Auditors in preparing the Strategic and Annual Internal Audit Plans was also noted.

It was confirmed that in scoping audit assignments there was an expectation that the audit would cover any value for money issues and make recommendations accordingly. Specific value for money assignments had historically been difficult to identify but the Audit Committee however, was assured by the University’s Value for Money policy and the Annual Report prepared by CMG and presented to the Committee. The Committee further noted that an assignment on Roslin had been included in the 2008/2009 Plan and that issues associated with pensions had been debated at the last Finance and General Purposes Committee and proposals would be coming forward to the October meeting of Court on this matter.

The Audit Committee endorsed the Internal Audit Plans and agreed to recommend to Court approval of the Strategic Audit Plan 2009/2012 and the Annual Internal Audit Plan 2009/2010 based on Internal Audit’s planning methodology. The Audit Committee further asked that the terms of reference for the Internal Audit Service be revised to reflect recent Scottish Funding Council guidance on audit arrangements and that a paper be brought to its next meeting on this matter.

**The External Auditors did not take part in discussion on items 4 and 5 detailed below.**

### **4 EXTERNAL AUDITOR’S FEES**

**Paper C**

The Committee considered the proposed KPMG fees for the 2008/2009 audit and noted that although the uplift was above the retail price index it was in accordance with the fees structure agreed as part of the recent tender process.

The Audit Committee was content to recommend to Court acceptance of the fee proposals for the 2008/2009 external audit.

## **5 EXTERNAL AUDIT – PERFORMANCE REVIEW**

**Paper D**

It was noted that this was the first formal appraisal process undertaken in order to comply with the guidance contained in the CUC Handbook for Members of Audit Committees in Higher Education Institutions. The Director of Finance and the Chief Internal Auditor, as requested at the last meeting of the Audit Committee, had drafted a succinct paper on the effectiveness and performance of External Audit based on the headings suggested within the CUC Handbook. The Audit Committee agreed that the commentary provided under each of the headings was accurate, appropriate, and fair and concurred with members' views. It was noted under 'Audit Communications' that there did not appear to be a formal process within KPMG for it to seek views from its clients on its performance.

The Audit Committee was content that the attached document reflected the performance of External Audit: it asked that KPMG now be invited to offer any reaction to the appraisal if it wished and, in particular, to comment on how it sought feed back on the quality and effectiveness of their service from their clients. The Committee would consider these comments at its next meeting and then report to Court.

It was noted that the appraisal of Internal Audit would be undertaken at its October meeting.

## **6 UPDATE OF UNIVERSITY RISK REGISTER**

**Paper E**

The Committee noted that this was the University's high level Risk Register which was supported by detailed Registers at College, Support Group, School and departmental levels. The revised University Risk Register had been considered by the Risk Management Committee, the Central Management Group and the Finance and General Purposes Committee and was brought here for further comment prior to the document being presented for approval by Court at its meeting on 22 June 2009. The revisions to the document had taken account of the current challenging financial environment, additional risks now identified and previous risks now no longer relevant such as the outcome of the RAE 2008. The top three major risks now focussed around future funding streams, staff terms and conditions and the management of the consequences of these two risks. The remaining items on the Risk Register had been updated as appropriate.

The Committee welcomed this comprehensive document and commended the risk management process within the University. The Committee welcomed the intention of the University to undertake detailed financial scenario planning over the summer and suggested this should also be referred to in risk 1. It further suggested that it may be appropriate to review the likelihood of a pandemic flu which was currently recorded as 'rare'. External Audit confirmed that the University's approach to risk management and its Risk Register was consistent with the approach being taken forward by the rest of the sector.

The Audit Committee agreed to recommend to Court adoption of the University Risk Register subject to consideration of the items mentioned above.

## **EXTERNAL AUDIT**

### **7 EXTERNAL AUDIT PLANNING MEMORANDUM**

**Paper F**

External Audit presented its Audit Plan Overview 2008/2009 which had a strong emphasis on risk assessment and would be conducted in accordance with international standards on

auditing and be compliant with the relevant guidance issued by the Scottish Funding Council.

