

Internal Audit Service

Annual Report

2010/11

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INTRODUCTION

1. This Annual Report for the year to 31 July 2011 has two key objectives:
 - To provide Court and the Principal, through the Audit Committee, with an independent opinion on the adequacy and effectiveness of the University's arrangements for Governance, Risk Management, Control, and Value for Money.
 - To provide Court and the Principal, through the Audit Committee, with a summary of the activities and resources of the Internal Audit Service (IAS) during 2010/11.

IAS: TERMS OF REFERENCE & STRUCTURE

2. The fundamental role of the IAS is in independently reviewing the arrangements in place which:
 - Identify, assess and manage risks to support the achievement of organisational objectives.
 - Confirm the soundness, adequacy and application of the internal control systems.
 - Assess the effectiveness and efficiency of operations and ensure that value for money is achieved.
 - Ensure compliance with laws, regulations, contracts, established policies, procedures and good practice.
 - Safeguard assets from fraud, irregularity or corruption.
 - Provide assurance on the integrity and reliability of financial and other information provided to management and stakeholders, including that used in decision making.
3. The IAS has no executive role, and has no responsibility for the development, implementation or operation of systems. The Head of Internal Audit, subject to any guidance from the Audit Committee, is responsible for the management and development of the IAS. For administration purposes, the Head of Internal Audit reports to the Chief Operating Officer. IAS reports directly to the Audit Committee. The Head of Internal Audit also has direct access to the Convener of Court, the Convener of the Audit Committee, the Treasurer and the Principal.
4. The IAS had a full complement of three staff throughout most of 2010/11. Bill Convery joined the IAS on secondment from Audit Scotland on 1 September 2010 as Acting Head of Internal Audit. As of 1 April 2011, Bill was appointed Head of Internal Audit. The other members of staff are Senior Auditor: John Basketter; CPFA, and Internal Auditor: Margaret Gray.

OVERVIEW OF THE YEAR 2010/11

Operational Developments

5. Given the staff changes at Head of IAS level it was considered opportune to carry out a cost effectiveness review of the in-house service provision model in comparison with alternative service delivery options. These included outsourcing to the private sector, buying-in resources under a locally managed service contract and consortia arrangements. The review concluded that the current in-house service delivery model provided the most cost effective option by a considerable margin. Other benefits from this model include flexibility, quality and staff commitment.
6. This review was followed by an assessment of the audit approach, including the planning, delivery and reporting of audit work. The overall conclusion was that the IAS were providing a strong professional service with good feedback from Audit Committee, management and clients, and excellent results from the Peer Review process. Some opportunities were identified for a re-focusing of audit planning and the development of alternative approaches, which will provide further assurances on the University's governance arrangements and internal control systems.

7. Key recommendations from the assessment exercise include the development of an accountability and assurance approach, based on the self-assessment questionnaire previously developed by IAS. This is intended to make management's existing responsibilities more explicit. The exercise also suggested a focus on faculty audits as a means of gaining assurance across the University on governance and control systems. These approaches have now been incorporated in the 3 Year Strategic Plan, which was agreed by Audit Committee in June 2011.

Governance

UK Bribery Act 2010

8. The UK Bribery Act came into force on 1 July 2011. The Act encompasses four offences in relation to bribery:
- Making or offering a bribe.
 - Requesting, receiving or accepting a bribe.
 - Bribing a foreign public official.
 - Failing to prevent bribery
9. Organisations may be liable for all of the above offences. Individuals may be liable for the first three offences. Organisations can establish a statutory defence against claims of bribery under the Act, by having in place adequate procedures that are designed to prevent associated persons from engaging in bribery. Associated persons are those who perform services on behalf of an organisation, such as employees and agents.
10. A short-life working group was established to consider the implications of the Act and identify risks. The group reported to the Executive Team in June, highlighting the arrangements in place to provide an adequate procedures defence and any gaps. Policies on Fraud Prevention, Public Interest Disclosure Act and Declaration of Interests have been reviewed and revised in light of the Act. A communications and staff engagement strategy is being developed to ensure widespread awareness of the requirements of the Act.

