

**University of Abertay Dundee**  
**Internal Audit – Year Ended 31 July 2007**  
**Annual Report**

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<b>Contents</b>	<b>Page</b>
1. Introduction	1
2. Executive Summary	2
3. Summary of Findings	4
4. Statement of Responsibility	13
Appendix A – Service Report	14

## Section 1 – Introduction

- 1.1 We are pleased to present our annual report to the Audit Committee for the year ended 31 July 2007. The main purpose of this report is to provide a summary of the internal audit work performed during the year and highlight the important findings arising.
- 1.2 As internal auditors, our fundamental role is to provide management, the Audit Committee and the University Court with independent assurance as to the adequacy and effectiveness of the systems of internal controls reviewed and to report weaknesses identified together with recommendations for improvement. We fulfil this role by carrying out appropriate audit work in accordance with the annual operational plan approved by University management and the Audit Committee on behalf of the Court.
- 1.3 Our approach is consistent with the Scottish Funding Council Code of Audit Practice and guidance contained in the Government Internal Audit Manual. Our main points of contact are the Deputy Secretary and Head of Finance, although we have right of direct access to the Principal and Audit Committee. We meet regularly with the Audit Committee during the year.
- 1.4 Value for money considerations are included within the work scope for all our probity and operational reviews. As a result the findings of these reviews identify a number of areas where there are opportunities to improve the efficiency of existing procedures and practices.
- 1.5 We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from the management and staff of the University during the year and look forward to continuing this good relationship.

## Section 2 – Executive Summary

### Internal Audit Plan

2.1 During the year we issued 12 reports, which included a follow up review on prior year reports. In total we raised 79 new recommendations in the reports issued during the year. This includes 9 Priority One recommendations. Specific details are provided in **Section 3**. These arose out of our reviews as follows:

- Treasury Management – Inadequate segregation of duties with respect to cashier function;
- Treasury Management – Performance of bank reconciliations;
- Student Accommodation – Debt Reporting;
- Student Accommodation – Monitoring and collection of rent payments;
- Information Services – Anomalies in asset verification testing;
- Capital Assets – Existence of local asset registers for Schools and Estates;
- Student Centre – Lack of CCTV cameras in main cash areas;
- Payroll Reconciliations – Timely performance and completion of payroll reconciliations; and
- Payroll Reconciliations – Inadequate payroll control account completion process.

In terms of overall progress we can confirm that all scheduled fieldwork has been completed in accordance with the agreed audit programme with the exception of TRAC Time Allocation which could not be performed due to resource issues within the Finance Department. In addition to the agreed audit programme we carried out a review of Payroll Reconciliations at the request of the Vice Principal of Planning & Resources and the Audit Committee. Final management responses have been agreed on all of our reports. We input 92 working days during the year ended 31 July 2007 against a planned allocation of 90 days. This was due to the re-allocation of the audit days from the TRAC review plus an additional 2 days required to perform the agreed scope of work for the Review of Payroll Reconciliations. Our annual service report is shown at **Appendix A**.

A summary of all our projects reported during the year is included in **Section 3** of this report.

### Report to Audit Committee

2.2 As Internal Auditors to the University we are required to provide the Audit Committee with an Annual Statement on Internal Control. The University and its management are responsible for ensuring that a system of controls, financial and otherwise, is established and maintained in order to carry on the operations of the University in an orderly and efficient manner. This is 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 financial systems and associated internal controls and to report to the Audit Committee on the adequacy and effectiveness of such controls and systems. Our work is performed in accordance with an Internal Audit Plan that is approved by the Audit Committee at the start of the year. We cannot examine the whole system of controls, financial or otherwise, nor is internal audit a substitute for management's responsibility to maintain adequate and effective systems of internal control over financial and operational systems.

## Section 2 – Executive Summary (continued)

### Report to Audit Committee (continued)

2.3 In assessing the level of assurance to be given we have taken account of:

- All audits undertaken during the year;
- The balance of probity work against special investigations 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 of the University; and
- Our overall coverage planned during the term of our contract.

### Overall Conclusion

2.4 *On the basis of work undertaken in the year ended 31 July 2007, we consider that the University has appropriate controls over the systems we examined as summarised in Appendix A to this report subject to the implementation of the agreed recommendations and particularly the nine PRIORITY ONE recommendations outlined in Section 2.1 above. In providing such an opinion we would draw to your attention our findings as presented in the individual internal audit reports issued throughout the year and to all of the PRIORITY ONE recommendations included in the detailed reports and summarised above in Section 2.1.*

## Section 3 – Summary of Findings

This section summarises our main findings in all of the areas reported to Audit Committee during the year to 31<sup>st</sup> July 2007.

