



UNIVERSITY
of
GLASGOW

Internal Audit Services Unit
Annual Report 2003/2004

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Index

Section		Page
1	Introduction	2
2	Overview of Year	2
3	Summary Performance Indicators	4
4	Annual Statement by Head of Internal Audit	6
5	Annual Plan for 2003/2004	10
Appendix 1	Executive Summaries	
Appendix 2	2003/2004 Plan – Final Out-turn	

1 Introduction

This is the thirteenth annual report of the Internal Audit Services Unit. It sets out for members of the Audit Committee a review of the year's activities and provides, as required by the Scottish Higher Education Funding Council's (SHEFC) Code of Audit Practice, a statement by the Head of Internal Audit regarding the adequacy and effectiveness of the University's systems of internal control.

2 Overview of Year

2.1 Summary

10 reports have been issued arising from the 2003/2004 programme of work. Details are given in Table 1 and Table 2 below.

Table 1 – 2003/2004 Audit Plan: Completed Final Reports to Date

<i>Audit Area</i>	<i>Reference</i>
Conference & Visitor Services (CVSO)	GU108
Court Office	GU110
Corporate Credit Cards	GU111
Severance	GU112
Faculty of Biomedical & Life Sciences	GU113
Faculty of Physical Sciences	GU114

Table 2 – 2003/2004 Audit Plan: Completed Follow Up Reports to Date

<i>Audit Area</i>	<i>Reference</i>
Estates & Buildings – Maintenance	GU100R
Faculty of Law & Financial Studies	GU102R
Software Licensing	GU104R
Students Unions	GU109R

2.2 Planned Audit Work

Table 3 gives details of the recommendations which were made in relation to each of the reports issued, analysed by category.

Table 3 – Audit Recommendations by Category

<i>Audit Area</i>	<i>F</i>	<i>S</i>	<i>MA</i>
GU108 – Conference & Visitor Services	0	16	3
GU110 – Court Office	0	5	11
GU111 – Corporate Credit Cards	3	2	0
GU112 – Severance	6	9	0
GU113 – Faculty of Biomedical & Life Sciences	6	13	11
GU114 – Faculty of Physical Sciences	4	15	5
<i>Total for Year</i>	19	60	30
<i>Previous Year</i>	36	47	12

<i>Key</i>	
MA	Merits Attention
S	Significant
F	Fundamental

Executive Summaries to each of the reports are shown as Appendix 1.

2.3 Follow Up Audits

An analysis of the results of our follow-up audits is shown at 3 below. Executive Summaries to each of the follow-up reports are also shown in Appendix 1.

2.4 Main Points arising from Audit Work

There were a number of common findings arising from several of the audits which we have completed this year.

It is now part of our standard audit to look at the area of **risk management** within the areas which we review. It is clear from discussions with managers that the active management of risk is taken seriously. However there was a lack of formality in the way in which this is done in the areas which we reviewed. This matter is currently being addressed by the University's Senior Management Group.

In common with previous years the state of **asset registers** within departments and faculties continues to give cause for concern. We found many instances where we noted that assets purchased in the course of the year were not recorded in the appropriate asset register. In certain cases, even where assets were recorded, there were no periodic checks to ensure that recorded assets remained within the University's possession. The University has always taken the view that it is for departments and faculties to purchase or develop their own asset register – as far as I am aware there has never been a corporate asset register. It may be an opportune time to reconsider this matter.

We raised the issue of inadequate **segregation of duties** in a number of reports. Segregation of duties is an essential component of any system of internal control. The lack of an adequate regime of segregation of duties creates a risk that an individual member of staff could carry out an illicit act and then conceal the fact that such an act had been perpetrated by altering the audit trail. In all cases we have made recommendations designed to reduce or eliminate the risk arising from inadequate segregation of duties.

Deficiencies in the authorisation of **expense claims** arose in a number of audits. The University's financial regulations provide that persons authorising expense claims should be sufficiently senior to withhold authorisation if this is appropriate. We found a number of instances where expense claims were authorised by staff subordinate to the claimant. In another instance we found that two senior managers were authorising each other's claims.

During the year we completed the audit of the **Voluntary Severance and Early Retirement Scheme**. We concluded that many lessons had been learned since the audit of the previous scheme (reported upon by Internal Audit in June 2000) – the

management controls in relation to this scheme were a considerable improvement upon its predecessor. However there remained areas of concern in relation to the overall policy on severance, difficulties in demonstrating that settlements across the University were consistent and equitable, authorisation procedures, and the inclusion of confidentiality clauses in contravention of the SHEFC guidance.

We also completed the audit of the University's **Corporate Credit Card** scheme. We concluded that the administration of the scheme fell short of the standard that the University should demonstrate in relation to regularity of expenditure and value for money in this sensitive area. We recommended radical changes to the manner in which the scheme operated. The Principal instructed the Finance Office to suspend the scheme until the audit recommendations could be implemented. From discussions with the Finance Office we are confident that the scheme - since reinstated - is now operating in an appropriate manner.

Executive summaries for all of the reports appear as Appendix 1 to this report.

2.5 Investigations

In common with previous years Internal Audit staff have been involved in a number of investigations. Two of these were within **Student Unions**.

Neither investigation was prompted by evidence of impropriety. However, taken together, the circumstances indicated potentially serious problems in the internal control systems of the unions themselves and in compliance with the regulatory framework between the unions and the university.

In the first instance we were asked by the then Secretary of Court to investigate the circumstances within the Students Representative Council that had led to certain difficulties in the relationship between the elected officials of the union and the employees. My final report to the then Secretary of Court made six recommendations in relation to the future conduct of the University's relationship with the SRC. Certain recommendations were implemented by the then Secretary of Court.

In the course of the second investigation it became clear that one of the campus unions had not had its accounts externally audited for a long period. Following our recommendation, and with financial assistance from the University, a reputable firm of chartered accountants was engaged to carry out the audit and this has now been completed.

A further investigation arose when it became clear that the University had been paying an employment agency for services not rendered. An employee of the employment agency had, on a number of occasions, inserted additional names to duly authorised timesheets received from the University. The employment agency then invoiced the University based on the altered timesheets. An Internal Audit review indicated that the University had been charged approximately £5,000 for services not rendered in the period between August 2003 and December 2003. The employee of the agency who was believed to have been responsible for entering the names onto the amended timesheet resigned from his post on the eve of a disciplinary hearing that had been convened to consider the charges against him. Both the employment agency and the University reported the matter to the Police. However, as far as I am aware, no prosecution has been brought. The employment agency has indicated a willingness to re-imburse the University for losses suffered and this is presently being pursued.

