University of Strathclyde

INTERNAL AUDIT
SERVICE

2005/2006
ANNUAL REPORT

Contents

1   Introduction

1.1   The revised SHEFC Code of Audit Practice (the Code) issued in September 1999 states at paragraph 4.53 that

> *'The Head of Internal Audit must produce an annual report on the IAS's activities.'*

This is the fourteenth Annual Report which the Internal Audit Service (IAS) has prepared. It sets out the work undertaken in the year 2005/2006, the achievements, performance and the audit plan for the year 2006/2007.

1.2   The Code clarifies the Funding Council's expectations regarding the audience and production timescale for the Annual Report when it states at paragraph 4.54 that

> *"The report should be addressed to the Governing Body and the Designated Officer and should be considered by the Audit Committee. The report should be for the institution's accounting period and be submitted to the Governing Body and Designated Officer when it is available, and to the Audit Committee in time for its first meeting of the following financial year. It is important that the Audit Committee receives the IAS's report in time to give it due consideration before producing its annual report to the Governing Body…."*

1.3   Over the years, the IAS Annual Reports have all summarised the main changes affecting the provision of this service to the University. They record the development of the department over the years. The Annual Reports also document the main control issues and systems, which have been investigated by the IAS.

1.4   This report covers the period from 1 August 2005 to 31 July 2006.

The Location

1.5   The IAS continues to be located in rooms 2.24 and 2.24a of the McCance building. The benefits of this accommodation include:

- Privacy for interviews with staff;
- Close liaison with central administration, especially the Secretary to the University, Director of Finance, Finance Office, Personnel Office, Secretariat and Registry;
- The location of two of the Senior Officers (Vice-Principal and Pro-Vice-Principal) to rooms adjacent to IAS continues to result in informal discussion of areas of common interest;
- Good liaison with secretarial/administrative support, enabling easier exchange and editing of audit documents and reports.

1.6   This central proximity also means that IAS staff are located close to colleagues in a wide range of departments (both administration and academic) that are also based within the McCance Building. IAS staff have many and varied contacts within the University and this central location, allows IAS staff to keep informally abreast of what is happening in departments whilst also enabling informal advice and guidance on control issues to be offered.

The Staff

1.7   The IAS underwent further staffing changes in 2005/06. The planning documents presented and approved at Audit Committee in June 2005 took into account that there would be three members of staff in IAS, for the start of the 2005/2006 audit year. An active recruitment drive to fill the Internal Auditor's post (vacated at the end of May 2005) was undertaken, and a suitable candidate with the right combination of University experience and appropriate interpersonal skills was found in July 2005 with the successful candidate, taking up post at the beginning of October 2005.

1.8   In 2005/2006, there were three posts in the unit: -
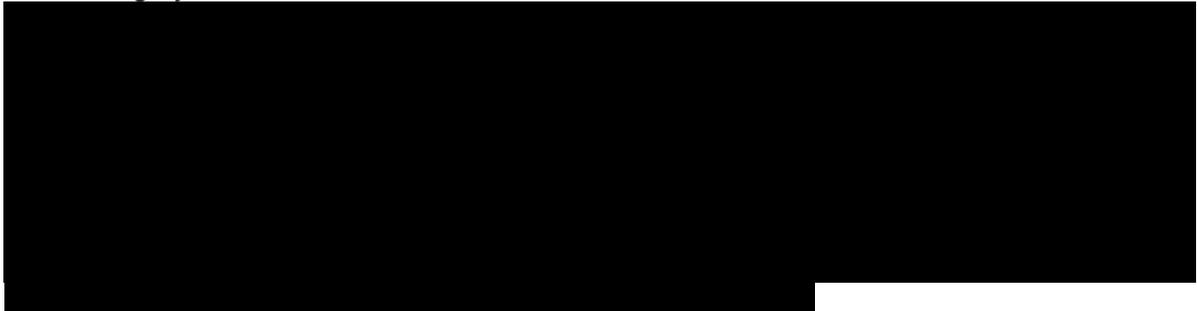
**Head of Internal Audit	Clare Urquhart	Ext. 4249**
e-mail: x.xxxxxxxx@xxx.xxxxxx.xx.xx

Senior Internal Auditor   John Basketter   Ext. 4690
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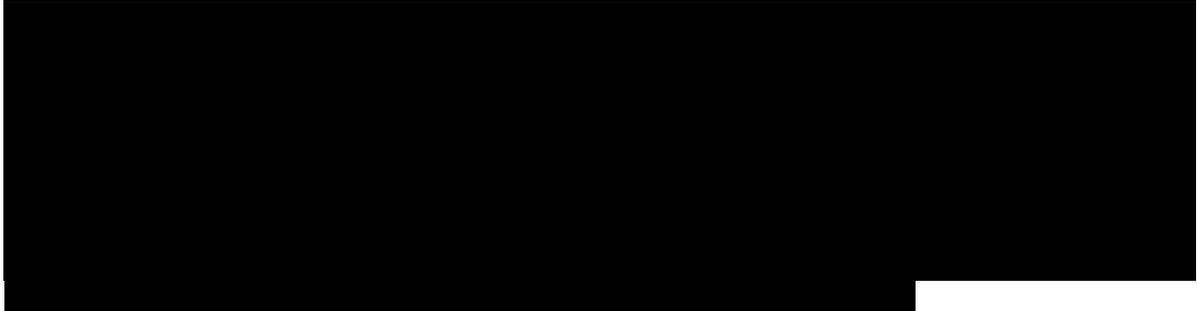
Internal Auditor   Margaret Gray   Ext. 4252
e-mail: m.gray@mis.strath.ac.uk

