Internal Audit Service
Annual Report
2013/14

Raft Annual

Internal Audit Service

THE AWARDS

**UK Entrepreneurial University
of the Year 2013/14
UK University of the Year
2012/13**

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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 2013/14.

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 2013/14. All staff are CCAB qualified and have relevant experience of internal and external audit in large organisations.

3.   Audit Reports

3.1   Contracts for High Value Spend

3.1.1   The review of High Value Spend was reviewed due to its relevance to the following:

- Key strategic themes associated with the delivery of the University Strategy

- High and increasing non-salary expenditure

- Reputational impact

- Value for Money

- Anti-fraud and irregularity processes

3.1.2   The audit work undertaken involved a number of stages including: data planning; data gathering; data extraction; data interrogation; and the banding of total expenditure values across suppliers.   This work then enabled a comprehensive review to be undertaken of high value spend, taking account of University procurement requirements.

3.1.3   IAS concluded that high value spend within the University, particularly in relation to major capital projects; procurement of high value, specialised equipment; and other specialist goods and services is governed and controlled via formally tendered contracts, University framework agreements, and external framework agreements. However, the review highlighted instances where procurement guidance was not followed by departments and where departments failed to consult or involve University Procurement Service during the procurement of goods/services.

3.1.4   Whilst the weaknesses identified relate mainly to non-compliance with procurement guidance by departments, UPS have provided guidance to departments and regularising contract deficiencies going forward.

3.2   Research Grants and Contracts

3.2.1   The review of Research Grants and Contracts was reviewed due to its relevance to the following:

- Key strategic themes associated with delivery of the University's strategy.

- Outcome Agreement.

- Corporate Risk Register.

- High and increasing income.

- Reputational impact.

3.2.2   The review focused on the pre-award stage associated with grants and contracts, specifically covering areas such as: the application and approvals process; costing and submission; offer and acceptance; and contractual arrangements. The review also considered the relationship between the University's Research & Knowledge Exchange Service (RKES) Directorate and academic staff, and the systems in place that allow management information relating to research activity to be reported.

3.2.3   IAS concluded that within RKES there are internal control systems in place to ensure research funding applications are properly costed in accordance with fEC principles and follow other relevant University procedures; are subject to review and checking by RKES staff; authorised by appropriate members of staff; and contracts are in place which have been subject to review by RKES and sign-off by senior or appropriately authorised members of staff. However, the review highlighted some weaknesses in relation to policies and procedures.

3.3   **Business Continuity Arrangements**

3.2.1   The Executive Team recognises the importance of preparing for significant unexpected events and, accordingly, the **failure to plan for major incidents** constitutes one of the ten most prominent risks in the University's Corporate Risk Register in 2013/14.

3.2.2   The IAS review concluded that there has been a comprehensive emergency response and business continuity framework developed for the University by the Business Continuity Coordinator, incorporating industry good practice and building on lessons learned from previous major incidents, including the James Weir fire. However, IAS did identify some areas of concern regarding whether the established protocols would be invoked effectively were a major incident to arise. In addition, the vast majority of work completed to date relates to the University as a whole and, except for the Faculty of HASS which has developed clear, up to date protocols for each School, Business Continuity Plans have yet to be drawn up by most other University Departments.

3.2.3   Management responded positively with additional training being provided immediately for frontline staff on invoking University protocols for emergency response plans and updating of contact lists and hazard maps. Management have also now planned training and exercise scenarios due to be conducted in 2014/15 to ensure that the response plans are fit for purpose and would operate effectively, if required. Departments have also been requested to complete their own local business continuity plans by October 2014.

3.4   **Home Office Visa and Immigration Arrangements**

3.4.1   The University must fulfil its commitment to the Home Office via its Points Based System (PBS) of Immigration sponsorship licence in order to continue to employ staff from non-EEA countries. Home Office visa sponsorship is perceived to be a high profile area for the Higher Education Sector. The arrangements in place for Home Office immigration compliance for students sponsored by the University under Tier 4 PBS were audited in in 2012/13 and 2013/14 via the Faculty audits. A further review this year considered the procedures in place for employing staff, under Tiers 2 and 5 of the visa provisions.