The Committee noted the nine areas of audit emphasis, particularly the inclusion of Roslin, the capital programme and the EUCLID project. It was further noted that the levels of materiality were based on KPMG's current assessment of the risk and control environment at the University and that lower operational testing thresholds would be applied depending on the system being reviewed and the assessed level of risk. External Audit confirmed that the key dates set out in the timetable for the 2008/2009 audit would be delivered.

The Audit Committee endorsed the proposed External Audit Planning Memorandum to take forward the 2008/2009 external audit.

## **8 INTERIM MANAGEMENT REPORT**

**Paper G**

The Audit Committee noted that this interim report was the first phase of the External Audit Plan relating to organisational-wide controls, key financial controls and subsidiary companies. The Action Plan detailed the issues and recommendations arising from this initial evaluation none of which were graded as significant, and the Audit Committee was content with the management responses.

## **INTERNAL AUDIT**

### **9 INTERNAL AUDIT REPORTS**

**Paper H**

The Audit Committee considered the reports on the seven Internal Audit assignments completed since its last meeting.

#### Centre for Research Collections

The Committee expressed some concern on the findings of this report while noting that all the recommendations had been accepted and that appropriate actions were being taken to address the weaknesses identified. It was noted that the audit had been undertaken at a time of transition following the relocation of the Centre for Research Collections into the refurbished accommodation in the Main Library while storage and reading facilities remained at the library research annex at South Gyle; there was a clear desire to develop appropriate procedures to take account of the new accommodation. The value of the material in the care of the Centre for Research Collections was difficult to determine and the Committee noted that the figure quoted was for insurance purposes.

#### Capital Projects – intra project communications

The Committee noted that intra project communications were effective and that the recommendations had all been agreed and appropriate actions were being taken.

#### Business Cases to Support Capital Projects

It was noted that no recommendations had been made as a result of this audit assignment and that the procedures being put in place to implement the introduction of the Scottish Funding Council's Capital Projects Gateway approvals process were robust.

#### 2007/2008 TRAC Teaching Return Process

The Committee noted that it was not yet mandatory for all institutions in Scotland to submit a TRAC (Teaching) return (although a TRAC (Research) return was required). In considering the outcome of the 2007/2008 SFC's benchmarking exercise on the TRAC Teaching returns, it should therefore be noted that not all Scottish institutions had submitted a teaching return.

The Audit Committee noted the findings of the other audit reports which had recorded no

significant areas of concern.

**10 INTERNAL AUDIT FOLLOW UP REVIEWS**

**Paper I**

The outcome of the six follow up reviews was noted and that recommendations had been actioned in all cases except one. The Audit Committee was content with the progress in respect of this remaining recommendation.

**11 INTERNAL AUDIT PROGRESS REPORT**

**Paper J**

The Committee noted that the 2008/2009 Audit Plan was 80% advanced after 43 weeks and that the complexity of the intellectual property assignment might require resource input from next year's plan; work was continuing to complete the assignment on Roslin.

The Audit Committee further noted that the Internal Audit Service had been unsuccessful in its bid to secure commercial business with Jewel and Esk College. The information on income arising from the Internal Audit Service's current commercial contracts was welcomed and the Committee asked that this be provided on an annual basis including an analysis of audit days. It was noted that the income had allowed specialist advice to be purchased and overall had resulted in a profit of £22k over the five years to date; the Committee would continue to monitor the position.

**FOR INFORMATION**

**The External Auditors did not take part in discussion on item 12 detailed below.**

**12 BRITISH UNIVERSITIES DIRECTORS' GROUP (BUFDG) 2009 AUDIT SURVEY Paper K**

The Committee noted that the survey confirmed the strong position of KPMG as a provider of external auditor services within the sector and the value for money of the University's Internal Audit Service.

**13 DATE OF NEXT MEETING**

The next meeting will be held on Thursday, 1 October 2009 at 5.30 pm in the Lord Provost Elder Room, Old College.



