



UNIVERSITY
of
GLASGOW

Audit Committee

Annual Report 2004-2005

November 2005

1. Introduction

The Code of Audit Practice (the Code) issued by the Scottish Higher Education Funding Council (SHEFC) in September 1999 requires the Audit Committee to compile an annual report for submission to the Court.

The Code requires that the Committee's Annual Report should include the Audit Committee's assessment on the adequacy and effectiveness of the institution's internal control systems and the extent to which the Governing Body can rely on that system. This assessment should be based on the results of the work of the Internal Audit Service (IAS) as reported in the IAS's annual report, and the external auditor's opinion on the financial statements as well as the management letter (in draft if necessary).

The Code further requires that the report should also incorporate any significant matters arising from the work of internal audit, external audit, the value for money programme and any FAMS or other relevant review, as well as key administrative information pertaining to the Committee.

This annual report summarises the work of the Committee for the year up to and including its meeting on 23 November 2005 and should be read in conjunction with the following reports:

- Internal Audit Services Unit – Annual Report 2004-05
- Review by the External Auditors of the University's Financial Statements for year ended 31 July 2005

2. Committee Membership and Meetings

2.1 Membership

A copy of the Committee's remit is attached as **Annex 1** and its membership during the year to November 2005 was as follows:

Mr T F O'Connell (Convener)
Ms E Simpson (from 15.12.04)
Mr D McVicar (Deputy Convener)
Dr K Nimmo
Mr George Taylor (until 20.3.05)

At its meeting on 15 December 2004 Court agreed that Ms Elizabeth Simpson MACA be appointed as a member of the Committee with immediate effect. Mr Scott Cairns, who due to demit office as a co-opted member of the University Court at the end of December 2005 and Ms Margaret Manson [REDACTED] attended the Committee's November 2005 meeting as observers.

In March of this year the Committee expressed its sadness at the news of the death of Mr George Taylor who had been a member of the Committee from December 2003.

2.2 Meetings

The Code states that the Committee should normally meet at least three times per year (section 3.16). Meetings were held as follows:

<u>Date</u>	<u>Main Business</u>
15 March 2005	Audit Committee and Internal Audit - Future Shape; Internal Audit Services Unit Annual Report; Risk Management and Corporate Governance; Non-Academic Staff Pensions Scheme (NASPS); Full Economic Costing; Stafford Loans - Report by Ernst and Young
25 May 2005	Audit Planning - Report by the External Auditors; Matter referred by SHEFC; External Auditors Report 2003-04 External Audit Tender; Internal Audit Services Unit; 2004-05 Monitoring Report; Internal Audit - Audit Plan; Software Licensing; Safety and Environment Protection Service - Annual Report;
23 November 2005	Review of the University's Financial Statements for the year ending 31 July 2005 including the Report of the External Auditors Draft Accounts of the Subsidiary Companies Internal Audit Services Annual Report 2004-05 Audit Committee Draft Annual Report Appointment of External Auditors Strategic Risk List

In addition the Committee met:

- With the Secretary of Court following its meeting in February 2005
- On its own without the External Auditors and without the University's officers following its meetings in May and November 2005.

3. Review of the Effectiveness of Internal Control Systems

At its meeting held on 23 November 2005 the Committee considered the Annual Report of the Internal Audit Service 2004-05 which stated that 11 reports had been issued arising from the 2004-05 programme of work and that 54 recommendations for changes or improvement had been made. Under the existing scheme of classification 3 of these were *Fundamental*, 32 were *Significant* and 19 were *Merits Attention*.

The Committee concurred with the view of the Head of the Internal Audit Service that when the recommendations made in these reports were fully implemented the system of internal control in the areas concerned would be adequate and effective. The Committee considered that monitoring of implementation is an integral part of the work of Internal Audit and noted that the success of departments and Faculties in this regard will be reported to the Committee in due course.

4. Review of the Scope and Effectiveness of Internal Audit

The Summary Performance Indicators for the Internal Audit Service (IAS) are set out in its Annual Report 2004-05 and, based on that information, the Committee concluded that the IAS continued to operate efficiently and effectively.

5. Review of the Annual Financial Statements for the Year Ending 31 July 2005

At its meeting on 23 November 2005 the Committee considered and reviewed the Accounts for the year to 31 July 2005 together with the reports submitted by the Director of Finance and Ernst & Young (E&Y), the University's external auditors. The Committee agreed to recommend the Finance Committee to accept the Financial Statements and pass them to Court for approval. The Committee noted that the external auditors expected to issue an unqualified report on the University's consolidated accounts and on the accounts of the consolidated subsidiary companies. They were satisfied that the University had adequate funding to enable it to continue its planned range of operations.

6. External Audit Arrangements

In 2004-05 the Committee's involvement with Ernst & Young, the University's external auditor, comprised the following main elements:

- consideration of the auditor's opinion on the annual financial statements of the University for the year ending 31 July 2005;
- consideration of the auditor's opinion on the annual financial statements of subsidiary companies for the year ending 31 July 2005.