1.9   The particular skill set which the three members of staff bring to the IAS will continue to strengthen internal audit at this University in 2006/07.

2   Internal Audit Service: Terms of Reference

2.1   The Terms of Reference includes a clear statement of the IAS objectives, details of what the IAS is responsible for, details of reporting lines and a statement on recipients of draft and final reports.

2.2   The full Terms of Reference for the IAS are included at Appendix A.

Mission Statement

2.3   To provide an objective assessment to the Principal and Court of the adequacy and effectiveness of the University's internal systems of control via review of management practices, operations, systems and procedures throughout the University, with the aim of improving control and achieving better value for money.

Customers of Internal Audit

2.4   The main customers of IAS are:-

Internal
- Principal
- Secretary to the University
- Director of Finance
- Audit Committee

- Court
- University Management
- All University Departments

External
- Scottish Funding Council (Governance and Management :Appraisal and Policy)
- External Auditors
- Other Institutions
- Professional Groups (CHEIA, CIPFA, etc.)

Operational Areas and Activities

2.5 The main areas of service provision are:-
- To undertake a planned series of audit visits to both academic and non-academic departments throughout the University.
- To review critical systems in operation across the University.
- To identify possible savings and identify improvements in service provision via specific value for money reviews.
- To encourage and promote best practice in departments in relation to internal control.
- To respond to requests for assistance and advice from departments in internal control matters.
- To respond to specific requests from senior committees and management of the University.
- To liaise with the external auditors, SFC (Governance and Management: Appraisal and Policy) and other auditors to enhance the audit service provided to the University.

Reporting

2.6 Final audit reports, including the Auditee's response, are issued to:
- Principal
- Secretary to the University
- Director of Finance
- Dean (or CAS budget-holder)
- Secretary to Audit Committee
- Convener of Audit Committee
- Treasurer
- External Auditors
- Auditee representative(s)

A management summary of each final audit report, is presented to Audit Committee.

3   2005/2006 : A Review of the Year

3.1 IAS staff and the External Auditors have worked together over the years in order to ensure that there is co-operation and also to ensure that duplication of audit effort is avoided. Contact has involved meetings   (usually three; during the interim audit, year-end audit and at the audit planning stage), e-mail communication and telephone calls to discuss issues which affect the two groups of auditors. There has again been collaboration and exchange of information during 2005/06.

Risk Assessment and Management

3.2 Risk identification and assessment belongs to Management. They, not IAS, are accountable for the economy, efficiency and effectiveness of risk management control and governance. It is therefore essential that the audit strategy and plans incorporates management's risk priorities. Over the past three to four years the University has continued to enhance and refine its approach to risk management. The current approach provides the University with a structured methodology to identify assess and manage risks to the achievement of the University's objectives.

3.3 IAS continues to work closely with Finance Office (who act as facilitators in developing the University's Risk Management approach), Deans, Senior Officers and Departments in reviewing and monitoring the actual implementation of the risk management process. During 2005/06 the detail contained in the risk assessment report template was expanded to include not only identification of the 'Risk Element', 'Key controls and Mitigating Factors' and 'Early Warning Mechanisms' but also

the 'Likelihood' (after application of Mitigating Factors) and the 'Impact' that the risk would have.

3.4   IAS utilises Management's resulting risk analysis and evaluation, to help form the basis for operational and strategic audit plans. In this way IAS is able to provide the assurance to management on the key risks facing the University as well as assisting in reducing those risks through our recommendations. During 2005/06 as part of the enhancement to the Internal Audit Assurance Strategy and Planning process, the planned audit coverage was 'mapped' onto the University's strategic risks (as identified in the UMG Annual Report to Court and presented to Audit Committee). See Appendix B. The strategic risks are linked into the University's overall Strategic Plan.

3.5   IAS continues to conduct an annual review of the University's risk management process to ensure that it can continue to place reliance on management's risk assessment to help inform audit planning.

