



5 March 2009

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Ms Diane Scott  
[request-8277-  
f15f4846@whatdotheyknow.com](#)

RECORDS MANAGEMENT SECTION

The University of Edinburgh  
Old College  
South Bridge  
Edinburgh EH8 9YL

Direct Dial 0131 651 4099

Switchboard 0131 650 1000

Fax 0131 650 2147

Dear Ms Scott

Thank you for your email dated 19 February 2009. I am pleased to provide you with the following information in response to your request.

**1. The annual report of our audit committee for each of the years ended 2003 to 2008**

The Audit Committee Reports can be found at the following URL:

<http://www.planning.ed.ac.uk/Governance/Court/Pub/meetings.htm>

To access the reports click on the link for 'Agenda and Papers' for the December of the year you would like to access. Online reports are available for the years 2004/2005, 2005/2006, 2006/2007 and 2007/2008. The reports for 2002/2003 and 2003/2004 are attached.

**2. The annual report of our internal auditor for each of the years ended 2003 to 2008.**

All the reports above include the internal audit report for that year.

**3. The identity of our internal audit provider**

The University has an in-house internal audit service.

**4. The cost of our internal audit service for each of the years from 2003 to 2008.**

The costs are included in the reports above – however I also attach a summary of the costs for the years specified.

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*PP.* Susan Graham  
University Records Manager  
[susan.graham@ed.ac.uk](mailto:susan.graham@ed.ac.uk)

# C2

The University of Edinburgh

The University Court

15 December 2003

## Annual Report of the Audit Committee to Court, FY 2002/2003

### Brief description of the paper

The paper sets out the annual report from the Audit Committee to the University Court, on Financial Year 2002/2003, with the Internal Audit Report for 2002/03 (Annex 1, with five accompanying appendices) and the draft minutes from the Audit Committee meeting held on 20 November 2003 (Annex 2).

### Action requested

The University Court is invited to note the paper for information.

### Resource implications

Does the paper have resource implications? The activities described in the paper can be met with existing resource allocations.

### Risk Assessment

Does the paper include a risk analysis? The paper describes the activities of the Audit Committee, which has received reports on the University's risk management controls during 2002/03 and, which has also received internal audit reports, which have been prepared using a risk-based approach.

### Equality and Diversity

Does the paper have equality and diversity implications? No.

### Any other relevant information

The paper will be presented by Dr. John Markland, Convener of the Audit Committee.

### Originator of the paper

Ms. S.M. Welham, Executive Secretary, Audit Committee  
8 December 2003

# Annual Report of the Audit Committee to Court for FY 2002/2003

## 1 Administrative Matters

### Membership and Frequency of Meetings FY 2002/2003

Membership of the Committee for the FY 2002/2003 was as follows, with Court members marked\*:

Dr J Markland \* (Convener)  
Professor A D Milne \*  
Dr I P Sword \* (resigned May 2003)  
Mr F H Hitchman  
Mr G M Murray  
Mr D A Ross Stewart (resigned w.e.f. 31 July 2003)  
Mr J Stretton

Dr Markland assumed his role as Convener of the Committee in 2002/03. Mr D Ross Stewart and Dr I Sword both resigned during 2002/03 for separate reasons, which were unrelated to the work of the Committee. The Committee expressed its grateful thanks for their participation in the work of the Committee.

The University Secretary is Secretary to the Committee and its Executive Secretary is Ms S. Welham. Routinely in attendance during the year were: the Director of Corporate Services, the Director of Finance, the Chief Internal Auditor, the Assistant Director of Finance responsible for Financial Accounting, the executive secretary of the Committee, and the external auditors, KPMG. During 2002/03 the Committee had a presentation from Vice-Principal Dr G.R. Field on IT security issues.

The Committee met on four occasions in the course of FY 2002/2003.

### 2.1 Internal Audit

#### Annual Report of the Internal Auditors 2002/2003

The Annual Report of the in-house internal auditors is attached as Annex 1. The Court's attention is drawn to Appendix E which is a new section on the assessment of the adequacy and effectiveness of risk management within the University, and which was used to help derive the conclusion in the internal auditor's annual statement on the system of internal control in the University, which is endorsed by the Audit Committee:

“On the basis of the work carried out during the year I conclude that where weaknesses were identified these were addressed and that there is sufficient evidence of controls and procedures that are functioning to provide reasonable assurance that the overall control environment is adequate in the University. Risk management has been actively developed throughout the year and steps are continuing to extend the process such that it becomes embedded further as an ongoing process.”

*Chief Internal Auditor's Annual Statement (see Annex 1)*

#### 2003/2004 Internal Audit Plan

At its meeting on 7 July 2003 the Court, on the recommendation of the Audit Committee, approved the Strategic Audit Plan for 2003-06 and the Annual Audit Plan for 2003-04. The Chief Internal Auditor prepared the plans in consultation with senior management, including the Principal as Chief Accounting Officer.

## **2.2 External Audit**

### Appointment and Remuneration of External Auditor

At its meeting on 9 July 2001, on the recommendation of the Audit Committee, the University Court appointed KPMG to conduct the external audit of the University for the three financial years from 2001/02. The Audit Committee reviewed the External Auditors' audit plan for the year ending on 31 July 2003 at its 27 February 2003 meeting. The Audit Committee reported to the Court at its 7 July 2003 meeting that the proposed external fee for the University and Subsidiary companies for 2002/03 was £54,275 exclusive of VAT, subject to minor adjustments for subsidiary companies.

### Reports and Financial Statements for the year ended 31 July 2003

The Committee received the reports and financial statements for the year ending 31 July 2003, with the exception of the Principal's statement, at its meeting on 20 November 2003, together with a presentation by KPMG on the external audit findings. The Committee noted the basis of the opinion of KPMG on the accounts and the satisfactory nature of that opinion. The Committee concluded that the audit had been satisfactorily performed and that there were no major issues to give significant cause for concern. The Committee agreed for its part to commend the reports and financial statements that it had received to the Court for adoption.

### Management Letter 2002/2003

KPMG referred to the Management Letter in the report on the audit results. KPMG confirmed that, while it highlighted various matters requiring the attention of management, which the Audit Committee is satisfied are being addressed effectively, it contained nothing to impact on their ability to give a clean audit report on the accounts for the year. On completion, the Management Letter will be forwarded to the Funding Council as required by the SHEFC Code of Audit Practice.

## **2.3 Internal Control Systems**

Based on the results of the work of the Internal Auditor as reported in the Internal Auditor's Annual Report; the External Auditors' opinion on the financial statements as well as on the Management Letter; and direct comments from relevant members of staff of the University, the Audit Committee considered that the University's internal control systems were functioning to provide reasonable assurance that the overall control environment was adequate in the University and could be relied on by the University Court.

## **3 Other Committee Business**

Other issues considered by the Audit Committee during 2002/2003 included: risk management, where it received regular reports on the development of the Risk Management Strategy and Policy and the University Overview Level Risk Register; the University's corporate governance statement; the University's relationships with subsidiary and spin-out companies: Memoranda of Understanding with subsidiary companies and the role of the University's Nominated Officer; the Smith Report (January 2003): Audit Committees – Combined Code Guidance; voluntary severance payments; IT security; value for money audit reports; the Audit Committee's terms of reference, in particular in relation to the Risk Management Committee's remit; and the Audit Committee's composition and its interaction with senior University managers. The Committee held its Annual Seminar in conjunction with the Risk Management Committee in March 2003.

## **4 Fraud and Irregularity**

The Audit Committee has not been made aware of any serious weaknesses in internal control systems, significant fraud or major accounting or other control breakdowns.

Ms Welham, Executive Secretary, Audit Committee, 21 November 2003

## Annex 1

## Internal Audit Annual Report 2002-2003

### 1. Introduction

The Code of Audit Practice requires that the Audit Committee should be provided with an Annual Report on Internal Audit's activities at the first meeting following the financial year-end. It also sets out the minimum contents of such a report (paragraph 4.53-4.54).

### 2. Achievement of Annual Plan

Appendix A lists the assignments carried out during the year in the order that they were reported to the Audit Committee. Appendix B summarises the main findings. The audit plan approved by the Audit Committee is substantially completed (98%). Work is continuing on Postgraduate Admissions, the School of Biomedical and Clinical Laboratory Sciences and Research Fees.

The original audit plan was designed to accommodate additional assignments arising during the year and any unforeseen staff absences, by setting aside time to cover such eventualities (without disrupting the scheduled assignments). This has once again worked well. Seven additional assignments to the original plan were accommodated during the year (two did not result in a formal report). Four assignments: IT Penetration Testing; Postgraduate Admissions; Estates & Buildings Stores; and Corporate Governance - Compliance with Good Practice, required significantly more time to carry out than had been planned.

### 3. Summary of Findings

The Code requires a summary of each audit report and these are set out in Appendix B. The more significant control weaknesses and control assurances identified are set out in the table in Appendix C. Based on audit findings during the year, Table 1 below highlights examples of where the control environment requires enhancement.

**Table 1: Examples of how and where the control environment could be enhanced**

<u>Control Environment</u>	<b>Assignments identifying the need for control enhancement</b>
<b>Better Segregation of Duties</b>	Accommodation Services: Commercial Income Collection, Overhead Recovery in Research and Consultancy Contracts.
<b>Improved Organisational controls</b>	IT Network Security (x2), IT Penetration Testing, Disposal of Waste.
<b>Control over Authorisation and Approval</b>	Acquisition and Disposal of Land and Buildings, Senior Staff Expenditure Claims, ICMB/Wellcome Trust Centre.
<b>Improved Physical Controls</b>	Vehicle Policy Compliance, Estates and Buildings Stores, Payment of Creditors: Accounts Payable.
<b>More effective Supervision</b>	Estates and Buildings Stores, Payment of Creditors: Accounts Payable.
<b>Improved Personnel Controls</b>	Vehicle Policy Compliance, Disposal of Waste.
<b>Improved Arithmetic and Accounting Controls</b>	Animal Houses, Accommodation Services: Commercial Income Collection, Restructuring Fund (Bond) Monies, Learning Technology Section, ICMB/Wellcome Trust Centre.
<b>Improved Management</b>	Vehicle Policy Compliance, Estates and Buildings Stores, Learning Technology Section, Payment of Creditors: Accounts Payable, ICMB/Wellcome Trust Centre.

87% of recommendations from a programme of follow up reviews, were found to have been implemented in full as agreed. This is up from 77% in last year's annual report.

### **Positive Assurances**

- IT Network Security
- IS/IT Disaster Recovery - Corporate Systems
- IT Penetration Testing
- Capital Project Planning
- School of Engineering and Electronics
- Pathology
- Management of Intellectual Property
- Legal Services VFM

#### **4. Value for Money (VFM)**

VFM is considered as a routine aspect of each assignment. Appendix C identifies those assignments that could result in VFM opportunities for the University.

#### **5. Staffing**

There was no turnover of staff during the year. IT audit specialists were engaged to provide support on IT related assignments.

#### **6. Internal Audit Performance Indicators**

The SHEFC Code of audit Practice states, "*The Head of Internal Audit should, in conjunction with management and the Audit Committee, establish and implement performance measures and indicators, whereby the efficiency and effectiveness of the service can be monitored on an ongoing basis*".

Appendix D includes a selection of Key Performance Indicators and a summary of the responses to Performance Questionnaires received during the year from management, following an audit in their area.

#### **7. Turnbull Committee Report on Internal Control**

The Turnbull Committee report emphasised that it was an essential part of the Main Board's / Governing Body's (Court's) responsibility to review the effectiveness of internal control. In coming to a view, members are expected to seek input from the Audit Committee, other constitutional committees, senior management, external and internal audit. SHEFC requires the Court to include a statement in the annual financial statements on corporate governance, indicating how the University has complied with good practice in this regard. There is a separate paper from the University Secretary on the Draft Corporate Governance Statement giving advice to members on the Statement of Internal Control.

#### **8. Risk Management**

The University Risk Management Committee is now fully operational. The University Risk Management Policy and Overview Risk Register have now been endorsed by Court and will be reviewed and confirmed by CMG, FGPC, Audit Committee and Court each year. Each College and Support Group has prepared a Risk Register which will be formally reviewed annually by the Risk

Management Committee. Copies of the College/Support Group Risk Registers have been submitted to the Risk Management Committee for appraisal.

An assessment of the adequacy of the University of Edinburgh's risk management process is given in Appendix E.

## 9. Annual Statement on the System of Internal Control

The Code of Audit Practice requires the Head of Internal Audit to provide an opinion on the adequacy and effectiveness of the University's internal control system (paragraph 4.54). Internal Control is defined in the internationally recognised report from the Committee of Sponsoring Organisations (COSO) as:

*"A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations."*

It is important to note that:

- The Annual Statement is based upon the work done during the year as summarised in Appendix B;
- Internal Control can provide only reasonable and not absolute assurance to management and Court regarding achievement of the University's objectives. Internal Audit assignments have a reasonable chance of detecting significant control weaknesses and cannot guarantee that fraud, error or non-compliance will be detected;
- It is management's responsibility to maintain effective systems of internal control, risk management and the detection of fraud, error or non-compliance;
- Internal audit forms part of the overall system of internal control.