Governance Review

11. A high level governance review was undertaken during the year, led by the Chief Operating Officer. Emerging issues were presented and discussed at the Audit Committee Workshop in February 2011. The outcome from the review will be reported to Court in September.

Policy Updating

12. In response to an Audit Committee request, a schedule for updating all relevant University level policies was developed. An exercise was undertaken to consolidate the University's policies, and associated procedures and guidelines. A process to routinely record information such as date of introduction, most recent update and next scheduled review is now in place. The IAS continues to confirm compliance with key policies and procedures at all audit visits.

Risk management

13. Following consultation and feedback from users the Risk Management process developed in 2010 was refined and revised by the Risk Group, of which the Head of Internal Audit is a member. Changes to the existing policy were presented and discussed at Audit Committees during the year; and a finalised version was launched in August 2011. The key objective of the revised policy is to simplify the process as much as possible for users to help embed risk management as a routine part of departmental governance procedures. The use of SharePoint allows for readily accessible management information on the updating of risk registers and the changing profile of risks across the University.

Internal Control Systems

14. IAS has continued to review the application, design and appropriateness of the control systems and processes that manage the strategic and operational risks to the University. Specific control areas within the assurance plan included financial systems, operational systems and IT systems.
15. In 2010, the Audit Committee agreed that the IAS required external specialist support to provide assurance on aspects of the University's IT systems. In 2011, an IT Consultant was engaged to provide this support. The Consultant has industry wide experience and has been providing consultancy services at another major Scottish University for over five years. The consultant was tasked with gaining an understanding of the University's IT structures and processes and to provide a risk based work plan to audit IT Security issues. An initial report was provided to the August 2011 Audit Committee.
16. IAS has been actively engaged in assessing the adequacy of the controls in two major projects: e-Procurement and HR/Payroll. IAS has participated at both working Group and Steering Group level to ensure that robust procedural controls have been considered and put in place during the project development lifecycle.

Follow-Up Activity

17. In 2010/11 a total of 82 recommendations were made compared to 27 in the previous year. Of these, 65 have been fully implemented and 13 partly implemented. In discussions with departments 4 of the original recommendations were found to be no longer required because of changed circumstances. Of the 5 outstanding recommendations brought forward from 2009/10, 1 was implemented and the 4 others found to be no longer appropriate.
18. Progress on the completion of the partially implemented recommendations will be closely monitored in 2011/12.

Value for Money

19. The University is required to have a strategy for systematically reviewing management's arrangements for securing value for money in order to comply with the SFC's Financial Memorandum. The University has a wide variety of mechanisms which help to ensure consideration of value for money, including Faculty Policy and Resource Committees; Departmental Committees; Financial Regulations; Purchasing Procedures; and Procurement Guidelines. The University's Value for Money Strategy was approved by Court in May 2010 and demonstrates the University's commitment to maximising benefits from its use of resources. This applies to the use of resources across all of the University's activities, no matter the source of funds.
20. Accurate, timely performance information is a key enabler in ensuring that resources are used in the most economic, efficient and effective way. High level quality management information is also essential for good management at all levels across the University.
21. To address the gap between the management information currently available and the management information people require to do their job more effectively a Corporate Management Information Project has been established. The project aims to deliver a Business Intelligence based suite of integrated Data Marts. Each Data Mart would be a management reporting solution meeting a particular business need from a core data warehouse. IAS will be represented on one of the emerging working groups planned to identify key Data Marts, and will monitor project progress generally.
22. The University also contributes to the Scottish Government's efficient government initiative and is required to submit a return to the Funding Council each year giving information on prior year savings and current year targets. This showed savings of £1.8m in 2008/09, £4.5m in 2009/10 and anticipated savings of £6.0m in 2010/11. IAS reviewed the underlying data sources and assumptions supporting the figures in the return and concluded that the information provided was reasonable.