**Minute of the Meeting of the Audit Committee  
held at 5.30 p.m. on 1 October 2009  
in the Lord Provost Elder Room, Old College**

**Present:** Ms G Stewart (Convener)  
Mr D Bentley  
Professor S Monro  
Ms A Richards  
Mr M Sinclair  
Professor A Smyth

**In attendance:** Mr M D Cornish, The University Secretary  
Mr N Paul, Director of Corporate Services  
Mr J Gorrings, Director of Finance  
Mr A Digance, Assistant Director of Finance  
Mr H McKay, Chief Internal Auditor  
Mr B Wood, Internal Auditor  
Mr M Rowley, KPMG, External Auditor Director  
Mr S Reid, KPMG, Director  
Dr K Novosel, Head of Court Services

**1 MINUTE OF THE MEETING HELD ON 11 JUNE 2009**

**Paper A**

The Minute of the meeting held on 11 June 2009 having previously been circulated was approved as a correct record.

**2 MATTERS ARISING**

**2.1 Internal Audit terms of reference**

**Paper B**

It was noted that a review of the current terms of reference of the Internal Audit Service had been undertaken in order that they reflected the recent changes to the guidance on audit arrangements issued by the Scottish Funding Council and the replacement of the previous Code of Audit Practice with a statement within the mandatory requirements of the Financial Memorandum, and to ensure that they were consistent with current best practice as determined by internal auditors' international professional standards 2009. The Committee further noted the terms of reference covered all the topics within the internal audit model terms of reference set out in the CUC's Handbook for Members of Audit Committees in Higher Education Institutions although the format was different.

The Audit Committee endorsed and commended approval to Court of the revised terms of reference subject to a number of suggested amendments. (*Court approved version attached*).

**FOR DISCUSSION**

**3 AUDIT COMMITTEE SCHEDULE**

**Paper C**

The Audit Committee schedule for meeting topics in 2009/2010 was approved.

#### **4 EXTERNAL AUDIT PERFORMANCE REVIEW – FOLLOW UP (CLOSED)**

**Paper D**

At its last meeting the Audit Committee had undertaken a review of the performance of external audit based on a paper prepared by the Director of Finance and the Chief Internal Auditor based on their observations under the headings suggested in the CUC's Handbook for Members of Audit Committees in Higher Education Institutions. There had been an outstanding issue under audit communications which External Audit had been asked to provide further information and input in respect of the formal process undertaken by KPMG to seek the views of clients on its performance.

The Committee was content with the current two methods employed: debriefing process at end of each audit year; and formal meeting between client and independent KPMG Auditor with the proviso that given the contract arrangements with KPMG that the formal client service review be carried out within the next 2 to 3 years and that a wide range of members of the University community and Audit Committee be asked to participate. It was felt that discussion along these lines was more helpful than developing a set of Key Performance Indicators (KPIs) or participating in an on-line client feedback survey.

The Audit Committee was satisfied with the overall performance of the External Auditors.

#### **5 INTERNAL AUDIT PERFORMANCE REVIEW**

##### **5.1 Internal Audit Quality Assurance Benchmarking Exercise**

**Paper E**

The Audit Committee noted that this was the third quality assurance benchmarking exercise undertaken using an evidence based self-assessment toolkit developed by the Higher Education Funding Council for England (HEFCE) in 2007. This year the exercise was undertaken by a five-way reciprocal peer review group of heads of internal audit services. The methodology, which was quite widely employed across the UK, was explained in detail including the various checks and balances utilised and the formal signing off procedures thus providing the Audit Committee with assurance on the robustness and validity of the results. The exercise was undertaken on a voluntary basis and could not be assumed to be repeated annually, but if it was repeated it was agreed that fuller detail of the methodology should be provided to underpin the Committee's continued confidence in it.

The Committee noted that the exercise confirmed the high standard of internal audit services provided to the University as demonstrated by the evidence-based peer review group assessment and that the service was achieving best professional practice in five of the six themes evaluated and good professional practice in the sixth.

##### **5.2 Internal Audit Performance Evaluation Questionnaires**

**Paper F**

For many years an evaluation of the views of managers whose activities had been the subject of an internal audit review has been undertaken by means of a questionnaire managed independently of the Internal Audit Service. The report is included within the Internal Audit Annual Report and was provided here in a separate format as part of the information to assist the Committee with its annual determination of the performance of internal audit. The Chief Internal Auditor also provided information on results from previous years which demonstrated an upward trend in the levels of satisfaction.

The Audit Committee welcomed this report demonstrating the value placed on the work of Internal Audit within the University.

