



UNIVERSITY
of
GLASGOW

Internal Audit Services Unit
Annual Report 2004/2005

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This is a much shorter annual report than in previous years, reflecting the fact that the resources available to Internal Audit are considerably reduced from previous levels.

2 Planned Audit Work

2.1 Summary

The following assignments have been issued arising from the 2004/2005 programme of work. Details are given in Table 1.

Table 1 – 2004/2005 Audit Plan: Completed Assignments to Date

<i>Audit Area</i>
Valuable Collections
Faculty of Education
Full Economic Costing
Conference & Visitor Services
Faculty of Social Sciences
Court Office
Computer Security Review
Faculty of Information and Mathematical Sciences
Faculty of Medicine
Freedom of Information
Administrative Review – Student Recruitment & Admissions Service

2.1.1 Faculty of Education

We carried out a comprehensive review of the internal control system within the Faculty of Education. The following areas were covered:

- expense claims;
- income;
- assets;
- purchasing regulations;
- variable payroll payments;
- other services rendered;
- discretionary funds;
- financial management;
- management and business planning; and
- building controls;

We noted three Fundamental matters and 20 which we classified as Significant. The former were as follows:

Personal Transactions: There were a number of instances where staff had used University funds to purchase personal items and then refunded the money to the University. We recommended that personal purchases should never be made using University funds.

Income: We identified a lack of segregation of duties in relation to the handling of income. There was a risk that monies could be misappropriated and the audit trail altered to conceal the misappropriation.

Asset Register Maintenance: Our review of items purchased showed a significant incidence of items not recorded on the asset register. Insufficient information was recorded against each asset and the information that was recorded was not always accurate.

The follow up audit which is about to commence will measure the success of the faculty in implementing the agreed recommendations.

2.1.2 Full Economic Costing

This review was carried out following a report by KPMG which indicated that the University had two significant issues to address in its system of full economic costing before it could apply estates charges or use its own indirect cost rate.

The objective of the review was to gain an understanding of the circumstances which had led the QA team to draw the significant conclusions that they reported and to determine whether the University had addressed the points raised. This review was not a full audit of the system – this is currently taking place.

In order to gain an understanding of the system for allocating costs we carried out a review of the manner in which the two significant issues had been addressed in the compilation of the return for the year ended 31 July 2004 (submitted to the Funding Council in January 2005).

We obtained detailed management representations from the Finance Office Costing Manager and the Assistant Director of Finance with responsibility for full economic costing as to how they had addressed the two significant points identified in the QA report.

We then compared the practice outlined in the management representations with the current regulations as set out in the guidance. Following this we examined the relevant section of the calculations underlying the return for the year ended 31 July 2004.

We concluded that:

- the practices outlined in the management representations had been followed: and

- the practices adopted were in accordance with the relevant guidance

2.1.3 Computer Security Review

During the year Internal Audit engaged a specialist firm to identify the gaps between University practice and best practice in relation to the management of information security. Following a competitive process Boldon James were chosen to benchmark University practices against BS7799, the standard chosen by the University as a result of the Information Strategy.

The main issues can be summarised as follows:

Risk Management: There are shortcomings in the way in which risk is currently managed in relation to information security. The methodology that the University uses is not comprehensive. Also, while there is use of risk registers in relation to information security, there is not a high level corporate risk register, approved by the governing body, into which the most serious matters from individual risk registers are transferred and ranked in the context of the University's overall risk profile and appetite.

Information Security Policy: The University has many policies that govern information security but there is no structure to the data set, there is no evidence that the University's senior management own and drive the policy and there is no evidence that policy is reviewed on a regular basis to keep up with events in this fast moving area. It is recommended that policy documents are controlled via a document management system.

Information Security Infrastructure: There is a need for an Information Security Officer role that reports directly to senior management and is ultimately responsible for all information security matters and is given recognised authority across the University. Also, at present, there is no evidence of proper authorisation procedures for new and revised information processing facilities. (In the past certain faculties have inserted measures such as firewalls without the knowledge or consent of the centre).

