

## **Audit Committee Report to Court, December 2008**

### **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 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 5 November 2008.

### **2 Summary of the Year's work**

#### **2.1 *Financial accounts***

The Committee reviewed the University's accounts for 2007/08 and the commentary thereon, together with the audit results report prepared by the external auditor, Ernst & Young. The audit opinion was unqualified and, for the third successive year, the accounts reflect a healthy operating surplus.

#### **2.2 *Internal Audit Activity, 2007/08***

The Committee has focused most of its effort this year on the work of Internal Audit, a service provided by Deloitte. At the time of last year's annual report to Court, the Committee expressed its concern at the high proportion of audit recommendations (24%) that were being categorised by Deloitte as Priority 1. In the course of this year, the Committee has:

- reviewed the outcome of each new internal audit report and noted the principal areas requiring attention;
- required the Director of Finance and the Secretary of Court to report to each meeting of the Committee on progress in implementing internal audit recommendations;
- exceptionally, invited other University managers to attend the Committee to account for the action they are taking in response to significant audit recommendations; and
- introduced a system whereby audit recommendations are identified *either* as addressing control weaknesses *or* as introducing process improvements.

The outcome of this work has been positive, and there has been a demonstrable commitment by University management to address Internal Audit's recommendations. This year's audits have included fewer (10%) Priority 1 recommendations, and this appears to reflect that fact that, in their first year as internal auditors, Deloitte sought to focus their effort on the systems and processes that were in most need of attention.

### **2.3 *Internal Audit Plan, 2008/09***

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 2008/09, an internal audit plan was drafted by Deloitte in consultation with the Secretary of Court and Director of Finance. As with the plan for 2007/08, there is a strong emphasis on testing the efficiency and effectiveness of corporate systems, rather than simply monitoring compliance. The internal audit plan was approved at the Audit Committee meeting in October 2008.

### **2.4 *Risk Management***

Risk management workshops, at University and Faculty level, have been a feature of internal audit work since Deloitte took responsibility for Internal Audit in 2006. The Audit Committee has encouraged this development as part of an ongoing programme aimed at strengthening the effectiveness of the University's risk management. Members of the Committee again participated in the annual University risk management workshop in September 2008.

## **3 Adequacy and Effectiveness of Internal Control**

On the basis of the internal audit work undertaken in the course of the year, 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. It is confident that this system has been strengthened over the last year through the work of Internal Audit and the management response to audit recommendations. However, in the context of an institution that allows faculty and departmental staff a large measure of devolved authority, there continues to be a need for more effective implementation of corporate systems and standards throughout the University.

## **4 Membership of the Committee**

November 2008 marked the end of Tom O'Connell's convenership of the Committee. Tom has been a member of the Audit Committee for 8 years, and convener for the last 5. The other members of the Committee would like to place on record their appreciation of Tom's leadership over this period. As approved by Court in October 2008, Tom will be succeeded as convener by Kevin Sweeney.

In recent weeks, the Committee has been advised of the resignation of Scott Cairns. There are therefore now two vacancies on the Committee, and steps are being taken to invite nominations with a view to recommending new appointments to Court at its meeting in February 2009.

The continuing members of the Committee are: Kevin Sweeney (convener), Hamish Guthrie, Margot Manson and Elizabeth Simpson.

DN, 28.10.08