### **5.3 Appraisal of Internal Audit Service**

**Paper G**

In line with the process undertaken with appraisal of External Audit, the Committee had previously agreed that a paper be drafted by the University Secretary, the Director of Corporate Services and the Director of Finance reviewing the performance of the Internal Audit Service, based on guidance for evaluation of internal audit services issued by the CUC. It was noted that this review was undertaken using the then extant terms of reference for the Internal Audit Service.

The Audit Committee welcomed the paper and concurred with its generally very positive comments. In respect of the reporting of audit assignments the Committee asked that consideration be given to providing a more focussed reporting of the main issues while appreciating that exception reporting was not always appropriate and that detailed information was often helpful. It was suggested that succinct summary information allowing easy comparison across reports may be an appropriate approach. The comments on developing value for money reporting were also supported.

In summary, the Audit Committee was very satisfied with the overall performance of the Internal Audit Service as demonstrated by these three very favourable reports and the Committee had found the process of review helpful in taking forward the work of the Committee.

### **6 DRAFT CORPORATE GOVERNANCE STATEMENT**

**Paper H**

There having been no change in the SFC's requirements, there was no significant change in the draft Governance Statement to that approved for the 2007/2008 Accounts. The document was brought here for comment prior to further consideration by the Finance and General Purposes Committee and Court and was written as if being presented to the Court meeting on 14 December 2009 along with the Accounts.

The Committee endorsed the draft Corporate Governance Statement for onward consideration by Court.

### **7 VALUE FOR MONEY REPORT**

**Paper I**

The Central Management Group (CMG) at its last meeting had reviewed and commended this report to the Audit Committee which set out value for money activities initiated by CMG or by other parts of the University during 2008/2009. The items had been submitted by colleagues within Colleges and Support Groups and highlighted the breadth of activities being undertaken to improve economy, effectiveness and efficiency. The External Auditors welcomed this very comprehensive document.

It was noted that all the significant projects had been taken forward following approval of business cases which included analysis of achievable cost savings. The Committee welcomed the section on teaching and research noting that the concept of value for money was now firmly embedded across the University. It was noted that the review of support activities was well under way and conclusions would be presented in 2009/2010. The Strategic Plan 2008/2012 and the aligned annual planning process and the work of various committees and groups most importantly the Estates Advisory Group, in respect of capital projects, all ensured that value for money activity was taken forward within a structured framework, with monitoring undertaken through Court and its Committees and the annual review of this Report and the Balanced Scorecard.

The Audit Committee approved this report which would form part of its Annual Report to

provide assurances to Court on the area of value for money.

## **INTERNAL AUDIT**

### **8 INTERNAL AUDIT ANNUAL REPORT**

**Paper J**

The new mandatory requirements associated with the Financial Memorandum which replaced the previous Code of Audit Practice do not specifically require the production of an Annual Internal Audit Report. However it does state that it would be useful to follow the guidance contained within the CUC's Handbook for Members of Audit Committees in Higher Education Institutions which does encourage the production of such a report to be presented to Court. The Audit Committee supported the view that an Annual Internal Audit Report be prepared.

The Committee formally noted and endorsed the report which provided a positive internal audit opinion on the adequacy and effectiveness of the University's arrangements for risk management, control, and governance.

### **9 INTERNAL AUDIT REPORTS**

**Paper K**

The Audit Committee considered the reports on 8 Internal Audit assignments completed since its last meeting.

#### Intellectual Property

It was noted that this assignment had taken longer than initially planned and that the recommendations were mainly in respect of the need to reconcile two systems to ensure that all income expected was being correctly received; there was no indication of any untoward transactions and External Audit confirmed that its work to date had not identified anything material. All the recommendations were being taken forward.

#### Integration of the Roslin Institute with the University of Edinburgh

The report provided assurances on the significant progress towards integrating the finance and HR systems of the Roslin Institute and the University, much of which centred around management change issues. The recommendations were all being taken forward and many had already been completed.

#### Management and Collection of Student Fees

The process required Registry and Finance to work together to ensure the correct collection of fees based on the decisions of the Fees Strategy Group. The Committee noted the incident of waived fees inappropriately authorised by the School of Veterinary Studies and the challenges of the devolved University structure. The recommendations were all being taken forward.

#### Procurement 2008/2009

The new Scottish Procurement Policy Handbook was being fully implemented within the University.