23. The biggest single expenditure line in the University's accounts relates to staff costs. Investment in staff development and accountability arrangements can have a major impact on staff performance. To help maximise the value from this significant use of resources the University rolled out the Accountability and Development Review process in January 2011. The process provides an opportunity for all staff to receive feedback on performance and understand better how their individual contribution fits into the University's strategic priorities. The aim is to improve performance and quality outcomes as the process matures over time.
24. Ensuring that the University receives best value from its use of resources is a key objective in all audit reviews. There were clear value for money issues identified in a number of audit reports, including the Review of Expenses and Closure of the Hotel School.
25. IAS has been liaising with a number of value for money initiatives across the University, including Estates on the recycling of furniture and equipment and with IT on hardware procurement. Outcomes will be reported in due course.

Other Work

Transparency Review/Full Economic Costing

26. During 2010/11, IAS has continued to review the steps taken by the University to ensure compliance with the requirements of the Transparent Approach to Costing (TRAC). Regular meetings were held with the fEC Accounting Manager to keep up to date with developments and modifications to the TRAC process and consider how these would impact on the audit process.
27. The previous Quality Assurance and Validation process was replaced in 2009/10 by a Statement of Requirements. This is a comprehensive statement of the minimum requirements for TRAC and covers all key areas, including:
- The control environment.
 - Annual TRAC.
 - Charge out rates for research.
 - Charging costs to research projects.
 - TRAC (T).
 - TRAC EC - FP7.
28. The Funding Council required that all Universities submit a full self-assessment of compliance with the Statement of Requirements by 31 January 2011, and every three years thereafter. The Statement, along with the Annual TRAC Return 2009/10, was submitted by the Accounting Manager on 28 January 2011.
29. An overall audit approach and detailed work programme were developed taking into account the revised process and changes to TRAC guidance. Audit testing of the arrangements for the compilation of the 2009/10 TRAC and TRAC (T) Returns proved satisfactory.
30. Members of IAS also attend the Scottish University Help Group which consists of TRAC practitioners and representatives from the various Funding bodies along with other interested parties including Auditors. These meetings provide a useful forum to understand the sector wide issues with regards the implementation of the TRAC requirements and enables the progress at Strathclyde University to be informally benchmarked by IAS against peer Institutions.

EU Grant Certification

31. IAS again was involved in the audit and certification process for EU 6th Framework grant claims. Elements of this work can be challenging and complex, however delivering this work in-house is highly cost effective for the University as compared to employing private firms.
32. During the course of 2010/11, a total of 7 claims (17 claims in 2009/10) amounting to £0.9m were reviewed by IAS and an appropriate audit certificate, in accordance with EU guidelines was provided.
33. This year there was also an EU 7th Framework certification audit, valued at £0.45m.

Ad Hoc Activity

34. During 2010/11, IAS has also undertaken a variety of other work which has contributed to our annual assurance opinion. This includes review of the Court Members Register of Interests and use of the University Seal.

AUDIT RESULTS

35. In line with the Annual Assurance Plan, as flexed with Audit Committee approval, a wide range of audit activity was undertaken over the year. Appendix A illustrates the broad mix of areas which were subject to review during the year, with details of overall outcomes and the audit opinions given. Further details of delivery against plan are provided at Appendix B.
36. A total of 82 recommendations were made in the year, each resulting in agreed management action to address the issue. A number of common themes were identified from audit findings, including:
- Non compliance with Expenses Guidelines where expenditure was funded from special funds or other non-publicly funded income streams.
 - Processes for maintaining robust asset management registers had developed in a piecemeal manner over a number of years and revised clear, consistent guidance was required.
 - The integrity of the internal control environment is at higher risk when there are relocations, closures and major staffing changes.
 - The requirement to complete a single source justification form and obtain quotations in accordance with the University's tendering procedures.