Internal Audit has, during the year, reviewed, evaluated and tested the University's internal controls based upon an Audit Needs Assessment approved by the Audit Committee in June 2002. Reference has been made where appropriate to the quality standards in the Government Internal Audit Manual (GIAM), and other recognised good practice guidance, as required by paragraph 1.7 of the Code of Audit Practice.

**On the basis of the work carried out during the year I conclude that where weaknesses were identified these were addressed and that there is sufficient evidence of controls and procedures that are functioning to provide reasonable assurance that the overall control environment is adequate in the University. Risk management has been actively developed throughout the year and steps are continuing to extend the process such that it becomes embedded further as an ongoing process.**

Hamish McKay  
Chief Internal Auditor

**Internal Audit Annual Report - List of Assignments**

<u>Audit assignment</u>	<u>Date Final Report Issued</u>	<u>Date to Audit Committee</u>	<u>Comment</u>
<b><u>Completed</u></b>			
1 Grounds Maintenance	14-Oct-02	Nov-02	2001-02 Annual Plan
2 Accommodation Services: Commercial Income Collection	18-Oct-02	Nov-02	
3 Restructuring Fund (Bond) Monies	15-Nov-02	Nov-02	2001-02 Annual Plan
4 Corporate Governance: compliance with good practice guidelines	28-Nov-02	Feb-03	
5 Science and Engineering Workshops	10-Jan-03	Feb-03	
6 Management of Intellectual Property	31-Jan-03	Feb-03	
7 Vehicle Policy Compliance	11-Feb-03	Feb-03	
8 School of Engineering and Electronics	26-Feb-03	Jun-03	
9 Estates and Buildings Stores	27-Feb-03	Feb-03	
10 Disposal of Waste	28-Mar-03	Jun-03	
11 Senior Staff Expenditure Claims	16-May-03	Jun-03	Added to original plan
12 Acquisition and Disposal of Land and Buildings	27-May-03	Jun-03	
13 Capital Project Planning	30-May-03	Jun-03	
14 IS/IT Disaster Recovery - Corporate Systems	2-Jun-03	Jun-03	
15 Overhead Recovery in Research and Consultancy Contracts	3-Jul-03	Oct-03	
16 IT Network Security	7-Jul-03	Oct-03	
17 Learning Technology Section	7-Jul-03	Oct-03	
18 CHSS: Delegated Authorisation Protocols	17-Jul-03	Oct-03	
19 Animal Houses	14-Jul-03	Oct-03	
20 Pathology	06-Aug-03	Oct-03	
21 Institute of Cell and Molecular Biology/Wellcome Trust Centre	25-Aug-03	Oct-03	Added to original plan
22 Legal Services VFM	16-Sep-03	Oct-03	
23 IT Network Security - Management Arrangements	17-Sep-03	Oct-03	Added to original plan
24 Transparency Review	24-Sep-03	Oct-03	
25 IT Penetration Testing	26-Sep-03	Oct-03	Added to original plan
26 Identification, Assessment and Management of Business Risks	29-Sep-03	Oct-03	Part of Annual Report
27 Payment of Creditors: Accounts Payable	30-Sep-03	Oct-03	
28 Delegated Authority	==	Oct-03	No report as such
29 Postgraduate Admissions: Compliance with QAA Code of Practice	==	(Oct-03)	Findings from one College to October meeting
<b><u>Continuing</u></b>			
30 Postgraduate Admissions: Compliance with QAA Code of Practice			For remaining two Colleges
31 School of Biomedical and Clinical Laboratory Sciences			
32 Research Fees			Added to original plan

## Appendix A

<u>Follow up Reviews (15)</u>	<u>Date to Audit Committee</u>	<u>Recommendations agreed</u>	<u>Recommendations implemented</u>
Continuing Education - Summer School	Oct-02	5	5
Income Recognition - CPD/Training/Consultancy	Oct-02	5	3
Accounts Receivable	Oct-02	5	2
Records Management	Feb-03	1	1
Students Association - Catering	Feb-03	1	1
English Literature	Feb-03	3	3
School of Law	Feb-03	3	3
Tropical Animal Health	Feb-03	9	8
General Practice	Feb-03	5	5
Sci-Fun	Feb-03	11	11
Students Association General Expenditure, Payroll and Management Accounting Arrangements	Jun-03	6	4
Informatics	Jun-03	8	8
Accident and Incident Reporting	Jun-03	3	2
Communication of Responsibilities to Heads of Departments	Jun-03	1	1
Staff Appointments in Subsidiary Companies	Jun-03	1	1
		67	58
			87%

## Appendix B

**SUMMARY OF FINDINGS FROM AUDIT ASSIGNMENTS DURING  
2002-2003**

*(Listed in the order that the final report was issued)*

**1. GROUNDS MAINTENANCE**

While the VFM study performed by the Landscape Maintenance Officer provides assurance that the service is being provided efficiently to the University by the Grounds Maintenance Section, it does not demonstrate that an alternative arrangement could not provide savings to the University through greater economy and/or effectiveness. Therefore the University should consider making direct comparisons with the market. The service is presently supplied rather than demand driven and there should be a more transparent method of confirming the levels of grounds maintenance required. Estates and Buildings senior management agreed to conduct partial testing against the external market, although they consider Grounds Maintenance to be a corporate service which cannot easily be devolved to Colleges.

*Issued 14/10/02; 2 recommendations, both agreed.*

**2. ACCOMMODATION SERVICES: COMMERCIAL INCOME COLLECTION**

The existing systems in use in Accommodation Services for commercial income did not provide an effective control environment and require considerable dependence on supplementary checks and reconciliations such as spreadsheet records. There is therefore a greater risk of accounting error, although we found no evidence of this in our review. There are plans to enhance existing systems to address the control weaknesses identified. These enhancements need to be supported by additional reconciliations and controls.

*Issued 18/10/02; 11 recommendations, 10 agreed, 1 partly agreed*

**3. RESTRUCTURING FUND (BOND) MONIES**

Procedures for the authorisation, approval, recording of, accounting for and monitoring of the achievement of Restructuring Fund (Bond) funded projects are being consolidated. There was an incomplete record of the formal authorisations and it was agreed that these would be obtained where necessary. There was an acknowledged need to reassess the percentage of the corporate share of the income retained through NPRAS arising from additional overseas student fees following a Restructuring Fund project.

*Issued 15/11/02; 2 recommendations, both agreed.*

**4. CORPORATE GOVERNANCE-COMPLIANCE WITH GOOD PRACTICE GUIDELINES**

We reviewed compliance against a list of good corporate governance indicators and found evidence of satisfactory compliance for the majority of the indicators. The majority of the remainder concerned implementation of an embedded culture of risk management and some others on roles and responsibilities within the University. Significant developments are underway that should achieve full compliance in all the areas assessed. We were able to provide an assurance that the University can demonstrate a substantial degree of compliance with perceived good practice on corporate governance.

*Issued 28/11/02; Our suggestions were all agreed.*

## 5. SCIENCE AND ENGINEERING WORKSHOPS

There is scope to introduce a centrally administered workshops service, which would facilitate co-ordinated service delivery (in terms of better co-ordination of job requests, absence cover, and career progression). Any move toward centralised administration of workshop services will require to be supported by the ongoing collection and provision of appropriate financial information relating to income and cost streams. There is potential to achieve cost savings in workshop services by the introduction of e-procurement initiatives, and to introduce efficiency gains in the stores by reducing stockholding in local workshop/laboratory stores and larger School stores.

*Issued 10/01/03; 7 recommendations, College management accepted the overarching recommendation and the principle of the detailed recommendations in the report.*

## 6. MANAGEMENT OF INTELLECTUAL PROPERTY

ERI is managing the University's Intellectual Property effectively, with appropriate regard to maximising the University's commercial income and to the risk of litigation arising from poor intellectual property management. There is a need to formulate a University Policy on Intellectual Property, and ERI would be well placed to advise on this policy.

*Issued 31/01/03; 3 recommendations, all agreed.*

## 7. VEHICLE POLICY COMPLIANCE

While the University *Vehicle Policy* should facilitate good vehicle management if adhered to, there was evidence of non-compliance identified. A single comprehensive vehicle record would assist compliance with the Motor Insurance Database EU 4<sup>th</sup> Directive and reduce both risk to the University and resources involved in maintaining vehicle records. Value for money is being compromised by the unilateral acquisition of vehicles in schools and departments. There is considerable scope to improve available management information on vehicle utilisation and fuel use.

*Issued 11/02/03; 8 recommendations, all agreed*

## 8. SCHOOL OF ENGINEERING AND ELECTRONICS

We found that there are effective financial and budgetary control procedures within the School. We also found that there were effective procedures to ensure appropriate authorisation of expenditure commitments. We were able to obtain sufficient evidence that there was a satisfactory control environment within the School.

*Issued 26/02/03; 1 recommendation, agreed.*

## 9. ESTATES AND BUILDINGS STORES

There is considerable scope to achieve more economy and efficiency within the stores functions in Estates and Buildings. Serious consideration should be given to investing in upgrading the capability of the *EBIS* stock recording system to provide better management information. There are indications that there could be early returns from such an investment. To maintain a network of satellite stores with the inevitable poor physical access controls, greater management challenge of the need for items requisitions is required, combined with more frequent stock checks of satellite stores. This should reduce local stockpiling, inhibit

over ordering, release working capital tied up in stock and lead to greater accountability and efficiency.

*Issued 27/02/03; 7 recommendations, all agreed*

#### **10. DISPOSAL OF WASTE**

Controls are in place to provide an assurance that waste sent for disposal by the University is being carried out under controlled conditions. Procedures for handling waste on behalf of associated external bodies should be tightened. There is a need to document more fully the roles and responsibilities of the key individuals involved in hazardous waste accidents/incidents, combined with a more robust register of who should be receiving refresher training courses.

*Issued 28/03/03; 7 recommendations and three suggestions, all recommendations agreed*

#### **11. SENIOR STAFF EXPENDITURE CLAIMS**

Following the University restructuring, we identified inconsistencies in the arrangement for authorising expense claims for senior staff and conducted a review of the existing arrangements. There was no suggestion that any improper payments had been made, but the University recognised the need to regularise practice to ensure that corporate governance was not jeopardised. The Principal approved a schedule of authorisation for approval of senior staff expenditure claims.

*Issued 16/05/03; 2 recommendations, both agreed*

#### **12. ACQUISITION AND DISPOSAL OF LAND & BUILDINGS**

We are able to provide an overall limited assurance that the process, procedures and controls in place are working and that disposals are being documented and recorded accurately, subject to improvement of current documentation and compliance issues. We were unable to evidence structured progress towards Court's objective of a 10% reduction in the size of the estate over ten years to help address the projected gap between income and expenditure.

*\*Audit Committee minutes (12<sup>th</sup> June 2003) noted,*

- *“The University had an estates strategy and that the new Heads of Colleges and Support Groups had been actively reviewing the estate plans in the light of the organisational changes that had taken place.”; and*
- *“ The Committee agreed that it would be helpful to discuss this issue at its October or November 2003 meeting, drawing on current work within the University.”*

*Issued 27/05/03; 8 recommendations, 6 agreed.*

**13. CAPITAL PROJECT PLANNING**

Our enquiries and testing were able to confirm that there were adequate controls in the University to mitigate the risks arising from the IDCOM project, and where applicable, SRIF projects generally.

*Issued 30/05/03: No recommendations, although we notified some issues to Estates and Buildings senior management.*

**14. IS/IT DISASTER RECOVERY - CORPORATE SYSTEMS**

Based on the consistent assurances we have received from management regarding the outcome of the January 2003 test of the Corporate Systems Disaster Recovery Plan, combined with review of the updated Disaster Recovery Plan and the testing we performed in line with the *CIPFA Computer Audit Guidelines*, our overall conclusion is that the University has effective plans and procedures in place to facilitate recovery of key business systems in the event of a disaster affecting its IS/IT infrastructure.

*Issued 02/06/03; No recommendations.*

**15. OVERHEAD RECOVERY IN RESEARCH AND CONSULTANCY CONTRACTS**

Within the constraints imposed by the nature of the University's research portfolio (which includes work undertaken for charities and government agencies) ERI attempt to secure the maximum overhead recovery possible when costing research and consultancy contracts. Our testing indicated that where overheads are included in these contracts, monies were recovered in full and timeously. The sensitivity analysis we performed on consultancy charge-out rates indicated a risk of under-recovery of overheads in two combinations of staff grade and rate charged. We also noted one instance where segregation of duties was being compromised by an academic who was charging his own time as consultancy to his own research project without the need for authorisation of the time or the charge by a line manager.

*Issued 03/07/03; 4 recommendations, all agreed*

**16. IT NETWORK SECURITY**

The fieldwork on this assignment was carried out in conjunction with an IT Consultant whom we commissioned to assist us for this review. The audit work was carried out in accordance with the *CIPFA Computer Audit Guidelines*. Our findings in relation to the audit work were that at operational level there appear to be adequate and effective measures in place to protect the security and integrity of the University's 'EdLAN' network. However, we noted a number of residual risks, relating to areas outwith the control of Computing Services and the local Computing Officers, and which relate to the overarching University-wide management of IT Security matters. These issues were addressed by way of a separate report to the Vice-Principal for Knowledge Management (see item 23 below).