User Training: There is a need for user training to raise awareness of information security policy across the University.

Compliance Auditing: the present arrangement whereby there is regular liaison between the Internal Audit and the Computer Emergency Response Team (CERT) staff to discuss security matters should be formalised and supported by a properly resourced program of compliance auditing.

Protection against Malicious Software: There is a serious risk from malicious software arising from the fact that approximately three quarters of staff use unmanaged client devices which may lack firewall, anti-virus and software patch protection. There is an urgent need to increase the penetration of managed desktops.

At the time of writing the consultants are about to make a presentation to the University's senior IT staff. There may be some fine tuning of the final conclusions but it is clear that there will be significant challenges for the University in addressing the issues identified in the review.

2.1.4 Faculty of Information and Mathematical Sciences

This was a comprehensive review of the faculty examining the same areas as were considered in the review of the faculty of Education (see 2.1.1 above) The review showed that in general the faculty was well managed with compliance in most of the areas which we examined.

The most serious of the issues were as follows:

Asset Register - The asset register was incomplete: some items were not recorded and some detailed information was missing or incorrect. We recommended that one person should be responsible for maintaining a complete asset register detailing all relevant assets. We also recommended that a suitable system should be implemented so that assets are easily identified and accurately recorded and updated on the asset register.

Purchasing Training – Only one person (from 22) with delegated purchasing officer authority, had obtained the required level of training. We recommended that only people who have obtained the relevant training should be provided with delegated financial authority and that purchases should be sourced by a trained departmental buyer.

Purchasing – Purchasing procedures were not always observed and there were a number of occasions where non approved suppliers were used.

Expense Claims – Expense claims were used on a number of occasions to purchase goods. We recommended that claims should be made for incidental expenses only regarding costs incurred during travel on University business.

2.1.5 Freedom of Information (FOI)

The Freedom of Information (Scotland) Act (2002) came into force on 1 January 2005. The Act creates significant challenges - it introduces new rights for any person to access information held by the University. Subject to certain, fairly restricted, statutory exemptions the University is obliged to supply any information which it holds on any matter on receipt of a request to do so by any person anywhere in the world.

The University has set in place a number of initiatives in relation to the FOI legislation. Specifically we have set up a publication scheme, established a network of FOI co-ordinators and allocated responsibility for FOI at institutional level to a team based in the Archives. However early experience indicated that the University would require more than basic compliance mechanisms if it was to address the strategic impact of freedom of information upon the institution as a whole. With that in mind I worked in conjunction with one of the University vice principals to produce a series of recommendations to the Senior Management Group. These covered areas such as email management, data protection, quotations and tenders, consistency of response and reputation management.

The Senior Management Group remitted the paper and recommendations to the Secretary of Court to devise “an appropriate and proportionate response to the matters highlighted”. In addition to the measures outlined in the SMG paper I have also recommended the following additional measures to the Secretary of Court:

- the introduction of a risk assessment process prior to the release of potentially sensitive information; and
- a procedure whereby a person (or persons) is given recognised authority to make a final decision as to whether particular information should be released.

The University has attracted press coverage, some of it unfavourable, following the release of information that had not been recognised as potentially problematic. The statutory framework leaves the University with very little discretion as to whether particular information is disclosed. However implementing the measures recommended would improve the University’s ability to put information released in its proper context and to respond in the event that inaccurate inferences are drawn from information released.

During the year the University, in common with many other higher education institutions, received requests for internal audit reports. Some other institutions have invoked exemptions in order to withhold this material and the matter has been referred to the Office of the Scottish Information Commissioner for a decision. However the legal advice that we received led us to believe that there were no exemptions that applied and the reports requested should be released in full.