#### Staff On-Call Arrangements

There were some issues around control and consistency which were being resolved.

#### Expenditure Authorisation

The Committee endorsed the recommendation to review the Delegated Authorisation Schedule noting that there was no evidence of any improprieties.

The Audit Committee noted the findings of the other audit reports which had recorded no significant areas of concern.

**10 INTERNAL AUDIT FOLLOW UP REVIEWS Paper L**

The Committee noted that all the recommendations of the three follow up reviews had been fully actioned.

**11 INTERNAL AUDIT PROGRESS REPORT Paper M**

Progress towards completing the 2008/2009 plan was noted and that the 2009/2010 plan was 16% advanced after 6 weeks. Two assignments as previously reported had significantly overrun: Intellectual Property and the Roslin Institute. The Committee was satisfied with progress to date.

**12 VOLUNTARY SEVERANCES (CLOSED) Paper N**

The detailed contents of the paper were noted.

**EXTERNAL AUDIT**

**13 EXTERNAL AUDIT PROGRESS REPORT**

The External Auditor confirmed that work was on-going in respect of the subsidiary companies and that no issues had so far arisen that required to be raised with the Committee. Work on the Accounts would be commencing the week beginning 5 October 2009.

**FOR INFORMATION/FORMAL APPROVAL**

**14 DATE OF NEXT MEETING**

The next meeting will be held on Monday, 23 November 2009 at 5.30 pm in the Lord Provost Elder Room, Old College.

# **University of Edinburgh**

## **Internal Audit**

### **Terms of Reference**

#### **Mission**

To provide the Principal and the Court, normally through the Audit Committee, with an independent, objective assurance and consulting service designed to add value and improve the University's operations. To help the University accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

#### **Authority**

Internal Audit has the Court's authority to access all documents, records, personnel and physical properties which it considers relevant to audit assignments and necessary to fulfil its responsibilities. There is an obligation on all staff to provide all necessary assistance.

#### **Scope of Work**

The scope of Internal Audit covers all the financial and other management control systems, identified by the audit needs assessment process. It includes all the activities in which the University and its subsidiaries have a financial interest, including those not funded by Scottish Funding Council (SFC). This includes all the University's operations, resources, staff, services and responsibilities to other bodies although does not extend to the assessment of the academic process.

The scope includes review of controls, including investment procedures that protect the institution with regard to organisations such as subsidiaries or associated companies, students' unions, and collaborative ventures or joint ventures with third parties.

#### **Objectives**

Internal Audit employs a risk-based systematic and disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes by assessing the:

- Alignment of organisational objectives with the University's mission;
- Identification, evaluation and management of business risks;
- soundness, adequacy and application of the internal control systems;
- reliability and integrity of financial and operational information;
- economy, effectiveness and efficiency of operations (VfM);
- safeguarding of assets from fraud, irregularity or corruption, and
- compliance with laws, regulations, contracts and established policies, procedures and good practice.

Internal Audit is responsible for:

- agreeing a long term audit strategy with the Audit Committee, based upon an audit needs assessment of all University activities;
- agreeing a risk-based annual audit plan with the Audit Committee and communicating the agreed plan to appropriate senior management;
- carrying out the agreed work in line with appropriate professional standards;
- providing assurances, opinions and making recommendations to improve processes and systems where appropriate;
- following up recommendations made to evaluate action taken;
- reporting to the Audit Committee and the Principal any significant business risks, serious control weaknesses, significant fraud or other major control breakdown;
- reporting through Audit Committee to Court for resolution, any specific activities where Internal Audit believe that an unacceptable level of residual risk may have been accepted by senior management;
- complying with requests for information from the Principal, Audit Committee, External Audit or SFC's Governance and Management: Appraisal and Policy Directorate;
- liaising with External Audit and the SFC;
- maintaining communication with senior figures in the University and outside bodies;
- offering consulting services of an advisory nature without assuming management responsibility or jeopardising achievement of the audit plan;
- developing and maintaining a quality assurance and improvement programme including internal and external assessments and providing performance measures to demonstrate effectiveness of the Internal Audit service;
- maintaining adequate & appropriate training and professional development;
- producing an annual report for the Audit Committee, giving an opinion of the University's arrangements for risk management, control and governance; and
- helping to keep the Audit Committee informed of perceived best practice.