3 Implementation of Recommendations & Progress Against Plan

3.1 Implementation of Audit Recommendations

Four follow up reports were completed arising from the 2003/2004 plan. The position with regard to implementation of recommendations was as follows:

<i>Key</i>	
T	Total
N	Not Implemented
P	Partially Implemented
F	Fully Implemented

Table 4a - Implementation of Recommendations - by Report

Report	F	P	N	T	%
GU100R: Estates & Buildings - Maintenance	15	15	9	39	58
GU102R: Faculty of Law & Financial Studies	6	4	12	22	36
GU104R: Software Licensing	1	7	0	8	56
GU109R: Students' Unions	0	3	0	3	50
Total	22	29	21	72	51

Table 4b - Implementation of Recommendations - by Category

Status	F	P	N	T	%	Previous Year
Fundamental	6	6	5	17	53	58
Significant	6	20	12	38	42	62
Merits Attention	10	3	4	17	67	87
Total	22	29	21	72	51	64

The category "Partially Implemented" was introduced when it became clear that in a number of audits, for some recommendations, while action had been taken it had fallen short of what was required. In order to calculate an implementation rate a weighting of 0.5 is assigned to each partially implemented recommendation. The implementation rate in relation to the Faculty of Law and Financial Studies was the lowest rate of any internal audit review in recent times. Further action was then taken by Internal Audit to address the matters arising from this (see 3.2 below).

3.2 Matters Arising from Follow Up Audits

The follow up report on **Estates & Buildings – Maintenance** shows that many improvements in internal control have been effected since the original audit. However many of the recommendations are dependent upon the introduction of the new Physical Resources system (PRS) and that project remains at an early stage.

The failure to make progress on the PRS has undoubtedly had an effect on the ability of Estates staff to address the matters identified in the original audit report. It would though be wrong to identify this as the sole reason for failing to make progress on the recommendations. My impression, from discussions with the Director of Estates, has been that the relatively high volume of capital works being managed by the department has meant that other priorities have not been addressed as much as they might have been in other circumstances.

The follow up report for **Law & Financial Studies** revealed a situation which was profoundly unsatisfactory. In the original audit, four recommendations were classified as Fundamental and a further twelve were classified as Significant. All four of the Fundamental recommendations were found to be not implemented. Only two of the Significant recommendations have been implemented with a further three being classified as partially implemented. However, matters have improved considerably since the completion of the follow up. At the request of the Committee we have monitored progress since the conclusion of the follow up audit. We have concluded that

The four fundamental recommendations have now been implemented and eight of the ten Significant recommendations have been implemented. We are awaiting information from the Faculty Secretary on the two remaining Significant recommendations.

The follow up on **Software Licensing** shows that some progress has been made but much remains to be done. The Fundamental issue, the appointment of a named senior member of University staff, as the person with management responsibility for ensuring University-wide compliance, has been addressed. Shortly after the report was issued the Director of Information Services was allocated management responsibility in this area. At present the Computing Service are looking to introduce a standard software tool to assist departments and faculties to manage software licences. A working group is expected to report to the Deputy Director of the Computing Service by the end of this month.

The Education Act 1994 places certain statutory duties upon the governing body of higher education institutions in relation to the **Students Unions** which operate within that institution. The principal objective of our original audit was to establish the extent to which the University was meeting its statutory obligations under the Act.

The follow up on our audit of Students Unions showed that all three recommendations had been partially implemented. The most important of these, the Fundamental recommendation, related to the need to review the University's Code of Practice with students unions. At the time of writing this review has commenced but has not yet been completed.

3.3 Progress Against Plan

Appendix 2 shows the progress against the annual audit plan. Regrettably we were unable to achieve the planned level of coverage for two main reasons.

The first reason was the departure during the year of a member of staff to another position within the University.

The second reason relates to the fact that, partly as a result of the large number of senior management vacancies throughout the year, I was asked to take on a number of additional tasks not directly related to my audit role. These included assisting in

establishing the University's in-house legal office and carrying out a detailed disciplinary investigation.

Clearly the fact that we have been unable to complete the tasks planned for the year creates a backlog of work which must be addressed. I am currently in discussion with the Secretary of Court and the Convenor of the Audit Committee as to how this can best be achieved and how Internal Audit can best be aligned to the governance environment in which the University now operates.

4 Annual Statement by Head of Internal Audit

4.1 Statement Based on Work Completed under Annual Plan

The SHEFC Code of Audit Practice requires a statement of opinion from the Head of Internal Audit on the adequacy and effectiveness of the institution's internal control system.

The assignments completed this year by Internal Audit have identified 109 areas where there is scope for improvement in the University's system of internal control. Under the scheme of classification which we use 19 of these are *Fundamental*, 60 are *Significant* and 30 are regarded as *Merits Attention*.

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.

4.2 Broader Matters

As a body funded by the Scottish Higher Education Funding Council the University now has to demonstrate compliance with the Turnbull guidance as adapted for higher education by the British University Finance Directors Group. Within this new framework the definition of internal control is broader than hitherto. Against that background it is appropriate to comment upon certain matters which are relevant in relation to what might be called the wider aspects of internal control.

4.2.1 Compliance

The environment in which the University operates is one in which the matter of compliance is of increasing importance. Despite some encouraging signs that the recommendation from the Cabinet Office's Better Regulation Task Force for a lighter touch regulatory regime is being heeded, there is little doubt that the burden of legislative and other compliance falling upon the University is increasing and is likely to continue to increase.

The Data Protection Act (1998) extended the rights of individuals to allow them to have copies of personal data held in paper files. Hitherto the right had been restricted to electronic files. This has led to a large increase in the volume of subject access requests. This is costly for the University to administer, particularly given our highly devolved structure. Legislative moves are planned to extend further the scope of the Act.

The Freedom of Information (Scotland) Act (2002) will introduce important new rights for any person to access information held by the University. Subject to certain, fairly restricted, statutory exemptions the University will be legally bound 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. Moreover, in most cases, the University will be obliged to bear the cost of making the information available. The Act becomes fully operational on 1 January 2005.