2.1.6 Student Recruitment & Admissions Service

Internal Audit participated in the group which examined the operations of the Student Recruitment and Admissions Service (SRAS). This was part of the initiative established by the Secretary of Court to review the operations of AIMS Departments. The objective of the programme is, in relation to each function, to advise the Secretary of Court as to the performance of the function in delivering a service that is:

Responsive: Meeting stakeholder needs effectively
Efficient: Using resources well
Progressive: achieving continuous improvement
Corporate: aligned with the University's priorities

The final report concluded:

“The key message in relation to each of these categories is:

Responsive: There is clear evidence of staff within SRAS striving to be increasingly responsive to the needs of stakeholders. Two factors in particular serve to limit the responsiveness of the department:

- A lack of clarity about what the department has to offer in areas such as marketing; and
- A lack of functionality from key IT systems

Efficient: There are serious questions about the efficiency of current management arrangements. There is ambiguity about the line management arrangements for the Director. There is also a lack of a clear underlying logic for resource allocation with the department with certain sections appearing generously staffed in relation to their responsibilities and others lacking sufficient staffing to carry out their roles.

Progressive: There was evidence of a progressive culture within the department with a number of initiatives designed to improve the manner of interaction with stakeholders. Clearly this is an area where continuous self improvement will be the norm – the group identified a number of areas for further development.

Corporate: There are two main obstacles to the ability of SRAS to act in a corporate manner. Firstly there is a lack of clarity with regard to the University's expectations. The department itself identified areas such as CPD where the University's objectives must be made clearer. The other obstacle is the fact that the relationship between SRAS and the Faculties is characterised by a degree of ambiguity and uncertainty about the respective roles and responsibilities of each.”

The recommendations are currently with the Secretary of Court for consideration.

2.1.7 Conference & Visitor Services (Follow Up)

The programme of agreed action following the original audit identified no Fundamental areas for improvement but there were 16 areas that we classified as Significant. The follow up review found that 11 recommendations had been fully implemented.

The following improvements have been effected as a consequence:

Business Planning: The business plan for the CVSO did not contain performance indicators, roles and responsibilities of key officers and arrangements for contingency planning. These matters have now been addressed.

Documentation: Costing documentation has been expanded and is now retained.

Expense claims: Expense claims are now appropriately authorised and submitted timeously.

Overtime: Overtime has been reduced and work is now prioritised in an attempt to carry out key tasks during core working hours.

Income: A record of safe income is maintained and safe access has been reduced.

Asset Management: The asset register is now in the correct format and a procedure has been implemented so that it is kept up to date.

The following matters remain unresolved or partially unresolved:

Pricing Policy: The original audit found that there was no documented pricing policy. We recommended that a pricing policy should be documented, reviewed on a regular basis and updated where required. At the outset of the follow up review the recommendation had not been implemented. In the course of responding to the review the department drew up a draft policy. This represents useful progress but we believe that work remains outstanding on this. We have recommended that the advice of the Finance Office territorial accountant is sought to complete this matter.

Delegation of Authority: There was no up to date delegation of financial authority form. The most recent delegation of financial authority form, dated January 2003, does not include the current staff.

Purchasing Expertise: A single Purchasing Officer has not been appointed within the department and purchasing continues to be carried out by several people. Five of the eight members of staff have a purchasing card and have purchasing and invoice payment authority. Purchasing card logs are often inappropriately authorised.

2.1.8 Faculty of Social Sciences (Follow Up)

We identified 34 recommendations which were classified as *Fundamental or Significant*. By the time of the follow up review 8 had been fully implemented. The following improvements were effected as a result:

Waived Fees: There was proper control over waived or reduced fees charged to conference delegates.

Income Handling: The original audit noted a number of shortcomings in the handling of income. Following the audit staff with financial responsibilities have been trained in the correct procedures for recording income.

Reconciliations: Transactions are reconciled against the Finance Office printouts.