3.6   Risk management should be regarded as everyone's responsibility and embedded into the culture of the organisation. Risk management derives from common sense and good practice. All of the major areas of University activity which report to the University Management Committee (UMC) in any given year, include in those reports a section covering risk analysis and assessment. Every unit manager at Strathclyde must be aware of risk and show, in their reports, that they are anticipating and managing them (the 'bottom – up' approach). During 2005/06, the IAS have also requested each area being audited to identify their three top risks and to identify how these risks are being managed. All of the areas of University activity which report to UMC have complied with the risk reporting requirement in 2005/06. In addition a number of other groups (e.g. Strategy Management Group, Budget Procedures Group, Estates Strategy Steering Group, Full Economic Costing for Research Working Group,) are established within the University which provide a more strategic forum for reviewing risk (the 'top-down' approach).

3.7   The role of IAS is to monitor the process and report to Audit Committee if there are areas where emerging risks or changes in already identified risks are either not being highlighted or managed effectively. IAS involvement in risk management has been primarily to monitor the development of the process, to review the effectiveness of the process in practice and to review all of the risk reports submitted to UMC. From the evidence of the reports reviewed, IAS is satisfied that risk assessment and risk planning is being managed effectively.

3.8   This process has identified that Deans are concerned about broadly similar issues and that the Faculties themselves have taken a pro-active management role regarding those risks. While the individual arrangements may differ, the Faculties have procedures in place which help to minimise risks and importantly, use indicators and flags to highlight changes in their (and indeed the University's) level of exposure to risk.

3.9   IAS' review of the individual risk reports from each Faculty identified that there are indeed key risks common to more than one Faculty or which are University-wide. Some of the main risks identified were:-

- Staff recruitment and retention;
- Student recruitment and retention;
- Identification of new overseas undergraduate markets;
- Collaborative arrangements;
- EU Contracts;
- Implementation of fEC;
- Failure to improve research performance for RAE 2008.

3.10   In 2005/06 approximately 25 risk assessment reports were also submitted to UMC by non Faculty departments (e.g. ITS, Estates Management, Finance Office, Secretariat , Personnel, Research and Consultancy Services, Library Services, Purchasing Office to name but a few) . From review of these reports (supplemented with discussion with Directors from these key service areas) it was apparent to IAS that detailed thought had been given in considering the contributing factors, mitigating actions and early warning mechanisms for the assessed risks.

Some of the main risks identified in the non Faculty areas were:-
- Sign off inappropriate research contracts (contractual, financial, reputational);
- Failure to implement Framework Agreement (to time and financially controlled);
- Poor Disaster Recovery arrangements;
- Estates Development Framework (completion of projects on time and to budget);
- Adequacy of Financial control and sustainability of long term financial viability.

3.11   In line with the University's risk management process, an assessment of the perceived key risks affecting IAS was reviewed and updated during 2005/06. The Risk Assessment was presented to Audit Committee at its May 2006 meeting.

Reports

3.12   The following ten reports have been undertaken during 2005/2006:-

- Educational and Professional Studies
- Library Photocopying & Printing Service
- Sports Union
- Web based payments
- Geography & Sociology
- Navel Architecture and Marine Engineering
- DMEM
- Payables Review
- Bioaccelerate review
- Management Science

3.13   Within each departmental review a number of key systems are checked and assessed for robustness e.g. budget monitoring, payroll, purchasing, debtors, cash, stock, research contracts, asset management, computer arrangements, safety, data protection, freedom of information and any other area which may be unique to the department under review. For some of the more specialised audit reviews (Library Photocopying and Printing Service, Sports Union, Payables Review and Web Based Payments) a more tailored audit programme was prepared and undertaken.

3.14   During 2005/06 IAS, undertook a significant exercise on reviewing the circumstances surrounding the termination of two Agreements (Research and Licence) with a Biotechnology Company – Bioaccelerate. The review by IAS resulted in a number of recommendations being put forward (which were subsequently agreed by Management) to improve the robustness of the University's due diligence procedures, escalation procedures and the invoicing procedures for research contracts.

3.15   A number of other areas have also been worked on during the course of the year:-

- On going compliance work regarding Implementation of TRAC guidance re Full Economic Costing and review of the Transparency Review Return for 2005;
- Implications for IAS of the Freedom of Information Scotland Act (2002);
- Physiology & Pharmacology cash handling procedures;
- Security Services;
- Cash Office review;
- Implementation of the Framework Agreement;
- Fraud Prevention Policy.

IAS also prepared a report for Audit Committee during 2005/06 detailing the result of work undertaken in reviewing the University's emergency management procedures. The work undertaken in further refining and enhancing the University's emergency management procedures proved satisfactory. The regular meetings of the Emergency Management Team will ensure that these procedures continue to be enhanced and refined in line with best practice. IAS will continue to monitor developments in this area in 2006/07.

3.16 The work of the year has encompassed both academic and administrative departments across both campuses. The listing above illustrates the broad mix of different types of areas which have been reviewed during the course of the year.