QUALITY ASSURANCE, COST & PERFORMANCE MEASURES**Quality Assurance Toolkit**

37. The assessment of IAS quality using the Committee of Higher Education Internal Auditors toolkit resulted in the following scores:

Criteria	IAS 2011 (% score)	IAS 2010 (% score)
Due Professional Care	98	93
Strategy	96	92
Methodology	96	95
People	96	91
Independence	99	97
Quality Assurance	90	90
Overall Average	96	93

38. These gradings have been agreed and validated by the Heads of Internal Audit of the two other participating institutions and a formal opinion has been issued by the two respective Heads of Audit on the IAS self assessment to Audit Committee. Comparison of the Strathclyde scores against the average of the Peer review group are detailed below:

Criteria	IAS 2011 (% score)	Average Peer Review Group (% score)
Due Professional Care	98	92
Strategy	96	91
Methodology	96	90
People	96	86
Independence	99	94
Quality Assurance	90	85
Overall Average	96	89

39. CHEIA's Development Officer will collate provider scores submitted electronically by end August 2011 and these will be presented anonymously for publication at CHEIA's annual conference in September 2011. The scores will be classified according to the level of participation (e.g. self-assessment, peer review, evidence based peer review).

Audit Survey

40. The British Universities Finance Directors Group Annual Audit Survey relating to 2009/10 was issued in April 2011. The results of the survey are used by a number of Institutions to help benchmark both their internal and external audit provision. There were 92 (56%) responses this year, down from 117 (70%) in 2009/10. As in previous years, the results come with a significant health warning as returns are taken at face value. Examples of potential inconsistencies in data interpretation include VAT, direct/indirect costs, and staff on-costs.
41. This years results are outlined below:

Type of Provision	2010/11 Average Annual Costs (£)	Average nos. of days	Cost per Day (£)
Accounting Firm	77,034	137	561
In House	163,179	640	255
HE Consortium	100,795	206	490
Other Consortium	60,850	200	304
IAS	170,000	600	283

42. The IAS costs are above average for in house providers; however, salary costs will be reduced next year as the excess secondment costs for the Acting Head of Audit ceased as at 1 April 2011. The figures are useful as indicative comparative cost differentials for alternative service delivery options. Acknowledging the caveat on data integrity, the IAS results are satisfactory.

Balanced Scorecard

43. Information on performance for 2010/11 has been mapped onto the refreshed performance measurement balanced scorecard and supporting metrics for IAS.

Client Satisfaction Survey Results

44. The Client Satisfaction Survey forms part of IAS's ongoing quality assurance process. The number of returned survey forms remains low (3 in 2010/11) and consideration will be given as to how to increase this for next year. The collated results of the Client Satisfaction Surveys returned to date are detailed in the following table:

	Highly Satisfactory (%)	Satisfactory (%)	Unsatisfactory (%)
1. GENERAL			
How would you rate the overall usefulness of the audit?	75	25	
Explanation of audit objectives	75	25	
Professionalism of Auditor carrying out the work	100	-	
2. QUALITY OF AUDIT REPORT			
Overall clarity & presentation	75	25	
Relevance of findings and recommendations reported	75	25	
3. TIMING			
Duration of audit process	75	-	25
4. COMMUNICATION			
Helpfulness of Auditor	100	-	
Sufficient consultation during audit process	75	25	
Consultation on findings & recommendations	75	25	

PUBLIC INTEREST DISCLOSURE POLICY

45. During 2010/11, IAS was involved in one review arising from this procedure. The issue arose from an anonymous letter to senior management alleging that some members of staff had misappropriated University property. A full investigation was undertaken, concluding that there was no evidence of any wrongdoing.

FREEDOM OF INFORMATION (SCOTLAND) ACT 2002

46. During 2010/11, three requests were received for information held by IAS under the Freedom of Information Act. The requests were not made directly to the IAS but came via the University's Freedom of Information Officer. One of these requests was a follow-up to a previous request made to the University. All such requests are cleared with the Information Officer and the Chief Operating Officer before any information is provided.

INTERNAL AUDIT OPINION

Basis of Opinion

47. IAS staff are required to conduct audit activity in accordance with the professional and ethical auditing standards set out in the following:

- Code of Ethics and International Standards of the Institute of Internal Auditors.
- Guidance associated with the Combined Code.
- Committee of University Chairmen Guide for members of HE Governing Bodies.
- Handbook for members of Audit Committees in Higher Education Institutions.
- Government Internal Audit Standards and various 'Good Practice Guides' (HM Treasury).
- Institute of Internal Auditors Position Statement on Risk Based Internal Auditing.
- Codes and professional standards (Chartered Institute of Public Finance and Accountancy).