The Disability Discrimination Act (1995) came fully into force on 1 October 2004. The stated objective of the Disability Discrimination Act (DDA) was to eliminate the discrimination experienced by disabled people as they go about their everyday lives. Its architects claimed that the DDA was intended to ensure people with disabilities have equal access to services available to other members of the public.

From 1 October 2004 any organisation providing a service to the public needs to tackle physical barriers to disabled people accessing its services. Put simply the law states that where a physical barrier makes it impossible or unreasonably difficult for a disabled person to use a service then that barrier must be addressed.

Cost will also be a factor. In the words of the law, organisations will be required to make 'reasonable' adjustments. Factors that will be taken into account in determining the measure of reasonableness will include cost and disruption as well as the resources available to the organisation to make the necessary adjustments.

As with other recent legislation (eg the Data Protection Act) when a body of case law has been established the legal definition of 'reasonable adjustments' should be clearer.

The Medicines for Human Use (Clinical Trials) Regulations 2004 came into force on 1 May 2004. The implementation of the regulations gave the University cause to look again at the arrangements that we have in place for participation of both the University itself and University staff in clinical trials. It is clear that there is a considerable amount of work to be done to establish a suitable regulatory and management framework which adequately protects the University's interests in this matter.

Finally, on the subject of compliance, one area where change might have been expected but has not yet transpired is in relation to the **Financial Memorandum** and **Code of Audit Practice** issued by the Scottish Higher Education Funding Council. These documents are vital instruments of governance in the higher education sector but both are now overdue for review. Consultations have begun with sector groups on the content of a revised Financial Memorandum.

My purpose in referring to these matters in this report is to draw the attention of Audit Committee members to the increasingly complex legislative and regulatory environment in which the University operates. It is likely that the demand for a consistent response across the University in response to legislation and regulations will have resource implications.

Compliance is a large issue which is likely to assume more prominence in the future than it has in recent times. This is a matter of concern not only for the University's senior management but also for the members of the governing body given their responsibilities under the Turnbull framework. The University, as a highly devolved organisation is likely to have more difficulties in demonstrating consistent statutory and legislative compliance than a more centralised organisation. The question of whether

the University has the right balance between central control and devolution should remain under review by the University's senior management and the University Court.

4.2.2 Information Security

During the year, as part of the implementation of the Information Strategy the University appointed its first Information Security Co-ordinator. This is a key post, with responsibility across the University for responding to security incidents and developing and implementing a campus-wide information systems security programme. The Information Security Co-ordinator reports to the Deputy Director of the Computing Service.

The creation of the post will assist in addressing many of the Information Security matters that I have drawn to the attention of the Committee in the past. I have been liaising with the co-ordinator and the Deputy Director in order to ensure that these issues are being addressed.

The main issues arising from these discussions are as follows:

Overall Responsibility for IT Security on Campus – the University is a highly devolved organisation. It is less clear than it might be as to who has overall responsibility for IT security across the campus. This needs clarification.

General Management Arrangements – According to the Deputy Director and the Information Security Co-ordinator the Computing Service is directly responsible for around 95% of the University's network. For the remainder there is a need to define more clearly authority, working relations and protocols. This is being addressed by the staff concerned.

Role of Emergency Response Team – There is a need to clarify the role and authority of the University's Emergency Response Team. In particular escalation routes need to be defined in the event of the Information Security Co-ordinator making a recommendation (for example in the aftermath of a major incident) which is not complied with by a local administrator.

Monitoring Internet Usage – Although material, in the form of audit trails, exists such that unsuitable use of the internet can be monitored there is at present no systematic monitoring of this material. It is a matter of judgment for University management as to whether the risk of staff making unsuitable use of the internet is sufficient to merit a systematic monitoring regime.

University IT Regulations – These are currently under review. There is clearly a need to keep them under constant review to keep pace with technological developments.

Incident Reporting – It is essential that major incidents are properly reported to senior management (and Internal Audit). Procedures have not yet been defined.

In previous reports to the Committee I have remarked upon the risks posed by the use of Peer to Peer Networks. On the Internet a P2P network is a type of transient Internet network that allows a group of computer users with the same networking program to connect with each other and directly access files from one another's hard drives. A key feature is that there is no centralised server – users exchange files with each other directly. Most common are the exchange of copyrighted material such as music files. There are two separate risks arising to the University from this source. Firstly there is a

risk that the University itself may be held to be guilty of copyright theft by allowing our facilities to be used in this way. Secondly and potentially more seriously is the fact that the use of P2P networks can compromise the security, integrity and possibly the viability of the host network, in this case the University's network. It is well established that certain types of files can be used to disguise computer viruses and without adequate security there may be considerable damage to the University's operations and its reputation. I am pleased to report that there has been considerable progress in both policy and practical terms in relation to this matter. The IT regulations now explicitly prohibit the use of this technology and information security staff are now able to detect and act upon instances when P2P networks are used.

Two further issues which I have raised in the past are worthy of note at this juncture. Previous annual reports have commented upon the lack of an **information continuity plan** (sometimes referred to as a disaster recovery plan). During the year a working group convened by the Director of Information Services has been established to deal with this important matter. The group is due to report to the Information Policy and Strategy Committee early next year.

Finally in this section, the University does not enforce **password changes** upon users of computer systems nor provide for all computer systems a readily available mechanism to change passwords. Use of a password is an elementary form of security. Security would be strengthened if users were obliged to change their overall installation password(s) after a maximum period.

4.2.3 Risk Management

As part of the compliance regime with the Combined Code on Corporate Governance the University is required to develop a regime of risk management.

In October 2002 the Strategic Risk Management Committee (SRMC) was established as a sub committee of the Audit Committee. Its remit was to deal with the agenda arising from the Combined Code. The SRMC comprises representatives from the University Court (a lay member who is also a member of the Audit Committee), the Finance Office, the Court Office, Student Recruitment, Information Services, Research & Enterprise, Human Resources and Internal Audit.

Since its inception the SRMC has been working towards the development of a risk register. This has taken considerably longer than anticipated.

At its meeting on 25 August 2004 the SRMC approved a draft risk register for submission to the Senior Management Group (SMG). The draft risk register illustrates the approach recommended by the SRMC and captures the risks that have been identified by members in the course of discussions. The draft risk register cross-references the identified risks to the objectives in the University's strategic plan. It also attempts to identify a risk owner for each risk. However the SRMC recognised that it is not possible for a group such as the present SRMC to produce a comprehensive risk register for a large, complex and multi-faceted organisation such as the University of Glasgow.