3.17 An analysis of the recommendations made and the specific areas where the recommendations were made is summarised in Appendix C. The common themes which emerged from the audits undertaken during 2005/06 included some instances where:-

- Departments bypassed the University's commitment accounting system;
- Departments had a lack of systems/procedures in place to adequately track annual leave and other absences from the department;
- The University's Asset Register was not timeously updated;
- Departments had a lack of systems/procedures in place to adequately track personal consultancy work;
- Duplication of effort over financial record keeping;
- Research and Consultancy Services were not always contacted prior to a new research initiative beginning, to ensure that all formal agreements are drafted properly and timeously;
- Departments did not always have sufficient evidence to demonstrate compliance with the University's data protection policy;
- Departments showed some unfamiliarity with the University's tendering procedures and the requirement to complete, where appropriate, a single source justification form.

3.18 IAS also continues to undertake the audit certification of EU 6th Framework grant claims. This has proved both challenging and interesting given the diversity and complexity of contracts in which the University has been involved in, over the past year. During the course of 2005/2006 a total of 20 claims have been reviewed by IAS and an appropriate audit certificate, in accordance with EU guidelines has been provided. We are the only in-house Internal Audit Service in Scottish Higher Education, currently undertaking such certification work. Audit work undertaken in this area also compliments the audit review work undertaken within departments particularly with regards procurement practices and expense claim certification.

Value for Money

3.19 The term 'value for money' (VFM) is commonly used to describe the combination of economy (spending less), efficiency (spending well) and effectiveness (spending wisely). The University has a number of mechanisms which helps to ensure adherence to the '3 Es' i.e. Budget Procedures Group, Faculty Policy and Resource Committees, departmental committees, Financial Regulations, Purchasing Procedures and Procurement Guidelines, to name but a few. The IAS is committed to helping the University ensure that it achieves VFM in its use of resources. In 2005/2006, the IAS has undertaken work in some key University departments.

3.20 In liaison with Finance Office, IAS continues to explore the opportunities for potential savings to the University through increased use of electronic commerce. The University's e-Procurement Strategy, (which includes six key elements including Purchasing Cards and Electronic Order Management) has significant VFM implications for the University. IAS' involvement on the E-procurement Working Group alongside representatives from Purchasing, Finance and Information Technology Services (ITS), ensures that opportunities are grasped whilst ensuring that the associated risks have been identified, measured and managed. In 2005/06 this has focused on the use of web based payments and also e-procurement, with latterly, the impact of the McClelland Report. The Scottish Funding Council is sponsoring a bid to the Efficient Government Fund to help the HE and FE sectors implement the Scottish Executive's McClelland Report on improved procurement throughout the public (and related) sectors. The University of Strathclyde has been involved in this project from a very early stage as it volunteered to participate as a pilot site for one of three Scope and Readiness Assessment's (undertaken by the project consultants, Capgemini). This Scope and Readiness Assessment was undertaken from January-June 2006. The main focus for this Scope and Readiness Assessment was how this Institution might implement ePS, which is a web-based ordering system, allowing staff in departments to place electronic orders with certain suppliers without the need for paper orders. The Scope and Readiness Assessment highlighted three options for Strathclyde's implementation of ePS. Working with colleagues in Purchasing, Finance Office and ITS, the Head of Internal Audit and Senior Internal Auditor were involved in providing audit advice

and guidance in the Scope and Readiness Assessment undertaken at the University .

3.21   Work with Estates Management has included attendance by IAS staff at over 20 significant value tender openings. As well as ensuring that tender openings follow acceptable procedures, IAS involvement continues through to the receipt of the tender evaluation reports to ensure that evidence exists to show that the final tender award decisions are delivering best value for money to the University.   IAS also continues to advise Estates Management during the updating of the Estates Management procedures, to ensure that the VFM message is embedded into these procedures. The Head of Internal Audit has also liaised closely with the Senior Estates staff, with regards reviewing the procedures involved in the appointment of consultants (Architects, Project Managers, Quantity Surveyors, Structural Engineers and Service Engineers) for projects within the Estates Development Framework. Given the large amount of work which will be undertaken on the implementation of the Estates Development Framework, IAS has specifically factored in time in the strategic audit plan for internal audit review of the key capital projects. As a result of our on going liaison with senior Estates staff , IAS monitoring of large capital projects, will shortly be further strengthened from September 2006, with access to the Progress Report Template used by Project Managers to track the progress (financial and technical) of each project.

3.22   Within each individual departmental audit, VFM is *always* examined. A sample of significant value transactions are traced and evidence sought in the department, that all relevant factors have been taken into account and best value obtained. Certain decisions made by audited departments in 2005/2006 were again questioned by IAS. The implementation of the reports recommendations, help to ensure that the department can provide clearer evidence of providing value for money in its operation.   Where departments are able to provide evidence of VFM then these instances are discussed by the Head of Internal Audit with the Head of Purchasing at their regular meetings. IAS staff make a variety of other recommendations in departmental audits which contribute towards the achievement of VFM. Typically these recommendations will include simplification or changes to departmental procedures which reduce the level of duplication which occurs. The IAS is also able to put departments in touch with other departments to consider the sharing of another department's knowledge in a certain area (e.g. departmental budgetary control procedures, stock control packages). The updated IAS web pages also now includes a section for good practice templates to help facilitate this process further.

