

Internal Audit Annual Report 2013/2014

University of Glasgow

November 2014

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Distribution List

For noting	Audit Committee
For information	University Secretary
	Director of Finance

This document has been prepared only for the University of Glasgow and solely for the purpose and on the terms agreed with the University of Glasgow.

1. Executive summary

Background

The Financial Memorandum between the Scottish Funding Council and institutions requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Governing Body. As such, the purpose of this report is to present our view on the adequacy and effectiveness of risk management, internal control and governance.

Whilst this report is a key element of the framework designed to inform the Annual Corporate Governance Statement, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee's responsibility for forming its own view on governance, risk management and control.

This report covers the period to the financial year ended 31 July 2014. The specific time period covered by our work for each individual audit is recorded in Section 3.

Scope

Our findings are based on the results of the internal audit work performed as set out in the Risk Assessment and Plan approved by the Audit Committee on 24 February 2014 and any subsequent amendments that were approved. These changes included the addition of the Language Centre and Consultancy Policy Compliance reviews and the carry forward of the Treasury Management and Student Experience reviews to the 2014/15 plan.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Opinion

Our opinion is based on our assessment of whether the controls in place support the achievement of management's objectives as set out in our Risk Assessment and Plan and individual Assignment Reports.

We have completed the program of internal audit work for the financial year ended 31 July 2014 with the exception of Governance (Ethical Fundraising) review, which is currently ongoing.

Based on the work we have completed and subject to management addressing the high risk issues in the reports noted below, we believe the University of Glasgow has adequate and effective arrangements to address the risks that management's objectives are not achieved in respect of risk management, control and governance.

A summary of the key findings are described in further detail on page 2 to 3. As noted in Section 2, improvements are required in Contract Management (Estates and Buildings) and Project Management (Research), where high risk issues were noted.

Acknowledgement

We would like to take this opportunity to thank University of Glasgow staff, for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is timed to inform the organisation's annual Corporate Governance Statement.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 13 internal audit reviews, with one review (Ethical Fundraising) currently in progress. This resulted in the identification of no critical, 7 high, 46 medium, 35 low and a complement of advisory risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p>	<p>Overall, we have completed 11 of the 14 planned Internal Audit reviews included within Risk Assessment and Internal Audit plan for 2013/2014, approved by the Audit Committee on 24 February 2014. Two of the planned reviews (Treasury Management and Student Experience) were carried forward to the 2014/15 plan. Reviews of Language Centre Procedures and Consultancy Arrangements were undertaken in place of these reviews taking the total number of completed reviews to 13. The audit report from the review of Project Management was split into two reports. In addition, the review of Corporate Governance (Ethical Fundraising) is in progress at the time of writing this annual report.</p> <p>Of the 13 completed reviews (14 reports):</p> <ul style="list-style-type: none"> • No reviews resulted in an overall report classification of critical; • Two reviews resulted in an overall report classification of high; and • Eight reviews resulted in an overall report classification of medium; and • Four reviews resulted in an overall report classification of low. <p>In addition to the internal audit reviews undertaken, we facilitated the SMG risk management workshop and will support the College risk workshops in 2014/15.</p>
<p>Internal Control Issues</p> <p>During the course of our work we identified no significant weaknesses that we consider should be reported in your annual Corporate Governance Statement.</p>	<p>Whilst our work identified 7 high, 46 medium and 35 low rated findings, we do not consider these weaknesses to be pervasive throughout the University's system of governance, risk management and control, or of such significance that it is necessary for them to be reported in the University's annual Corporate Governance Statement.</p>
<p>Other Weaknesses Identified</p> <p>Other weaknesses were identified within the organisation's governance, risk management and internal control.</p>	<p>These other weaknesses relate to the following areas:</p> <ul style="list-style-type: none"> • Contract Management (Estates and Buildings) • Risk Management • International Activity

	<ul style="list-style-type: none"> • Consultancy Arrangements • Capital Investment Projects • Information Security – Penetration Testing • Language Centre Procedures • Project Management – Estates and Buildings and IT Services <p>Each of the above reviews identified multiple medium-rated findings and resulted in an overall report classification of medium risk.</p>
<p>Follow up</p> <p>During the year we have undertaken follow up work on previously agreed actions.</p>	<ul style="list-style-type: none"> • Overall we have selected a sample of 49 previously agreed actions and undertaken follow up work. Our approach was to assess (i) all priority 1 recommendations due as at October 2014 (5 in number), (ii) 20% of priority 2 recommendations due as at October 2014 (44 in number) and (iii) accept management representations for all remaining recommendations which are due as at October 2014 (245 in number). • 21 recommendations are now implemented, 9 are partially implemented and 1 is no longer considered relevant by management. Our testing on the remainder is ongoing. <p>The results of follow-up activity are set out in more detail within Section 4 of this report.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p>The following reviews were classified overall as low risk:</p> <ul style="list-style-type: none"> • Budgetary Control • Purchase to Payables Cycle • House in Multiple Occupancy (HMO) compliance • Data Assurance

3. Internal Audit work conducted

Introduction

Our internal audit work was conducted in accordance with our letter of engagement dated 22 October 2013 and the agreed Risk Assessment and Internal Audit Plan. The table below sets out the results of our internal audit work.