Accordingly the SMG has approved the proposal from the SRMC that the "top-down" approach used to compile the draft should be complemented by a "bottom-up" approach. Specifically the SMG has instructed me to work with one division of the Administration to develop a divisional risk register.

Our corporate governance obligations provide the catalyst for the development of the risk register. However it is important that this process is not seen purely as an exercise in regulatory compliance. The proper management of risk is a duty of all managers in all organisations.

IB 9/11/2004

GU108 – Conference & Visitor Services (CVSO)

Our overall conclusion is that there are 16 Significant issues which need to be addressed in relation to the areas reviewed within the Department. Our principal findings and recommendations with the appropriate classifications are as follows:

<i>Findings and Recommendations</i>	<i>Category</i>
<p><i>Planning and Forecasting</i></p> <p>Planning procedures for the CVSO were rendered more difficult as a result of a complex transaction which culminated in the sale of much of the University's accommodation. The Director was not involved in establishing this arrangement and is therefore not fully aware of all the implications of the transaction for the CVSO. We recommend that communication channels should be improved to the extent that the Director is satisfied that there is sufficient information to carry out planning and forecasting associated with the CVSO (4.1.1).</p>	Significant
<p><i>Policies and Procedures</i></p> <p>Costings for the services provided are prepared and these are considered along with other information to establish prices. There is however no documented pricing policy. A pricing policy should be documented, reviewed on a regular basis and updated where required (4.1.2).</p>	Significant
<p><i>Risk Management</i></p> <p>Management do not explicitly review possible business risks and there are no contingency plans. A formal mechanism should be in place to identify, document and manage the major risks which may affect the achievement of the goals as set out in the business plan (4.1.3).</p>	Significant
<p><i>Costings for New Initiatives</i></p> <p>In order to determine charges, costing exercises are carried out which include materials used, labour and overheads however adequate costing documentation is not retained. We recommend that costing documentation is retained for future reference (4.1.4).</p>	Significant
<p><i>Information Provided to Management</i></p> <p>The CVSO is an income generating unit which liaises with various stakeholders within and outwith the University and attracts business from all of the key market segments. However the provision of management information to the University Management Group is not adequate. We recommend that statistical information is provided to the Management Group on a regular basis and this should include income related to marketing initiatives (4.2.1).</p>	Significant
<p><i>Reconciliations</i></p>	Significant

Reconciliations are carried out for income and expenditure however this check is not evidenced. Reconciliations should be signed and dated (4.2.2).

Purchasing Procedures

Significant

We found several weaknesses relating to purchasing procedures such as order forms not always being used where appropriate and purchasing being carried out by more than one person. We recommend that purchasing arrangements are improved to facilitate compliance with purchasing regulations (4.3.1).

Expense Claims

Significant

The Director's claims are signed by a member of staff who reports directly to her. Claims should be countersigned in accordance with the over-riding rule that the person authorising the claim should have sufficient seniority to refuse to authorise it. Expense claims should be made within two months of the expense being incurred (4.3.2).

Payroll – Overtime Payments

Significant

During financial year 2002/03 we noted that one member of staff was paid £4,700 in overtime and another was paid £2,600. These 2 members of staff come into work early on a regular basis to carry out key tasks which are not part of their duties. We recommend that management, in conjunction with Human Resources, review staff's core duties and ensure that key tasks are performed within normal working hours (4.4).

Segregation of duties

Significant

A member of staff receives payments for bookings, enters the booking onto a database, takes the reading from the credit card machine and prepares the banking. We recommend that one person should not have control over all stages of a transaction (4.5.1).

Sales Invoices

Significant

Sales invoices are not automatically numbered. On occasions the same number has been used twice and an 'A' added to invoice numbers to differentiate them. Sales invoice numbers should be generated automatically by the system and manual alterations or omissions should not be permitted (4.5.2).

Recording Income

Significant

We noted a number of shortcomings in this area including anomalies relating to the database and no explanation or authorisation for a credit given. We recommend that all income received should be recorded accurately on the database and should be kept up-to-date. Where credits are given an explanation should be recorded and appropriately authorised (4.5.3).

Receipt of Income

Significant

Income is received as cash, cheques or by credit card. A receipt is not issued however a letter is given. We recommend that income is appropriately receipted. Receipts should be duplicate and sequentially pre-numbered (4.5.4).

Holding Income and Safe Access

Significant

Income is held in a safe however there is no record of how much is retained in the safe at any point in time. The safe keys are not held securely and other members of staff have access to them. We recommend that these matters are addressed (4.5.5).

Banking Income

Significant

Once income has been prepared for banking the Director signs the bank giro however the attached documentation is only checked on an ad hoc basis and these checks are not evidenced. We recommend that appropriate documentation is checked before the bank giro is authorised. This check should be signed and dated (4.5.6).

Asset Register

Significant

The asset register is not in the recommended format. The recommended register should be used and details should be up-to-date, complete and accurate (4.6.1).

GU110 – Court Office

Our overall conclusion is that there are 16 issues, 5 of which are Significant, which need to be addressed in relation to the areas reviewed within the Department. Our principal findings and recommendations with the appropriate classifications are as follows:

Findings and Recommendations

Category

Commitment Accounting

Significant

Not all commitments are recorded and the record of expenditure, against which the output from the finance ledger is reconciled, is not kept up-to-date. All expenditure should be recorded at commitment stage and the records should be kept up-to-date for reconciliation purposes. (4.1.1)

Purchasing Thresholds

Significant

We found a number of weaknesses in the application of the purchasing procedures. The most serious of these concerns 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. To address these weaknesses the invoice authoriser should ensure that the correct purchasing procedures have been observed. (4.1.2)

Expenses

Significant

On a number of occasions the claim authoriser was not of sufficient line authority to the claimants. In addition we noted that two senior officers were authorising each other's expense claims. Procedures should be amended to rectify these matters.