3.23   All of these areas enable IAS to contribute towards the achievement of VFM and these will continue to play a part in the workload of IAS throughout 2006/2007.

3.24   Based on the value for money work undertaken during 2005/06, which builds upon work undertaken in this area in previous years, the Head of Internal Audit concludes that satisfactory arrangements are in place, via a variety of different mechanisms, to continue to promote and secure value for money within the University.

2005/2006 Follow-Up Activity

3.25   It is essential that audit recommendations, once accepted by management, are acted upon. An important part of IAS work is to ensure, via the follow-up audit activity, that audit recommendations have been successfully implemented. This complies with paragraph 4.52 of the Code of Audit Practice which states that

'…Internal Audit must follow up recommendations to ensure that appropriate remedial action has been or will be taken within an acceptable timeframe. The outcome of this follow up should be reported to Audit Committee.'

3.26   When Departments are issued with final reports, Heads of Department are asked to provide the Head of Internal Audit with a progress report (electronically) on the implementation of all the reports recommendations within three months from the date of issue of the final report. This process highlights thematic issues more quickly and provides assurance to the Head of Internal Audit and Audit Committee that departments are taking prompt action in the light of the recommendations made. This process enhances but does not replace the requirement to undertake a full follow-up audit visit to each area. During 2005/06 follow-up activity involved a review of six reports.

Follow-Up Process

3.27   For each follow-up visit, the objectives of the original audit are ascertained, and thereafter, the main changes to the department and systems since the previous visit are established. Through discussion and testing, evidence of the implementation of recommendations is sought, and an opinion given on progress made; the current status of the audit is then determined as being either *'ongoing'*, or *'complete'*.

3.28   At the completion of the follow-up exercise, it was noted that 87% of all significant recommendations and 77% of all good practice recommendations had been implemented for areas which had undergone a first follow up visit. A full analysis is included in Appendix D. For those areas where the recommendation was still to be implemented, departments were requested to notify the Head of Internal Audit, by a specific date, confirming the full implementation of the outstanding recommendations.

Other Work

3.29   A variety of other work has been undertaken throughout 2005/06, a sample of which is detailed below:-

- Meetings were held during the year with the Principal, Vice- Principal, Pro Vice- Principal, Deputy Principals, the Convener of Audit Committee, the Secretary to the University, the Director of Finance, the Director of Information Services, the Director of Estates Management, Senior Project Manager (Estates), the Head of Purchasing, Director of Research and Consultancy Services, Head of Safety Services, the Deans of all five faculties, University's Freedom of Information Officer, Project Manager (Framework Agreement), External Audit staff and audit colleagues at Glasgow, Edinburgh and Paisley Universities;
- The Head of Internal Audit also undertook a series of presentations throughout 2005/06 to each of the Faculties on the work of Internal Audit and also highlighting a variety of good practice matters;
- Training was provided by the Senior Internal Auditor on financial matters for incoming USSA Executive;
- Cipfa continuing professional development work was undertaken;
- General audit advice was given to a variety of departments on request (Residence and Catering Services, Manager of the Crawfurd Theatre, Government, Architecture);
- Review of the use of the University Seal;
- Review of Court members Register of Interest;
- Review of Estates Management Hospitality Book and annual declaration forms;
- Attendance at Print Unit Management Meetings;
- Attendance by the Head of Internal Audit at the Framework Agreement Training Session ;
- IAS presentation at the Purchasing Card introductory workshop to new cardholders;
- In October, IAS staff plus secretarial support undertook an 'away day' at Ross Priory. This allowed staff the opportunity to take a step back from the routine of auditing to help enhance our administrative and audit procedures further as well as the chance to discuss trends and developments in audit;
- Attendance by the Internal Auditor at an Introductory Course on Internal Audit run by the IIA ;
- Training also continued in-house, to ensure that the Senior Internal Auditor over time, becomes fully briefed in a variety of strategic audit matters thus ensuring the knowledge base within the department, in these areas, is not concentrated on one individual;
- Attendance at CHEIA's annual conference at Cranfield University;
- The Head of Internal Audit attended a CHEIA regional meeting in November 2005 at the University of Newcastle upon Tyne. The Senior Internal Auditor attended a CHEIA regional meeting in May 2006 at the University of Durham. The regional meetings, along with the national conference provide a valuable opportunity to network and discuss audit developments with colleagues from other institutions and the various funding councils;
- Meeting with key staff on the Personnel/Payroll implementation project team;
- The Head of Internal Audit (along with counterparts at Edinburgh, Glasgow and Paisley Universities) attended an informal meeting at SFC in September 2005. The meeting was with the Director of Governance and Management (Appraisal and Policy) and some of his team members to discuss a number of audit related matters (e.g. Code of Audit Practice, CUC Guidance re VFM, Research Pooling, FP6, Efficient Government Initiative);

