Internal Audit Service
Annual Report
2012/13

Raft Annual

Internal Audit Service

Table of Contents

1. Introduction

1.1 The Internal Audit Annual Report has two key objectives. These are to provide Court and the Principal, through the Audit Committee, with :

   1) an independent opinion on the adequacy and effectiveness of the University's arrangements for Governance, Risk Management, Control, and Value for Money;

   2) a summary of the activities and resources of the Internal Audit Service (IAS) during 2012/13.

1.2 Universities are also required to provide the Scottish Funding Council (SFC) with a copy of their Internal Audit Annual Report. This allows the SFC to have a review of trends and common themes, which they then feedback to the sector.

2. Internal Audit Service: 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 complement of 2.6 FTE staff in 2012/13. All staff are CCAB qualified and have relevant experience of internal and external audit in large organisations.

3. Faculty Audits

3.1. In line with the Strategic Audit Plan developed in 2011/12 the key objective for this year was to complete the reviews of the four academic faculties. The faculty review process involves an audit of every department/area in the faculty and provides a composite report on all of the findings to the Dean. This was achieved with the reviews of the Business School, Engineering and Science Faculties reported to the Audit Committee in September 2013. This work involved 33 independent departmental/area audits and consumed most of the available audit resource for the year.

3.2. Strathclyde Business School

3.2.1. The audit review identified significant weaknesses in financial control, and concerns regarding purchasing and procurement arrangements. Findings also identified potentially insufficient monitoring of Tier 4 international students as required by UKBA.

3.2.2. The Faculty has responded positively to all audit recommendations. Two radical reviews of operational practices across the Faculty have been undertaken, concentrating on those departments where weaknesses were identified. A further progress report will also be prepared by the Dean by the end of October 2013. Internal Audit will review progress at this point and will also undertake an effectiveness review of all agreed management actions in early 2014.

3.3. Faculty of Engineering

3.3.1. The audit did not identify any high level control risks. Common weaknesses were identified across the Faculty with regard to the adequacy of asset registers and purchasing and procurement.

3.3.2. The Faculty have accepted all audit recommendations and these are being actioned by departments under the lead of the Faculty Executive Team. The Faculty have also usefully identified and collated areas of current practice which can be improved from the user's perspective.

3.4. Faculty of Science

3.4.1. The audit identified that three departments had no functioning asset register. However staff are now being trained with a view to establishing robust asset registers as part of the University's new Real Asset Management system. Fully functioning asset registers should therefore be available soon. There were some other weaknesses identified in the Faculty, but none with a high risk rating.

3.4.2. All recommendations have been accepted and an action plan established to address these.

3.5. Summary of Faculty Audit Findings

3.5.1. To help inform the Audit Committee's understanding of the governance and internal control environment across the University, a summary spreadsheet of audit findings was produced. This indicated the global spread of the different areas of weakness across the Faculties on a rudimentary basis.   This spreadsheet will be updated by IAS as recommended actions are implemented and will provide an overview of internal control and governance arrangements across the faculties.

3.5.2. Addressing the issues identified from the audit reviews will mean that there will be, for the first time, a corporate, consistent and current benchmark of internal control and governance arrangements in place across the University. The use of the *Accountability & Assurance Checklist* by Departments will help maintain this level with a minimum of direct internal audit involvement.

3.5.3. During the course of the Faculty audits, IAS also highlighted areas of good practice in specific departments in order that these elements could be shared Faculty-wide. Examples included efficient monitoring arrangements in place for Tier 4 students, excellent governance arrangements and robust budgetary control practices.

3.6. Accountability & Assurance Checklist

3.6.1. Critical to the whole Faculty audit approach was the roll out of the self-assessment checklist developed by IAS. This clearly identifies the key areas of internal control and governance for departments and is cross referred to current University policies,

procedures and guidelines. The Checklist was well received by departments and the intention is that this will now be used by them on an annual basis. Going forward, this will allow Heads of department to provide statements of assurance to the Dean on the adequacy of internal control and governance arrangements, and subsequently for Deans to provide assurance statements to the Principal.

3.6.2. The annual Accountability and Development Review process undertaken by all staff also allows for serious weaknesses in governance and internal control to be taken into account in assessing staff performance.