A number of items purchased from non-approved suppliers could have been purchased using the normal purchasing procedure. Goods and services should be ordered using a University purchase order or purchasing card and should not normally be subject to an expense claim. Approved suppliers should be used where appropriate. (4.1.3)

Payroll

Significant

Four members of secretarial staff were paid £150 each for work they carried out regarding a student exchange programme. An overtime claim form was not completed and the work may have been carried out during normal working hours. Additional payments should not be made to staff for work carried out during normal working hours. Overtime carried out outwith normal working hours should be claimed using an overtime claim form and charged directly against the appropriate budget centre. (4.2)

Asset Register

Significant

The University's silverware, which is administered by the Court Office, is not recorded on the departmental asset register. This should be addressed. (4.3.1)

GU111 – Corporate Credit Cards

Our overall conclusion is that the administration of the University's corporate credit card scheme falls short of the standards that the University should demonstrate in relation to regularity of expenditure and value for money in this sensitive area.

The regulatory framework surrounding the administration of the cards is insufficiently clear, there is inadequate compliance with the regulations as they stand and there is a lack of follow up action on the part of those administering the scheme in relation to potential non compliance.

A major improvement in the internal control arrangements is required if the University is to continue to operate a corporate credit card scheme.

The detailed report contains three Fundamental recommendations and two Significant recommendations. The main changes required can be summarised as follows:

- the expansion of the existing conditions of use for cardholders into a more comprehensive document;
- the drafting, approval and implementation of detailed operational procedures to be followed by those responsible for the administration of the scheme (including those responsible for authorisation); and
- a pro-active approach to compliance with the regulatory framework on the part of those responsible for the administration of the scheme.

While we believe that the system of internal control should be improved we also believe that cardholders should exercise a greater degree of restraint and responsibility. The corporate credit card was provided for travel, subsistence and entertainment incurred wholly, necessarily and exclusively for University business purposes. Certain categories of expenses which some cardholders have incurred do not appear to be appropriate. These include items such as a donation to another University, alcohol, foreign currency, paintings, petrol, chocolates for staff, books, cigars, jewellery, flowers, groceries and credit card insurance. It is possible that there is a reasonable explanation for at least some of these items. However, in the absence of any additional information or justification by the cardholders, we were unable to reconcile expenditure of the type exemplified above with the purpose for which the corporate credit cards were provided.

Some cardholders have on occasion deliberately incurred personal expenditure (for example travel expenses related to a partner accompanying the cardholder on a business journey), apparently with the intention of reimbursing the University. Despite a considerable degree of effort we have not been able to establish whether reimbursement was effected in all instances. In other instances we have identified expenses which we think may have a personal element but this has not hitherto been challenged.

The list of corporate credit cardholders includes some of the University's most senior staff and their card statements are counter-signed by other senior members of staff. We believe that part of the reason for the lack of follow up in relation to potential non compliance stems from a reluctance on the part of some of those administering the scheme to challenge senior staff in what is undoubtedly a sensitive area. It is essential that the revised conditions of use and the detailed operational procedures state clearly that compliance is expected of all staff, irrespective of seniority, that the role of the counter-signatory is set out clearly and that effective follow up action will be taken when appropriate.

GU112 – Severance

The primary objective of the Severance scheme was to reduce the University's cost base. The Finance Committee has received a report which indicates that, from 2005-2006, the University will make recurring savings of £3.3m as a result of the scheme.

The Court gave considerable flexibility to the Director of Human Resources. In effect there was a single criterion – that the payback period should not exceed 12 months – and even then this was qualified by the use of the word “normally”. The Court, as the University's governing body, has the right to delegate as it sees fit. However, in our opinion, allocation of this degree of responsibility to any employee runs counter to paragraph 11 of the SHEFC circular 48/98a (on severance). This states that settlements proposed that are in excess of the norm should be specifically endorsed by the Remuneration Committee and formally approved by the Governing Body. Our review showed that 20 settlements failed to satisfy the criterion that the payback period should not exceed 12 months. This represents 14 per cent of total settlements.

These settlements were examined on a case by case basis by the external auditor. In their report to the Audit Committee and Management Letter the external auditor commented on a lack of compliance with certain aspects of the Court's policy but stressed that they “did not identify any payments which appeared excessive or unsupported by adequate management reasons”.

The overall management controls in relation to the scheme represent a considerable improvement upon the previous scheme (reported upon by Internal Audit in June 2000). However there were a number of areas where our findings indicate a control environment which falls short of the standards required in this highly sensitive area.

The main findings can be summarised as follows:

- the policy on severance was not sufficiently clear (3.1);
- the wide authority delegated by the Court together with the lack of policy guidelines made it difficult to demonstrate that settlements across the University were consistent and equitable (3.3.4);
- authorisation procedures were not always appropriate (3.3.1 & 3.3.2);
- a number of staff granted severance were due to retire relatively soon while others had worked for the University for relatively short periods (3.3.3);
- the requirement by SHEFC for institutions to refrain from entering into confidentiality agreements was breached in one instance (3.6.1);
- the disclosure of information to Court falls short of that which is required by the SHEFC guidance and was not consistent with management assurances following the previous audit (3.6.4); and
- there has been no reconciliation of the records maintained by Human Resources and those maintained by the Finance Office (3.7).

The Director of Human Resources has agreed the factual accuracy of the report. He made the following points in responding to Internal Audit:

- the entire scheme was administered by the Director of Human Resources and his secretary in addition to their normal duties;
- the potential difficulties and pressures occasioned by this should not be under-estimated given the complexity and difficulty of many of the negotiations, the requirement for speed of response and the practical aspects of managing a large scheme over a long timescale; and
- many of the stakeholders (Deans and other senior managers) had legitimate expectations that the Director of Human Resources would deliver agreed outcomes and in such circumstances

there is a clear pressure to exercise pragmatism in ensuring the achievement of desired outcomes.