3.4.2   In June 2014, the University sponsored 113 individuals under Tier 2, distributed across all four academic Faculties. A further 51 individuals were sponsored under the Tier 5

category, 22 of which were Mandarin Teachers who fell under the Confucius Institute (and will cease to be University sponsored students from October 2014).

3.4.3 As part of the University's business transformation process, HR staff have recently revised their working practices in this area. All data is now managed on one Oracle-based system and new management reports are currently being developed to highlight upcoming visa-critical dates which HR staff actively manage. Furthermore, members of the HR team meet regularly as a Compliance Group to ensure that the latest guidance and issues are discussed and disseminated to all relevant staff. The IAS review found the arrangements in place to be satisfactory, with the exception of the area of absence recording which HR staff immediately sought to rectify through enhancing specific communications to the Departments concerned.

3.5   University of Strathclyde Students' Association (USSA)

3.5.1 The review which was undertaken within the University of Strathclyde Students' Association (USSA) focused on the processes for budgetary control and financial forecasting.

3.5.2 At the time of writing the IAS Annual Report, the final report from our review within the USSA was in the process of being finalised.

3.6   Contractor Payment Controls

3.6.1 This review focused on payments to contractors for works carried out in respect of projects overseen and administered by the University's Estates Service Directorate, for example: repairs and   maintenance; minor projects; and major capital projects.

3.6.2 At the time of writing the IAS Annual Report, the final report from our review of Contractor Payment Controls was in the process of being finalised.

3.7   Debtors Review

3.7.1 The review focused on the processes and procedures used to manage the debtors system, and covered student-related debt as well as operational sundry debtors.

3.7.2 At the time of writing the IAS Annual Report, the final report from our review of Debtors was in the process of being finalised.

4   Follow-Up Activity : Faculty Audit Reviews

4.1   Following IAS's extensive review of all four academic faculties in 2012/13, and the extent of the findings reported and subsequent management action agreed, the majority of follow up work undertaken by IAS in 2013/14 was focused on revisiting these faculty reviews. 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 in September 2013. This indicated the global spread of the different areas of weakness across the Faculties on a rudimentary basis. A summary of progress against management actions was presented to the Audit Committee in March 2014 following further audit fieldwork undertaken by IAS. It concluded most of the action points agreed had been carried out satisfactorily and the remainder were on the road to completion. In Science and Engineering, the principal outstanding issue by March 2014 related to the management of assets. The Chief Financial Officer mandated the use of the University's Asset Management system by 1 April 2014. Fixed asset management will be reviewed as part of the 2014/15 IAS Audit Plan.

4.2   A separate follow up report was delivered by IAS in March 2014 on progress made by the Business School since the initial IAS review was reported to the Audit Committee in September 2103. The follow up review determined that a great deal of work had been undertaken in the faculty in a relatively short space of time, led by the Vice Dean Operations. The level of internal control in all areas initially identified as high/medium risk had improved significantly, reducing from a 50% rate of weakness identified in early 2013 to 5% in January 2014. The remaining weaknesses were actively being addressed. Furthermore, some areas of good practice which had been identified by the IAS report had been shared across the faculty by way of a new finance working group, revised and strengthened working policies and practices and greater scrutiny of procurement and purchasing decisions.

4.3   Since the initial field work was carried out as part of the Faculty reviews, IAS has noted an increase in academic departmental staff engaging with IAS to seek advice and clarification on a variety of issues.

5   Value for Money

5.1 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, particularly from the Review of High Value Spend. This review highlighted instances where suppliers were used for the supply of goods and services but no formal contracts were in place; failure by departments to involve or consult with University Procurement Service when maintenance contracts were being drawn up; and Single Source Justification forms being completed and used correctly.

6   Other Work

6.1 Other areas of audit review this year included:

- 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.