### Report 1 – Treasury Management

**3.1** Our overall conclusion was that the University has an adequate system of control in place over most of our objective areas. However a number of areas were identified where controls were lacking or there is potential for significant improvement. The main areas for further focus relate to increasing the level of control with respect to the collection, posting and banking of University cash, bank reconciliations, cashflow forecasting and reporting of financial performance to management. The key recommendations from our review are summarised below.

- There is an inadequate segregation of duties and limited review procedures with respect to the cashier function increasing the risk of error, fraud or misappropriation of assets;
- Bank reconciliations have not been consistently carried out for all accounts held by the University. Testing highlighted incidences of minor unreconciled discrepancies in the reconciliations carried out since May 06 and an inadequate audit trail to evidence a number of cash book amendments;
- The segregation of duties and review process over the collection of cash from the Student Print Credit machines is insufficient. The current procedures do not allow for independent review of cash collected from the Print Credit machines increasing the risk of error, fraud or misappropriation of assets;
- Review procedures over the collection, counting and banking of Library and Copy Shop cash are inadequate increasing the risk of error, fraud or misappropriation of assets;
- Library cash is not being allocated on the APTOS financial system on a timely basis as finance are not being supplied with the adequate documentation in order to make the weekly postings;
- There is currently no analysis of monthly cashflow forecasting against the subsequent actual cashflow as such the accuracy of the cashflow forecasts could potentially be improved;
- There has been no formal review assessment of the Banking and Investment Services provided to the University since the current providers were appointed in 1998 and 2001 respectively ; and
- There is limited reporting to senior management and other appropriate committees (such as Planning & Resource Committee) with respect to treasury management activities, for example, cashflow, significant borrowings or investments, and interest / returns on investment received.

## Section 3 – Summary of Findings (continued)

### Report 2 – Student Accommodation

**3.2** Our overall conclusion was that controls in place over the allocation of accommodation to students and communication between the accommodation office and the student recruitment and admissions offices appear to be operating satisfactorily. However, there is scope for improvement in financial controls and management information in relation to student accommodation and residences. These relate to:

- Improvements in the quality of aged and outstanding debt reporting for student accommodation.
- Improvements in the monitoring and collection of rent payments. This includes ensuring that reminder letters are issued on a timely basis for outstanding deposits, monthly payments or failed direct debits.
- Revising the current University student debt policy.
- Improvements to the controls with respect to entry conditions to residences as testing highlighted a number of students in residence with outstanding contracts, deposits and payment mandates.

### Report 3- Procurement Cards

**3.3** Our overall conclusion was that there is scope for improvement to the processes and controls with respect to procurement cards. The policy around the usage of cards requires to be updated and formalised to ensure clear and consistent application of the specified processes. The controls in place within central Finance should be increased to ensure evidence of approval is obtained for all expenditure and to ensure completeness of the returns sent to Finance by cardholders. It should be noted that the average level of expenditure via procurement cards in the University at the time of our audit was approximately £26k per month. The following issues were identified during our review:

- The requirement for all purchases to be approved in advance is not consistently followed.
- There is no reconciliation prepared by Finance to ensure that all statements have been returned, approved by a budget holder and are accompanied by supporting documentation.
- The purchasing card instruction sheet is out of date and does not provide clear guidance for cardholders in certain areas.
- There is no clear guidance in relation to personal purchases and the current controls to identify and record personal purchases are not sufficient to mitigate against potential fraud or mis-use of University funds.
- There is no regular review of expenditure and transaction limits, and our assessment of these limits would suggest potential anomalies and inconsistencies based on the benchmarking information which accompanied our report.

## Section 3 – Summary of Findings (continued)

### Report 4 – School / Service Review – Information Services

**3.4** The overall scope included a review of the key financial control and business / administrative processes within the Information Services Department. Our overall conclusion was that adequate controls are in place over most of the objectives reviewed. There are areas where the department are setting the benchmark for the University internally including staff appraisal and “internal customer” feedback via regular surveys and questionnaires. However, we identified a number of areas where there is opportunity to improve controls and further develop current processes. The following key issues and improvement opportunities were identified during our review:

- There are annual maintenance checks performed by the department but there is not a specific programme of asset verification in place to ensure that all equipment under the department’s control is properly safeguarded to reduce the risk of fraud or misappropriation of assets. Our detailed testing highlighted a number of assets on the locally maintained asset register that could not be located at the time of our work. Following our audit an internal review was conducted and subsequently all missing equipment was located or accounted for.
- There is a lack of formality over the review of budget to actual within the department management meetings. Although we saw evidence of this happening there is no formal requirement as to when this should be done and what should be done with the output.
- The current system of email requests for copy shop orders lacks clarity and clear procedure. It should be replaced by a more formal procedure which does not inhibit efficiency.
- The draft pay budget report was not issued by the Finance Department prior to the start of the financial year.
- We identified a number of anomalies within our sample testing with respect to the addition, amendment and deletion of staff access to systems. This included inactive accounts, slow provision of access, and a missing authorisation form. We also identified issues with the timely removal of access rights for a sample of leavers tested. Finally, we noted that there is a lack of formality surrounding the process of notification of a change of access requirements caused by a change in a staff member’s role.
- We identified instances where the provision of access to new students was not considered to be timely. The results of our student leavers testing also identified users whose access had not been removed and items where access had not been removed on a timely basis.



## Section 3 – Summary of Findings (continued)

### Report 5 – Capital Asset Management

**3.5** Our overall conclusion was that there is scope for improvement for the University in the area of capital asset management. The key findings of our review are summarised below.

- The University's financial regulations state that inventories and records should be maintained at a local level in respect of all equipment, furniture, goods, cash and property. However, there is only a local asset register in place for the School of Social Sciences and there are no current registers for the other three schools. The two main departments that control assets and equipment are IS and Estates. Within IS there is an asset register, but the Estates department do not currently have a register. The planned upgrade to the Estates system and introduction of a bar coding module should assist with the development of an Estates asset register.
- We identified a number of physical assets that we could not confirm to the appropriate fixed asset or local asset register and vice versa. The University should consider introducing a cyclical asset verification programme.
- The process of maintaining and updating the fixed asset register is carried out annually. This includes a review of specific expenditure accounts for capital items and a subsequent adjustment to calculate the correct depreciation charges in the financial ledger. Finance Management should consider whether it is appropriate to update the fixed asset register on a timelier basis such as quarterly.
- Asset Detail Forms should be completed for all assets on the fixed asset register as required by the Financial Procedures. We could not obtain these for 3 of the 25 assets sampled from the register.

### Report 6 – Student Centre Company Ltd

**3.6** Our overall conclusion is that there are substantial improvements to the system of controls required with respect to most of the objective areas of our review; in particular, concern is expressed with respect to the adequacy of the cash collection controls within the bar areas. In addition, a number of additional areas were also identified where controls were lacking or there was potential for a number of significant improvements to the controls currently in place. The main areas for further focus relate to increasing the level of control with respect to: the collection, posting and banking of cash; the adequacy of the bank reconciliation process; reporting of financial performance to management; and stock control. The following summarises our key findings from our review:

#### *Cash Collection*

- A deficit of CCTV cameras in the main cash collection, counting and transportation areas;
- Review procedures over the collection, counting and banking of bar takings are inadequate;
- Testing of till discrepancy forms highlighted that these are not being adequately completed, retained or reviewed increasing the risk of error, fraud or misappropriation of assets remaining undetected;

## Section 3 – Summary of Findings (continued)

### Report 6 – Student Centre Company Ltd(continued)

#### *Cash Collection (continued)*

- The lack of bar till and key fob allocation to individuals is resulting in the current back office system not being fully utilised. In addition there is also an increased risk of unauthorised till access;
- Review procedures over the collection, counting and banking of shop takings are inadequate;
- Testing of bank reconciliations highlighted that an inadequate audit trail is retained to support the SAGE accounting balance. There is no review of the bank reconciliations performed;
- There is an inadequate segregation of duties, as a result of no independent review, of figures supplied to the Finance Officer from the centre Cashier for posting to the SAGE accounting system;

#### *Stock Control*

- A substantial amount of stock within all 3 bars is left in unlocked fridges overnight increasing the risk of misappropriation of assets;
- Bar stock counts are undertaken by an external company on a quarterly basis. It is expected that these should be undertaken more frequently after the full capability of the back office system is utilised;

#### *Management Information*

- It was noted from our review that the full management reports for the student centre are only produced on a quarterly basis. It was further noted that the reports are typically delayed by up to a month thus increasing the risk that management do not have the necessary information to manage ongoing operational issues on a timely basis; and
- The current budget setting process and monitoring of performance against budget is not adequate. There has previously been minimal input in the budget setting process by the section heads and the finance team. As such we are advised that section heads do not largely assess performance against target figures due to their unrealistic nature.