- The Head of Internal Audit met with her counterpart from the University of Twente (the Concern Business Controller), when a delegation from the University visited Strathclyde in November 2005. The Head of Internal Audit had prepared documentation on the operation of the department. The meeting was extremely informative as the similarities (and differences) in remit and operation were discussed. There has been a good exchange of relevant documentation, of interest to both departments and it is envisaged that this link between the two departments will continue. This enables the department to have contact not only at local and national level but also at European level as well;

- The Head of Internal Audit attended a meeting run by the Institute of Internal Auditors in February 2006 in Edinburgh, entitled 'Effective evaluation of the internal audit function'. This provided an opportunity to network with other Heads of Internal Audit from other sectors;

- The Head of Internal Audit (along with the TRAC Project Manager) attended a meeting of the Scottish Regional Costing and Pricing Group in March 2006 at Edinburgh University. This provides a useful forum for the various institutions to discuss common issues/problems with regards the implementation of the TRAC guidance. The Group was formed from the initial self help groups that were established regionally within Scotland; however the group has now been expanded to include all interested parties involved in the TRAC process;

- All IAS staff attended training given by Learning Services on pFACT (project Financial Appraisal and Costing Tool) which is the software tool designed to support the costing of projects under Full Economic Costing principles. Research projects will now be costed, reviewed and authorised using the online tool. It was essential that all IAS staff were fully familiar with the new system;

- In April 2006 the University played host to a delegation of Senior Staff from a variety of higher education Institutions from Australia. Our Australian visitors were on a UK wide study programme entitled 'Effective University Governance and Risk Management'. The Convener of Audit Committee and the Head of Internal Audit each gave presentations on Risk Management from the Strathclyde perspective. As a result of contact made during the study visit to Strathclyde, the Director of the Office of Planning and Audit at Charles Sturt University in Bathurst NSW has communicated via e-mail with the Head of Internal Audit and a link has now been established between IAS at Strathclyde and the Internal Audit office at Charles Sturt University;

- All IAS staff are also participating in the Governance and Risk Forum programme of meetings. The Senior Internal Auditor is due to attend a session on 'IT internal audit – the real challenges' in October 2006 and the Internal Auditor attended a session in June 2006 on 'Risk and assurance – the integrated approach'.

3.30   The IAS provides a service and as such, when any department seeks assistance or advice, then as far as possible that assistance is given. It is the view of the Head of Internal Audit that it would be preferable to influence and improve procedures from the outset than to have to criticise unsatisfactory procedures at a later date. Audited departments (and indeed staff in general) frequently contact IAS for advice. As a department we welcome this.

3.31   One of the key areas discussed during the department's away day in 2005/06 was the updating of the department's web pages. Throughout the course of the year the Head of Internal Audit and Senior Internal Auditor have undertaken a complete review of the department's web pages. The key aim was to provide a clear, relevant, up to date and user friendly web site that would be viewed by all staff as a useful reference site. The web site now contains six key sections (Who are we?, Where do we fit in? What Do we do?, FAQ's, Areas to Watch Out For, Good Practice Templates). The number of 'hits' to the new web site will be monitored throughout 2006/07 to help assess the impact of the new web pages.

Transparency Review/Full Economic Costing
3.32   During 2005/06 IAS has continued to review the steps taken by the University to ensure compliance with the requirements of the Transparent Approach to Costing (TRAC). Work during the year was split into two areas; review of the annual Transparency Review Return, review of the ongoing process of refining the TRAC model in line with the guidance.

3.33   IAS has monthly meetings throughout the year with the TRAC Project Manager. These meetings provide a useful forum for IAS to be kept up to date with developments and enhancements to the

TRAC model and it enables the TRAC Project Manager to obtain an audit perspective on any proposed changes and enhancements based on the most recent guidance to the sector. During several of these monthly meetings, the Auditor met with the Project Manager and specifically reviewed the collation of the TR return for 2004/05.

3.34   During 2005 audit work has been undertaken on a number of updates to the TRAC model i.e.

- Academic staff Time Allocation exercise
- Departmental Occupancy Survey

3.35   In addition work has also been undertaken in reviewing

- The Income model which would be used at allocating income across the five reporting categories.
- The TRAC adjustments (infrastructure, which compensates for the understatement arising from the use of historic costs and the cost of capital, which introduces a cost associated with risk and development).These adjustments which are required to be made to the financial statements figure, were also verified, both in terms of the basis to be applied and the actual calculation.
- The charge out rates for Research (Estates and Indirect).

The figures are generated by a complex, linked and well structured series of spreadsheets which have clearly been set out and reviewed by IAS on a number of occasions.

3.36   Audit testing of arrangements for the 2004/2005 Transparency Review return and on the general progress of the University meeting the TR requirements proved satisfactory. The review has provided further evidence of the enhancement and refinement of the University's calculations to implement the TRAC methodology robustly and comply with the TRAC guidance.