*Issued 07/07/03; 7 recommendations, all agreed.*

**17. LEARNING TECHNOLOGY SECTION**

There is scope to review Medical Illustration's charging methodologies to help ensure that costs and overheads are fully covered and a surplus generated. Control over authorisation of

payments could be improved to ensure that payments made are authorised by the correct signatory. More informed budgetary control would be achieved if budgets were notified and profiled at the beginning of the financial year by the College.

*Issued 07/07/03; 8 recommendations, all agreed.*

#### **18. CHSS: DELEGATED AUTHORISATION PROTOCOLS**

Internal Audit agreed to help the College of Humanities and Social Sciences (CHSS) develop delegated authorisation protocols. We prepared a schedule detailing various areas where delegated authority is required to support authorisation and approval of a range of expenditure and resource commitments, and provided comment and suggestions where appropriate. There is potential to standardise further the procedures in the 10 Schools, and within the College Office.

*Issued 17/07/03; 16 suggestions were made. College senior management indicated their appreciation of the suggestions, and will discuss them further at College Executive, and potentially College Planning and Resources Committee.*

#### **19. ANIMAL HOUSES**

The University is currently bearing the residual costs of animal houses, as costs are not fully recovered from charges to users. The introduction of a uniform charging methodology for animal houses should mitigate the risk of research sponsors withholding monies from the University. The current arrangements increase the risk of non-compliance with EU tendering regulations as a result of the disparate purchasing sources, and may also result in poor Value for Money.

*Issued 14/07/03; 2 recommendations, both agreed.*

#### **20. PATHOLOGY**

There is a need to nominate formally a Data Protection Officer, who should be charged with ensuring all relevant filing systems containing personal and sensitive personal data are identified. There is a satisfactory level of financial control operating within the Division.

*Issued 06/08/03; 6 recommendations; all agreed.*

#### **21. INSTITUTE OF CELL & MOLECULAR BIOLOGY /WELLCOME TRUST CENTRE**

There is scope to improve the control over issues of stock and goods from stores to ensure all charges are authorised and applied to the appropriate source of funding at the outset. The use of Research Training Support Grants should be reviewed to ensure that funds issued to ICMB are used in line with the conditions placed upon them. Further development is required of *E-Financials* stock management information to provide an effective means of supporting the monitoring of a store.

*Issued 25/08/03; 10 recommendations, 9 agreed, 1 not agreed in favour of an alternative suggestion.*

**22. LEGAL SERVICES VFM**

There are several suppliers of legal services to the University. More money is being spent on personnel legal services in absolute terms since the award of a new contract in 2002, but indications are that this is being applied more efficiently and effectively. There is an effective process to ensure Value For Money is received for day-to-day legal advice. With regard to estates legal services, there is some comfort of VFM being achieved in Estates and Buildings and the Director of Corporate Services has undertaken to address the position in Accommodation Services in the coming year.

*Issued 16/09/03; No recommendations.*

**23. IT NETWORK SECURITY – MANAGEMENT ARRANGEMENTS**

An IT Consultant assisted us with this review. Our scheduled internal audit work on IT network security (see item 16) identified a number of issues relating to overarching University-wide management of IT Security matters. In particular, there appears to be a degree of incongruence between the current functioning of the main IS/IT advisory Committees, resulting in operational-level confusion regarding responsibility for formulating and driving University-wide IT Security strategy and policy. The new Vice Principal (appointed with a pan-University remit in this area) has undertaken to revisit the existing IT Security policy, and address concerns regarding the current role and functioning of IS/IT advisory Committees. She has also undertaken to introduce a more formal and co-ordinated grouping of Computing Officers throughout the University in order to help minimise the risks arising from inconsistent management of network security issues.

*Issued 17/09/03; 4 recommendations, all agreed.*

**24. TRANSPARENCY REVIEW**

We were able to confirm that the University submitted a Transparency Review costing return for 2001-02 signed by the Principal before the agreed deadline, that the costing systems established by management followed the recommendations in the Transparency Review report, and that the systems were adequate, effective and applied consistently.

*Issued 24/09/03; No recommendations.*

**25. IT PENETRATION TESTING**

It was decided to test the effectiveness of the controls over electronic penetration attempts (hacking). The testing was intended to provide Court, the Risk Management Committee and the Audit Committee with a degree of assurance in this regard. An outside contractor was commissioned and provided with a list of selected 'devices' to test. These represented a cross section of areas and functions across the University. The contractor concluded that the overall level of server security at Edinburgh University was better than average.

*Issued 26/09/03; Of the 33 (net) findings - 17 have been actioned; 12 more are in the process of being actioned; and it was decided that the residual risk identified was acceptable in 4 low rated findings.*

**26. IDENTIFICATION, ASSESSMENT AND MANAGEMENT OF BUSINESS RISKS**

A specific assessment of the adequacy and effectiveness of the Risk Management process has been included as part of the Internal Audit Annual Report.

*Completed 29/09/03; No recommendations.*

**27. PAYMENT OF CREDITORS: ACCOUNTS PAYABLE**

There is significant scope for the improvement of internal controls over the payment of creditors through Accounts Payable. Processing performance has been reduced over a period of time due to increased workload pressures. A number of internal controls have lapsed in favour of local expediency to cope with workload pressures and meet payment demands. Close supervisory monitoring has not been increased to compensate for expedient measures taken.

*Issued 30/09/03; 14 recommendations, 13 agreed and 1 alternative course of action taken.*

**28. DELEGATED AUTHORITY**

Internal Audit continued to provide assistance to the University Secretary on the preparation of a Delegated Authorisation Schedule.

**29. POSTGRADUATE ADMISSIONS: COMPLIANCE WITH QAA CODE OF PRACTICE**

College of Science and Engineering: Based on analysis of responses to our online questionnaire, our conclusion is that most areas surveyed are prepared to demonstrate compliance with the detailed good practice points contained in the QAA code. We have identified opportunities for sharing good practice in Schools and areas requiring action at College level.

*College of Science & Engineering report issued 18/08/03, No recommendations.*

Analysis of responses to the questionnaires in the College of Medicine and Veterinary Medicine are ongoing, and the questionnaire is currently being rolled out in the College of Humanities and Social Sciences.

## Appendix C

**Internal Controls 2002-03: Analysis of the strengths and weaknesses identified in the Control Environment**

Ref	Audit assignment	Internal Controls								VFM Opportunity ?
		Segregation of Duties	Organisation	Authorisation & Approval	Physical	Supervision	Personnel	Arithmetic & Accounting	Management	
1	Grounds Maintenance								✓	Yes
2	Accommodation Services: Commercial Income Collection	XX						X	X	Yes
3	Restructuring Fund (Bond) Monies			X				X		
4	Corporate Governance: compliance with good practice guidelines	✓	✓✓				✓		✓	
5	Science and Engineering Workshops									Yes
6	Management of Intellectual Property						✓		✓	
7	Vehicle Policy Compliance			✓	X		X		XX	Yes
8	School of Engineering and Electronics	✓	✓	✓✓			✓	✓		Yes
9	Estates and Buildings Stores				X	XX		X	XX	Yes
10	Disposal of Waste		X			X	X		X	
11	Senior Staff Expenditure Claims	X		X		X				
12	Acquisition and Disposal of Land and Buildings			X			✓		X	Yes
13	Capital Project Planning			✓		✓		✓	✓	
14	IS/IT Disaster Recovery - Corporate Systems	✓	✓✓	✓	✓		✓✓		✓✓	
15	Overhead Recovery in Research and Consultancy Contracts	X		X				✓		
16	IT Network Security	✓	X		✓		✓		✓	
17	Learning Technology Section			X				X	X	Yes
18	CHSS: Delegated Authorisation Protocols									
19	Animal Houses		✓					XX		Yes
20	Pathology		✓			✓	X	✓	✓	
21	ICMB/Wellcome Trust Centre			X	X			X	X	Yes
22	Legal Services VFM			✓					✓	
23	IT Network Security–Management arrangements		X							
24	Transparency Review							✓		
25	IT Penetration Testing		X		✓					
26	Risk Assessment		✓							
27	Payment of Creditors: Accounts Payable	X		X	X	XX		X	X	
28	Delegated Authority									
29	Postgraduate Admissions: Compliance with QAA Code of Practice									Yes

**Key:** (A blank entry indicates either not assessed, or no particular strengths or weaknesses identified.)

✓ = Control Assurance identified, X = Control weakness identified,  
 ✓✓ = Strong Assurance identified, XX = Inadequate control identified.

**Note:** These assessments were made on the basis of the findings at the time of the audit.

## Appendix D 1

*Key Performance Indicators for Internal audit*

The SHEFC Code of audit Practice states, “The Head of Internal audit should, in conjunction with management and the Audit Committee, establish and implement performance measures and indicators, whereby the efficiency and effectiveness of the service can be monitored on an ongoing basis”. “It is for each institution to adopt or develop a set of measures and indicators which are appropriate to its needs and circumstances”.

<u>Performance measures</u>	<u>Year 2000-01</u>	<u>Year 2001-02</u>	<u>Year 2002-03</u>
<u>General Performance Indicators</u>			
<u>Annual cost of service</u>	<u>£145k<sup>1</sup></u>	<u>£165k</u>	<u>£174k<sup>2</sup></u>
<u>Direct audit days available<sup>3</sup></u>	<u>602</u>	<u>665</u>	<u>692</u>
<u>Cost per direct audit day</u>	<u>£240</u>	<u>£248</u>	<u>£252</u>
<u>Number of audits</u>	<u>25+2</u>	<u>28+2</u>	<u>29+3</u>
	<u>to finalise</u>	<u>to finalise</u>	<u>to finalise</u>
<u>Number of recommendations made</u>	<u>84</u>	<u>136</u>	<u>142</u>
<u>Number of follow up reviews</u>	<u>16</u>	<u>12</u>	<u>15</u>
<u>Performance measures indicating efficiency</u>			
<u>University of Edinburgh income received / Internal Auditors</u>	<u>£70M</u>	<u>£71.25M</u>	<u>£78.5M</u>
<u>University employees / Internal Auditor</u>	<u>1457</u>	<u>1474</u>	<u>1505</u>
<u>% Available time applied to audit work</u>	<u>84%</u>	<u>85%</u>	<u>86%</u>
<u>% Allocated audit time actually spent conducting audit work</u>	<u>94%</u>	<u>104%<sup>4</sup></u>	<u>99%</u>
<u>% Completion of the annual audit plan by annual report stage</u>	<u>98%</u>	<u>99.5%</u>	<u>98%</u>
<u>Performance measures indicating effectiveness</u>			
<u>% Audit work undertaken by fully qualified staff</u>	<u>64%</u>	<u>63%</u>	<u>92%<sup>5</sup></u>
<u>% Recommendations agreed by management</u>	<u>94%</u>	<u>95%</u>	<u>94%</u>
<u>% Agreed recommendations found to be implemented when followed up</u>	<u>94%</u>	<u>77%</u>	<u>87%</u>
<u>% Audits perceived to add value<sup>6</sup></u>	<u>-----</u>	<u>90%</u>	<u>83%</u>

<sup>1</sup> Vacancies in 2000-01.

<sup>2</sup> Plus £7,000 added from central Contingency Fund to meet cost of IT Penetration Test.

<sup>3</sup> After leave, office admin & training. Includes specialist contract staff support.

<sup>4</sup> Less staff training in 2001-02 than anticipated.

<sup>5</sup> All staff are at least part qualified.

<sup>6</sup> Derived from Internal audit performance questionnaire.

**Appendix D 2**

Audit Committee  
16 October 2003

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**Internal Audit Performance Questionnaire**

In response to a request from the Committee, a process was initiated in 2001-02 of seeking feedback from managers of activities which had been the subject of internal audit. Responses are sent direct to the University Secretary who compiled the attached consolidated report for the Audit Committee.

Attached, for the information of members, is an analysis of responses received during the financial year 2002/03. It includes responses to work carried out at the end of the previous financial year and excludes assignments completed within the last two months.

October 2003

Internal Audit Performance Evaluation Questionnaires

Based upon feedback from the 19 Audit Assignments listed at the foot of the page.