Access Issues: Problems with access to the University's financial system have been addressed.

Overtime: Controls in relation to overtime were not satisfactory. Overtime is now pre-authorised.

However there remain many matters of concern that were raised in the original audit that have not been satisfactorily addressed. The most serious matters are as follows:

Segregation of Duties – Conference Income: The original audit highlighted a lack of segregation of duties which meant that it would be possible for errors or irregularities to occur without being detected. The position was unchanged at the follow up audit.

We were informed that the lack of segregation is compensated by checks that are carried out at the end of the conference. However, a review of the paperwork would be difficult to carry out as the records, that is the database and manual records, are not always complete.

Purchasing Procedures: We had noted a number of breaches of the University's purchasing procedures. Quotations or tenders were not sought when it was appropriate to do so, non-approved suppliers were used and a warranty was completed with the details of the member of staff rather than in the name of the University. The position was unchanged at the follow up audit.

Asset Management: We noted a number of shortcomings in asset management - we were unable to identify a substantial number of acquisitions on the asset registers. The follow up audit highlighted that there had been no improvement since the original audit.

Our sample identified instances where essential details (serial number, amount, budget centre) were not recorded. There was no evidence that asset registers were checked although we received assurances that this did happen.

Receipt of Goods and Services: The original audit found that receipts were not always retained for purchases and no other evidence of receipt and checking was recorded. The follow up audit found that there had been no improvement.

Invoice Authorisation: In the original audit we reported that we could not confirm that invoices had been appropriately authorised as the delegation of financial

authority form had not been completed or was not provided to us. In the follow up review, in 10 instances from a sample of 15 the invoice was authorised by someone other than the budget holder. We were unable to determine whether the authorisation was appropriate because there is no delegation of financial authorities form in the Finance Office or the Faculty for financial year 2003/04. In 9 instances, from a sample of 10 where an order form had been raised, the invoice authoriser has also signed the order form as purchase officer. In 6 instances, from a sample of 10 where an order form had been raised, the order number was not recorded on the apron slip.

Duplicate Payments: In the original audit we noted that a duplicate payment was made when an invoice was sent to the Finance Office twice for payment. Within the follow up audit we noted a duplicate payment was made when an advance was obtained to pay a conference fee and an invoice was also processed for the same payment. The error was only detected when the supplier returned the overpayment. This situation would not have occurred if the purchasing procedures had been applied as required.

Discretionary Funds Debit Balances: The original audit found that prior Finance Office approval had not been obtained for debit balances on two budget centres. In the follow up audit we found that two budget centres (16464 and 18862) had debit balances (£17,690.38 and £194.24 respectively). We were informed by the Finance Office that prior agreement for the deficits was not obtained.

Discretionary Funds: Use of Funds: The original audit found that income which should have been credited to a discretionary fund was credited to a departmental running cost budget centre so that it could be used to pay for, for example a departmental Christmas meal. Management should ensure that income is credited to the appropriate budget centre. During the follow up we reviewed a number of departmental running cost budget centres and found evidence that they were being used to fund departmental Christmas hospitality and gifts.

Data Protection: Registration forms for courses containing personal data did not feature any reference to the University's data protection policies. The follow up audit showed that the position was unaltered. We also noted that a database held within one department had not been registered with the Data Protection Officer, in breach of the University's policy.

Management of Budget Centres: The original audit found that many of the people recorded as budget holders were ex-employees of the University, and some of the budget centres were no longer used (see below). A number of "other services rendered" budget centres had little or no movement, a zero balance or a debit balance. The follow up audit showed that the position was largely unchanged with former employees still being listed as budget holders and many accounts which had little or no movement over long periods.

Raising Order Forms: The follow up audit showed that the original concerns that we had raised in this regard had not been addressed. On five occasions, from a sample of 15, an order form was not raised. In one of these instances this had led to the University paying twice for the same service.