3.37   The implementation of TRAC/fEC is continually being reviewed by IAS. The following 12/18 months will be crucial to ensure that level of robustness in the University's model and processes fully meets the TRAC requirements. IAS will continue to monitor and review closely these developments in 2006/07.

Grading of Recommendations

3.38   Given the volume of internal audit work and the detail of the findings and recommendations which result, there is a need to acknowledge that certain recommendations are more important than others and that the attention of staff in the department and senior University management are drawn to that fact. IAS continued to use the grading of recommendations throughout 2005/2006 over the following three levels:

- *Fundamental* - Matters which represent a serious threat/risk to the Institution and which require the urgent attention of senior management.
- *Significant* - Matters which need to be implemented in order to ensure compliance with University procedures, guidelines and regulations and/or provide scope for significant improvements to be made and which should be implemented by line management in accordance with a timetable agreed with Internal Audit.
- *Good Practice* - Matters which are suggestions for improvements, greater efficiency and/or promote good practice rather than being control weaknesses. Management should give serious consideration to the implementation of these recommendations.

3.39   Communication is a key factor in the work that IAS does. It is essential that the department communicates effectively with all its clients. During 2005/06 the Head of Internal Audit and Senior Internal Auditor undertook a major exercise to review the grading structure and format of the internal audit report. It was also considered that the introduction of an audit opinion would enhance the effectiveness of IAS communication to its client audience. This view was supported by Audit Committee. At the May 2006 meeting of Audit Committee a detailed paper was presented identifying a proposed new grading structure as follows:

- *Compliance* -   An absence of expected controls or breakdown in an existing control has been identified. The recommendation is associated with addressing non-compliance with existing University policy and procedures and immediate remedial action is required.
- *Control Improvement*- The improvement to or development of an existing control has been identified. Remedial action is required in accordance with an agreed timescale.
- *Good Practice*- An area of good practice or where better value for money can be achieved has been identified. Action is required in accordance with an agreed timescale.

3.40   In order to comply with the Code of Audit Practice formal approval of Audit Committee was required for the proposed new criteria for grading audit recommendations. This was obtained at the May 2006 meeting of Audit Committee, with the new gradings to commence for the 2006/07 audits.

3.41   Over the years attempts have been made within IAS to look at ways in which an overall audit evaluation could be made on the performance of a particular area from the audit work completed. In order to ensure consistency, it is essential that an audit evaluation can be seen to link to the grading of recommendations

3.42   In order to help the transparency of reaching the audit evaluation it was thought useful to undertake an overall risk assessment. IAS would therefore assess the materiality and impact on the University of the control weaknesses identified in our recommendations and rank each one on the basis of the likelihood of a breakdown in the control across the University and the impact that that breakdown would have.

3.43   The University's 3x3 risk matrix is used, with each recommendation 'plotted' on the risk matrix to show diagrammatically the overall risk assessment. Whilst professional judgement still plays a part in reading the risk assessment, this methodology helps provide transparency to the process.

3.44   The following overall Audit Evaluations proposed were :

Highly Satisfactory
Satisfactory
Requires Improvement
Unsatisfactory

3.45   Professional judgement will require to be applied in allocating an audit evaluation to an area of work undertaken by IAS. However the risk matrix will help illustrate the reasoning behind the allocation.

3.46   A Highly Satisfactory evaluation in general terms would be given to a report where there was evidence of a strong internal control environment and evidence of good practice.

3.47   A Satisfactory evaluation in general terms would be given to a report where the internal control environment was seen to be satisfactory although some good practice (and the occasional control improvement) recommendations have been identified.

3.48   Similarly a Requires Improvement evaluation would be allocated when weaknesses are identified in the internal control environment with control improvement (and the occasional compliance) recommendations identified.

3.49   An Unsatisfactory evaluation would be allocated where there was found to be a poor standard of internal control with compliance (and possibly control improvement) recommendations made.

3.50   This approach of introducing an audit opinion was endorsed at the May 2006 meeting of Audit Committee with the new risk assessment of audit recommendations and audit opinion on audit work undertaken to be introduced in the 2006/07 audits.

3.51   These key reporting changes which have been developed during 2005/06 aim to further enhance the effectiveness of IAS communication to its client audience.

Performance

3.52 Throughout the last fourteen years in the University, the IAS has sought to provide its key audiences with a set of performance measures which are appropriate to their needs and circumstances. These have been reported e.g. after each audit report and within the IAS annual report. The lasting impression which audited departments have after the completion of an internal audit is a key factor. The IAS asks each Head of Department/Director to comment on their perception as to how well the audit was conducted and seeks constructive comments on how it is perceived that the process could be enhanced. This information is reported to Audit Committee in the Management Summary of each final report. Some examples of such comments on the work undertaken by the IAS during 2005/06 are detailed below:

'Staff and students found the audit process very thorough and the Auditors very professional in their approach to a difficult subject. It is intended by all concerned that the findings and recommendations of the Audit lead to improved financial procedures for the Sports Union'
(Review of Sports Union)

