
University of Glasgow

Internal Audit Update and Annual Report

Audit Committee Meeting

15 November 2007

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Introduction and Executive Summary

As Internal Auditors, our role is to provide the Audit Committee, University Court and management with independent assurance as to the adequacy and effectiveness of the systems of internal control we review and to report weaknesses identified together with recommendations for improvement. We fulfil this role by performing appropriate audit work as agreed with the Audit Committee. Overall messages for the Audit Committee for the year ended 31 July 2007 are as follows:

- Our Internal Audit reports have raised 129 recommendations across a broad range of subject areas, of which 24% (31 recommendations) have been rated as Priority 1. This ratio appears high compared to other institutions, in particular since the high priority recommendations are distributed across a variety of processes reviewed. Management focus to deliver the implementation of these recommendations is essential.
- The effectiveness and efficiency of Finance and IT processes is hindered by the distributed nature of these functions throughout the University. Efforts to centralise and standardise Financial transaction processing have begun with the roll out of Purchase to Pay and will continue with the Sales Invoicing project in 2008. Within IT, similar challenges lie ahead to drive a consistent IT strategy with such a devolved team.
- The Risk Management processes in place within the University are considered broadly satisfactory at a corporate level. However the Risk Management Committee needs to commit to meeting regularly and there is still work to be done in order to fully embed these processes throughout the organisation. We have assisted management by facilitating risk workshops at Faculty level and with members of the IT community, and will continue to support management as they improve these processes.
- The results of our follow up on 2005/06 audit recommendations show that 43% of recommendations have now been fully implemented. 35% have been partially implemented and 22% have not yet been implemented. A number of the outstanding issues relate to upgrading of systems within Finance and IT areas.

Annual Internal Audit Report

Report to the Audit Committee

As Internal Auditors we are required to provide the Audit Committee with an Annual Internal Audit Report. The University Court and its management are responsible for ensuring that a system of control, financial and otherwise, is established and maintained. This is in order to carry on the operations of the University in an orderly and efficient manner, to ensure adherence to management policies, to safeguard the assets, and to secure, as far as possible, the completeness and accuracy of records. Our responsibility as internal auditors is to evaluate significant systems and associated internal controls and to report to the Audit Committee on the adequacy of such controls and systems. We cannot examine the whole system of controls, financial or otherwise, nor is Internal Audit a substitute for management's responsibility to maintain adequate systems of internal control over financial or operational systems.

In considering our assessment of the framework of controls we have taken the following into consideration:

- results of audits undertaken during the year;
- the balance of probity work against review of management arrangements and value for money work;
- follow up action taken in respect of last year's audit work;
- our perception of the extent of 'control awareness' amongst the staff and management of University of Glasgow.

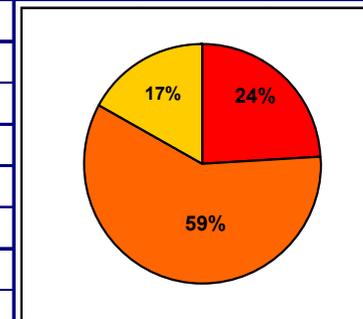
On the basis of work undertaken for the year ended 31 July 2007 we consider that University of Glasgow generally has an adequate framework of control over the systems we examined as summarised on page 3 (subject to implementation of the recommendations). In providing such an assessment we would draw to your attention our summary findings as presented in our individual reports issued throughout the year and particularly the Priority One recommendations. Two areas where the control environment is in need of significant improvement relate to Disaster Recovery Planning and Clinical Trials governance.

We take responsibility for this report, which has been prepared on the basis of the limitations set out on page 10.

Overall Activity Summary 2006/07

The following table provides a summary of the work we have undertaken in respect of the year ended 31 July 2007.

Project Title	Status / AC Summary	Budget days	Actual Days	Number of Recommendations		
				Priority 1	Priority 2	Priority 3
Review of Agresso User Profiles	Complete / Feb 07	10	8	1	2	0
Review of Research Management	Complete / Feb 07	25	26	1	2	3
Review of General Ledger Controls	Complete / Feb 07	15	15	1	5	2
Review of Research Software	Complete / Feb 07	20	20	3	4	2
Review of Corporate Governance	Complete / Feb 07	15	15	0	4	1
Review of Campus Security	Complete / May 07	15	17	0	7	3
Review of Revenue Key Controls	Complete / May 07	10	11	4	6	0
Review of Payroll Key Controls	Complete / May 07	20	19	2	5	2
Review of Performance and Development	Complete / Oct 07	12	12	2	8	4
Review of University Transport	Complete / Oct 07	15	15	0	6	0
Review of Clinical Trials	Complete / Oct 07	15	16	4	3	1
Review of HR Project Management	Complete / Oct 07	10	10	0	2	0
Review of IT Disaster Recovery Planning	Complete / Oct 07	15	15	4	3	0
Review of Information and Network Security	Complete / Oct 07	20	19	3	4	1
Review for Unusual Expenditure	Complete / Oct 07	18	19	3	4	0
Review of Budgetary Control	Complete / Oct 07	20	21	0	3	1
Review of Software Licence Management	Complete / Oct 07	15	15	2	3	1
Review of Faculty Finance Management	Complete / Nov 07	22	24	1	5	1
Review of ICT Strategy and Governance	Fieldwork complete / Nov 07	15	17			
Risk Management (2 x Faculties)	Complete / Oct 07	15	15			
IT Risk Workshop	Complete / May 07	5	6			
Follow Up of Prior Year Recommendations	Complete / Oct 07	15	15			
Purchase to Pay Follow Up Review	Complete / Nov 07	5	3			
2006/7 Plan Development	Complete	10	8			
Audit Committee Prep and Attendance	Complete	15	15			
Planning and Management Time	Complete	28	28			
		400	404	31	76	22