48. Given the breadth and complexity of the systems operated by the University, it is unlikely that any annual operational assurance plan would manage to cover all systems for managing risk in sufficient depth – this is certainly the case at the University of Strathclyde. Consequently, our assessment considers, not just the work performed in each year, but the work undertaken in prior years. In addition, the IAS Annual Assurance Plan reviews the corporate risks of the University against assurance coverage.
49. The IAS is required to provide the University Court and Principal via the Audit Committee with an overall opinion stating whether the University has an adequate and effective framework of governance, risk management and control, and has in place adequate and effective processes with regards to economy, efficiency and effectiveness. In giving this assessment, IAS can only provide reasonable, not absolute assurance that there are no major weaknesses in the University's governance, risk management, control and value for money arrangements. It should also be noted that the primary responsibility of the provision of adequate control and the detection of fraud lies with University Management. In assessing the level of assurance to be given, we have taken into account:
- All assurance work undertaken during 2010/11 and work undertaken in previous years over the period of the strategic assurance plan and in the period up to finalisation of this report.
 - All follow up action taken in respect of audits from previous periods.
 - The effects of any significant changes in the University's control environment.
 - The results of consultancy/ad hoc work undertaken during 2010/11.
50. No factors have been identified that have impacted on the actual or perceived objectivity and independence of the IAS for the year. This is kept under review throughout the year and any changes are immediately reported to Audit Committee.
51. The IAS is satisfied that the work undertaken to date allows a reasonable conclusion to be drawn as to the adequacy and effectiveness of the University's governance, risk management, control and value for money processes.

Opinion

52. In our opinion, the University of Strathclyde has adequate and effective arrangements for:
- Risk Management.
 - Control.
 - Governance.
 - Value for Money.

Looking Forward

53. Next year is a challenging one for IAS as the audit approach focuses more on faculty audits and the pilot Accountability & Assurance questionnaires are rolled out. Increasingly important will be the ability to be flexible and adaptable as the fast pace of change continues, driven by both internal and external factors.

54. It is planned that the programme of regular meetings between the Convener of the Audit Committee and Head of Internal Audit will continue in 2011/12. These have provided the opportunity for effective and productive discussions on emerging risks and audit findings.

Bill Convery
Head of Internal Audit Service
25 August 2011

Analysis of Audit Reviews

Appendix A

	Report Reference	Area of Review	Audit Opinion	Key Assurance Category / Summary of Identified Weakness Areas			
				Governance (Policy & Procedure)	Risk	Controls	VFM
1	AC Meeting 2 2010/11	University Corporate Governance Review	N/A	√		√	
2	254	Research Contracts	Satisfactory	√		√	
3	AC Meeting 4 2010/11	Overview of Asset Management Procedures	Requires Improvement	√	√	√	
4	253	Review of Software Asset Management	Satisfactory	√		√	
5	252	Architecture	Requires Improvement	√	√	√	√
6	250	Civil Engineering	Satisfactory	√	√	√	
7	251	Economics	Satisfactory	√	√	√	√
8	249	Institute of Photonics	Satisfactory	√	√	√	√
9	257	SIPBS Post Implementation Review	Satisfactory	√		√	
10	258	USSA Executive Expenses	Satisfactory	√		√	√
11	AC Meetings 2010/11 Activity Reports	Ad Hoc Exercises	N/A	√	√	√	
12	AC Meetings 2010/11 Activity Reports	EDF 2 Monitoring	Satisfactory	√		√	
13	AC Meetings 2010/11 Activity Reports	HR/Payroll System Implementation Update	Satisfactory			√	
14	AC Meetings 2010/11 Activity Reports	E-Procurement System Implementation Update	Satisfactory			√	
15	AC Meetings 2010/11 Activity Reports	Risk Management Process	Satisfactory		√		
16	AC April 2011 Meeting	Annual TRAC Return 2009/10	Satisfactory	√		√	
17	AC April 2011 Meeting	Annual TRAC T Return 2009/10	Satisfactory	√		√	
18	AC April 2011 Meeting	Annual Follow Up Report	Satisfactory	√		√	√
19	EU Grant Certificates	EU Grant Certification – 7 Certificates issued.	Satisfactory			√	
20	AC Meetings 2010/11	Accountability & Assurance Checklist	N/A	√	√	√	√
21	AC Meetings 2010/11	Jordanhill Campus Closure	N/A	√	√	√	√
22	Ongoing	Technology & Innovation Centre	N/A	√	√		
23	Ongoing	Research Excellence Framework	N/A	√	√		
24	AC Meeting 1 2011/12	IS Security Review	N/A		√	√	
25	AC Meeting 1 2010/11	University Governance – Seal, Conflicts of Interest, etc.	Satisfactory	√			