- Scoping exercise of the Knowledge Exchange activity: high level overview of management arrangements, with limited audit testing in an area never previously reviewed by IAS. This informed IAS of potential areas where value could be added in future years and audit time has been allocated to Knowledge Exchange in 2014/15.

- Management Reviews: assisting senior officers with specific ad hoc work which required independent review and analysis.

- Contribution to working groups and training: IAS staff contribute their University experience and knowledge, when requested, to assist in working groups and in staff training, often specifically in response to audit findings, for example bespoke feedback to Business School finance and administrative staff.

7   Statements of Assurance from the Faculty Executive Deans to the Principal (Key Control Checklist)

7.1 In June 2014, IAS issued the 2013/14 IAS-developed *Key Controls Checklist* to every academic Head of Department in the University. This is a self-assessment document which covers key areas of internal control and governance and is cross referred to current University policies, procedures and guidelines. IAS collated and reviewed the response from each Head of Department. The document contains a Statement of

Assurance, signed by the Head of Department, confirming their area of responsibility's compliance with key University policies and procedures.

7.2   Subsequently the Executive Deans were requested to sign off a Statement of Assurance to the Principal and University Treasurer to confirm their Faculty's compliance with key University policies and Procedures.

7.3   These Assurances provide the Principal, as signatory of the Annual Accounts of the University, with a significantly improved degree of confidence that the important accountability and assurance internal controls are working effectively. The process and Certificates of Assurance are presented in a Paper to the Audit Committee meeting on 8 September 2014.

8   Transparency Review/Full Economic Costing

8.1   During 2013/14, IAS has continued to review the steps taken by the University to ensure compliance with the requirements of the Transparent Approach to Costing (TRAC). 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.

9   Risk Management

9.1   Risk management is embedded in most departments across the University. The faculty audit approach contributed to this process in 2012/13 and 2013/14 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 was agreed with the Heads of Department. All of the actions were verified as having been addressed during the follow up audit review of Academic Faculties this year and Risk Management is now a standing agenda item in Faculty Planning Meetings across the faculties.

10   Technology & Innovation Centre (TIC)

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

11　Development of the new Finance System

11.1　The University are currently engaged in a project to replace its existing finance system with the preferred route being the purchase of an externally provided system solution. Over the course of the 2013/14 financial year, a member of staff from the IAS has been involved, on an independent basis, with each stage of the project, covering for example: design workshops and review of the final solution design documents; system build; review of business process flowcharts and other guidance notes; and system testing methodologies. Throughout the process to date, the IAS provide the Project Team with written commentary on both queries and weaknesses identified from the work carried out.

11.2　The IAS also considers other aspects of the project, for example; project management; communications; and policies and procedures. It is also the intention of the IAS to consider and evaluate how control and other operational weaknesses identified from relevant audit reviews which have been conducted will be addressed by the new system.

11.3　In terms of reporting to Audit Committee, the IAS have provided an update at each meeting of Audit Committee during the financial year. Our work and involvement with the finance system replacement project will continue into 2014/15 and Audit Committee will remain to be kept informed.

12　Quality Control

12.1　The Public Sector Internal Audit Standards (PSIAS) were updated in April 2013 and were integrated into the IAS Audit Manual which has been revised during 2013/14. 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.

12.2   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 adopted them into its audit practice during 2013/14.

12.3   The Council for Higher Education Internal Auditors (CHEIA) developed an assessment tool for Internal Audit Services in the Higher Education sector which was finalised in January 2014. This was an updated and improved version of the previous tool developed by CHEIA and takes account of relevant professional standards, including the Public Sector Internal Audit Standards. IAS took part in this peer review process in July 2014 with two other university in-house internal audit providers, and a private firm providing internal audit services to a higher education institution.

12.4   The review and assessment process considered six key areas: Due Professional Care; Strategy; Methodology; People; Independence; and Quality Assurance. Based on the peer review, which took account of documentation, information, and explanations provided, the University's IAS achieved an overall rating of 97%.