Project by Project Summary

A summary of the projects which have been undertaken since the last meeting is outlined on the following pages. Where applicable, the 'temperature gauge' is intended to provide Audit Committee members with a relative feel for the impact and overall importance of the findings of each project.

Green	Positive control environment - very few control gaps or weaknesses noted
Yellow	Minor control gaps and weaknesses identified
Orange	Control gaps and weaknesses identified which must be addressed but no critical or material issues
Light Orange	Important control gaps or weaknesses identified - an important report for Audit Committee attention
Red	Fundamental control breakdown - a critical report for Audit Committee attention

Project by Project Summary

Internal Audit of Faculty Finance Management



The purpose of our review of Faculty Finance Management was to undertake an assessment of the financial management control environment across the nine academic Faculties of the University. This included obtaining a clear picture of the current resource, management and control structure in place within each Faculty in order to assess the overall adequacy, consistency and effectiveness of control.

There is a variety of different structures, reporting lines and processes in use across the nine Faculties with respect to financial management and financial transaction processing. In most Faculties the responsibility for financial processing is devolved to individual Departmental Administrators who also hold other administrative responsibilities. One Faculty (IBLS) has set up a 'central finance team' and another (Veterinary Medicine) has a 'partially centralised' financial team at Faculty level. Based on our estimates, over 110 personnel across the Faculties are involved to some extent in transaction processing in relation to Accounts Payable, Accounts Receivable, Cash Receipt and related Agresso processing activities. The current structure provides a significant and fundamental challenge for the University in managing and developing financial processing in the future. Record-keeping, communication, training, knowledge sharing, managing business change and controlling the quality of processing across multiple locations is inherently much more difficult. Management have agreed to review the current approach to Finance structures at Faculty level in consultation with the Deans.

We believe that the University's current distributed structure for Accounts Payable and Accounts Receivable processing in particular is out of line with recognised good practice and also out of line with the general trend towards centralisation of transaction processing. Trends in finance within the broader public sector support the consolidation of transactional processes into shared service centres to reduce the time and effort spent on low value-added tasks to release more resources into operational support roles and activities. The Purchase to Pay and Sales Invoicing projects provide a clear opportunity to address this by mandating a standard automated process that is supported by central back office systems. Purchase to Pay is at the final stages of rollout and Sales Invoicing is expected to commence Q1 2008.

Further important issues identified related to the following:

- There is a clear need to update, standardise and simplify the delegated financial authority framework across the University to ensure Faculties and Departments are working to a common and broadly consistent set of limits, standards and authorisations. The University's Financial Handbook (available on the intranet) is also out of date and requires significant updating. These recommendations are being addressed in part by the automated solutions referred to above and by the work of the Finance office.
- Our general sense is that there is scope for the Territorial Management Accountants (TMA's) to take a more involved role in supporting the financial management of the Faculties. LBSS does not have a formal monthly meeting with the TMA and the Education Faculty is the only one where the TMA attends the Faculty Management Group meeting.
- We found the general level of expertise in fully using and exploiting Agresso across the Faculties to be limited and many personnel highlighted their lack of awareness in using the system, particularly in relation to report generation. We also noted significant reliance on local spreadsheet and manual solutions. This highlights a potential need for further training and guidance on Agresso for key users and also underlines the inherent difficulties of ensuring that all relevant Faculty personnel are fully trained on Agresso.

Project by Project Summary

Internal Audit of IT Strategy



We have completed the fieldwork for our Review of IT Strategy and are still in the process of agreeing final recommendations and management comments with the Director of IT Services.

Our work has highlighted a significant general issue in relation to the practical delivery of IT Strategy within the University. Our findings suggest that whilst a core IT strategy has been developed, there is significant practical difficulty in driving and delivering this strategy as individual Faculties and Departments have flexibility to proceed with IT spending, investment and strategy decisions with no consultation with the Central IT team. The IT Director has responsibility for driving a consolidated, standardised approach to IT strategy but has no managerial control over IT personnel or management within the Faculties and Departments.

The IT risk workshops which we have undertaken have underlined this issue with the most significant risks including:

- The risk that individual Faculties and Departments can progress developments without central consultation
- The risk that projects work in isolation with a lack of joined up thinking
- The risk that business planning is not underlined by a technology plan

Our discussions with IT management suggest that the limited ability to control, oversee and direct significant strategic decisions may have resulted in duplication of expenditure, local Faculty investments which may not have been necessary and opportunities for missed savings and improvements across the University. Whilst it is important to recognise that local decision-making, investment and IT support does have its place, there is a risk that the current management and accountability arrangements make delivery of a coherent and value driven corporate IT strategy very difficult to demonstrate.

