

ANNUAL REPORT 2011/12

Internal Audit Service

the place of useful learning

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TABLE OF CONTENTS

Introduction	3
IAS: Terms of Reference & Structure	3
Overview of the Year 2011/12	3
Audit Reports and Assurance Work	3
Key Issues	5
Risk Management	6
Internal Control Systems	6
Follow-Up Activity	6
Value for Money	6
Other Work	7
Audit Results	8
Public Interest Disclosure Policy	9
Freedom of Information (Scotland) Act 2002	9
Basis of Internal Audit Opinion	10
Internal Audit Opinion	11
Appendices	
A: Analysis of Audit Reviews	12

1. Introduction

1.1. This Annual Report for the year to 31 July 2012 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 2011/12.

2. IAS: Terms of Reference & Structure

2.1. 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 especially that used in decision making.

2.2. 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.

2.3. The IAS operated with a reduced staffing compliment throughout most of 2011/12. This was because of the unexpected secondment of the Senior Auditor to the HASS Faculty, and subsequent replacement by a part-time Senior Auditor.

3. Overview of the Year 2011/12

3.1. Summary of 2011/12 Audit Activity

Reports Issued:

			Recommendations
1.	Catering Service	3 November 2011	14
2.	Advanced Forming Research Centre	31 October 2011	14
3.	USSA – Governance	3 April 2012	5
4.	Faculty of Engineering – IT Review (EEE)	31 May 2012	6
5.	Faculty of Engineering – IT Review (DMEM)	31 May 2012	8
6.	SFC Early Statistics Return	31 May 2012	10
7.	PECOS e-Procurement System	31 May 2012	10
8.	Points Based System for Immigration	1 August 2012	3

9.	Bribery Act	30 August 2012	3
10.	HASS Faculty Review	29 August 2012	12
11.	HR/Payroll	In draft	?

Work in Progress:

		Target Date
1.	Data Interrogation	October 2012

Deferred Work:

1.	Business School	2012/13
2.	Expenses	2012/13
3.	Financial Management	2012/13
4.	Spin Out Companies (New Policy in June 2012 therefore need to consider timing)	TBC

Other Assurance Work:

1.	TIC	Head of IA fully involved in challenge to the Business Case and ongoing risk management arrangements. Monthly meeting with Head of TIC project and the Capital Accountant. Consideration now being given to performance management arrangements.
2.	Jordanhill Campus Closure	Close monitoring of asset management arrangements and provision of advice on asset disposal.
3.	Risk Management	Head of IAS sits on the Risk Group which meets regularly to assess compliance with risk register guidance, analysis of risks into numbers and types of risks and common themes. Consideration is also given to the Corporate Risk Register.
4.	Annual TRAC Return	Validation of compliance with guidance and assessment of the information services to provide assurance for the Principal to sign off.
5.	Efficient Government Return	Validation of the figures used to provide the estimated efficiency gains to the Scottish Government.
6.	EDF 2 Project Monitoring	Ongoing assessment of performance management arrangements by Estates Services. As at June 2012 all major EDF projects were within budget and anticipated to stay on budget.
7.	REF	Review of risk management arrangements and supporting documentation.
8.	Carbon Reduction Return	Completed and certified 31 August 2012.
9.	Collins Gallery closure	Continuous involvement in arrangements up to closure in May 2012.

Other Audit Work:

1.	Public Interests Disclosure	Major review of allegations made regarding the financial conduct of an employee. This review went back over 4 years and involved detailed examination of documentation which had to be retrieved from archives.
2.	EU Grant Claims	Large number of high value claims certified. – 17
3.	Follow Up of Audit Reviews	All audit reviews followed up after 3 months.
4.	Departmental Support and Advice	Continuous throughout the year.

3.2. Resources:

	<u>Audit Days</u>	
Net available at 1 August 2011	550	
Less adjustment for Senior Auditor and replacement (p/t)	<u>82</u>	(15%)
	468	

Other Factors:

“Overspend” in UKBA Compliance	25	
Spike in EU Grant Claims	30	
“Overspend” on SFC Main Grant	20	
Public Information Disclosure Case	<u>25</u>	
	100	
Overall unexpected loss of resources	<u>182</u>	(33%)

3.3. Key Issues**UKBA Compliance**

- 3.3.1. First ever review of UKBA compliance. On the basis of this investigation, processes and procedures have been strengthened for 2011/12 onwards. Complete clarity and transparency are now key features of these arrangements. In the absence of the IAS review, the University may not have addressed these risks to the control environment, leaving the University exposed at any compliance visit from UKBA.