Internal Audit may conduct any special reviews or consulting activities requested by the Court, the Audit Committee, the Principal, or to support the Fraud & Misappropriation policy, provided such work does not compromise its objectivity or independence.

### **Independence**

Independence is the freedom from conditions that threaten the ability of Internal Audit to carry out their responsibilities in an unbiased manner.

To ensure independence and objectivity, Internal Audit will not assume any management responsibility for development, implementation or operation of systems, however can offer consulting services of an advisory nature.

Internal Audit will exercise professional judgement to determine the scope of its work and the communication of its findings.

The Chief Internal Auditor reports functionally to the Audit Committee, through the Convener, and has direct access to the Principal.

### **Accountability**

The Chief Internal Auditor is accountable to the Principal and the Court through the Audit Committee for the performance of the Internal Audit service. For administrative and budgetary purposes, Internal Audit operates within Corporate Services Group.

The Chief Internal Auditor will report audit findings to the relevant managers, including the Principal, and draw the attention of the Audit Committee and management committees to key issues and recommendations.

Internal Audit will report the feedback of auditees' to the Audit Committee.

### **Professional Standards**

Internal Audit's work is performed with due professional care and complies with the Mandatory Requirements<sup>1</sup> of the SFC's Financial Memorandum<sup>2</sup> between the Council and Universities.

Internal Auditors follow professional standards set by the Institute of Internal Auditors as well as Codes of Professional Practice and Codes of Ethics as stipulated by their individual Professional Institutes.

**Endorsed by the Audit Committee on the 1<sup>st</sup> October 2009**  
**Approved by the Court at its meeting held on the 19<sup>th</sup> October 2009**

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<sup>1</sup> The Audit and Accounting Section of the SFC Mandatory Requirements became effective on 14 October 2008.

<sup>2</sup> Effective from 1 January 2006.



**Minute of the Meeting of the Audit Committee  
held at 5.30 p.m. on 23 November 2009  
in the Lord Provost Elder Room, Old College**

**Present:** Ms G Stewart (Convener)  
Mr D Bentley  
Professor S Monro  
Ms A Richards  
Mr M Sinclair  
Professor A Smyth

**In attendance:** The Principal  
Mr M D Cornish, The University Secretary  
Mr N Paul, Director of Corporate Services  
Mr J Gorringer, Director of Finance  
Mr A Digance, Assistant Director of Finance  
Mr H McKay, Chief Internal Auditor  
Mr M Rowley, KPMG, External Auditor Director  
Mr S Reid, KPMG, Director  
Dr K Novosel, Head of Court Services

**1 MINUTE OF THE MEETING HELD ON 1 OCTOBER 2009**

**Paper A**

The Minute of the meeting held on 1 October 2009 having previously been circulated was approved as a correct record.

**2 MATTERS ARISING**

**2.1 Internal Audit terms of reference**

Court at its meeting on the 19 October 2009 had approved the revised terms of reference for the Internal Audit Service as agreed by the Committee on the 1 October 2009.

**2.2 Private meetings with External and Internal Auditors**

There had been frank and open discussion with External and Internal Auditors including discussion on the recent audit process and there were no issues which required to be considered further.

**2.3 Membership of Committee**

Court at its meeting on the 19 October 2009, on the recommendation of the Nominations Committee had extended the term of office of Mr Bentley until 31 December 2010; there would be further consideration of the membership of the Committee early in 2010.

**2.4 Regulation of dormant endowment funds**

It had previously been reported that the University was seeking to address issues regarding the capital and interest of dormant endowments by formulating a new Ordinance. This process was still on-going with detailed discussions being taken forward with the Scottish Government and the Privy Council to reach a satisfactory conclusion.

**3 PRINCIPAL'S COMMENTS**

The Principal provided an overview of the activities of the University for the financial year ended 31 July 2009, commending the Reports and Financial Statements and the surplus achieved, the very high levels of satisfaction with the Internal Audit Service, the Finance department and risk management processes, the successes in the areas of commercialisation and research, undergraduate and postgraduate recruitment and the University's contributions to climate change research and its reduction in carbon emissions. The current challenges were noted in particular issues around accountability of government funds allocated for specific purposes, pension provision and the delivery of the EUCLID project. In respect of the EUCLID project, the University had acted expediently when the extent of the difficulties had been identified and it had taken action to re-scope the project to ensure delivery of the critical systems and functions; the lessons learned were being taken forward including the development of revised guidance and templates for major projects within a risk management framework.