Overtime Pre-Authorisation: The original audit found that overtime was not pre-authorised in writing and no record was maintained of all overtime worked. We recommended that overtime should be pre-authorised in writing and a controlling record should be maintained of overtime worked so that it can be checked against overtime claimed, prior to authorisation. The follow up review showed progress on this matter but there remained one department where overtime was not pre-authorised.

2.1.9 Court Office (Follow Up)

The programme of agreed action identified five Significant matters which required attention. Three recommendations had been implemented with one being partially implemented and the other not implemented.

The following improvements have been effected as a consequence:

Purchasing Procedures: The original audit found a number of weaknesses in the application of the purchasing procedures. The most serious concerned a decision to choose the most expensive supplier from a number of quotations which had been sought. The reason for the choice was not documented. The follow up illustrated compliance with purchasing procedures.

Expense Claims: We noted serious deficiencies in the application of expense claim procedures. On occasions the authoriser was not of sufficient line authority in relation to the claimants. In addition we noted that two senior officers were authorising each other's expense claims. The follow up illustrated compliance with the University's expense claim procedures.

The main matters of concern remaining are as follows:

Commitment Accounting: Not all commitments were recorded. The member of staff responsible for updating the financial records was not informed about all transactions. The record of expenditure, against which printouts were reconciled, was not up-to-date (due to time constraints and a lack of resources).

Asset Management: The original audit found a number of shortcomings in relation to asset management, for example valuable silverware, administered by the Court Office was not recorded on the asset register.

There had been some improvement since the original audit but some issues remain. For example we found that the register was not updated – the previous Secretary of Court was still recorded as the asset keeper of one of the assets long after his departure from the University.

2.1.10 Faculty of Medicine (Follow Up)

The original audit had identified 14 Fundamental matters and 18 Significant matters which had to be addressed. The follow up showed that three fundamental recommendations and four significant recommendations had been implemented. The remainder were either not implemented or partially implemented.

The following improvements have been effected as a result of the original audit:

Duplicate Payments: In the original audit we identified a number of payments to suppliers that had been made twice, in error. We identified the internal control shortcoming that made this possible and made recommendations that were designed to address this. As a result a system has been modified to minimise the risk of duplicate payments.

Sales Invoices: The original audit identified instances where money had been lost as a result of a failure to raise sales invoices in respect of conference income. The follow up audit showed that this matter had been addressed.

Doubtful Debt Recovery: Divisional staff attempted to recover slow moving debts themselves rather than pass to the Sales Ledger section in the Finance Office. Following our recommendation this has been addressed.

Income: We noted a number of deficiencies in relation to the processing and recording of income. Following the audit income is recorded accurately and sequential numbering is applied to sales invoices issued.

However many matters remain unresolved. The most serious are:

Expense Claims: The system of internal control over expense claims continues to fall far short of an acceptable standard. From a small sample we identified claims which included personal travel, claims which were inappropriately authorised (for example by junior staff), claims which were incomplete as to the detail required and claims were made for items which should have been bought through purchasing procedures. In two instances members of staff repaid monies to the University after Internal Audit had demonstrated that the expenditure was of a personal nature.

Purchasing Procedures: We noted a high incidence of failure to obtain written quotations when this was appropriate. We also noted a continuing high incidence of expenditure with non approved suppliers where there was a readily available approved supplier.

Conference Fees: There was a lack of control over conference fee waivers which had been granted. Our recommendation, that there should be an audit trail and appropriate documentation had not been implemented.

Payroll Overpayments: Due to a clerical error large over-payments had been made to a number of staff. Letters were issued pursuing repayment totalling approximately £33,000. At the time of the original audit almost £11,000 was recorded as repaid. However there was evidence that cast serious doubts upon the accuracy of the records that were maintained in respect of the overpayments. We recommended that adequate records should be retained to ensure that accurate payments were made for work done and that all overpaid amounts should be identified and recovered.