Area of Review	Audit Status	Reported to Audit Committee	Comments
Corporate Governance			
Technology & Innovation Centre	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Decision Making Structures	Postponed	-	Included in Audit Universe.
Internal & External Communications	Postponed	-	Included in Audit Universe.
Student Recruitment	Postponed	-	Included in Audit Universe.
Research Excellence Framework	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Performance Management	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Collaborative Agreements	Postponed	-	Included in Audit Universe.
University Corporate Governance Review (NE)	Complete	Meeting 4 and AC Workshop	
Risk Management			
Risk Management System Review	Complete	Meeting 1: 2011/12	
Revisions to Risk Management Framework (NE)	Complete	Meeting 3: 2010/11	
Controls – Financial Systems			
HR/Payroll System	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Research Contracts Section	Complete	Meeting 5: 2010/11	
Resource Allocation Model	Postponed	-	Included in Audit Universe.
Transparency Review/fEC	Complete	Meeting 4: 2010/11	
Overview of Asset Management Procedures (NE)	Complete	Meeting 4: 2010/11	
Controls – IT Systems/Processes			
Review of Software Asset Management	Complete	Meeting 1: 2011/12	
Management of IT Audit Review (Outsourced)	Complete	Meeting 1: 2011/12	
IS Security Review (Outsourced)	Complete	Meeting 1: 2011/12	
Review of IT General Controls (Outsourced)	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Controls – Operation Systems/Processes			
Advanced Forming Research Centre	Ongoing	Meeting 2: 2011/12	
Architecture	Complete	Meeting 2: 2010/11	
Civil Engineering	Complete	Meeting 2: 2010/11	
Economics	Complete	Meeting 3: 2010/11	
SBS Faculty	Postponed	-	Included in Audit Universe.
Institute of Photonics	Complete	Meeting 1: 2010/11	
USSA Executive Expenses	Complete	Meeting 5: 2010/11	
Data Interrogation	Ongoing	-	Continued monitoring in 2011/12.
Internal Control Questionnaire	Ongoing	-	Continued work in 2011/12.
Review of Catering Service	Ongoing	Meeting 2: 2011/12	
Jordanhill Campus Closure (NE)	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Advisory Work	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.

NE: New Exercise identified during 2010/11

Area of Review	Audit Status	Reported to Audit Committee	Comments
Controls – Operation Systems/Processes (Contd)			
Points Based System of Immigration (NE)	Ongoing	Meeting 2: 2011/12	
Capital Project Review			
EDF 2 Project Monitoring	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
SIPBS Post Implementation Review	Complete	Meeting 1: 2011/12	
Value for Money			
VFM Strategy Implementation Review	Ongoing	When appropriate via Activity Report	Continued monitoring in 2011/12.
Other Audit Work			
EU Grant Certification Work	Complete	When appropriate via Activity Report	Continued work in 2011/12.
Follow Up Audit Reviews	Complete	Meeting 4: 2010/11	Included in 2011/12 Audit Plan.
Governance	Complete	Meeting 1: 2010/11	

NE: New Exercise identified during 2010