## **FOR DISCUSSION**

### **4 DRAFT REPORTS AND FINANCIAL STATEMENTS FOR YEAR ENDED 31 JULY 2009 (CLOSED)**

**Paper B**

The Audit Committee noted that no accounting practices had changed since last year and that these Reports and Financial Statements had been prepared in accordance with SORP 2007.

An increased turnover of £592m was recorded demonstrating the continuing underlying growth of the University with increases in most categories of income; there had been a reduction in endowment and investment income and a new investment strategy was now being applied. The income from research grants and contracts was particularly strong and as grants were awarded over two to three years this would offer some protection should the University experience reductions from this source of income in future years. Tight control of expenditure had been exercised during the year with prompt action taken in the light of the economic position including the introduction of the post review group and central funding to support voluntary and early retirement; there had been an overall reduction in staff numbers, particularly in the category of academic and related staff and salary expenditure reflected the implementation of the previously agreed salary uplift. The Committee noted that an amendment of an additional £15k was required to the figure recorded against the pension contributions under the emoluments received by the Principal. The other significant expenditure categories were noted, particularly the reduction in library, computer and other academic support services and the increases in utilities' costs. The Committee welcomed the modest surplus achieved of £4m which was a comfortable position for the University.

In respect of the balance sheets, the Committee noted the reduction from the previous year in endowment asset investments and that there had been some recovery since year end. The Committee further noted the growth in creditors as a result of the University receiving advanced payments from funding bodies. There had been previous discussion on pension liabilities and this was reflected in the balance sheets; the Committee noted the extensive information in the notes on this matter and the current position in respect of the response to the initial SBS triennial evaluation. The Group cash flow statement confirmed the continuing strong financial position of the Group.

The Committee considered the draft Reports and Financial Statements in detail, welcomed the External Auditor's Report and unqualified opinion and commended the continuing financial strength of the University. It agreed to recommend to Court the adoption of the

Reports and Financial Statements for year ended 31 July 2009 subject to consideration of suggestions made at the meeting, insertion of a statement on disability, amendment to the Principal's emolument and correction of any remaining typographical errors.

**5 EXTERNAL AUDIT HIGHLIGHTS MEMORANDUM 2008-2009 (CLOSED)**

**Paper C**

The External Auditor indicated that there were no significant matters requiring to be brought to the attention of the Audit Committee; the external auditing process had been particularly straightforward and the finance staff involved were to be congratulated. The sector faced a number of challenges in 2009/2010 and the key risk areas for this University included future government funding allocations, pension issues, maintaining research funding sources, the significant capital programme, issues remaining around the Roslin Institute and the previous discussed position with the EUCLID project. All the recommendations as set out in the action plan were being addressed and satisfactorily progressed.

The Committee considered KPMG's Highlights Memorandum for the year ended 31 July 2009 and was content that it represented a balanced view; in respect of the comments on the EUCLID project, the actions being taken by the University to minimise risk were noted and clarification was sought on the funding figures quoted which would be appropriately adjusted.

**6 DRAFT LETTER OF REPRESENTATION AND COMMENTARY (CLOSED)**

**Paper D**

The Committee reviewed the draft Letter of Representation to the External Auditors from the Principal setting out the responsibilities of the University and Court in connection with the External Audit of the Reports and Financial Statements. It noted that there had been previous comment on the phraseology on the Letter of Representation in respect of the 2007/2008 Accounts and KPMG agreed to a slight amendment to the wording in section 4. It was further noted that the Letter was little changed from that signed in respect of last year's Accounts.

The commentary and attached appendices provided assurances to the Committee on the mechanisms operating within the University which allowed the Letter to be signed off by the Principal on behalf of the Court.

The Audit Committee was satisfied with the assurances provided in respect of the content of the draft Letter of Representation and recommended approval of the Letter to Court subject to the agreed amendment.