We found no new overpayments but the previous overpayments have not all been recovered and there are insufficient records to conclude exactly how much remains outstanding.

Asset Management: The original audit identified that there had been a complete failure to record assets within the new medical building in a systematic way. The follow up audit noted some improvement but there remains major shortcomings. We obtained a sample of 10 recently purchased assets to determine whether they had been recorded on the asset register. Five items, one reclaimed via expenses, were not recorded on the asset register (a camcorder, an iPAQ, a portable minidisk recorder, a transcriber and a scanner).

One item was added to the asset register 10 months after it had been purchased (a colour printer). It was identified by the department when the asset register check was carried out. Two items, from a sample of 10 identified from the department's asset register, could not be located (a desktop computer and a Viglen hard disk).

Removal and Disposal Procedures: Assets have been removed from the department without written authorisation from the Head of Division, including a number of sales to members of staff. We were informed that the sales were agreed verbally. We recommended that assets should only be removed, sold or disposed of after written approval has been obtained from the Head of Department. The reason for the removal should be documented on the asset register.

Payment to Family Member: We identified an additional finding whilst carrying out the follow up review. A member of staff employed a family member to carry out casual administrative work and authorised the sundry fee payment form (£171). Other payments had been made to the family member from other budget centres of which the authoriser is the budget holder. We were informed that students are also employed to carry out this type of work (for example, applying labels to envelopes and filling envelopes) and they are paid the same fee per hour. We recommended that the Head of Section should be informed of situations where a member of staff is employing a

relative to carry out ad hoc work. Fee payments must not be authorised by an employee who is a close relative and alternative authorisation must be obtained.

The Secretary of Court has held discussions recently with faculty management in an attempt to address these issues.

2.1.11 Valuable Collections (Follow Up)

We considered that all of the seven recommendations that we had classed as “Fundamental” could be regarded as partially implemented. The position in relation to each of the points was as follows:

Cataloguing: An original deadline of October 2003 for the completion of cataloguing was missed. Some progress has been made since the original audit and a revised deadline of 2008 has been set.

Accountability and Responsibility: We identified a lack of clarity with regard to responsibility and accountability for the maintenance of the University’s artworks throughout the campus. Following the audit this matter was raised by staff within the Hunterian and subsequently discussed at the then University Management Group. No clear conclusion was reached. The position therefore remains that accountability and responsibility for the maintenance of a comprehensive register has not yet been established.

Management Information System: We noted that the Hunterian Museum and Art Gallery lacked a proper management information system and that the management of loans was particularly badly served. Following the original audit the Hunterian management sought an external review of procedures and practice and this had identified the lack of resource as the limiting factor in progressing the recommendation.

Insurance Cover: In the original audit we identified that the insurance cover did not match the value of the collections. Since then an overall museum collection valuation estimate has been obtained. However there remain issues outstanding and discussions between staff within the Hunterian and the Finance Office are continuing to ensure that we have the appropriate cover in place.

Location of Collections on Campus: In the original audit we identified that certain items had not been located for some time. Hunterian staff have been compiling a list of such “missing” items but they believe that additional resources will be required to address this issue fully.

Contingency Planning: In the original audit we noted a lack of contingency planning and risk management. Following the issue of the report a paper recommending a University-wide course of action was sent to the then Secretary of Court. The issue

was also raised with the Loss Prevention Committee. The matter was not progressed by the then Secretary of court prior to his departure.

Resources – Hunterian management were strongly of the view that they had inadequate resources to address properly the matter of conservation. In the original audit report we recommended that they attempted to quantify the shortfall. Some progress has been made but there is as yet no clear indication of the resources that are required.

Since the report was issued the Secretary of Court has had extensive discussions with staff within the Hunterian on how to progress the outstanding issues. Management representations made in April 2005 suggest that genuine progress has been made although that 'partially implemented' will remain the case against several recommendations in that they will be acted upon over time and as resources permit.