4   Other Audit Reports

4.1 HR/Payroll Review

4.1.1 The HR/Payroll system operates effectively in terms of ensuring that staff are paid accurately and timeously thanks to controls put in place by Payroll and HR staff. However during the audit process, a number of areas of concern were highlighted and recommendations have been made which would improve control arrangements, working practices, compliance with legislation and value for money considerations.

4.1.2   A management action plan was agreed. This includes a further review of management processes and procedures as part of the Unipart Business Improvement Initiative.

4.2 University of Strathclyde Students Association (USSA)

4.2.1   The University provides substantial funding to the USSA each year. In 2012/13, the figure was £1.4m. Accordingly, IAS carries out annual reviews of differing aspects of the Association's internal control and governance arrangements. A number of operational control weaknesses were identified, especially regarding purchase order authorisation and invoice certification procedures. These have been accepted by USSA and plans have been put in place to address audit recommendations.

5   Information Security Review

5.1   At the request of the Audit Committee, Ernst & Young undertook an information security review, focussing on the Science Faculty. The report noted a number of areas of good control and the current development of a range of initiatives designed to bring about greater consistency in the management and protection of important University

information. However, there were also a number of information security risks identified that may need a stronger approach from a policy and governance perspective.

5.2 An action plan to address the recommendations arising from the report has been agreed with the faculty and central IT.

6   Follow-Up Activity

6.1 A report on outstanding actions from audit reports was presented to the Audit Committee in March 2013. The Committee requested that future Management Action Tracker Reports provide clarity on the criticality of partially completed actions and an estimated completion date. These changes will be effected for 2013/14 follow up activity reports.

7   Value for Money

7.1 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, especially the procurement elements of the Faculty reports. As a direct result of the audit work carried out in the Business School a review of procuring contractors has been initiated with a view to ensuring that a consistent and transparent approach is adopted across the Faculty.

8   Other Work

8.1 Other areas of audit review in the year included:

- REF: ongoing review of risk management arrangements and supporting documentation.
- Efficient Government Return: validation of the figures used to provide the University's estimated efficiency gains to the Scottish Government.
- Estates Development Framework: ongoing monitoring of major EDF projects throughout the year.

9   Transparency Review/Full Economic Costing

9.1 During 2012/13, 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. The final TRAC return to be signed by the Principal was audited and assurance provided on the methodology and accuracy of the figures.

10 Risk Management

10.1 Risk management is becoming embedded in most departments across the University. The faculty audit approach has further contributed to this process through face to face meetings with all Heads of Departments at which the necessity of managing risk was re-enforced and the University process clarified. An action plan to address areas of weakness in departmental risk registers has been agreed with the Heads of Department. Many of the actions have already been addressed and the others will be shortly. This will set the standard of 100% compliance across the faculties.

11 Technology & Innovation Centre (TIC)

11.1 The Head of IAS meets regularly with the Head of the TIC project and the Capital Accountant. Performance and Risk Management arrangements are kept under review throughout the year.

12 Development of the new Finance System

12.1 During 2012/13, a member of the IAS team has been involved in several of the design workshops for the University's new Finance system, due to be implemented in August 2014. Drawing on cumulative experience of financial and operational systems from across the University, and specifically the findings from the Faculty audit reviews, IAS has communicated weaknesses identified by past and current audits. The Senior Auditor will be actively involved as part of the Finance User Group during 2013/14.

13 Quality Control

13.1 The Public Sector Internal Audit Standards (PSIAS) became applicable on 1 April 2013. The key objectives of the Standards are to:

- Define the nature of internal auditing within the UK public sector;
- Set basic principles for carrying out internal audit in the UK public sector;

- Establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations;
- Establish the basis for evaluation of the internal audit performance and to drive improvement planning.

13.2   Whilst the Higher Education Sector is not part of the UK public sector, these Standards are principle based and promote a professionally endorsed framework for the approach of an Internal Audit service. IAS has reviewed the Standards and intends to adopt them into its audit practice commencing 2013/14.

13.3   The Council for Higher Education Internal Auditors have engaged BDO to develop an assessment tool for Internal Audit Services in the Higher Education sector. It had been expected that this would be available for use in 2012/13, however the project has been further delayed.   If available, IAS will use this in 2013/14, but if not, another methodology will be identified and applied in agreement with the Audit Committee.