	YY	Y	N	NN	Other
1. Were you given adequate notification of the audit?	13	5	1	-	
2. Were you informed adequately of the audit objectives and scope?	6	11	2	-	
3. Were the appropriate staff consulted for the audit area covered?	9	8	1	1 <sup>a</sup>	
4. Did staff conduct themselves in a professional manner during the audit?	10	9	-	-	
5. Were you given the opportunity to discuss the report with the auditor prior to finalisation?	10	9	-	-	
6. Were the recommendations in the report practical and realistic?	4	13	2	-	
7. Was the report produced to a professional standard?	8	11	-	-	
8. Do you feel that the audit was worthwhile and has added value to your work?	3	12	3	-	1 <sup>b</sup>
<b>Percentage %</b>	<b>41</b>	<b>51</b>	<b>6</b>	<b>1</b>	<b>1</b>

Key

YY	fully satisfied
Y	Satisfied
N	not satisfied
NN	fully dissatisfied

Completed Audit Assignments subject to performance evaluation

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Returns received (19)

- General Practice
- Business Rates Management
- Festivals Office
- Grounds Maintenance
- Geography - Income collection & recognition
- Disposal of Waste
- Accommodation Services: Commercial Income Collection
- IS/IT Disaster Recovery - Corporate Systems
- Corporate Governance: Compliance with Good Practice Guidelines
- CHSS: Delegated Authorisation Protocols
- Vehicle Policy Compliance
- Capital Project Planning (IDCOM)
- Acquisition/Disposal of Land & Buildings
- IT Network Security
- Estates & Buildings Stores
- Pathology
- Learning Technology Section
- Engineering & Electronics - School audit
- Animal Houses

Returns not received (7)

- School of Law
- Leavers from the payroll
- Student tuition fee income collections
- Restructuring Fund (Bond) monies
- Management of Intellectual Property
- Overhead recovery in research & consultancy contracts
- Workshop Services - Science & Engineering

<sup>a</sup> Outside contractors not consulted to establish cost and quality comparisons.

<sup>b</sup> Respondee no longer head of department and felt unable to comment on perceived added value.

**Appendix E****Risk Management -Assessment of its adequacy and effectiveness**Requirement

The Scottish Higher Education Funding Council's Accounts Direction in Circular HE/32/03 requires that Institutions should disclose as a minimum that:

- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the institution.
- The process has been in place for the year under review and up to the date of approval of the Annual Accounts.
- The governing body regularly reviews the process.
- The process accords with the Turnbull guidance.

The Turnbull guidance requires that risk assessment and internal control should be embedded in ongoing processes. Management's role is to implement the governing body's policies on risk and control. The governing body is required to review the effectiveness of internal control.

Internal audit is required to report upon the adequacy and effectiveness of the risk management process as part of its assessment of the overall control environment. Recent guidance from the Institute of Internal Auditors suggests assessment using the following parameters:

- The extent to which objectives of the risk management process has been set and communicated at all levels within an organisation, and are supported by consistent business strategies, plans and budgets.
- The adequacy of the mechanisms for identifying, analysing and mitigating key business risks arising from both external and internal sources.
- The existence of mechanisms for identifying and reacting to both routine and more dramatic changes that could affect the organisations ability to achieve its objectives.

Findings

1. A Risk Management Committee has met throughout 2002-03.
2. Court formally approved a Risk Management Policy and Strategy on 16 December 2002.
3. Court adopted a University level overview Risk Register on 17 March 2003.
4. The overview Risk Register is profiled against the University's main strategic objectives.
5. Risk Registers have been developed for each College, Support Group and major subsidiary company.
6. The Registers allocate responsibilities for mitigating the risks identified to specific individuals.
7. Each Head of College, and Support Group, has signed a positive declaration stating the key risks that have materialised in their areas of responsibility during the year. The Risk Management Committee has reviewed these declarations.
8. The overview Risk Register and a Risk Management Guidance Manual are available on the intranet.
9. There has been a programme of seminars delivered to senior and middle managers across the University on risk management led by the convenor of the Risk Management Committee.
10. Planning documents submitted by Colleges and Support Groups have taken cognisance of risk assessments associated with achieving budgetary goals.

11. There are disaster recovery and business continuity plans in place to respond to any dramatic changes affecting the University's ability to meet its objectives.
12. Risk assessment is a standard requirement on papers for formal University committees.
13. A review of the University's corporate governance arrangements by Internal Audit earlier in the year provided an assurance that the University could demonstrate a substantial degree of compliance with "perceived" good practice. In those areas where there was incomplete evidence of compliance, mainly concerned with the embedding of risk management processes, action has now been taken, or is in hand, to improve practices.

### Conclusion

There is an ongoing process for identifying, evaluating and managing the significant risks. It is part of a structured review process and is ultimately reviewed by Court. Guidance has been made available on how to identify and analyse risk and what the options are to mitigate risks. The risk management process has been actively developed throughout the year and steps are continuing to extend the process such that it becomes embedded further as an ongoing process.

Hamish McKay  
Chief Internal Auditor  
26<sup>th</sup> September 2003

**Annex 2**

**Strictly Confidential**

Minutes of the 51<sup>st</sup> Meeting of the Audit Committee held at 5.30 p.m. on Thursday 20 November 2003 in the Lord Provost Elder Room, Old College

- Present: Dr J Markland (Convener)  
Mr F H Hitchman  
Mr G Scott  
Mr J Stretton
- In Attendance: The University Secretary, Mr M D Cornish  
Director of Corporate Services, Mr N Paul  
Director of Finance, Mr G Sutherland  
Chief Internal Auditor, Mr H McKay  
Assistant Director of Finance, Mr J Taylor  
Internal Auditor, Mr J Thurlbeck  
Mr G Macrae, KPMG  
Mr M Rowley, KPMG  
Mr G Russell, KPMG  
Senior Vice-Principal Professor Michael Anderson (for item 2.1)  
Executive Secretary to the Committee, Ms S Welham
- Apologies: Professor A D Milne

The Committee welcomed Professor Michael Anderson, Senior Vice-Principal, to the meeting for item 2.1.

1. **Minutes of the Meeting held on 16 October 2003** (Paper A)

The Minutes of the previous meeting were approved as a correct record.

2. **Matters Arising**

*From 12 June 2003 meeting:*

2.1 From Item 5.4: Report 02/15: Acquisition & Disposal of Land & Buildings - Space Management Report (Paper B)

The Committee received with interest the report and Senior Vice-Principal Professor Michael Anderson's presentation on Space Management issues. The 10% target for reduction in the use of space had been intended as a device to focus the managerial mind. This exercise had been very helpful to focus and clarify the target and the target itself had been a very effective way of fostering the improvement of systems for recording, monitoring and maintaining the University's estate. The Audit Committee welcomed the approach taken by the University of incentives and disincentives for changes in the use of space. The Audit Committee professed itself satisfied that the University had appropriate systems and management arrangements to successfully manage the University's estate in the context of the University's strategic objectives. The Committee thanked Senior Vice-Principal Professor Anderson for his presentation and explanation of the work going on in this area.

*From 16 October 2003 meeting:*

2.2 From Item 2.3: From Item 9: Audit Committee Membership

The University Secretary noted that he had received one suggestion from a member of the Committee of a possible additional member. He would welcome further suggestions from

members by the end of that week and then would discuss the proposals with the Convener and put in place the nominations process.

[MDC]

## ANNUAL ACCOUNTS

### 3.1 Draft Reports and Financial Statements for FY to end 31 July 2003 (Paper C.1 and tabled paper)

The Director of Finance introduced the Annual Accounts for 2002-03. He drew the Committee's attention to the External Auditor's unqualified report on pages 11 and 12 of paper C.1. In his presentation he also drew attention to the following points:

- (i) on page 16 in the Income and Expenditure Account there was little flexibility in presentation and the University required to show the £14m bottom line surplus after exceptional items. However, the operating surplus was £1.7m. The Director of Finance anticipated that this could present PR difficulties and he would seek to explain this in the Principal's Report. The Communications & Public Affairs Department had been briefed about this point;
- (ii) on page 30 a £1m transfer from the Income and Expenditure Account was shown. The fall in stock markets had reduced the value of the assets held in the University's Staff Benefits Scheme and the Actuarial Valuation undertaken at March 2003 highlighted a pension fund deficit. It was hoped that recoveries in the stock markets would reduce this deficit, but the University could not rely on this and wished to remedy a potential shortfall by injecting £1m per annum for the next ten years. This policy would be reviewed in 3 years' time; and
- (iii) provision of a further £250k had been made for back pension claims in respect of part-time staff who were previously excluded from the pension scheme and £1.5m had been provided against insurance claims in respect of the South Bridge fire.

In discussion it was noted that the University did not formally underwrite the Students' Association although it had issued a letter of comfort to the Students' Association's bankers. Therefore the Students' Association's accounts were not consolidated in the University's Accounts. The Group figures shown included the University Accounts and Subsidiaries' Accounts. The Audit Committee noted that:

- (i) the title on page 5 should make clear that the responsibilities listed were those of the Court with respect to financial statements;
- (ii) it would be helpful to provide an explanation of the £1m which had been returned to the benefactors listed on page 32;
- (iii) an explanatory note would be added on page 37 regarding the revaluation of the STSS pensions; and
- (iv) periodic reports were made to the Finance & General Purposes Committee showing the utilisation and planned repayment schedules of the University Bond.

Subject to some other minor corrections and noting that it had not seen the Principal's Statement, the Committee confirmed that it was content with the Reports and Accounts. In future years the Director of Finance offered to ensure that the Principal's Statement was made available to the same meeting of the Audit Committee that received the draft Report and Accounts.

[GOS]

The Committee confirmed that the Accounts should be focused on meeting the University's specified requirements. However the University was aware of the need to present and promote the University's activities to different audiences in the appropriate documents.

4. **Final Corporate Governance Statement for 2002-03** (Paper D)

The University Secretary introduced the Corporate Governance Statement which had been amended to take account of discussion at the previous Audit Committee meeting and the Finance & General Purposes Committee meeting held on 27 October 2003 and which had been seen by the Court at a recent meeting. The Audit Committee made a number of suggestions to incorporate in the final version of the statement:

- (i) In the first paragraph references to the relevant code and the possible need to refer to the British Universities Financial Directors' Group should be checked.
- (ii) Mr Rowley suggested some additional wording about the basis on which the University Court had reviewed its effectiveness.
- (iii) A sub-heading could be included for the Risk Management section to improve the flow of the statement.

Subject to these points and some minor corrections, the Audit Committee approved the statement for submission to the University Court as part of the Annual Financial Report and Accounts.

**EXTERNAL AUDIT**

3.2 Management Letter (Paper C.2)

5. **Presentation by KPMG on Audit Findings**

[These two items were taken together at the meeting]

KPMG gave a presentation to the Committee on their Audit findings. They welcomed the fact that it had been possible to have consideration of the Management Letter and the Accounts at the same Audit Committee meeting. Mr Macrae took the Committee through the sections of the Report and noted that whilst there were some issues which management was addressing, for example regarding Risk Management and Research Grants, there were no major control weaknesses. In discussion the Audit Committee noted the following points:

- (i) The password issue highlighted on page 9 was not a serious problem. It had been identified during the External Auditors' visit and was now rectified.
- (ii) It might be helpful to revise the wording of the statement in section 4.1 on page 11 to note that "the University is unable to state that it is fully compliant for the whole year as not all the necessary policies in place at the end of the year were in place at the start." The External Auditors welcomed the progress the University had made on risk management issues and further encouraged the University to take a proactive approach towards year-end reporting.
- (iii) The Director of Finance and the Director of Corporate Services would be pursuing the points in sections 4.5 and 5.6 regarding staff shortages, some of which had also been highlighted in the Finance Department risk register. The Committee noted Mr Sutherland would report to the Audit Committee if there were issues which would make it difficult for Finance to achieve its objectives.

**[GOS if necessary]**

Concluding the item Mr Macrae recorded appreciation for the cooperation KPMG had received from the Director and Assistant Directors of Finance, the Finance Department and other areas of the

University. Mr Sutherland also recorded his appreciation of the way in which KPMG had conducted the external audit.

## FOR DISCUSSION

### 6. **Annual Report of the Audit Committee to the Court for FY 2002/2003** (Paper E)

The Audit Committee suggested that the quotation provided in section 2.1 should be more clearly defined as the Chief Internal Auditor's annual statement; and that the section on the Management Letter should make clear that the Audit Committee was satisfied that those issues highlighted by KPMG were being addressed effectively. Subject to these amendments the Committee approved the Annual Report for submission to the University Court.

### 7. **Combined Code on Corporate Governance (2003)** (Paper F)

The Committee noted the changes to the Combined Code on Corporate Governance highlighted in Paper F and agreed that it would return to this topic once it became clear what the Scottish Higher Education Funding Council would require universities to do on this issue.

[HMCK]

### 8. **Audit Committee Annual Seminar**

The Audit Committee agreed that it would hold another seminar in the spring. This would be a joint session with members of the Risk Management Committee, looking at the Committees' respective roles and responsibilities and at developments in public sector corporate governance. The Convener and Secretary would prepare a programme which would include external participation.

[JM, MDC, SW]

## INTERNAL AUDIT

### 9. **Internal Audit Reports**

#### 9.1 Report 2002-4b Postgraduate Admissions in Medicine & Veterinary Medicine (Paper G)

Whilst noting the disappointing return rate for the questionnaire, the Committee noted that the overall analysis remained reasonable. The report was noted.

#### 9.2 Report 2002-4c Postgraduate Admissions in Humanities & Social Science (Paper H)

The Committee noted the report.

### 10. **Follow Up Reviews**

#### 10.1 Report 2001/25F Research Grants & Contracts Administration (Paper I)

The Committee noted the report.