## Section 3 – Summary of Findings (continued)

### Report 7 – Student Recruitment

- 3.7 The scope of this review was to assess the adequacy of the student recruitment processes in place to raise awareness of the University to potential students and to manage the process from student enquiries through to application and enrolment. Our overall conclusion was that the student recruitment activities are managed and controlled to a satisfactory level within the Student Recruitment Office. The team is structured to utilise the skills and experience of individual team members in an effective way and the broad range of activities undertaken by the department appear well controlled, managed and promoted. Our recommendations related to the process for setting targets on student numbers per programme which is currently ad-hoc and not the subject of effective management reporting, and the opportunity to increase the analysis and reporting on enquiries from potential students. We recognise that management have plans in place to address our recommendations through the revision of the strategic planning process and the development of the QED database for enquiries.

### Report 8 – Commercialisation Review

- 3.8 The scope of work was to review whether appropriate arrangements are in place for the setting and communication of commercial strategy and targets, and that appropriate controls are in place over the administration, management, reporting and billing of commercialisation income and expenditure activities undertaken by the University. Our overall conclusion was that commercialisation activities are managed and controlled to a satisfactory level within the Business Development Office given the current level of activity and resource. Concerns are raised that the current resource levels may not be adequate to deal with the forecast increase in commercial activities outlined in the draft University strategic plan. Overall, there are opportunities to strengthen the existing control framework, upon which the following key issues and improvement opportunities were identified during our review:
- The current draft of the Business Development Office Operational Plan has not been refreshed since 2005. While there is a need to align any plan produced to the draft University strategic plan and corresponding Knowledge Transfer Strategy, this should not prevent a draft of the plan being prepared in advance.
  - The key performance indicators proposed for measuring the level of commercialisation activities at a University level should be cascaded down to a school level and incorporated into the school plans and annual reporting process as well as staff planning and resources. Performance against target should be monitored on a quarterly basis and action plans documented to resolve any issues arising.
  - Although detailed commercial guidelines have been issued to all University staff, there is currently a risk of significant non-compliance with procedures on projects of which the Business Development Office are unaware. Additional responsibility for compliance should be delegated to School management with the onus for ensuring compliance resting within the Divisions.

## Section 3 – Summary of Findings (continued)

### Report 9 – Student Association

**3.9** Our overall conclusion was that there appears to be an adequate system of internal control in most areas, however we have identified a number of weaknesses with respect to governance and financial management which put some of the control objectives at risk. In particular, there is scope for improvement in terms of compliance with the Education Act 1994, setting and monitoring of strategic objectives, and financial governance and control. Improvements to the control environment had been made in the past 12 months at the time of our work, with the introduction of various initiatives, although there remains scope for significant improvement in most areas. Our specific findings are:

- A lack of a formal, timetabled review and approval of the Constitution of the Association as required by the Education Act 1994;
- An absence of formal approval of the Association’s annual budget in advance of the commencement of the financial year concerned;
- A lack of formal setting of strategic objectives (including KPIs) and ongoing identification of key risks being faced. Subsequently, there is no reporting and monitoring of progress against strategic objectives to the executive management team of the Association;
- A lack of reporting and monitoring of financial performance against budget by all relevant committees and boards including the Executive Committee;
- The service level agreement between the Association and the Student Centre has not been subject to detailed review since its inception in June 2004;
- No financial regulations or memorandum document in place, as required by the Education Act 1994 and referred to in the Association’s Constitution;
- No specific dedicated financial procedures for the Association are in place with a lack of compliance with good procurement practice noted in testing;
- There is no formal process to ensure that there is an annual update of the Association bank mandate in the event of changes to signatories;
- The SRC has been unable to pass a number of key motions at the last term meeting of 06/07 due to the committee being inquorate;
- A lack of formal training for new executive members of the Association on the key responsibilities of the role;
- No formal policy on allocation of resources, as required by the Education Act 1994; and
- The Association Code of Practice had not been presented to all students on an annual basis, as required by the Education Act 1994.

## Section 3 – Summary of Findings (continued)

### Report 10 – Corporate Governance

**3.10** The scope of our work was to assess the governance arrangements in place within the University. Our approach included benchmarking the current activities against recognised good practice including: SFC Code of Audit Practice and SFC Financial Memorandum (mandatory); and the CUC Code of Practice and the General Principles of the Combined Code (optional). Our overall conclusion was that the governance structures and processes at the University appear to be satisfactory, with no significant issues noted. Our work highlighted that there is some scope for improvement in terms of review of attendance and effectiveness of Court members. We highlighted a further 4 minor recommendations where there are further opportunities to strengthen the existing control framework.