14 Audit Survey

14.1   The British Universities Finance Directors Group Annual Audit Survey relating to 2011/12 was issued in April 2013. The results of the survey are used by a number of Institutions to help benchmark both their internal and external audit provision. There were 91 responses this year, up from 86 in the year prior. 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.

14.2 This year's results for the provision of Internal Audit Services are outlined below:

Type of Provision	2011/12 Average Daily Costs (£)
Accounting Firm[1]	610
HE Consortium[1]	522
Strathclyde IAS[2]	301

---

[1] British Universities Finance Directors Group, March 2013
[2] Total salary & running cost of IAS Department/ number of audit days (2011/12)

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.

15 Client Satisfaction Survey Results

15.1 The Client Satisfaction Survey forms part of IAS's ongoing quality assurance process. This year an electronic questionnaire was introduced to improve the user-friendliness and response time of client feedback. The feedback received is positive, with 100% of auditees finding IAS work to be very useful and 100% stating that the quality and nature of the service they receive being very satisfactory. 89% of those who responded also rated the standard of reporting as very satisfactory. The number of survey forms returned to date is 8 for 2012/13. The collated results of the Client Satisfaction Surveys are summarised in Appendix 2.

16 Freedom of Information (Scotland) Act 2002

16.1 During 2012/13, no requests were received for information held by IAS under the Freedom of Information Act.

17 Basis of Internal Audit Opinion

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

- Public Sector Internal Audit Standards (PSIAS).

- 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).

17.2 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.

17.3 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 2012/13 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 2012/13.

17.4 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.

17.5 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.

18   Internal Audit Opinion

18.1 In our opinion, the University of Strathclyde has appropriate and effective arrangements for:

  ▪ Risk Management.

  ▪ Control.

  ▪ Governance.

  ▪ Value for Money.

18.2   It is planned that the programme of regular meetings between the Convener of the Audit Committee and Head of Internal Audit will continue in 2013/14. These have provided the opportunity for effective and productive discussions on emerging risks and audit findings.

<div align="right">

Bill Convery
Head of Internal Audit Service
4 September 2013

</div>

Analysis of Audit Reviews   Appendix 1

Review	Status				Comments
	Planning Phase	*Fieldwork*	*Draft Report*	*Final Report*	
HR/Payroll System	September 2012	September 2012	November 2012	March 2013	Report to Audit Committee in March 2013.
Strathclyde Business School	October – November 2012	November 2012	May 2013	May 2013	Report to Audit Committee in September 2013
Faculty of Engineering	November 2012	January 2012	June 2013	September 2013	Report to Audit Committee September 2013
UKBA	February 2013	March 2013	May 2013	August 2013	Included in Faculty Reports
IT Security E &Y	March 2013	March 2013	May 2013	September 2013	Expected in September 2013
SFC Return	n/a	n/a	n/a	n/a	Deferred until 2013/14
Expenses	March 2013	April 2013	May 2013	August 2013	Included in Faculty Reports
Payroll	n/a	n/a	n/a	March 2013	Covered by HR/Payroll System Report
Financial Management	March 2013	April 2013	May 2013	August 2013	Included in Faculty Reports
USSA	March 2013	June 2013	August 2013	September 2013	Report to Audit Committee in September 2013
Faculty of Science	February 2013	March 2013 - ongoing	August 2013	September 2013	Report to Audit Committee in September 2013
Outcome Agreement	n/a	n/a	n/a	n/a	Deferred and is included in 2013/14 Audit Plan

Source: IAS Activity Report August 2013

Client Satisfaction Survey Feedback (2012/13 Audits)   Appendix 2

General	Yes (%)		No (%)	
Were the Audit Objectives and Scope clearly communicated before the start of the audit?	100			
	Very Useful (%)	Useful (%)		Not Very Useful (%)
Did you find the Audit process useful and added value?	100			
Conduct & Communication	Very Satisfactory (%)	Satisfactory (%)		Unsatisfactory (%)
Professionalism of the Auditor	100			
Helpfulness of the Auditor	100			
Feedback provided during the course of the Audit	100			
Explanations of the Findings and Recommendations	100			
Audit Report	Very Satisfactory (%)	Satisfactory (%)		Unsatisfactory (%)
Relevance of Findings	89	11		
Clarity of Recommendations	89	11		
Presentation	100			

Source: Internal Audit Client Satisfaction Questionnaires