**7 RISK MANAGEMENT COMMITTEE ANNUAL REPORT**

**Paper E**

The comprehensive report on the activities of the Risk Management Committee was welcomed and based on these activities the Audit Committee noted the overall view of the Risk Management Committee that the University had been satisfactorily managing its key risks during the year ended 31 July 2009. A further post year end risk management and controls statement would be provided to the next meeting of Court as part of the process to sign off of the Reports and Financial Statements following consultation with Colleges and Support Groups on any emerging risks or developments to previously identified risks.

The Audit Committee commended the transparency of the process to identify risks and the information contained in the risk management annual return. It was further confirmed that information contained within the assurances map referred to the risks within the 2008/2009 University's risk Register (version 6) and that a revised Register which

addressed some of the issues raised by the Committee had been approved by Court on the 22 June 2009.

The Audit Committee was content to endorse the Risk Management Annual Report for onward consideration by the Finance and General Purposes Committee and Court.

## **8 AUDIT COMMITTEE ANNUAL REPORT**

**Paper F**

The Committee considered and approved its draft Annual Report which would be presented to Court at its meeting on 14 December 2009 subject to an amendment to one of the tables within the Internal Audit Annual Report which was attached as an appendix to the main Report.

## **9 FRAUD POLICY**

**Paper G**

It was noted that at the last meeting of the Audit Committee the External Audit interim report had made reference to the need to review the University's current Fraud Policy. While noting there was no implication that there were any instances of impropriety in this University, difficulties in other institutes within the sector had been widely reported and this highlighted the need to have robust procedures in place. The revised Policy was based on good practice guidance, particularly templates developed by the Fraud Advisory Panel.

The Committee welcomed this revised Policy and recommended adoption to Court subject to consideration and clarification of the roles of the University Secretary and Director of Human Resources in the implementation of this Policy. It was suggested that consideration be given to a specific reference to fraud associated with inappropriately accessing IT systems. It was further noted that the University also had in place a 'Whistleblowing' Policy which provided further assurances on the mechanisms available to individuals to report suspected fraud and malpractice and that areas of suspected academic fraud (except where financial impropriety was also suspected) were taken forward through separate procedures.

## **INTERNAL AUDIT**

## **10 INTERNAL AUDIT REPORTS**

**Paper H**

The Audit Committee considered the reports on 5 Internal Audit assignments completed since its last meeting. It welcomed the new format which now included a commentary sheet with succinct information on the outcome of each assignment in response to the Committee's suggestions at its meeting on the 1 October 2009.

### Mobile Working

The importance of mobile/home working to contingency planning procedures and business continuity was noted and the Committee further noted the number of matters requiring to be considered, including health and safety issues as well as security. All the recommendations had been agreed and were being actioned. The different timeframe for taking forward the HR policy review was noted; a number of HR policies were currently being reviewed and in consultation with unions and other stakeholders, the priority for each had been identified.

### IT Security

It was noted that a revised IT Security Policy would be brought to the next meeting of Court for approval. All the recommendations in the report were being taken forward.

Full Business Continuity: Operational Readiness in Key IT Risk Areas

The Committee noted that this assignment dealt only with IT specific risk areas and that all the recommendations had either been satisfactorily addressed or were being actively taken forward.

Downloading Personal Data to any Device

The exposure to reputation risk should personal data be inappropriately disclosed was noted as were the legal sanctions and penalties. All the recommendations in the report had been agreed and were being taken forward.

Main Library Redevelopment Project: Continuity of Service

The incremental approach to taking forward this project was commended and had resulted in the library being able to continue to deliver satisfactory services to students.

**11 INTERNAL AUDIT FOLLOW UP REVIEWS**

**Paper I**

The Committee noted satisfactory progress in respect of the 4 internal audit assignments reviewed since its last meeting.

**12 INTERNAL AUDIT PROGRESS REPORT**

**Paper J**

It was noted that the 2008/2009 Audit Plan was nearing completion and the 2009/2010 plan was 28% advanced after 14 weeks. Both were satisfactory positions.

**FOR INFORMATION/FORMAL APPROVAL**

**13 DATE OF NEXT MEETING**

The next meeting will be held on Thursday, 4 March 2010 at 5.30 pm in the Lord Provost Elder Room, Old College.