We are working with the Director of IT on the closure of our review and will circulate our full findings for Audit Committee attention when the report is finalised.

Activity Summary 2007/08

Our Internal Audit work for 2007/08 is progressing well. The following table shows the areas of focus over recent weeks, with the results of our first completed audit for 2007/08 (Library Procurement) expanded on page 8 and the summary results from the 6 Faculty Risk Workshops contained on page 9.

Project Title	Status	Budget days	Actual days
2007/08			
Review of Library Procurement	Complete	15	15
IT Project Risk Management	Fieldwork complete	15	15
Veterinary Research Expenditure	Fieldwork complete	5	5
Review of RAE (Pre-Audit)	Fieldwork complete	20	18
Review of Staff Development Service	Fieldwork ongoing	10	9
Review of Fundraising and Donations	Fieldwork ongoing	10	9
Risk Management - Faculty workshops	4 (of 7) Faculties complete	30	18
Risk Management - IT workshop	Complete	5	5
2007/08 Plan Development	Complete	10	10
Contract Management Time	Ongoing	25	9
			113

Project Summary

Internal Audit of Library Procurement



The first of our 2007/08 audit projects was a review of Library Procurement. The scope of this work was to review the controls in place to ensure that Library procurement expenditure was appropriately targeted at the required texts (including all information materials) and that there was adequate control over the procurement process.

The University Library, which serves approximately 1.75 million visitors (both physically and electronically) per annum, is central to the overall success of the University as a leading teaching and research institution. The Library provides a central service for all academic Faculties and Departments from five major locations. With a Library Material budget of approximately £3.5million adequate controls are necessary to ensure that the Library identifies the required texts and appropriate quantities for purchase, and achieves value for money. In 2006/07 an additional £750,000 was secured, via a budget bid, from the main University funds to update several back catalogues of journals with e-journals.

Our conclusion is that the Library generally fulfils the objectives assessed in this review and no major control weaknesses were identified. There is some scope for improvement particularly in relation to the formalisation of a number of the processes in place and the retention of documented evidence to verify the operation of a number of existing controls, particularly the evidenced approval of book orders. We raised three Priority 2 and two Priority 3 recommendations, all of which have been agreed by management.

The Priority 2 recommendations are summarised as follows:

- The batch approach to processing purchase orders means some orders appear to be unauthorised on inspection. Clear authorisation should be present on all purchase orders. The rollout of Purchase to Pay for the Library will address this issue by ensuring electronic authorisation for orders.
- There appears to be scope to improve efficiency by reviewing the distribution of tasks related to purchase ordering. Currently, some tasks are undertaken by the Manager or Deputy Manager, such as assigning vendor and budget codes to orders, which could be delegated to more junior members of the team.
- The Library Procurement operating procedures and desk instructions for Acquisitions staff have not been formally documented, resulting in variances of practice throughout the University. Guidance on the ratio of course texts to students requires review and formal approval and a consistent delegated level of authority for Subject Librarians should be agreed and documented.

Risk Management Activity

We have now completed Risk Workshops at 6 out of 9 Faculties, attended by members of the Faculty management groups including the Deans, Heads of Department, key Research staff and Administrative personnel. The following summary observations are made regarding the risks identified by each of the Faculty management teams:

- Some of the most common risk themes emerging from the Faculty Risk Workshops are as follows:
 - Risks relating to staff performance and development, including the mechanisms for dealing with underperforming staff, low morale due to increasing workloads and achieving a satisfactory balance between teaching and research activities.
 - Risks associated with the performance of central services, such as delays in Estates & Buildings work, inefficiencies within Finance and bureaucratic procedures for research applications and course approvals.
 - Risks around the sustainability and increase of income streams, including the impact of RAE results on future funding.
 - Risks relating to student recruitment and retention, and the achievability of targets set in these areas.
- The number one risk identified by each Faculty is as follows:

Faculty	Highest Rated Risk
Information and Mathematical Sciences	The risk that staff are overburdened, leading to an inflexible organisation.
Education	The risk that we fail to deal effectively with underperforming staff.
Physical Sciences	The risk that the Finance department is ineffective or inefficient as a central service.
Arts	The risk that University-wide initiatives focus more on Sciences than Arts and Humanities.
Engineering	The risk that the level of responsibility and increasing workload of Heads of Department make the position increasingly unattractive.
Biomedical and Life Sciences	The risk that planned projects are delayed, and costs are increased, owing to inadequate staffing in Estates & Buildings.

- The Faculties identified a significant number of risks associated with factors external to the Faculty. These either related to environmental factors such as demographic developments or external funding changes, or related to the central management of the University, for example the inefficiency of central systems or lack of consultation in policy development. From the top 10 risks at each of the 6 Faculties (60 risks in total), 13% related to external (environmental) factors, 52% related to University-wide issues and 35% related to local Faculty issues.

Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

Deloitte & Touche LLP
Glasgow
November 2007

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

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