2.2 Investigations

2.2.1 Anonymous Allegations

Earlier this year Audit Scotland received anonymous allegations in relation to the University. The allegations were passed to SHEFC who asked the Secretary of Court for responses to five specific questions in relation to the allegations. It was clear from the nature of the allegations that the person making the allegation was likely to be a member of staff.

At the request of the Secretary of Court I carried out an investigation that was designed to elicit sufficient information to enable him to respond to SHEFC. A copy of that response has gone to SHEFC. We have not yet received a reply.

In my report to the Committee two years ago I expressed disappointment that, following an investigation of a serious irregularity by a senior member of staff, colleagues who suspected that the person's conduct was contrary to the University's rules did not deem it appropriate to use the University's policy on public interest disclosure. Again, in this instance, it would be preferable if members of staff were to use the University's policy on public interest disclosure rather than making allegations anonymously to external agencies. I recommend that senior management consider how best to publicise the fact that the University has a policy on public interest disclosure and that staff and students should use it to air legitimate matters of concern.

2.2.2 Dispute with Company

At the request of the Secretary of Court we carried out an investigation into the University's dealings with a company which was a spin-out from the Medical Research Council (MRC). The purpose of the investigation was to assist the Secretary of Court to form a view upon the legitimacy of a claim from the company that the University owes it a considerable sum of money. The money was provided for the

purposes of advancing research but remained unspent at the date of the departure from the University of the member of staff in charge of the research. As at July 2005 there was a balance of £312,593 on the account into which the funding was paid.

The issue is complex. University rules were not followed in applying overheads to the monies received from the company and there was a large transfer of expenditure from the account to a grant account with a lack of supporting working papers. We made two recommendations to assist the University in managing the claim from the company. The full report is with the Secretary of Court who is managing the matter in conjunction with the Vice-Principal (Research & Enterprise).

3 Matters Arising From Previous Work

We continue to monitor progress on matters arising from previous work. This section outlines the more significant of these.

3.1 Clinical Trials

In last year's report I noted that there was a considerable amount of work to be done to establish a suitable regulatory and management framework which adequately protects the University's interests in respect of the management of clinical trials involving the participation of University staff. I have not been able to establish the University's progress in setting in place an appropriate framework to manage the risks arising in this area.

3.2 Risk Management

The obligations placed upon the University by the requirement to comply with the Combined Code make it necessary for the Court to approve a corporate risk register which has been compiled by management. The University Court has not yet approved a corporate risk register which covers the main risks at institutional level.

The lack of a corporate risk register also creates certain difficulties for internal audit. According to SHEFC, Internal Audit in higher education institutions should be conducted in accordance with the Government Internal Audit Manual (GIAM). Within GIAM the starting point for Internal Audit should be the organisation's own, duly approved, risk register. Full compliance with GIAM therefore depends upon the Court's approval of a corporate risk register.

3.3 Software Licensing

Internal Audit reported upon the follow up to this matter in May 2004. We concluded that there had been some progress since the original audit but that there was much that remained to be done to improve the internal control system in this important area.

One of the key recommendations was the appointment of a named senior member of staff, as the person with management responsibility for ensuring University-wide compliance. This was addressed by nominating the Director of Information Services as the member of staff with overall responsibility. The Director of Information Services left the University earlier this year and the Secretary of Court has assumed responsibility for this matter as an interim measure.

Another key recommendation was the adoption of a University-wide policy on software licensing. In 2003 the University Court approved a policy which stated:

"All software on computers owned by the University or attached to the University's network must be properly licensed, and all students, staff and visitors using these computers must comply with the licence terms. Copying of software contrary to licence terms is potentially software piracy and may result in disciplinary or legal action."

The remaining recommendations were being addressed by the University's Technology Review Group (TRG). The TRG set up a working group to address this matter. The TRG has now endorsed an audit tool which should be used to enforce internal control but work remains to be done to design and implement the processes and controls to support the use of the tool.