#### 10.2 Report 2002/06F Management of Intellectual Property (Paper J)

The Committee noted the report and asked the Internal Auditor to clarify whether the plan mentioned in the management response to item 3.3 had been taken forward.

[HMCK]

#### 10.3 Report 2002/09F Accommodation Services – Commercial Income Collection (Paper K)

The Committee welcomed the progress that was being made with regard to Accommodation Services. The report was noted.

11. **Internal Audit - Progress Report** (Paper L)

The Committee noted the report.

12. **Internal Audit - Strategic Direction** (Paper M)

The Committee noted that the main reason for Internal Audit to provide services to other organisations was to provide a richer skill base in Internal Audit. The Committee welcomed that there were no plans to take on other such activities in the short term and agreed that if another significant opportunity came along the Audit Committee would have the opportunity to discuss the resource commitments and other aspects of the proposal. The Committee noted that Internal Audit bore the costs of value added tax and that its services provided under contract were covered as part of the University's professional indemnity insurance.

**FOR INFORMATION**

13. **Voluntary Severance Details 2002-03** (Paper N)

The Committee noted the paper which was reported to the Committee for information as a control measure.

14. **Date of Next Meeting**

The Committee noted that the date of the next meeting was 5.30p.m. on Thursday 19 February 2004.

15. **A.O.C.B.**

There was no other competent business.

Ms S M Welham  
Executive Secretary  
8 December 2003

The University of Edinburgh

The University Court

13 December 2004

## Annual Report of the Audit Committee to Court, FY 2003/2004

### Brief description of the paper

The paper sets out the annual report from the Audit Committee to the University Court, on Financial Year 2003/2004, with the Internal Audit Report for 2003/04 (Annex 1, with five appendices) and the draft minutes from the Audit Committee meeting held on 18 November 2004 (Annex 2).

### Action requested

The University Court is invited to:

- (i) Note item 11 of the minutes where the Audit Committee invited the Court to consider the harmonising of severance reporting thresholds, which are currently different for SHEFC, the Annual Accounts and the University's *Policy Statement on Severance Payments*. The Committee also invited the Court to consider what is the most appropriate control process.
- (ii) Note item 13 of the minutes where the Committee recommended to the University Court that the external auditors be reappointed for an extension period of two years: 2004/05 and 2005/06. The Committee needs to conduct a market testing exercise of the external audit service every five years, at least, and will consider the process for this in the spring.
- (iii) Note the rest of the paper for information.

### Resource implications

Does the paper have resource implications? The activities described in the paper can be met with existing resource allocations.

### Risk Assessment

Does the paper include a risk analysis? The paper describes the activities of the Audit Committee, which has received reports on the University's risk management controls during 2003/04 and which has also received internal audit reports, which have been prepared using a risk-based approach.

### Equality and Diversity

Does the paper have equality and diversity implications? No.

### Freedom of Information

Can this paper be included in open business? Yes.

### Any other relevant information

The paper will be presented by Dr. John Markland, Convener of the Audit Committee.

### Originator of the paper

Ms. S.M. Welham, Executive Secretary, Audit Committee, 3 December 2004

# **Annual Report of the Audit Committee to Court for FY 2003/2004**

## **1 Administrative Matters**

### Membership and Frequency of Meetings FY 2003/2004

Membership of the Committee for the FY 2003/2004 was as follows, with Court members marked\*:

Dr. J. Markland \* (Convener)  
Professor A. D. Milne \*  
Mr. G. Scott \*  
Mr. D. Bentley (from February 2004)  
Mr. F. H. Hitchman  
Mr. G. M. Murray (until October 2003)  
Mr. J. Stretton

Mr. G. M. Murray stepped down from the Audit Committee since he had joined the Finance & General Purposes Committee as a University Court member. The Committee expressed its grateful thanks for his participation in the work of the Committee.

The University Secretary is Secretary to the Committee and its Executive Secretary is Ms S. Welham. Routinely in attendance during the year were: the Director of Corporate Services, the Director of Finance, the Chief Internal Auditor, the Assistant Director of Finance responsible for Financial Accounting, the Executive Secretary of the Committee, and the external auditors, KPMG. During 2003/04 the Committee had presentations and discussion sessions on:

- Information Technology security penetration testing from Sapphire Technologies, the Vice-Principal (Knowledge Management) and an Assistant Director of Computing Services;
- Freedom of Information implications for Audit Committee business by the University's Records Manager; and
- Space Management by the Senior Vice-Principal.

The Committee met on four occasions in the course of FY 2003/2004. It also, via the Convener, met the Internal and External Auditors on their own for independent discussions.

## **2.1 Internal Audit**

### Annual Report of the Internal Auditors 2003/2004

The Annual Report of the in-house internal auditors is attached as Annex 1. The Court's attention is drawn to Appendix E, which provides an assessment of the adequacy and effectiveness of the University's Risk Management process, which was used to help derive the conclusion in the internal auditor's annual statement on the overall internal control environment in the University, which is endorsed by the Audit Committee:

“On the basis of the work carried out during the year, I conclude that where weaknesses were identified these are being addressed and there is sufficient evidence of controls and procedures that are functioning to provide reasonable assurance that the overall control environment is adequate in the University. Risk management has been embedded as an ongoing process throughout the year, and steps are continuing to embed the process further.”

### 2003/2004 Internal Audit Plan

At its meeting on 5 July 2004 the Court, on the recommendation of the Audit Committee, approved the Strategic Audit Plan for 2004-07 and the Annual Audit Plan for 2004-05. The Chief Internal Auditor prepared the plans in consultation with senior management, including the Principal as Chief Accounting Officer.

## **2.2 External Audit**

### Appointment and Remuneration of External Auditor

At its meeting on 9 July 2001, on the recommendation of the Audit Committee, the University Court appointed KPMG to conduct the external audit of the University for the three financial years from 2001/02. The Audit Committee reviewed the External Auditors' audit plan for the year ending on 31 July 2004 at its 17 June 2004 meeting. The Audit Committee reported to the Court at its 5 July 2004 meeting that the proposed external fee for the University and Subsidiary companies for 2003/04 was £55,110 exclusive of VAT, subject to minor adjustments for subsidiary companies.

### Reports and Financial Statements for the year ended 31 July 2004

The Committee received the reports and financial statements for the year ending 31 July 2004, including the Principal's statement, at its meeting on 18 November 2004, together with a presentation by KPMG on the external audit findings. The Committee noted the basis of the opinion of KPMG on the accounts and the satisfactory nature of that opinion. The Committee concluded that the audit had been satisfactorily performed and that there were no major issues to give significant cause for concern. The Committee agreed for its part to commend the reports and financial statements to the Court for adoption.

### Management Letter 2003/2004

KPMG referred to the Management Letter in the report on the audit results. KPMG confirmed that, while it highlighted various matters requiring the attention of management, it contained nothing to impact on their ability to give a clean audit report on the accounts for the year. On completion, the Management Letter will be forwarded to the Funding Council as required by the SHEFC Code of Audit Practice.

## **2.3 Internal Control Systems**

Based on the results of the work of the Internal Auditor as reported in the Internal Auditor's Annual Report; the External Auditors' opinion on the financial statements as well as on the Management Letter; the Risk Management Committee's Year-End Report on 2003/04; and direct comments from relevant members of staff of the University, the Audit Committee considered that the University's internal control systems were functioning to provide reasonable assurance that the overall control environment was adequate in the University and could be relied on by the University Court.

## **3 Other Committee Business**

Other issues considered by the Audit Committee during 2003/2004 included: risk management, where it received regular reports from the Risk Management Committee, including information on the RMC's Year-End Report, the development of an assurance map, and on revisions to the University Risk Register; the University's corporate governance statement; the University's relationships with subsidiary and spin-out companies; the Combined Code on Corporate Governance (2003); and voluntary severance payments. In March 2004 the Committee held its Annual Seminar in conjunction with the Risk Management Committee, which focused on developments in public sector corporate governance.

## **4 Fraud and Irregularity**

The Audit Committee has not been made aware of any serious weaknesses in internal control systems, significant fraud or major accounting or other control breakdowns.

Ms Welham, Executive Secretary, Audit Committee, 19 November 2004

## Annex 1

## INTERNAL AUDIT - ANNUAL REPORT 2003-2004

## 1. Introduction

The 1999 SHEFC Code of Audit Practice requires that the Audit Committee should be provided with an Annual Report on Internal Audit's activities at the first meeting following the financial year-end. It also sets out the minimum contents of such a report (paragraph 4.53-4.54).

## 2. Achievement of Annual Plan

Appendix A lists the assignments carried out during the year in the order that they were reported to the Audit Committee. Appendix B summarises the main findings. The audit plan approved by the Audit Committee is substantially completed (98%). Work is continuing on Acquisitions and Implementation of Corporate IS/IT, Electronic Receipting of Application (ERA) and Space Utilisation.

The original audit plan was designed to accommodate additional assignments arising during the year and any unforeseen staff absences without disrupting the scheduled assignments, by setting aside time to cover such eventualities. This has once again worked well. Five additional assignments to the original plan were accommodated during the year (Voluntary Severance, Communications and Public Affairs, Institute of Geography, Large Animal Hospital and Practice, and Delegated Authority). Four assignments: Postgraduate Admissions, NHS Agreements, Medical Facilities provided by Consort and Research Grant Claims Processing required significantly more time to carry out than had been planned. We also invested time in successfully marketing our services on a commercial basis.

## 3. Summary of Findings

The Code requires a summary of each audit report and these are set out in Appendix B. The more significant control weaknesses and control assurances identified are set out in the table in Appendix C. Based on our findings during the year, Table 1 highlights examples of assignments where the control environment required enhancement.

Table 1: Examples of how and where the control environment could be enhanced

Control Enhancement Required	Assignments identifying the need for control enhancement
Better Segregation of Duties	Institute of Geography, Communications and Public Affairs
Improved Organisational controls	NHS Agreements and Arrangements, Research Fees, Research Grant Claims Processing, Office of Lifelong Learning, Endowment Funds
Improved Authorisation and Approval Controls	Management School and Economics, School of Biomedical and Clinical Laboratory Services
Improved Physical Controls	School of Arts, Culture and Environment
More effective Supervision	Institute of Geography
Improved Personnel Controls	Management School and Economics
Improved Arithmetic and Accounting Controls	Veterinary Clinical Studies - Hospital for Small Animals
Improved Management	Research Grant Claims Processing, Medical School Facilities provided by Consort, Financial and Management Information at College Level

92% of recommendations from a programme of follow up reviews were found to have been implemented in full as agreed. This is up from 87% in the previous year.

### Positive Assurances

- Examinations and Reporting of Results
- Delegated Authority
- Division of Clinical Neurosciences
- School of Arts, Culture and Environment
- Postgraduate Admissions in Medicine and Veterinary Medicine
- Postgraduate Admissions in Humanities and Social Science

## 4. Value for Money (VFM)

VFM is considered as a routine aspect of each assignment. Appendix C identifies those assignments that could result in VFM opportunities for the University.

## 5. Staffing

There was no turnover of staff during the year. IT and other audit specialists were engaged to provide support on specific assignments, to a larger extent than last year, funded by increased revenue arising from services provided to commercial clients.

## 6. Internal Audit Performance Indicators

The 1999 SHEFC Code of Audit Practice states that *"The Head of Internal Audit should, in conjunction with management and the Audit Committee, establish and implement performance measures and indicators, whereby the efficiency and effectiveness of the service can be monitored on an ongoing basis"*.

Appendix D includes a selection of Key Performance Indicators, and provides a summary of responses to Performance Questionnaires received during the year from management following an audit in their area.

## 7. Turnbull Committee Report on Internal Control

The Turnbull Committee report emphasised that it was an **essential** part of the Main Board's / Governing Body's (Court's) responsibility to review the effectiveness of internal control. In coming to a view, members are expected to seek input from the Audit Committee, other constitutional committees, senior management, and external and internal audit. The SHEFC Accounts Direction for 2003-04 requires the Court to include a statement in the annual financial statements on corporate governance, indicating how the University has complied with good practice in this regard. A separate paper is being presented by the University Secretary on the Draft Corporate Governance Statement and giving advice to members on the Statement of Internal Control.

## 8. Risk Management

The University Risk Management Committee has been fully operational during 2003-04. The University Risk Management Policy and Overview Risk Register were endorsed by Court in 2002-03 and are reviewed and confirmed by CMG, FGPC, Audit Committee and Court each year. Each College and Support Group has prepared a Risk Register; these have been formally by the Risk Management Committee as part of an annual process. The Committee has a programme of rolling reviews of each individual corporate risk. Internal Audit was noted as having addressed 13 out of 25 risks over the previous two years.

An assessment of the adequacy of the University of Edinburgh's Risk Management process is given in Appendix E.