12.5   Whilst this peer review provides the University with a degree of assurance in terms of IAS record preparation, process and reporting, the real value of the service provided can only be judged by the Senior Officers and Audit Committee Members to which IAS provide their service.

13 Audit Survey

13.1   The British Universities Finance Directors Group Annual Audit Survey relating to 2012/13 was issued in February 2014. The results of the survey are used by a number of Institutions to help benchmark both their internal and external audit provision. There were 142 responses this year, a rate of 87%. 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.

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

Type of Provision	2012/13 Average Daily Costs (£)
Accounting Firm[1]	582
HE Consortium[1]	502
Strathclyde IAS[2]	325

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 Client Satisfaction Survey Results

14.1 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. The number of survey forms returned to date is 3 for 2013/14. (Feedback was not sought again for the Faculty reviews). Whilst the verbal IAS overwhelmingly receives is positive at wash up meetings, responses to customer satisfaction surveys remain slow but IAS will continue to pursue this line of feedback.

15 Freedom of Information (Scotland) Act 2002

15.1 During 2013/14, no requests were received for information held by IAS under the Freedom of Information Act.

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[1] British Universities Finance Directors Group, Annual Audit Survey based on 12/13 figures, February 2014
[2] Total salary & running cost of IAS Department/ number of audit days (2012/13)

16 Basis of Internal Audit Opinion

16.1 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).

16.2 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.

16.3 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 2013/14 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 2013/14.
- Statements of Assurance

16.4 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.

16.5 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.

17 Internal Audit Opinion

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

17.2 It is planned that the programme of regular meetings between the Convener of the Audit Committee and Head of Internal Audit will continue in 2014/15. These have provided the opportunity for effective and productive discussions on emerging risks and audit findings.

Bill Convery
Head of Internal Audit Service
1 September 2014

Analysis of Audit Reviews   Appendix 1

Review	Rank	Status				Comments
		Planning Phase	*Fieldwork*	*Draft Report*	*Final Report*	
Contracts for High Value Spend	1	September 2013	Complete	March 2014	May 2014	Final Report reported to Audit Committee May 2014.
Knowledge Exchange – Scoping Exercise	2	October 2013	Complete	February 2014	March 2014	Final Report reported to Audit Committee March 2014.
Research Contracts	3	October 2013	Complete	February 2014	March 2014	Final Report reported to Audit Committee March 2014.
Outcome Agreement	4	October 2013	Ongoing	September 2014	Expected September 2014	This report is merged with the Data Validation/KPI Report and will be issued in September 2014.
Data Validation – KPIs	5	December 2013	Ongoing	September 2014	Expected September 2014	This report is merged with the Outcome Agreement Report and will be issued in September 2014.
Business Continuity/ Disaster Recovery	6	April 2014	Complete	June 2014	July 2014	Report issued in July 2014. Reported to Audit Committee September 2014.
Faculty Follow Up Reviews	7	January 2014	Complete	February 2014	March 2014	Follow Up Reports reported to Audit Committee March 2014.
Home Office Visa & Immigration Compliance	8	December 2013	Complete	June 2014	July 2014	Fieldwork rescheduled from January 2014 to June 2014 at the request of HR. Final Report issued in July 2014 and reported to Audit Committee September 2014.
Students Association	9	May 2014	Ongoing	Expected September 2014	Expected September 2014	Delay firstly due to awaiting USSA Final Accounts and then discussion on findings of the fieldwork delayed due to USSA staff annual leave.
Contractors Payment Controls	10	April 2014	Ongoing	Expected September 2014	Expected September 2014	Draft expected to be issued in September 2014. Delays incurred in receiving the necessary follow up information have delayed issue of this report.
Course Costing MBA	11					Course costing review has been postponed as issues identified as part of the Debtors review in relation to MBA International require to be investigated further.
Review of Debtors System	12	May 2014	Ongoing	Expected September 2014	Expected October 2014	Fieldwork has been more complex than anticipated and requires additional analysis. Draft report expected end of September 2014.
Student Data Return	13					Postponed until 2014/15.