

Audit Committee Report to Court, December 2007

1. Introduction

The Code of Audit Practice issued by the Scottish Funding Council in September 1999 states that the Audit Committee should submit an annual report to Court. This should include the Audit Committee's assessment of the adequacy and effectiveness of the institution's internal control system and the extent to which the governing body can rely on that system. This annual report summarises the work of the Committee for the year up to and including its meeting on 15 November 2007.

2 Summary of the Year's work

2.1 *Financial accounts*

The Committee reviewed the University's accounts for 2006/07 and the commentary thereon, together with the audit results report prepared by the external auditor, Ernst & Young. The audit opinion was unqualified and the accounts reflected a further strengthening of the University's balance sheet and, for the second successive year, a healthy operating surplus.

2.2 *Internal Audit Activity, 2006/07*

2006/07 was the first full year in which Deloitte provided internal audit services to the University. An extensive audit of the University's systems was undertaken in the year, involving 400 person days of activity. The audit plan approved by the Committee was wide-ranging, but with a strong focus on corporate systems for the management of financial and IT resources. As the appendix shows, this audit work led to a total of 129 recommendations, of which 31 (24%) were classed as Priority 1. The number of Priority 1 recommendations appears high compared with other corporate bodies. Many recommendations are aimed at improving processes rather than at remedying shortcomings in controls. It appears to the Audit Committee that there is considerable scope for the University to achieve efficiencies in the way it operates through improving and standardising its processes. The Committee recognises that this is a significant management challenge and that addressing it may require additional temporary resource. In the months ahead the Committee will require assurance that the audit recommendations are being effectively addressed by University managers.

2.3 *Internal Audit Plan, 2007/08*

In 2006, the Committee introduced an additional October meeting (it now meets four times per annum) at which the internal audit plan for the coming year was considered. For 2007/08, an internal audit plan was drafted by Deloitte in the summer in consultation with the Secretary of Court and Director of Finance. As with the plan for 2006/07, there is a strong emphasis on testing the efficiency and effectiveness of corporate systems, rather than simply monitoring compliance with those systems. The internal audit plan was formally approved at the Audit Committee meeting in October 2007.

2.4 Risk Management

Risk management workshops, at University and Faculty level, were a feature of internal audit work in 2006/07. The Audit Committee has encouraged this development as strengthening the effectiveness of the University's risk management.. As indicated by Internal Audit, risk management requires to be embedded throughout the University. The Audit Committee believes that risk management has to be a core business process across all faculties and departments and that senior management leadership and support will be required to make this happen. Members of the Committee participated in the most recent University risk management workshop in September 2007.

3 Adequacy and Effectiveness of Internal Control

On the basis of the internal audit work undertaken in the course of the year, the annual opinion provided by Internal Audit, and of the comments of the external auditors on the University's financial statements, the Audit Committee believes that the University has, in general, an adequate system of internal control. However, as evidenced by the high number of internal audit recommendations, there is room for improvement in these systems. In particular, in the context of an institution that allows faculty and departmental staff a large measure of devolved authority, there is a general need for more effective implementation of corporate systems and standards throughout the University. That theme is likely to be a focus of the Committee's work in the year ahead.

4 Membership of the Committee

In the course of the year, David McVicar demitted office, having served on the Committee for eight years, and two new appointments were made. Hamish Guthrie, who has extensive experience as a CA and as an audit committee member in the public sector, joined the Committee as a direct replacement for David McVicar. The Committee was further strengthened with the appointment of Kevin Sweeney, a serving member of Court. This is the first time in recent years that the Committee has included a member of Court. Kevin Sweeney brings extensive legal and financial expertise to the Committee, as well as private sector audit committee experience.

Membership of the Committee at its meeting in November 2007 was:

Tom O'Connell (convener)
Elizabeth Simpson (Deputy Convener)
Margot Manson
Scott Cairns
Hamish Guthrie
Kevin Sweeney

Audit Committee
November 2007