## 9. Annual Statement on the System of Internal Control

The 1999 SHEFC Code of Audit Practice requires the Head of Internal Audit to provide an opinion on the adequacy and effectiveness of the University's internal control system (paragraph 4.54). Internal Control is defined in the internationally recognised report from the Committee of Sponsoring Organisations (COSO) as:

*"A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the following categories: effectiveness and efficiency of operations; reliability of financial reporting; and compliance with applicable laws and regulations."*

It is important to note that:

- The Annual Statement is based upon the work performed during the year as summarised in Appendix B;
- Internal Control can provide only **reasonable** and not absolute assurance to management and Court regarding achievement of the University's objectives. Internal Audit assignments have a **reasonable** chance of detecting significant control weaknesses but cannot guarantee that fraud, error or non-compliance will be detected;
- It is management's responsibility to maintain effective systems of internal control, risk management and the detection of fraud, error or non-compliance;
- Internal audit forms part of the overall system of internal control.

During the year, the Internal Audit Service has reviewed, evaluated and tested the University's internal controls based upon an Annual Audit Plan approved by the Audit Committee in June 2003. Reference has been made where appropriate to the quality standards in recognised good practice guidance, as required by paragraph 1.7 of the Code of Audit Practice.

**On the basis of the work carried out during the year, I conclude that where weaknesses were identified these are being addressed and that there is sufficient evidence of controls and procedures that are functioning to provide reasonable assurance that the overall control environment is adequate in the University. Risk management has been embedded as an ongoing process throughout the year, and steps are continuing to embed the process further.**

Hamish McKay  
Chief Internal Auditor

## Appendix A

**Internal Audit Annual Report - List of Assignments**

<b><u>Audit assignment</u></b>	<b><u>Date Final Report Issued</u></b>	<b><u>Date to Audit Committee</u></b>	<b><u>Comment</u></b>
<b><u>Completed</u></b>			
1 Postgraduate Admissions in Medicine and Veterinary	11-Nov-03	Nov-03	2002-03 Annual Plan
2 Postgraduate Admissions in Medicine Humanities and Social Science	11-Nov-03	Nov-03	2002-03 Annual Plan
3 Voluntary Severance 2002-03	11-Nov-03	Nov-03	Added to original plan
4 Edinburgh University Press - Corporate Governance	3-Dec-03	Feb-04	
5 School of Biomedical and Clinical Laboratory Sciences	12-Jan-04	Feb-04	2002-03 Annual Plan
6 Transparency Review return 2002-03	22-Jan-04	Feb-04	
7 Handling Enquiries from Overseas Postgraduate Students	26-Jan-04	Feb-04	
8 Office of Lifelong Learning	6-Feb-04	Feb-04	
9 Research Fees	6-Feb-04	Feb-04	2002-03 Annual Plan
10 Research Grant Claims Processing	9-Feb-04	Feb-04	
11 Veterinary Clinical Studies - Hospital for Small Animals	10-Feb-04	Feb-04	
12 Library Ordering Systems	11-Feb-04	Jun-04	
13 Communications and Public Affairs	2-Apr-04	Jun-04	Added to original plan
14 Examinations and Reporting of Results	2-Apr-04	Jun-04	
15 Edinburgh Student Portal	31-May-04	Jun-04	
16 Division of Clinical Neurosciences	4-Jun-04	Jun-04	
17 Management School and Economics	8-Jun-04	Jun-04	
18 Medical School Facilities provided by Consort	8-Jun-04	Jun-04	
19 NHS Agreements and Arrangements	8-Jun-04	Jun-04	
20 Biomedical Research Resources	9-Jun-04	Jun-04	
21 Endowment Funds	9-Jun-04	Jun-04	
22 Institute of Geography	28-Jun-04	Oct-04	Added to original plan
23 Large Animal Hospital and Practice	30-Jul-04	Oct-04	Added to original plan
24 Control of Staff Appointments in College and Support Groups	16-Sep-04	Oct-04	
25 Ordering and Payments processes	16-Sep-04	Oct-04	
26 School of Arts, Culture and Environment	23-Sep-04	Oct-04	
27 Financial and Management Information at College Level	5-Oct-04	Oct-04	
28 Delegated Authority	N/A	N/A	Added to original plan and no report as such
<b><u>Continuing</u></b>			
29 Acquisition and Implementation of Corporate IS/IT			
30 Electronic Receipting Application			
31 Space Utilisation			

## Appendix A

<u>Follow up Reviews (14)</u>	<u>Date to Audit Committee</u>	<u>Recommendations agreed</u>	<u>Recommendations implemented</u>
Festival Lets	Oct-03	25	25
Estates and Buildings: Financial Control Section	Oct-03	8	8
Business Rates Management	Oct-03	5	5
Research Grants and Contracts Administration	Nov-03	7	7
Management of Intellectual Property	Nov-03	3	3
Accommodation Services - Commercial Income Collection	Nov-03	8	5
Integrity of Access to Key University Systems	Jun-04	12	12
Disposal of Waste	Jun-04	7	3
Corporate Governance	Jun-04	6	6
Vehicle Policy Compliance	Jun-04	6	5
Overhead Recovery in Research and Consultancy Contracts	Jun-04	4	4
Pathology	Jun-04	6	6
School of Engineering and Electronics	Jun-04	1	1
ICMB Wellcome Trust Centre	Jun-04	9	8
		<b>107</b>	<b>98</b>
			<b>92%</b>

## Appendix B

**SUMMARY OF FINDINGS FROM AUDIT ASSIGNMENTS DURING  
2003-2004**

*(Listed in the order that the final report was issued)*

**1. POSTGRADUATE ADMISSIONS IN MEDICINE AND VETERINARY MEDICINE**

Based on analysis of responses to our online questionnaire, for the most part, staff involved in postgraduate admissions in the College of Medicine and Veterinary Medicine felt able to demonstrate compliance with the Code of Practice, should they be required to do so by the QAA. Some areas relating to Admissions policies and procedures would benefit from clarification.

*Issued 11/11/03; No recommendations.*

**2. POSTGRADUATE ADMISSIONS IN HUMANITIES AND SOCIAL SCIENCE**

Based on analysis of responses to our online questionnaire, for the most part, staff involved in postgraduate admissions in the College of Humanities and Social Science felt able to demonstrate compliance with the Code of Practice, should they be required to do so by the QAA. Some areas relating to Admissions policies and procedures would benefit from clarification.

*Issued 11/11/03; No recommendations.*

**3. VOLUNTARY SEVERANCE 2002-03**

As required by the University's Policy Statement on Severance Payments we provided the full details to the Audit Committee of all severance arrangements for staff earning more than £50k per annum, based on details provided by the Director of Human Resources and the relevant Human Resources Managers.

*Issued 11/11/03; No recommendations.*

**4. EDINBURGH UNIVERSITY PRESS - CORPORATE GOVERNANCE**

We made a number of specific recommendations for consideration by the Board, and one overarching recommendation to the Managing Director that our report should be presented to the next Board meeting. Subject to implementing our recommendations, we were satisfied that the Board had appropriate and effective processes and procedures in place to support the production of their Annual Corporate Governance Statement to the University Court. In making our recommendations we sought to take into account the proportionality of the recommended action to the size of the Company, and the residual risk which would remain if the issue was not addressed. The Managing Director confirmed in May 2004 that appropriate action has indeed been taken.

*Issued 3/12/03; 9 recommendations, all agreed.*

**5. SCHOOL OF BIOMEDICAL AND CLINICAL LABORATORY SCIENCES**

There was scope to improve management scrutiny of payments made for the reimbursement of staff expenses. A review of *E-Financials* electronic access and authorisation levels would help to ensure that staff are only able to conduct transactions up to the level designated by the Head of School. Procedures should be developed to help provide a framework for ensuring compliance with the Data Protection Act (2000).

*Issued 12/01/04; 5 recommendations, all agreed.*

## 6. TRANSPARENCY REVIEW RETURN 2002-03

Funding Councils and the Research Councils have indicated that they propose to seek validation that Institutions have implemented the methodology appropriately. Therefore this year we reviewed and assessed the robustness of the costing methodology applied in greater detail. This year's exercise used updated time allocation data, substituted the 2002-03 financial data and applied similar cost drivers to allocate the expenditure. We were able to confirm that the University submitted a Transparency Review costing return for 2002-03 to the Funding Council signed by the Principal before the deadline of 31<sup>st</sup> January 2004, that the costing systems established by management followed the recommendations in the TRAC report, and that the systems were adequate, effective and applied consistently.

*Issued 22/01/04; No recommendations.*

## 7. HANDLING ENQUIRIES FROM OVERSEAS POSTGRADUATE STUDENTS

Specific value-for-money issues identified include avoidable costs which are inherent in the current system (e.g. need to streamline administration of multiple or blanket enquiries by the same student, the scope for 'filtering' of enquiries centrally, and independent maintenance of local records), and potential income being foregone if enquirants 'fall through the net'. We identified two specific risks to the University in terms of compliance with the Data Protection Act and Freedom of Information requirements. Our report was issued to the Director of Registry for consideration in relation to the work of the Student Systems Project Board, and to the Convener of the Senatus Postgraduate Studies Committee for discussion. Both agreed to take the findings on board in support of their ongoing work in this area.

*Issued 26/01/04; 1 recommendation, agreed.*

## 8. OFFICE OF LIFELONG LEARNING

There would be benefits from restructuring the Office of Lifelong Learning to unify the administrative systems through improved financial control, economies of scale and clarity of procedures. The imminent appointment of a new Chief Administrative Officer was expected to help in this regard. There was a need to adjust current procedures for Continuing Professional Development pricing (which were under active discussion) and Continuing Personal Education staff appointment processing (which we were advised was in hand).

*Issued 06/02/04; 8 recommendations, all agreed.*

## 9. RESEARCH FEES

While there was no reason to suspect that Research Fees are being set at inappropriate levels or remitted without good cause, much could be done to improve the transparency of the process for costing of Research Fees, remission of fees, and processing of fees. The recommendations related to the role played by Registry in these processes. We wrote separately to the Convener of the Senatus Postgraduate Studies Committee recommending that the need to improve transparency of these processes should be discussed, and appropriate action agreed, by that Committee.

*Issued 06/02/04; 3 recommendations, all agreed.*

## 10. RESEARCH GRANT CLAIMS PROCESSING

There was an opportunity to strengthen lines of accountability and responsibility through greater involvement of Heads of Schools in managing research grants within their area of responsibility. This should help the Research Grants Section in the Finance Department resolve disputed research grant expenditure.

*Issued 09/02/04; 7 recommendations, all agreed.*

## 11. VETERINARY CLINICAL STUDIES - HOSPITAL FOR SMALL ANIMALS

Much work had already been done by Hospital Staff to improve processes and procedures for invoicing, credit control, and stock control. A number of other issues were highlighted in this report, which required further management action. We noted a number of significant issues arising from the financial capabilities of the local Finance and Practice Management System used within the Hospital. These were reported to the Hospital for the specific consideration of the new IT manager. We also found that the value for money achieved by the Hospital's commercial arrangements could not be quantified.

*Issued 10/02/04; 3 recommendations, all agreed.*

## 12. LIBRARY ORDERING SYSTEMS

There was scope to improve the monthly budgetary information provided to the Director of Library Services by the incorporation of commitment information. Budgetary control information was accessed from two sources; the Director of Library Services relied on information derived from *E-Financials* and the Liaison Librarians rely on information derived from the *Voyager* system. Initial reconciliations highlighted variances between the *Voyager* and *E-Financials* data sets. Library staff were continuing to reconcile the two data sets in order to understand the reasons for the variances. Until this is achieved, it is not possible to be confident that transactions occurring in the *Voyager* system are accurately represented in *E-Financials*.

*Issued 11/02/04; 3 recommendations, 2 agreed, 1 rejected.*

## 13. COMMUNICATIONS AND PUBLIC AFFAIRS

There was scope to improve the procedures relating to cashing up and stocktaking by introducing an element of segregation of duties. The development and implementation of appropriate 'change control' procedures (preventing and detecting unauthorised changes to core stock and price data) for the new Electronic Point of Sale System needed to be considered as a matter of priority.

*Issued 02/04/04; 8 recommendations; all agreed.*

## 14. EXAMINATIONS AND REPORTING OF RESULTS

Effective control appeared to be in place over the processing and reporting of examination results by Registry. There was a need for Registry to maintain awareness of the residual process risks inherent in their system, relating to evidence of authority of external examiners, double-keying of data, and exception reporting.

*Issued 2/04/04; 1 recommendation, agreed.*

## 15. EDINBURGH STUDENT PORTAL

The Edinburgh Student Portal (ESP) has been developed and maintained in a controlled manner and its use did not appear to present a significant risk to the University, either financially or reputationally. The ownership of the various elements of the ESP should be formally agreed and documented in order to ensure that the ongoing development and eventual incorporation into MyED is not slowed down or compromised by any future misunderstanding, and that any functionality that allows students to update information via ESP should not be introduced without careful consideration of improving the strength of current password security features.

*Issued 31/05/04; 2 recommendations, both agreed.*

## 16. DIVISION OF CLINICAL NEUROSCIENCES

There was a satisfactory level of control within the Division. However, there was scope to improve efficiency of local monitoring and reconciliation procedures. Some other issues relating to local administrative procedures were noted by the Head of Division.