GU113 – Faculty of Biomedical & Life Sciences

Our overall conclusion is that there are 30 issues, 6 of which are Fundamental and 13 of which are Significant, which need to be addressed in relation to the areas reviewed within the Faculty. Our principal findings and recommendations with the appropriate classifications are as follows:

<i>Findings and Recommendations</i>	<i>Category</i>
<p><i>Recording Assets</i></p> <p>Assets are identified from Agresso, the University's finance system, therefore items which are not purchased (for example, donations) may not be recorded on the asset register. We were unable to identify a substantial number of acquisitions on the asset registers. Insufficient information is recorded for the assets that are recorded. We were unable to locate a number of assets, recorded on the asset register, in the Faculty. Not all items are tagged with an asset number.</p> <p>We recommend that all relevant acquisitions should be recorded on the asset register and all relevant information, as required by the University's financial regulations should be maintained for each asset (4.1.1).</p>	Fundamental
<p><i>Movement of Assets</i></p> <p>Only the initial location of an asset is recorded on the asset register. Disposals and loans are not appropriately recorded and authorised. We recommend that the location of all assets should be kept up-to-date. Disposals and loans should be recorded and appropriately authorised (4.1.2).</p>	Fundamental
<p><i>Asset Checks</i></p> <p>There are currently no asset register checks and we recommend that these are carried out at least once a year (4.1.3).</p>	Fundamental
<p><i>Expense Claims – Authorisation</i></p> <p>An expense claim was inappropriately authorised. We recommend that management ensure all staff are aware that expense claims must be appropriately authorised (4.3.1).</p>	Fundamental
<p><i>Use of Expense Claim Procedures</i></p> <p>The expense claim procedure has been inappropriately used to purchase items such as computer equipment, batteries, microphones. The expense claim procedure should not be used to purchase equipment or where an alternative procedure should be applied (4.3.2).</p>	Fundamental
<p><i>Income - Segregation of Duties</i></p>	Fundamental

The person who raises invoices also raises credit notes and cancels invoices. We recommend that there should be adequate segregation of duties. One person should not have control over all stages of a transaction (4.4.1).

Maintenance of the Asset Register

Significant

Asset registers are not held in the same format, within the division that we reviewed, and are not up-to-date. We recommend that the Faculty's asset registers should be held in the same format and kept up-to-date (4.1.4).

Variable Payroll Payments

Significant

There were a number of shortcomings in the way variable payments had been administered. In order to address these issues we recommend that: a suitable system should be implemented to ensure that the correct rate of payment is applied on claim forms; payments made in accordance with separate arrangements, outside normal payment arrangements, should be noted on the overtime claim form; and, actual start and finish times should be recorded along with the total hours claimed. The claim authoriser should not sign a form which is not an accurate record of times worked and total hours claimed (4.2).

Expense Claims – Overpayment

Significant

An expense claim had been overpaid by approximately £285. We recommend that the overpayment is reimbursed and a reconciliation process is implemented to ensure anomalies are detected (4.3.3).

Expense Claims - Provision of Receipts

Significant

Insufficient documentation was provided in support of a number of claims. We recommend that appropriate receipts should be provided to support each item claimed (4.3.4).

Completion of the Expense Claim Form

Significant

Not all expense claim forms were fully completed. We recommend that expense claim forms should be fully and accurately completed by the claimant and checked by the claim authoriser (4.3.5).

Receipt and Recording of Income

Significant

There were a number of shortcomings in the receipt and recording of income and we recommend that where income is received, including by mail, 2 people should be present when the income is being counted, or mail opened and recorded and both should evidence that they were present. Where cash/cheques are received from a division a receipt should be provided or sign over procedure observed. All income received should be recorded along with the relevant details, including the date the income was received (4.4.2).

Holding Income and Safe Access

Significant

Cheques are not held securely and safe keys are not held within University grounds overnight. There is no sign over procedure where safe keys are transferred from one person to another. We recommend that all income should be held securely in the safe if held overnight. Safe keys should be retained securely in the University. When transferring responsibility for keys from one person to another a safe key sign over procedure should be observed (4.4.3).

Use of Sales Invoices

Significant

There was no authorising documentation regarding a cancelled sales invoice and, in two instances sales invoices were raised to effect a transfer of funds between University budget centres. We recommend that cancellations should be appropriately authorised by someone other than the person dealing with the sales invoices and a sales invoice should be raised only where there is a sale (4.4.4).

Purchasing - Approved Suppliers

Significant

Approved suppliers are not always used where appropriate. We recommend that, whenever possible, purchases should be made from approved suppliers (4.5.1).

Purchasing – Invoices

Significant

The same person authorised 2 invoices where the invoice amount was higher than the person's delegated invoice payment authority limit. We recommend that staff operate within the confines of the delegation of financial authorities (4.5.2).

Petty Cash - Sign Over

Significant

When the person responsible for dealing with the petty cash is not available responsibility is passed to another person however the cash is not counted and signed over at this time. We recommend that a sign over procedure should be in place whereby the cash is counted by the 2 people involved and the check and key sign over is recorded and evidenced (4.6.1).

Budget Centre Management

Significant

We noted a number of shortcomings in the management of the Faculty's discretionary budget centres. A single budget centre was in breach of the rule that prohibits debit balances without the prior approval of the Finance Office. A large number of budget centres, some with sizeable balances, have had little or no transactions upon them for a very long period. (We identified a single budget centre with a balance of £79,946 where there has been no movement since the end of 2002). We also identified three budget centres that were opened some time ago but have never had any transactions posted against them. We recommend that these matters are addressed (4.7.1).

Other Services Rendered

Significant

We noted a number of weaknesses in this area from a review of 10 budget centres. There were instances where the budget centre remained open despite the fact that the project or event for which it had been set up was complete.

We also observed one instance where it appeared that not all expenditure was properly processed via the relevant budget centre at the time it was incurred. In addition, an arithmetic error was made on the costing form. We recommend that these matters are addressed (4.8).

GU114 – Faculty of Physical Sciences

Our overall conclusion is that there are 24 issues, 4 of which are Fundamental and 15 of which are Significant, which need to be addressed in relation to the areas reviewed within the Faculty. Our principal findings and recommendations with the appropriate classifications are as follows:

<i>Findings and Recommendations</i>	<i>Category</i>
<p><i>Personal Purchases and Use of Purchasing Card</i></p> <p>The purchasing card procedure has been inappropriately used to purchase a personal item for a member of staff. Each cardholder is required to sign an agreement which includes a statement that the card will not be used for personal purchases. Personal purchases should not be made through University budget centres for any reason (4.2.1).</p>	Fundamental
<p><i>Maintenance of the Asset Register</i></p> <p>Asset registers are not up-to-date and some are not held in the required format. We recommend that the Faculty's asset registers should be kept up-to-date and held in the required format (4.5.1).</p>	Fundamental
<p><i>Movement of Assets</i></p> <p>Only the initial location of an asset is recorded on the asset register. Disposals and loans are not appropriately recorded and authorised. We recommend that the location of all assets should be kept up-to-date. Disposals and loans should be recorded and appropriately authorised (4.5.2).</p>	Fundamental
<p><i>Asset Checks</i></p> <p>There are currently no asset register checks and we recommend that these are carried out at least once a year (4.5.3).</p>	Fundamental
<p><i>Budget Centre Management</i></p> <p>We found a number of weaknesses in this area and recommend that: discretionary budget centres maintain a positive cash balance unless prior arrangement has been agreed with the Finance Office and then only in exceptional cases; adequate control is exercised over the opening of budget centres and that they are closed timeously; and, the Faculty's budget centres should be reviewed to determine whether they should be closed and if so this should be actioned (4.1.1).</p>	Significant
<p><i>Reconciliations</i></p> <p>Budget holders are responsible for checking monthly printouts however they do not always have the appropriate documentation. All budget centre transactions should be reconciled from Finance Office printouts against relevant documentation. The reconciliation should be evidenced as checked and any anomalies should be highlighted and any required corrective action documented and pursued (4.1.2).</p>	Significant