Student Records/Scottish Funding Council (SFC) Grant Return

- 3.3.2. First ever IAS review of the students’ records system which underpins the compilation of the University’s main source of funding – the SFC annual grant. As part of changed focus by the Scottish Government from inputs to outcomes, the robustness of these figures is paramount. Audit visits to Universities are being programmed by the SFC from 2012/13 forwards, with the possibility of grant claw-back where weaknesses in data submissions are identified.

VFM Review of Purchasing Arrangements

- 3.3.3. This major review of Pecos/Purchasing arrangements identified a number of areas for improvement which contribute to achieving better value for money for the University, and also addressed some areas where internal controls were weak.

3.4. Faculty Audit Approach

- 3.4.1. The 3 year Strategic Audit Plan was agreed by the Audit Committee in June 2011. A key element of this was the faculty audit approach, and the 2011/12 audit plan included provision for 2 faculty reviews. However, for a variety of reasons, mainly an unexpected loss of resources, only one faculty audit was completed. The report on the audit of the HASS Faculty identified weaknesses in financial management arrangements and in procurement processes.

3.5. Accountability and Assurance Checklist Pilot

- 3.5.1. The Accountability and Assurance Checklist provides a summary of the key areas that would be reviewed in a normal audit visit, and cross references these with current University rules and regulations. It is written in non-technical language and provides a simple mechanism for providing assurances on internal controls to senior management throughout the University. The checklist was piloted across the HASS faculty and the results collated for senior management and IAS. The outcome is that the HASS faculty will complete this on an annual basis and provide appropriate certificates of assurance in internal control arrangements.

4. Risk Management

- 4.1. 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 Committee; 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.

5. Internal Control Systems

- 5.1. 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.
- 5.2. 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 2011/12, an IT Consultant was engaged to provide this support. The Consultant had industry wide experience and had 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, and a further two reports were issued in May 2012.

6. Follow-Up Activity

- 6.1. In 2010/11 a total of 82 recommendations were made compared to 27 in the previous year. In 2011/12 there were a total of 90 (estimated) recommendations.
- 6.2. Progress on the completion of these recommendations will be closely monitored in 2012/13.

7. Value for Money

- 7.1. 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.

- 7.2. The University 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. This showed savings of £1.8m in 2008/09, £4.5m in 2009/10 and £6.2m 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.
- 7.3. 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. Feedback from Human Resources indicates that this process is maturing and will support performance improvement across the University.
- 7.4. The Director of Finance provides an annual update on VFM developments across the University.
- 7.5. Ensuring that the University receives best value from its use of resources is a key objective in all audit reviews. There was clear value for money issues identified in a number of audit reports, especially the review of PECOS/Purchasing arrangements.

Other Work

8. Transparency Review/Full Economic Costing

- 8.1. During 2011/12, IAS has continued to review the steps taken by the University to ensure compliance with the requirements of the Transparent Approach to Costing (TRACT). 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.
- 8.2. Further assurance on the TRAC process was provided from a RCUK site assurance visit. This report concluded that the visit had provided Substantial assurance (1 rated) to the Research Councils regarding the review of compliance with TRAC methodology.

9. EU Grant Certification

- 9.1. IAS again was involved in the audit and certification process for EU grant claims. Elements of this work can be challenging, complex and difficult to absorb by the IAS. The acute staff shortages in 2011/12 have highlighted the burden of having to respond to the audit of these claims in a timescale not of our choosing and requiring resources that have to be redirected from front line audit activity. Discussions are ongoing with the Director of Finance to consider possible alternatives to the current arrangements.
- 9.2. During the course of 2011/12 a total of 17 claims for EU 7th Framework amounting to c£2.9m were reviewed by IAS and an appropriate audit certificate, in accordance with EU guidelines, was provided.

10. Ad Hoc Activity

- 10.1 During 2011/12, IAS has also undertaken a variety of other work which has contributed to our annual assurance opinion. This includes review of the use of the University Seal.

11. Audit Results

11.1 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 mix of areas which were subject to review during the year, with details of overall outcomes and the audit opinions given.

11.2 A total of 90 (estimated) 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:

- Disaster Recovery – weaknesses identified in preparations by departments regarding disaster recovery arrangements. Dissemination of the “lessons learned” report from the James Weir fire incident will improve understanding of what is required.
- Purchasing – a consistent misunderstanding of purchasing arrangements across departments, especially regarding tendering requirements and using negotiated contracts to ensure value for money. Management action in response to the report includes reminders to all departments of their responsibilities on these issues.
- Expenses – non-compliance with Expenses Policy guidelines regarding expenditure on hospitality and equipment. The recent publication of the new Expenses Policy will be helpful in this regard.
- Budgetary Control – inconsistent and piecemeal approaches to variance analysis and budget monitoring across departments.