*Issued 4/06/04; 2 recommendations, both agreed.*

## 17. MANAGEMENT SCHOOL AND ECONOMICS

There was a satisfactory level of control within the School. However, there was scope to improve guidance on non-standard payments and to improve controls over income collection in the Management School section. Following an Internal Audit special investigation in 1999-2000, the recommendations to address the systems weaknesses identified at the time had generally been actioned, and the control environment had significantly improved.

*Issued 08/06/04; 5 recommendations, all agreed.*

## 18. MEDICAL SCHOOL FACILITIES PROVIDED BY CONSORT

The University is paying a premium to achieve risk transfer to the private sector under the PFI scheme for managing the facilities at the New Royal Infirmary at Little France. The risk transfer cannot be fully effective until the performance monitoring data is available. There was a need for the University to pursue Consort regarding their contractual requirements on performance monitoring data.

*Issued 8/06/04; 1 recommendation, agreed.*

## 19. NHS AGREEMENTS AND ARRANGEMENTS

There is a considerable number of agreements and relationships between various University and NHS departments. The complexity of the intertwined relationship, the disparate lines of coordination and control, the mismatch of authority and responsibility as evidenced by the *Delegated Authorities Schedule*, the numerous separate resourcing arrangements, and the lack of clear understanding of overall resources committed, meant that the University was not in a position to secure maximum value for money. There was a risk that the University's interests would be jeopardised by a lack of overall negotiating leverage. It was also difficult to provide an assurance that the University was paying only for services received and recovering the full cost of services it provided to the NHS. We concluded that there was a strong case for investing time and effort in quantifying the net costs/benefits of the arrangements with the NHS. This would allow the University to achieve better value for money from the relationships, or confirm that the University is already a net beneficiary.

*Issued 08/06/04; 9 recommendations, 8 agreed, 1 was agreed in principle but seen as difficult to achieve (relating to all charges to the NHS being immediately charged to a dedicated NHS cost centre) and was therefore rejected.*

## 20. BIOMEDICAL RESEARCH RESOURCES

The introduction of best practice such as the use of Risk Assessment, Performance Indicators and Disaster Recovery/Business Continuity Planning would help to make operations more resilient and increase the level of assurance available to management. There was some scope to review processes and achieve more efficient workflows and provide a better level of control.

*Issued 09/06/04; 9 recommendations, 7 agreed, the remaining two will be put to the Ethical Review Committee for consideration.*

## 21. ENDOWMENT FUNDS

There was a need to review communications and reporting mechanisms for the control of endowment-based expenditure, in order to ensure that Heads of Schools are more closely involved in the monitoring process. Practices were resulting in various inconsistent procedures for monitoring endowments, duplication of effort in maintaining records, and inadequate management information.

*Issued 09/06/04; 4 recommendations, all agreed.*

## 22. INSTITUTE OF GEOGRAPHY

We found that nine recommendations from the Internal Audit review of the Department of Geography in March 2002 had not been implemented. Agreed procedures to improve control over petty cash and income collection had lapsed with the advent of the restructuring process. The restructuring process and amalgamation of the Institute of Geography within the School of Geosciences had required staff reorganisation. Documented procedure notes had not been established to aid the continuation of good working practices. Full implementation of the recommendations would help to improve the level of control surrounding petty cash and income collection. Random supervisory checks were to be initiated by the School Finance Manager to provide assurance that new procedures were being complied with.

*Issued 28/06/04; 9 recommendations, all agreed.*

## 23. LARGE ANIMAL HOSPITAL AND PRACTICE

For the most part, we were satisfied that financial control within the Large Animal Hospital and Large Animal Practice was satisfactory. However, we have made a number of recommendations for improvement of the control environment. We also noted that there was significant scope for shared arrangements with the Small Animal Hospital and Practice in respect of IT systems and stock control, which may result in VFM improvements.

*Issued 30/07/04; 9 recommendations, all agreed.*

## 24. CONTROL OF STAFF APPOINTMENTS IN COLLEGE AND SUPPORT GROUPS

The new staff appointment process under the Reengineering the Employment Lifecycle Processes (RELP) project has resulted in improved arrangements to help ensure that funding for staff appointments is available. There may be an opportunity to enhance control over research grant staff appointments by using the system to ensure that two areas are involved in the appointment process. This would achieve a more disciplined process to help ensure that research appointments are made within the level of funding that is available.

*Issued 16/09/04; No recommendations, we communicated our views on research grant staff appointments to the Director of Corporate Services, who will consider them as part of a comprehensive review of research grants processing.*

## 25. ORDERING AND PAYMENTS PROCESSES

We identified opportunities for efficiency gains through improved ordering practices and procedures. We provided Colleges and Support Groups with detailed information in order that they could better target for review those areas where improvements could be made.

*Issued 16/09/04; no recommendations, but have identified opportunities for efficiency gains.*

## **26. SCHOOL OF ARTS, CULTURE AND ENVIRONMENT**

We found that, subject to implementation of our recommendations, there is a satisfactory level of internal control in place throughout the School. There was a particular issue with physical security of cash.

*Issued 23/09/04; eleven recommendations, all agreed.*

## **27. FINANCIAL AND MANAGEMENT INFORMATION AT COLLEGE LEVEL**

We found an apparent gap between the needs and aspirations of the College Management Teams and the plans and solutions available from systems and support staff. There is therefore an ongoing risk that the management information needs of the College will not be fulfilled. The number of local workarounds in place also highlights the risk that the University may not be leveraging best value for money from its substantial investment in corporate systems. To mitigate these risks, there would appear to be a need to improve articulation of the needs and aspirations of the College Management Teams, and of the plans and solutions available from systems and support staff, with a view to achieving clearer mutual understanding of management information needs in support of decision-making in the short to medium term.

*Issued 5/10/04; no recommendations, we propose to highlight these risks at the next meeting of the Central Management Group.*

## **28. DELEGATED AUTHORITY**

Internal Audit continued to provide assistance to the University Secretary on the preparation of a Delegated Authorisation Schedule and related initiatives. The *Delegated Authorities Schedule* was approved by Court in November 2003. A related *Schedule of Delegated Authority: Procurement* paper was approved by Central Management Group in September 2004.

*Continued input during the year, no report as such.*

## Appendix C

**Internal Controls 2003-04: Analysis of the strengths and weaknesses identified in the Control Environment**

Ref	Audit assignment	Internal Controls								VFM Opportunity ?
		Segregation of Duties	Organisation	Authorisation & Approval	Physical	Supervision	Personnel	Arithmetic & Accounting	Management	
1	Postgraduate Admissions in Medicine and Veterinary Medicine		✓				✓			
2	Postgraduate Admissions in Humanities and Social Science		✓				✓			
3	Voluntary Severance 2002-03									
4	Edinburgh University Press - Corporate Governance	✓	X					✓	✓	
5	School of Biomedical and Clinical Laboratory Sciences			X		X				Yes
6	Transparency Review return 2002-03							✓		
7	Handling Enquiries from Overseas Postgraduate Students									Yes
8	Office of Lifelong Learning	X	X	✓					X	
9	Research Fees		X	X				X		
10	Research Grant Claims Processing	✓	X			X		✓	X	
11	Veterinary Clinical Studies - Hospital for Small Animals					✓		XX	✓	Yes
12	Library Ordering Systems		✓	X				✓	X	
13	Communications and Public Affairs	X			✓			X		
14	Examinations and Reporting of Results	✓		✓		✓	✓	✓	✓	Yes
15	Edinburgh Student Portal		✓							
16	Division of Clinical Neurosciences			✓	✓			✓	✓	
17	Management School and Economics		✓	X	✓		X	X	✓	
18	Medical School Facilities provided by Consort		X					X	X	Yes
19	NHS Agreements and Arrangements	X	XX							Yes
20	Biomedical Research Resources		X						X	Yes
21	Endowment Funds	✓	X						X	Yes
22	Institute of Geography	X	X	X		X		X	X	
23	Large Animal Hospital and Practice	✓		X				✓		Yes
24	Control of Staff Appointments in College and Support Groups	X		✓			✓			
25	Ordering and Payments processes			X						Yes
26	School of Arts, Culture and Environment	✓		X	X			✓	✓	
27	Financial and Management Information at College Level								X	Yes
28	Delegated Authority	✓	✓	✓✓					✓	

**Key:** (A blank entry indicates either not assessed, or no particular strengths or weaknesses identified.)

✓ = Control Assurance identified, X = Control weakness identified,  
 ✓✓ = Strong Assurance identified, XX = Inadequate control identified.

**Note:** These assessments were made on the basis of the findings at the time of the audit.

## Appendix D 1

## Key Performance Indicators for Internal audit

The SHEFC Code of audit Practice states, "The Head of Internal audit should, in conjunction with management and the Audit Committee, establish and implement performance measures and indicators, whereby the efficiency and effectiveness of the service can be monitored on an ongoing basis". "It is for each institution to adopt or develop a set of measures and indicators which are appropriate to its needs and circumstances".

Performance measures	Year 2000-01	Year 2001-02	Year 2002-03	Year 2003-04
<b>General Performance Indicators</b>				
Annual cost of service	£145k <sup>1</sup>	£165k	£174k <sup>2</sup>	£177k
Direct audit days available <sup>3</sup>	602	665	692	717
Cost per direct audit day	£240	£248	£252	£247
Number of audits	25+2 to finalise	28+2 to finalise	29+3 to finalise	28+3 to finalise
Number of recommendations made	84	136	142	109
Number of follow up reviews	16	12	15	14
<b>Performance measures indicating efficiency</b>				
University of Edinburgh income received / Internal Auditor	£70M	£71.25M	£78.5M	£86.8M
University employees / Internal Auditor	1457	1474	1505	1510
% Available time applied to audit work	84%	85%	86%	85%
% Allocated audit time actually spent conducting audit work <sup>4</sup>	94%	104%	99%	106%
% Completion of the annual audit plan by annual report date	98%	99.5%	98%	98%
<b>Performance measures indicating effectiveness</b>				
% Audit work undertaken by fully qualified staff	64%	63%	92%	100%
% Recommendations agreed by management	94%	95%	94%	98%
% Agreed recommendations found to be implemented when followed up	94%	77%	87%	92%
% Audits perceived to add value <sup>5</sup>	-----	90%	83%	78%

<sup>1</sup> Staff vacancies in 2000-01.

<sup>2</sup> Not including £7K added from central Contingency Fund to meet cost of IT Penetration Test.

<sup>3</sup> After leave, office admin and training. Includes specialist contract staff support.

<sup>4</sup> If over 100%, then less training than anticipated.

<sup>5</sup> Derived from Internal Audit performance questionnaire.

Appendix D 2

**Audit Committee  
14 October 2004**

Internal Audit Performance Questionnaire (updated)

In response to a request from the Committee, a process was initiated in 2001-02 of seeking feedback from managers of activities which had been the subject of internal audit. Responses are sent direct to the University Secretary who compiled the attached consolidated report for the Audit Committee.

Attached, for the information of members, is an analysis of responses received during the financial year 2003/04. It includes responses to work carried out at the end of the previous financial year and excludes assignments completed within the last two months. This updated version incorporates a further eight returns received late.

November 2004

Internal Audit Performance Evaluation Questionnaires (updated)

Based upon feedback from the 27 Audit Assignments listed at the foot of the page.

	YY	Y	N	NN	Other
1. Were you given adequate notification of the audit?	14	12		1	
2. Were you informed adequately of the audit objectives and scope?	13	13	1		
3. Were the appropriate staff consulted for the audit area covered?	10	15	2		
4. Did staff conduct themselves in a professional manner during the audit?	15	11		1	
5. Were you given the opportunity to discuss the report with the auditor prior to finalisation?	11	15		1	
6. Were the recommendations in the report practical and realistic?	6	15	4	2	
7. Was the report produced to a professional standard?	11	14	2		
8. Do you feel that the audit was worthwhile and has added value to your work?	8	13	4	2	
<b>Percentage %</b>	<b>41</b>	<b>50</b>	<b>6</b>	<b>3</b>	

**Key**

YY	fully satisfied
Y	Satisfied
N	not satisfied
NN	fully dissatisfied

Completed Audit Assignments subject to performance evaluationReturns received (27)

- Biomedical & Clinical Lab Science School
- Biological Research Resources
- Clinical Vet Services – Large Animal Hospital
- Clinical Vet Services – Small Animal Hospital
- CPA / EPOS
- Division of Clinical Neurosciences
- Edinburgh Student Portal (x2)
- Examinations & reporting of results
- Geography
- ICMB/Wellcome Trust Centre
- IT Penetration Testing (x2)
- Management School & Economics
- Medical School facilities provided by Consort (x3)
- NHS Agreements & Arrangements (x4)
- Office of Lifelong Learning
- Postgraduate Admissions – HSS
- Postgraduate Admissions – Science & Engineering
- Subsidiary Companies – UoE Press
- Transparency Review 2001/02
- Transparency Review 2002/03

Returns not received (8)

- Endowment Funds
- Handling enquiries & applications from os / pg applicant
- Legal Services VFM
- Library Ordering System
- Payment of Creditors – Accounts Payable
- Postgraduate Admissions – MVM
- Research Fees (Bench Fees)
- Research Grant Claims Processing

## Risk Management - Assessment of its adequacy and effectiveness

### Requirement

The model Corporate Governance statement included in the Scottish Higher Education Funding Council's Accounts Direction in Circular HE/21/04 requires that Institutions should disclose as a minimum that:

- There is an ongoing process for identifying, evaluating and managing the significant risks faced by the institution.
- The process has been in place for the year under review and up to the date of approval of the Annual Accounts.
- The governing body regularly reviews the process.
- The process accords with the Turnbull guidance.