Fees paid to the external auditor in respect of the last two years are as detailed below. These amounts are disclosed in the financial statements:

Year Ended 31 July		2004	2005
		£	£
Audit Fees	Main Audit	42,330	43,285
	Consolidated Subsidiaries	7,510	11,550
		49,840	54,835
	Out of Pocket Expenses	800	750
	Irrecoverable VAT	7,547	7,706
	58,187	63,291	
Other Fees	PAYE/NIC Advice	550	-
	PAYE advice GU Holdings	-	560
	Non Consolidated Subsidiaries	-	1,450
	Access Statement	700	-
	VAT advice	6,383	-
	Internal Audit Assistance - software	-	2,200
	Secondment to GU Holdings	-	1,000
	The UoG Trust	3,000	5,750
	Tax Advice – disposal of Kymata	-	7,200
	Tax Advice	1,400	1,225
	Audit Cttee Induction Seminar	1,250	-
	US Loans Audit	-	10,450
		13,283	29,835
Irrecoverable VAT	2,325	5,221	
	15,608	35,056	
Grand Total		73,795	98,347

In addition to the above fees, audit fees of £1,700 (2004 - £1,600) were charged in respect of the non-consolidated subsidiaries.

7. Value for Money

The Committee endorsed the view of the Head of Internal Audit that value for money and regularity audit can be combined within audit exercises. It also concurred with the view that the matter of value for money is properly addressed within the regular reviews Internal Audit undertakes throughout the University over a cycle authorised by Court on the advice of the Audit Committee.

8. Conclusion

As the Committee stated in last year's annual report it has to rely on the acceptance by Court, and the executive management of the University at all levels, of both the importance of accountability and of audit in all its forms as the instrument of that accountability. Only with this high degree of co-operation, involving a willingness to respond positively and constructively (particularly in relation to sensitive points of criticism or concern) will the Audit Committee be able to provide the measure of comfort and reassurance expected of it. The Committee considers that there are encouraging signs that the University continues to move towards the establishment and maintenance of compliance necessary for the achievement of its strategic objectives.

**UNIVERSITY OF GLASGOW
AUDIT COMMITTEE
NOVEMBER 2005**

Appendix 1 Remit and Membership of the Audit Committee

Remit

To oversee on behalf of the Court arrangements for external and internal audit of the University's financial and management systems and other activities and processes related to such systems.

Terms of Reference

The Committee will review and report to the Court on a regular basis on items and areas within its remit, including the following:

- the adequacy and effectiveness of the financial and management systems of the University;
- the scope and effectiveness of the Internal Audit Service, including the planning and operation of its work, particularly the annual audit plan of work, the annual report on its activities and findings and regular reports on its activities including the extent to which audit recommendations have been implemented;
- the annual financial statements and accounts before their submission to the Court;
- the external auditor's report and the outcomes of its findings;
- the nature and extent of risk to the University's objectives and the effectiveness of the management controls in place for avoiding or minimising such risks;
- the effectiveness of arrangements for:
 - (i) the investigation of questions of financial irregularity or impropriety;
 - (ii) economy, efficiency and effectiveness and the achievement of value for money in the management of the University's resources;
 - (iii) the safeguarding of the assets of the University and of the use of its funds, particularly funds deriving from the public sector;
 - (iv) proper corporate governance if the Court considers there to be any shortcomings in relation to it.
- the criteria for the provision of internal audit for the University, including services provided in-house and services which may be provided by third parties;
- the appointment, remuneration and scope of the work of the external auditor;

- matters resulting in the resignation or dismissal of either the external auditor or the internal auditor;
- the promotion of co-ordination of the activities of the external and internal auditors;
- other matters such as the provision of non-audit services or specialised internal audit services by the external auditor and any relevant findings or recommendations arising from reports of bodies such as the Scottish Higher Education Funding Council, Audit Scotland, the Audit Committee of the Scottish Parliament and the House of Commons Public Accounts Committee.

Method of Working

The Committee will submit an annual report on its work to the Court, in which it may wish to comment on the adequacy of the resources provided to it in order to carry out its work. All reasonable demands for such resources, which may include the provision of externally-sourced advice, will be met by the University Court. The Committee may communicate directly with the external auditors, with the internal auditors and with the senior officers and managers of the University, in both academic and non-academic areas. The Committee is deemed to have the authority of the Court to obtain information necessary for it and for the Internal Audit Service to fulfil its remit and role. The Committee will also use its best endeavours to ensure compliance with any mandatory requirements for audit arrangements set out in the Scottish Higher Education Funding Council's Code of Audit Practice.

Frequency of Meetings

The Committee will meet at least three times a year. It will also meet with the External Auditor on their own at least once a year, usually at the time of its consideration of the annual financial statement.

Membership

The Committee will consist of five lay members, either from the membership of Court or outside.

At least one of the members will have a background in finance, accounting or audit.

The Convener will be appointed by the Court. The members of the Committee will appoint a Vice-Convener from among their number.

Members of the Committee will not normally also be members of the Finance Committee, except with the express approval of the Court.

The following officers will be in attendance at the meeting:

Principal
Secretary of Court
Head of the Internal Audit Service
Director of Finance

The external auditors will attend the meeting at which the annual accounts are discussed. The external auditor may attend other meetings as are mutually agreed between the external auditor and the Convener of the Committee.