### Report 11 – Payroll Control Account Reconciliations

**3.11** Although not part of the initial plan presented, at the request of the Vice Principal of Planning & Resources and the Audit Committee we performed a review to assess the current state of the payroll reconciliations as at 28 February 2007. Our scope of work also included an assessment of the current processes in place to perform the reconciliations. Our overall conclusion was that despite progress having been made in identifying the erroneous transactions posted over the course of the last two years there remained a number of unreconciled accounts. In summary, as at 28 February 2007, there was an outstanding unexplained difference of £11,928 across 12 accounts which had not been fully reconciled. Attention was also drawn to 7 control accounts with either a large value outstanding or where the balance of the unexplained difference was moving. Our specific findings were:

- The payroll control account reconciliations should be completed with immediate effect. Where there remains old unexplained differences that have remained constant the Finance Director should decide on the appropriate treatment to be adopted. It is necessary that the University can demonstrate that there is a robust reconciliation process in place.
- There is a need for a formal approach to be adopted in the reconciliation of these accounts. They should be reconciled as part of the monthly payroll process and any differences cleared prior to the month end being finalised.
- A standard reconciliation format document should be prepared for each control account noting balance per general ledger, balance per payroll, reconciling items and any difference unexplained. These should be signed and dated by the preparer and then authorised and dated by an appropriate senior finance officer.
- Management should consider transferring the process of performance of these reconciliations to the Finance department to utilise the general ledger skills base of individuals in this department; this should be subject to the review and approval of the Finance Director. Payroll Department should continue to support this process and the Finance Department through the investigation of differences.
- A formal timetable and process should be adopted for the upload of the monthly payroll journals to the GL to ensure that errors are not introduced. The timing and version control of the upload files should be formalised.

## Section 3 – Summary of Findings (continued)

### Report 12 – Follow Up Review

**3.12** From our follow up of the nine reports issued in 2005/06 we reported that the implementation of our recommendations had progressed reasonably well with 30 of the 51 recommendations having been fully implemented or with no further action required. This represented a completion rate of 59%. We recognised that 19 of the remaining recommendations (37%) were in the process of being implemented but also highlighted the importance of the University monitoring that these recommendations are progressed to full implementation. There were two recommendations classed as not implemented.

Of the 21 recommendations that require further action this comprised 13 Priority 2 findings and 8 Priority 3 findings. We recognised that 5 of the Priority 2 findings relate to the Review of People Development for which the implementation dates were dependent on the implementation of the new career review scheme 'Abertay Pathways'. There were two recommendations (one Priority 2 and one Priority 3) where progress had not been made or evidence could not be provided. We noted that the implementation of one of these recommendations was dependent on other actions being concluded at the University beforehand. The other related to TRAC which could not be concluded upon because the TRAC accountant was on long-term leave and the TRAC Review 2006/07 had not been performed. We also noted that the implementation of both these recommendations was still intended by the University.

We also followed-up on the status of outstanding recommendations from previous year audit reports (i.e. 2004/05 reports). Good progress had been made with 14 of the 20 recommendations carried forward being fully implemented. Of the four Priority 2 recommendations which remain outstanding all of these relate to Freedom of Information. As agreed by the Audit Committee the implementation dates were extended to August 2008 and detailed action plans have been developed by University management to ensure the successful implementation in the future.

## Section 4 – Statement of Responsibility

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

*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.*

***Deloitte & Touche LLP***

***Glasgow***

***November 2007***

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## Appendix A

	Days	Total number of recommendations	Priority		
			1	2	3
<b>Financial Processes</b>					
Treasury Management	6	9	2	6	1
TRAC (Planned 3 days, c/fwd 07/08)	0	N/a	N/a	N/a	N/a
Capital Asset Management	6	5	1	3	1
Procurement Cards	6	5	-	5	-
Payroll Reconciliations	5	3	2	1	-
<b>Operational Processes</b>					
School / Department Reviews	8	9	1	5	3
Student Recruitment	8	2	-	2	-
Commercialisation	10	3	-	3	-
Student Accommodation	6	5	2	2	1
Student Centre Company Limited	10	21	1	10	10
Student Association	4	12	-	12	-
<b>Regulatory, Legal &amp; Risk Management</b>					
Governance	8	5	-	1	4
<b>TOTAL FOR NEW REPORTS</b>	<b>77</b>	<b>79</b>	<b>9</b>	<b>50</b>	<b>20</b>
Follow Up	5	n/a	n/a	n/a	n/a
<b>Attendance at audit committee meetings, annual plan, needs assessment, client service meetings and service / annual reports</b>	10				
<b>TOTAL</b>	<b>92</b>				