The Turnbull guidance requires that risk assessment and internal control should be embedded in ongoing processes. Management's role is to implement the governing body's policies on risk and control. The governing body is required to review the effectiveness of internal control.

Internal audit is required to report upon the adequacy and effectiveness of the risk management process as part of its assessment of the overall control environment. Guidance from the Institute of Internal Auditors suggests assessment using the following parameters:

- The extent to which objectives of the risk management process has been set and communicated at all levels within an organisation, and are supported by consistent business strategies, plans and budgets;
- The adequacy of the mechanisms for identifying, analysing and mitigating key business risks arising from both external and internal sources; and
- The existence of mechanisms for identifying and reacting to both routine and more dramatic changes that could affect the organisations ability to achieve its objectives.

### Findings

#### Risk Management Committee

1. The Risk Management Committee (RMC) met throughout 2003-04 and will continue to meet for the foreseeable future. During 2003-04 their work has focussed on consolidating and further developing the Risk Management processes in the University.
2. The Annual Report of the RMC was presented to the Central Management Group (CMG) on 22 September 2004, and will be considered by the University's Audit Committee on 14 October and by the Finance and General Purposes Committee (FGPC) on 18 October. The report will support the Audit Committee and Court in their assessment of the effectiveness of the overall framework of internal control, and will inform the production of the Corporate Governance Statement for inclusion in the Annual Report and Accounts.

### Risk Registers

3. All risks included in the first University Risk Register have been reviewed; the outcome was reported to and discussed by RMC.
4. The overview Risk Register is profiled against the University's main strategic objectives.
5. The Overview Risk Register and Risk Management Guidance Manual are published on the University's intranet.
6. All Registers allocate responsibilities for mitigating the risks identified to specific individuals.
7. Work on the College, Support Group, and Subsidiary Company Risk Registers has been completed. Ownership of these registers has been devolved to the relevant management team, and they are reviewed regularly and on an ongoing basis by RMC.

### Other assurances

8. Each Head of College, and Support Group, has signed a positive declaration stating the key risks that have materialised in their areas of responsibility during the year. RMC has reviewed these declarations and is satisfied that no major risks relating to the adequacy of the risk management process have materialised.
9. Planning documents submitted by Colleges and Support Groups continue to take cognisance of risk assessments associated with achieving budgetary goals.
10. Disaster recovery and business continuity plans are in place to respond to any dramatic changes affecting the University's ability to meet its objectives.
11. Risk assessment continues to be a standard requirement on papers for formal University committees.
12. A risk assurance map has been drawn up by RMC, identifying the sources of assurance they used to come to their opinion on the University's management of its key risks. This map indicates that assurance has been taken from internal audit work for 13 out of 25 (52%) of the risks identified in the risk register.
13. We have also reviewed progress against the route map presented to the RMC (RMC 02-03 5 B) for implementing an embedded risk management culture. We are satisfied that all items on the map have been implemented as planned.

## **Conclusion**

There is an ongoing process for identifying, evaluating and managing the University's significant risks. It is part of a structured review process and is ultimately reviewed by Court. Guidance is available on how to identify and analyse risk and what the options are to mitigate risks. The risk management process has matured throughout the year and steps are continuing to ensure that risk management becomes embedded further as an ongoing process.

Hamish McKay  
Chief Internal Auditor  
7<sup>th</sup> October 2004

5C 01

For information: open business

Draft Minutes of the 55<sup>th</sup> Meeting of the Audit Committee to be held at 5.30 p.m. on 18 November 2004 in the Lord Provost Elder Room, Old College

**Present:** Dr J. Markland (Convener)  
Mr G. Scott  
Mr F. Hitchman  
Mr J. Stretton  
Mr D. Bentley

**In Attendance:** The University Secretary, Mr M. Cornish  
Chief Internal Auditor, Mr H. McKay  
Assistant Director of Finance, Mr J. Taylor  
Mr G. Macrae, KPMG  
Mr M. Rowley, KPMG  
Mr D. Rennie, KPMG  
Mr. D. Stainbank, KPMG  
Executive Secretary to the Committee, Ms S. Welham

**Apologies:** Professor A.D. Milne

The Committee welcomed Mr D. Rennie and Mr D. Stainbank of KPMG who were attending the meeting.

1. **Minutes of the Meeting held on 14 October 2004** (Paper A)

The Minutes of the previous meeting were approved as a correct record.

2. **Matters Arising:**

*From 14 October 2004 meeting:*

2.1 From Item 3: Internal Audit Annual Report 2003-04: Performance Evaluation (Paper B)

The Committee noted the updated results for the Internal Audit performance questionnaire.

2.2 From Item 7.1: Report 2003-09: Financial and Management Information at College Level (Paper C)

The Committee noted that the Central Management Group had discussed the Internal Audit report on Financial and Management Information at College level and that the Internal Auditor had been asked to undertake additional work in this area, as noted in Paper C.

2.3 From Item 7.5: Report 2003-36F: Institute of Geography: Report from Head of College

The Head of the College of Science and Engineering had confirmed that action had been taken on the remaining recommendations in Report 2003-36F.

**ANNUAL ACCOUNTS**

3 **Draft Reports and Financial Statements for FY to end 31 July 2004** (Paper D)

The Assistant Director of Finance introduced the Annual Accounts for 2003-04. He drew the Committee's attention to the External Auditor's unqualified report on pages 14 and 15 of Paper D.

The Committee went through the draft reports and financial statements in great detail and made a number of drafting points which would be taken into account when the report was redrafted for submission to the Finance and General Purposes Committee on 29 November 2004.

[JT]

Finance would consider for the 2004/05 reports whether to increase the information provided in the Taxation Status section to include some categories that the University was not formally required to provide.

[JT]

Finance had experienced difficulties in preparing the full amount of information for the external auditors in a timely manner because of staff illness. The Committee noted the concerns which Finance and the external auditors expressed about this. Finance, with the assistance of KPMG, would review operational matters following the completion of the 2003-04 accounts, to improve processes for next year. The new Director of Finance would be considering such matters as resourcing within his first few months of appointment. The Committee would wish to receive a report on the outcome of that exercise.

[JT]

As a separate issue, not connected with the approval of the 2003-04 accounts, the Committee would welcome a statement from the Finance and General Purposes Committee noting that the University had considered its financial exposure arising from pensions schemes and that this was adequately reflected and appropriate action was being taken.

[JT]

The Committee noted that in addition to the annual accounts the University produced some summary information for inclusion in the Annual Review, which contained extracts from the reports and accounts. The Committee noted that it was helpful to be clear on the purposes of the various documents, and to clarify how to obtain the full accounts. The University would discuss relevant issues with the Convener of the Audit Committee if this seemed appropriate.

[MDC, NALP]

#### 4. **Final Corporate Governance Statement for 2003-04** (Paper E)

The University Secretary introduced the Corporate Governance Statement which had been amended to take account of discussion at the previous Audit Committee meeting and the Finance & General Purposes Committee meeting held on 18 October 2004 and which had been seen by the Court at a recent meeting. The Committee noted the supporting documents, including extracts from the Combined Code on Corporate Governance as amended by the British Universities Finance Directors Group (BUFDG), and their relationship to the component parts of the Scottish Higher Education Funding Council's (SHEFC) Accounts Direction. Subject a minor change to the opening sentence, the Audit Committee approved the statement for submission to the University Court as part of the Annual Financial Report and Accounts.

### **EXTERNAL AUDIT**

#### 5 **Presentation by KPMG on Audit Findings and Management Letter** (Paper F)

KPMG gave a presentation to the Committee on their Audit findings and took the Committee through each section of the Report. KPMG noted that the University was at the "top end of the sector" in the way in which risks were recorded and documented and had "the most robust approach [to risk] in any institution [with which they were associated]". The University had made great advances during the year. The Committee noted that a number of corrections would be made to the final report and made the following points in discussion:

- (i) SHEFC "required" rather than "requested" that Universities specify how they met the requirements of the principles in Section 1 of the Combined Code on Corporate Governance

issued by the London Stock Exchange in June 1998, incorporating internal control guidance as amended by BUFDG. Thus far, SHEFC had chosen not to adopt the Committee of University Chairmen (CUC) Guide for Members of Governing Bodies of Universities and Colleges. The expectation was that SHEFC would require Universities to comply with the CUC Guide, or to explain why they differed from its provisions. At the appropriate stage the management action would be to take the CUC Guide to Court for consideration. (section 4.1, page 11)

- (ii) KPMG would discuss with management and the Audit Committee the external auditor's responsibility to consider fraud (International Standard on Auditing ISA 240, section 5.2.1, Pages 16-17) for next financial year.

[JT]

- (iii) The Audit Committee would discuss value for money activities during the coming year. (section 5.3, page 18)

[MDC, HMcK]

- (iv) The Finance Department had analysed and pursued debts for uncollected funds of subsidiaries and was actively managing current debt. Management and the external auditors were considering whether it was now appropriate to write off the irrecoverable debts which were five-to-six years old, for which full provision had been made.

## FOR DISCUSSION

### 6. **Annual Report of the Audit Committee to the Court for FY 2003-04** (Paper G)

Subject to the addition of the topic for its 2004 annual seminar, the Committee approved the Annual Report for submission to the University Court.

### 7. **Audit Committee Annual Seminar**

The University Secretary had discussed the possibility of a joint seminar with his counterparts at Heriot-Watt University, Napier University and Queen Margaret University College. They had welcomed the suggestions. The seminar would focus on comparisons of audit committee business and operation to develop good practice and an external speaker would be invited to make a presentation. It was hoped to hold the seminar in late March or early April.

[MDC, SMW]

## INTERNAL AUDIT

### 8. **Internal Audit Reports**

#### 8.1 Report 2003/14: Electronic Receipt of Payments (Paper H)

The Committee noted the report.

#### 8.2 Report 2003/16: Acquisition and Implementation of IS/IT (Paper I)

The Committee noted the report.

#### 8.3 Report 2004/41: Disposal of Waste (2) (Paper J)

The Committee noted the report and that there appeared to be valid justifications for the delays in meeting some of the delivery dates.

9. **Follow Up Reviews**

9.1 Report 2002/16F: IT Network Security (Paper K)

The Committee noted the report.

9.2 Report 2002/18F: Estates and Buildings Stores (Paper L)

The Committee noted the report.

9.3 Report 2002/21F: Learning Technology Section (Paper M)

The Committee noted the report.

9.4 Report 2003/22F: Library Ordering Systems (Paper N)

The Committee noted the report.

9.5 Report 2003/35F: Communications and Public Affairs (Paper O)

The Committee noted the report.

10. **Internal Audit - Progress Report** (Paper P)

The Committee noted the report. It was agreed that the Internal Auditor would hold discussions with one of the members of the Committee about the scope for sequencing follow-up reviews to pursue high priority recommendations before those of a lower priority.

[HMcK]

**FOR INFORMATION**

11. **Voluntary Severance Details 2003-04** (Paper Q)

The Committee noted the paper which was reported to the Committee for information as a control measure. The Committee invited the Court to consider the harmonising of severance reporting thresholds, which were currently different for SHEFC, the Annual Accounts and the University's *Policy Statement on Severance Payments*. The Committee also invited the Court to consider what was the most appropriate control process.

[MDC]

12. **Law and Regulation Return** (Paper R)

The Committee noted the paper which was reported to the Committee for information.

13. **External Auditors: Term of Office** (Paper S)

KPMG confirmed that they would be prepared to continue in office for a further one or two years if requested to do so.

*[The External Auditors then left the room.]*

The Audit Committee, mindful of the need to formally review external audit arrangements at least every three years, as set out in the SHEFC Code of Audit Practice, considered whether to recommend the reappointment of the current external auditors. The Committee agreed that it should recommend to the University Court that the external auditors be reappointed for an extension period of two years: 2004/05 and 2005/06. The Committee needed to conduct a market testing exercise of the external audit service every five years, at least, and would consider the process for this in the spring.

[MDC, JT]

14. **Date of Next Meeting:**

The Committee noted that the date of the next meeting was 5.30 p.m. on Thursday 10 February 2005.

15. **A.O.C.B.**

There was no other competent business.

Ms. S Welham  
Executive Secretary  
3 December 2004

University of Edinburgh

Summary of Internal Audit service provision  
Requested under FOI

<b>Year</b>	<b>Cost</b>	<b>Supplier</b>
2003-04	£177K	in house team
2004-05	£182K	in house team
2005-06	£188K	in house team
2006-07	£201K	in house team
2007-08	£215K	in house team

Kate Crichton  
26 February 2009