12. Quality Assurance Toolkit

12.1. The assessment of IAS quality using the Committee of Higher Education Internal Auditors toolkit resulted in the following scores in 2009/10 and 2010/11:

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

These gradings have been consistently above 90% for the four year to 2010/11. The added value from continuing with this process was considered to be diminishing and in discussion with the Audit Committee, it was agreed that an alternative process should be sought. The Council for High Education Internal Auditors have engaged BDO to develop an assessment tool for Internal Audit Services in the Higher Education sector. This was not available for use this year but it is expected to be available for use in 2012/13.

13. Audit Survey

13.1. The British Universities Finance Directors Group Annual Audit Survey relating to 2010/11 was issued in April 2012. The results of the survey are used by a number of Institutions to help benchmark both their internal and external audit provision. There were 86 responses this year, down from 92 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.

This years' results are outlined below:

Type of Provision	2010/11 Average Daily Costs (£)
Accounting Firm	589
HE Consortium	373
IAS	287

The IAS costs are below the average for Accounting Firms and Consortia. There was no separate average costs provided this year for in-house providers. 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.

14. Balanced Scorecard

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

15. Client Satisfaction Survey Results

15.1. The Client Satisfaction Survey forms part of IAS's ongoing quality assurance process. The number of returned survey forms was much improved in 2011/12, with 5 returns. 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?	50	50	
Explanation of audit objectives	50	50	
Professionalism of Auditor carrying out the work	83	17	
2. QUALITY OF AUDIT REPORT			
Overall clarity & presentation	50	50	
Relevance of findings and recommendations reported	50	50	
3. TIMING			
Duration of audit process	17	83	
4. COMMUNICATION			
Helpfulness of Auditor	100		
Sufficient consultation during audit process	67	33	
Consultation on findings & recommendations	83	17	

16. Public Interest Disclosure Policy

16.1. During 2011/12, IAS was involved in one review arising from this procedure. The issue arose from allegations made in regards to the conduct of an employee. A full investigation was undertaken, and a report passed to the Chief Operating Officer, Finance Director and Head of HR.

17. Freedom of Information (Scotland) Act 2002

17.1. During 2011/12, no requests were received for information held by IAS under the Freedom of Information Act.

18. Basis of Internal Audit Opinion

18.1. 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).

18.2 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 every year. 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.

18.3 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. 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 by IAS during 2011/12 and in previous years 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 2011/12.

18.4 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.

18.5 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.

19 Opinion

19.1 In our opinion, the University of Strathclyde has adequate and effective arrangements for:

- Risk Management.
- Control.
- Governance.
- Value for Money.

19.2 It is planned that the programme of regular meetings between the Convener of the Audit Committee and Head of Internal Audit will continue in 2012/13. These have provided the opportunity for effective and productive discussions on emerging risks and audit findings.

Bill Convery
Head of Internal Audit Service
29 August 2012

	Report Reference	Area of Review	Audit Status	Audit Opinion
1	256	Catering Services	Complete	Requires Improvement
2	259	Advanced Forming Research Centre	Complete	Requires Improvement
3	260	Points Based Immigration	Complete	Requires Improvement
4	261	HASS Faculty	Complete	Requires Improvement
5	262	USSA (Governance)	Complete	Requires Improvement
6	263	IT Security – EEE	Complete	Requires Improvement
7	264	IT Security – DMEM	Complete	Requires Improvement
8	265	HR/Payroll System	Draft	Requires Improvement
9	266	Scottish Funding Council's Early Statistics Return	Complete	Requires Improvement
10	267	PECOS/e-Procurement	Complete	Requires Improvement
11	268	Compliance with UK Bribery Act	Complete	Satisfactory
12	TBC	Data Interrogation	Work in Progress	N/A
13	TBC	Business School	2012/13	N/A
14	TBC	Expenses	2012/13	N/A
15	TBC	Financial Management	2012/13	N/A
16	TBC	Spin Out Companies	Deferred	N/A
17	Activity Report	EDF 2 Monitoring	Complete	Satisfactory to date
18	Activity Report	Risk Management Process	Complete	Satisfactory to date
19	Activity Report	Annual TRAC Return 2010/11	Complete	Satisfactory
20	Activity Report	Annual Follow Up Report	Complete	Satisfactory
21	EU Grant Certificates	EU Grant Certification –	Complete	Satisfactory
22	Activity Report	Accountability & Assurance Checklist in HASS	Complete	Satisfactory to date
23	Activity Report	Jordanhill Campus Closure	Complete	Satisfactory
24	Activity Report	Technology & Innovation Centre	Complete	Satisfactory to date
25	Activity Report	Research Excellence Framework	Complete	Satisfactory to date
26	Activity Report	University Governance – Seal, Conflicts of Interest.	Complete	Satisfactory
27	Activity Report	Collins Gallery Closure	Complete	Satisfactory