<i>Purchasing Thresholds</i>	Significant
We noted a number of breaches of the University's purchasing procedures. EC Public Procurement Directives were not applied when this was appropriate and quotations were not sought when required by the University's regulations. Purchasing procedures should be observed in respect of purchases exceeding the quotations and tender thresholds (4.2.2).	
<i>Expense Claims – Authorisation</i>	Significant
Expense claim forms are not always appropriately authorised. We recommend that claim forms should be appropriately authorised (4.3.1).	
<i>Expense Claims - Provision of Receipts</i>	Significant
Insufficient documentation was provided in support of a number of claims. We recommend that appropriate receipts should be provided to support each item claimed (4.3.2).	
<i>Expense Claims - Entertaining</i>	Significant
In several instances the required details relating to external entertainment were not provided to the Finance Office. We recommend that the external entertainment form should be completed detailing the appropriate information (4.3.3).	
<i>Receiving Income</i>	Significant
A single member of staff is responsible for opening the mail and a mail log is not used. We recommend that 2 members of staff open the mail, that a mail log is kept and both members of staff evidence the log (4.4.1).	
<i>Receipt of Income</i>	Significant
Cheques are received into the office however they are not receipted. We recommend that all income received into departments should be receipted (4.4.2).	
<i>Account Codes</i>	Significant
In several instances income was coded incorrectly. We recommend that income should be coded against the correct code and in cases of doubt advice should be sought from the Finance Office (4.4.3).	
<i>Vending Machine Income</i>	Significant
There are several vending machines throughout the Faculty however they are not provided by approved suppliers. Hospitality Services are responsible for organising vending machines in the University. We recommend that Management contact the Retail Manager with a view to Hospitality Services providing this service (4.4.4).	

Holding Income and Safe Access

Significant

A record is not kept of the actual amount held in the safe and one of the safe keys is held outwith the University grounds overnight. We recommend that a record of the total amount held in the safe should be documented and kept separate from the income. Safe keys should be retained securely in the University (4.4.5).

Location of Assets

Significant

We could not locate one of the assets on the register and were later informed that it had been disposed of. We recommend that assets that have been disposed of remain on the asset register with a record of the disposal. The asset register should provide a complete 'cradle to grave' account of each asset (4.5.4).

Adding Assets to the Register

Significant

Assets are identified from Agresso, the University's finance system, therefore items which are not purchased may not be recorded on the asset register (for example, donations). We recommend that all relevant acquisitions should be recorded on the asset register (4.5.5).

Tagging Assets

Significant

Assets are not tagged. We recommend that assets are tagged with a unique asset number and this number should be recorded on the asset register (4.5.6).

Other Services Rendered

Significant

We found a number of weaknesses in this area and we recommend that: balances should be transferred or cleared and budget centres should be closed timeously after the project or event is complete; a separate budget centre should be established for each event; and all relevant expenditure should be matched with the appropriate income in the relevant budget centre at the time it is incurred, where possible (4.7).

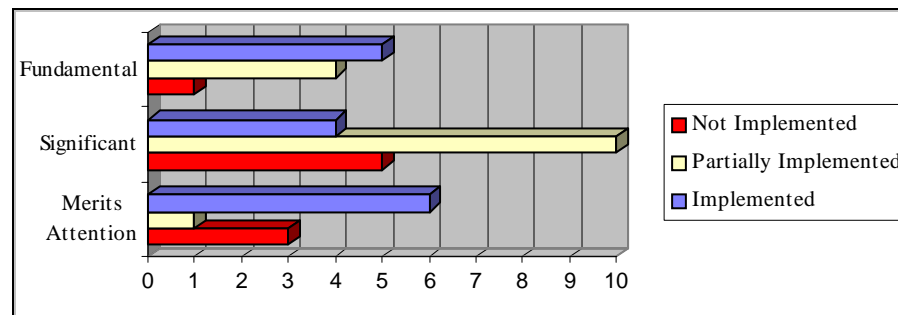
GU100R – Estates & Buildings – Maintenance

2.1 The programme of agreed action identified 39 areas where improved control was necessary. The position shown by the follow up audit is as follows:

<i>Status of Recommendation</i>	<i>Total</i>	<i>I</i>	<i>PI</i>	<i>NI</i>
Fundamental	10	5	4	1
Significant	19	4	10	5
Merits Attention	10	6	1	3
Total	39	15	15	9

Key
I - Implemented
PI - Partially Implemented
NI - Not Implemented

Implementation of Recommendations



2.2 As the table at 2.1 illustrates 29 recommendations were classified as *Fundamental or Significant* and 9 have been fully implemented. As a consequence: a system has been established so that variable payments are authorised in advance by an appropriate member of staff; staff were reminded of the importance of recording remedial work as a separate job; estimating procedures were reviewed to ensure that all relevant staff are aware of the value of stock items; a system has been established to ensure that job lines are not marked as completed before stock items have been allocated to them; a written agreement was introduced between the University and Rathbone Community Industries; fuel drawn from the University garage is limited to a maximum of 20 litres and is only issued to authorised staff; procedures for withdrawals from the store were reviewed and no items should be withdrawn from the store without appropriate authorisation; relevant staff were informed in writing that no equipment may be loaned out due to the potential exposure of the University for liability; and the number of slow and non-moving stock items has been reduced to a minimum (see GU100, points 4.3.1, 4.4.3, 4.4.9, 4.4.10, 4.5.2, 4.7.1, 4.7.2, 4.7.3 and 4.7.5 for further details). In accordance with our normal practice the remaining Fundamental and Significant points are reported upon in Section 4 of this report.