Results of individual assignments

Audit unit	Report status	Report classification and period covered	Number of findings			
			Critical	High	Medium	Low
Corporate Governance (Ethical Fundraising)	N/A – audit fieldwork in progress	TBC 1 August 2013 – 31 July 2014				
Risk Management	Final	Medium 1 August 2013 – 30 November 2013	-	-	5	-
Project Management – Estates and Buildings and IT Services	Draft	Medium 1 August 2013 – 31 July 2014	-	-	4	1
Project Management – Research	Draft	High 1 August 2013 – 31 July 2014	-	1	4	2
Contract Management (Estates & Buildings)	Final	High 1 August 2013 – 30 February 2014	-	1	5	2
Budgetary Control	Final	Low 1 August 2013 – 30 April 2014	-	-	1	-
Departmental Compliance	Final	Medium 1 August 2013 – 30 April 2014	-	-	2	3
Purchase to Payables Cycle	Final	Low 1 August 2013 – 30 November 2013	-	-	-	4
House in Multiple Occupancy (HMO) compliance	Final	Low 1 August 2013 – 31 December 2013	-	-	2	-
Data Assurance	Final	Low 1 August 2013 – 30 April 2014	-	-	-	-
Consultancy Arrangements	Final	Medium 1 August 2013 – 30 June 2014	-	-	3	2
International Activity	Final	Medium 1 August 2013 – 30 June 2014	-	-	4	3
Capital Investment Projects	Final	Medium 1 August 2013 – 31 May 2014	-	-	3	3
Information Security – Penetration Testing	Final	Medium ⁽¹⁾ 1 August 2013 – 30 April 2014	1 ⁽¹⁾	5	9	14
Language Centre Procedures	Final	Medium 1 August 2013 – 31 March 2014	-	-	4	3
		Total	1	7	46	35

⁽¹⁾ Due to the detailed technical nature of our Information Security review, the methodology used for determining individual finding ratings differs from our standard internal audit approach. As a result, only the overall report classification should be considered in line with our basis of classification set out in Appendix 2.

4. Follow up work conducted

Introduction

Within the Annual Internal Audit Plan for 2013/14, 20 days were assigned for following up recommendations raised during previous periods, in order to assess whether agreed actions had been implemented by management. Recommendations that were classified as priority 1 and a sample of priority 2 recommendations were followed up by validation testing. For remaining recommendations, management representation was obtained.

Results of follow up work

The agreed approach for 2013/14 follow up work was to assess (i) all priority 1 recommendations due (5 in number), (ii) 20% of priority 2 recommendations due (44 in number) and (iii) accept management representations for all remaining recommendations which are due (245 in number). The table below summarises the follow up work performed to date:

Priority	Number of recommendations sample tested to date	Status		
		Implemented	Partially implemented	No longer relevant
P1	5	2	3	-
P2	27	20	6	1
P3	-	-	-	-
Total	32	22	9	1

Work will continue to complete the follow up work on the remainder of the sample selected. Please note follow up work was not undertaken on 2013/14 audits and that this will be done during 2014/15.

Summary

We recommend that the University continues its efforts to implement all recommendations which remain relevant at the earliest opportunity.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and the Audit Committee, subject to the limitations outlined below.

Findings

Our findings are based solely on the work undertaken as part of the agreed Risk Assessment and Internal Audit Plan, which provided for 14 internal audit reviews in 330 days. Our work addressed the control objectives agreed for individual internal audit assignments as set out in our Individual Assignment Reports. However, where other matters have come to our attention which we consider relevant, they have been taken into account when forming our conclusion.

There might be weaknesses in the system of internal control that we are not aware of because those controls did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our findings may have differed if our programme of work, scope for individual reviews had been different or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to the University of Glasgow is for the year ended 31 July 2014. A historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.





We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

Findings rating	Points
Critical	██████████
High	██████████
Medium	██████████
Low	██████████

Report classification		Points
	Critical risk	██████████
	High risk	██████████
	Medium risk	██████████
	Lower risk	██████████

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance (quantify if possible); or • Critical monetary or financial statement impact (quantify if possible = materiality); or • Critical breach in laws and regulations that could result in material fines or consequences (quantify if possible); or • Critical impact on the reputation or brand of the organisation which could threaten its future viability (quantify if possible).
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance (quantify if possible); or • Significant monetary or financial statement impact (quantify if possible); or • Significant breach in laws and regulations resulting in significant fines and consequences (quantify if possible); or • Significant impact on the reputation or brand of the organisation (quantify if possible).
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance (quantify if possible); or • Moderate monetary or financial statement impact (quantify if possible); or • Moderate breach in laws and regulations resulting in fines and consequences (quantify if possible); or • Moderate impact on the reputation or brand of the organisation (quantify if possible).
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance (quantify if possible); or • Minor monetary or financial statement impact (quantify if possible); or • Minor breach in laws and regulations with limited consequences (quantify if possible); or • Minor impact on the reputation of the organisation (quantify if possible).
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Pervasive

This in a literal sense means "all encompassing". A pervasive control weakness is therefore one which has an impact across the system of internal control, and consequently could impact upon the achievement of a number of organisational objectives in relation to:

- the efficient and effective use of resources;
- the safeguarding of assets;
- the preparation of reliable financial and operational information; or
- compliance with laws and regulations.



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