The overall objective of the audit recommendations was to develop a consistent system of management control across the University. The system was required to provide reasonable assurance that the institution is not in material breach of software licensing conditions which would render the University vulnerable to action from suppliers seeking substantial financial redress. This remains the final objective.

3.4 Physical Resources System

We identified serious problems within the Maintenance Section in Estates & Buildings in the course of our last audit of this area (April 2002). We reported 39 areas where improvement was required.

Shortly afterwards a senior Administrator was transferred to Estates & Buildings. Part of his remit was to address the issues raised by the audit. Overwhelmingly though it was clear that many of the problems that we had identified were symptoms of a common cause, the lack of a proper management information system, supported by sound well engineered business processes. The then Director of Estates discussed the matter fully with the then Secretary of Court and they initiated a project to develop a new Physical Resources System (PRS). This aimed to address the

underlying problem of the lack of a proper management information system, supported by sound well engineered business processes.

It was originally envisaged that the PRS would be a three year project with implementation of the priority areas taking place during 2004. There has been considerable slippage from that timetable.

The follow up audit, reported to the Committee this time last year, showed that the failure to make progress on the PRS had had an effect on the ability of Estates staff to address the matters identified in the original audit report. However there has been some progress recently and at a recent meeting of the Project Board for the Physical Resources project a decision was taken to purchase a software package and a resourced implementation plan was approved. In the course of that meeting I asked the Project Manager to ensure that implementation of the audit recommendations is addressed in the project plan.

4 Statement on the Adequacy and Effectiveness of the institution's internal control system

The assignments completed this year by Internal Audit have identified a number of areas where there is scope for improvement in the University's system of internal control. The most important matters are detailed in this annual report.

When the recommendations made in these reports have been fully implemented the system of internal control in the areas concerned will be adequate and effective.

Monitoring of implementation is an integral part of the work of Internal Audit and the success of departments and faculties in this regard will be reported to the Committee in due course.

5 Future Planning

The Secretary of Court asked me to prepare an annual plan within the resource constraints that currently apply to Internal Audit. The plan which we agreed is as shown below.

		Hours
1	Regularity Biological Services Principal's Office Governance Full Economic Costing Purchasing	20 20 20 20 20
2	Risk Based Risk 1 Risk 2 Risk 3	10 10 10

	Risk 4	10
	Risk 5	10
3	Specialist Support	
	Environmental Compliance	10
	Security Management & Administration of Corporate Systems	10
	Review 3	10
4	Value for Money	
	Use of Storage Area Network	10
	Catering & Cleaning	20
	Admin Review 2	15
	Admin Review 3	15
5	Capital	
	Horizontal Audit	10
	Vertical Audit	40
6	Ad Hoc	30
7	Follow Ups	
	IBLS	10
	Physical Sciences	10
	Education	10
	FIMS	10
8	Completion of Outstanding Work	30

Appendix – Statistical Data

New Audits - Recommendations by Category

	<i>F</i>	<i>S</i>	<i>MA</i>
Total for Year	3	32	19
Previous Year	19	60	30

Key	
MA	Merits Attention
S	Significant
F	Fundamental

Implementation of Recommendations – Follow Up Audits

Report	F	P	N	T	%
Valuable Collections	4	10	1	15	60
Social Sciences	11	21	9	41	52
Medical Faculty	8	11	16	35	39
Conference & Visitor Centre	13	2	4	19	74
Court Office	10	4	2	16	75
Total	46	48	32	126	56

Implementation of Recommendations – by Category

Status	F	P	N	T	%	Previous Year
Fundamental	9	16	10	35	49	53
Significant	24	27	16	67	56	42
Merits Attention	13	5	6	24	70	67
Total	46	48	32	126	56	51

Key	
T	Total
N	Not Implemented
P	Partially Implemented
F	Fully Implemented