2.3 The main matters of concern arising from the recommendations which have not been implemented are:

- Workflow planning has not been reviewed with a view to minimising non-productive time for tradesmen and improving tracking for ongoing jobs (4.1.1).

- The operating plan has not been updated (4.2.1).
- Procedures have not been established to enable progress on strategic issues to be monitored and, where appropriate, adequate follow up action taken (4.2.2).
- A consistent approach has not been applied to recharges (4.2.3).
- A review of job recording information and retention has not been carried out with a view to addressing reported issues (4.2.4).
- A plan has not been prepared to address data integrity issues (4.2.5).

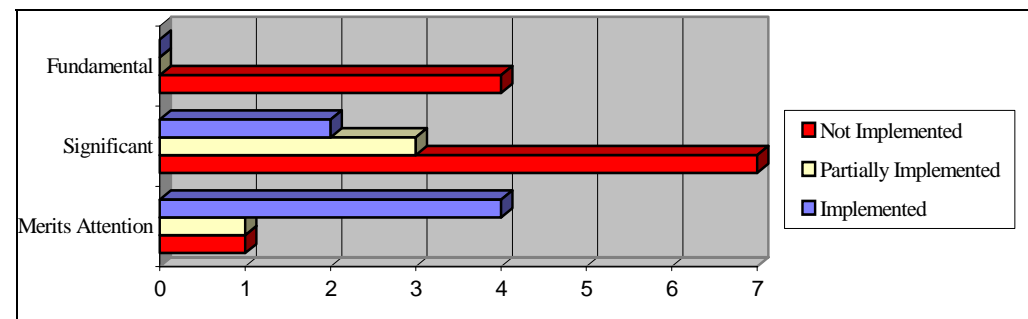
GU102R – Faculty of Law & Financial Studies

- 2.1 The programme of agreed action identified 22 areas where improved control was necessary. The position shown by the follow up audit is as follows:

<i>Status of Recommendation</i>	<i>Total</i>	<i>I</i>	<i>PI</i>	<i>NI</i>
Fundamental	4	0	0	4
Significant	12	2	3	7
Merits Attention	6	4	1	1
Total	22	6	4	12

Key
I - Implemented
PI - Partially Implemented
NI - Not Implemented

Implementation of Recommendations



- 2.2 As the table at 2.1 illustrates 16 recommendations were classified as *Fundamental* or *Significant* and 2 have been fully implemented. As a consequence, blank order forms are held securely and the Faculty are requesting the closure of budget centres timeously (see GU102, points 4.1.2 and 4.6 for further details). In accordance with our normal practice the remaining Fundamental and Significant points are reported upon in Section 4 of this report.

- 2.3 The main matters of concern arising from the recommendations which have not been implemented are:

- Weaknesses in banking and recording income (4.1.1).
- The lack of receipting income (4.1.2).
- An incomplete and inaccurate asset register (4.1.3).
- Income and expenditure not appropriately reconciled (4.1.4).

GU104R – Software Licensing

- 2.1 The programme of agreed action identified eight recommendations which were required to be implemented. Two recommendations were classified as Fundamental and six were classified as Significant. The position shown by the follow up audit is as follows:

<i>Status of Recommendation</i>	<i>Total</i>	<i>I</i>	<i>PI</i>	<i>NI</i>
Fundamental	2	1	1	0
Significant	6	0	6	0
Total	8	1	7	0

Key
I - Implemented
PI - Partially Implemented
NI - Not Implemented

- 2.2 There has been some progress since the original audit but much remains to be done. One of the Fundamental issues, the appointment of a named senior member of University staff, as the person with management responsibility for ensuring University-wide compliance, has been addressed. Shortly after the report was issued the Director of Information Services was allocated management responsibility in this area. The other Fundamental issue was the development of a mechanism by which staff could be held accountable in relation to non-compliance with software licensing regulations. The development of the software licensing policy means that this recommendation can be regarded as partially implemented. There remains outstanding work in relation to the development of arrangements for the prevention and detection of non-compliance.
- 2.3 The ultimate objective is to have a system of management control which is consistent across the University. Such a system is 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. The six Significant recommendations, when fully implemented, can be expected to deliver such a system. The present status of all six can be regarded as partially implemented. I will continue to liaise with the Director of Information Services to make further progress on this matter.
- 2.4 Members of the Faculty Resource and Planning Group (FRPG - comprising senior administrators from the faculties and resource units) have recently written to the Computing Service to make it clear that while they recognise the importance of the issue and the risk to the University, they feel that a stronger lead from Information Services, the group with most expertise in this matter, would be welcome.

We welcome the positive and constructive tone taken by the FRPG in this matter and would endorse the line that they have taken.

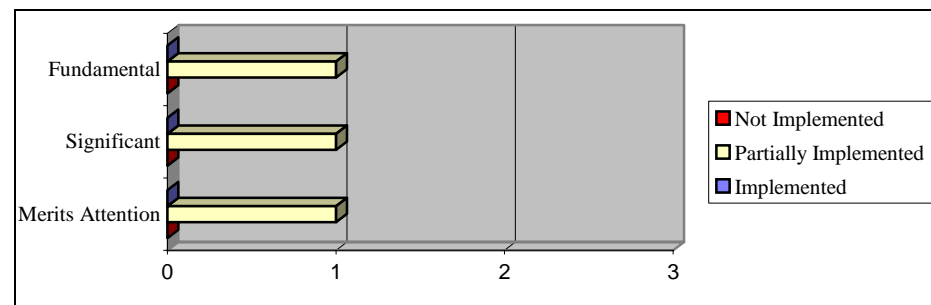
GU109R – Students Unions

- 2.1 The programme of agreed action identified 3 areas where improved control was necessary. The position shown by the follow up audit is as follows:

<i>Status of Recommendation</i>	<i>Total</i>	<i>I</i>	<i>PI</i>	<i>NI</i>
Fundamental	1	0	1	0
Significant	1	0	1	0
Merits Attention	1	0	1	0
Total	3	0	3	0

Key
I - Implemented
PI - Partially Implemented
NI - Not Implemented

Implementation of Recommendations



- 2.2 As the table at 2.1 illustrates 2 recommendations were classified as *Fundamental or Significant* and none have been fully implemented.