'The department was pleased with the manner in which the internal audit was conducted. The Auditor took into account the fact that the department was in the early stages of development and approached the audit in a thorough, professional, constructive and supportive manner. The department feels that the audit has provided us with a focus and a positive agenda to enable us to move forward to the next stage of our development. The department would like to thank the Auditor for support and advice during the process'
(Educational & Professional Studies)

3.53 At the Audit Committee Workshop on 9 December 2005, the Head of Internal Audit circulated a draft Client Satisfaction Survey to Audit Committee members. A feedback document such as this has never previously been utilised by the IAS. Instead Heads of Department have simply been asked to provide feed back on the 'conduct of the audit' when responding to the report recommendations. Whilst the response to this request has always been encouraging, the unfocused and unstructured nature of the request has resulted in a wide range of response formats. Currently the way in which the IAS receives feedback makes it difficult to pin point exactly, areas of weakness from the client's perspective in the audit process, which may require to be improved. It was therefore considered prudent that IAS introduce a more structured feed back mechanism.

3.54 Audit committee in May 2006 endorsed the introduction in 2006/07 of a Client Satisfaction Survey to be issued by the Head of Internal Audit at the end of each audit exercise to the Head of Department/Director of the client department and returned to the Secretary to Audit Committee. The results of the survey will be reported to each meeting of Audit Committee and collated and analysed in future Internal Audit Annual Reports.

4   Benchmarking Internal Audit

4.1 The latest British Universities Finance Directors Group (BUFDG) Annual Audit Survey relating to 2004/05 was issued May 2006. The results of the survey are used by a number of Institutions to help benchmark both their internal and external audit provision. The response rate of 92 institutions responding was greater than last years when the numbers dipped to 80 (the survey for last year was initially conducted on-line only). Like every year the figures require to be regarded with caution as the figures submitted by Institutions are taken at face value. The survey has confirmed, the percentage split over the different methods of internal audit provision as:-

| Internal Audit Provider	2004/05	2003/04	2002/03	2001/02	2000/01
External firm	65%	60%	54%	58%	53%
In-house	23%	28%	32%	29%	35%
Consortium	10%	8%	12%	13%	11%
Other	2%	4%	2%	0%	1%

The figures for the most recent year show *potentially* a movement from in-house provision to external firms.

4.2   From the most recent BUFDG Annual Audit Survey results, an analysis of 20 Universities where the gross annual expenditure was greater than £160m (Strathclyde's = £173m) indicated that 11 of these institutions utilised in-house provision of Internal Audit services.

4.3   A simple comparison with the other Scottish Universities with in-house providers (Edinburgh and Paisley) and with three other broadly comparable English Higher Education Institutions is illustrated below.

4.4   **Staffing Levels**
The graph below indicates that Strathclyde comes around the middle of this population of comparable institutions with 3fte audit staff. In terms of actual fte audit staff, one other Scottish Institution has a complement of 4fte, whilst one has a complement of 1.2fte. The English HEIs average 3 fte staff.
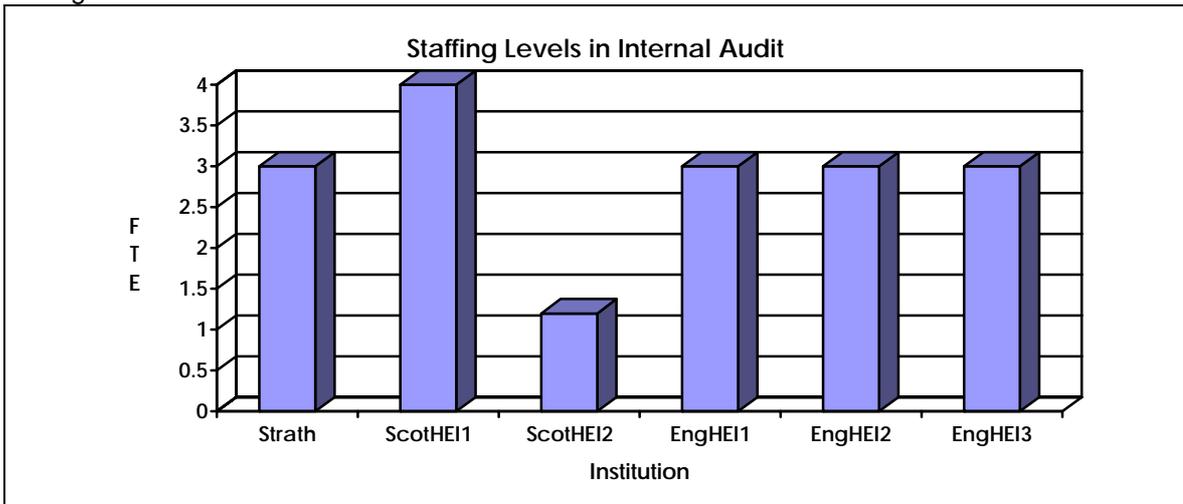
4.5   **Staffing Level v Institutional Size**
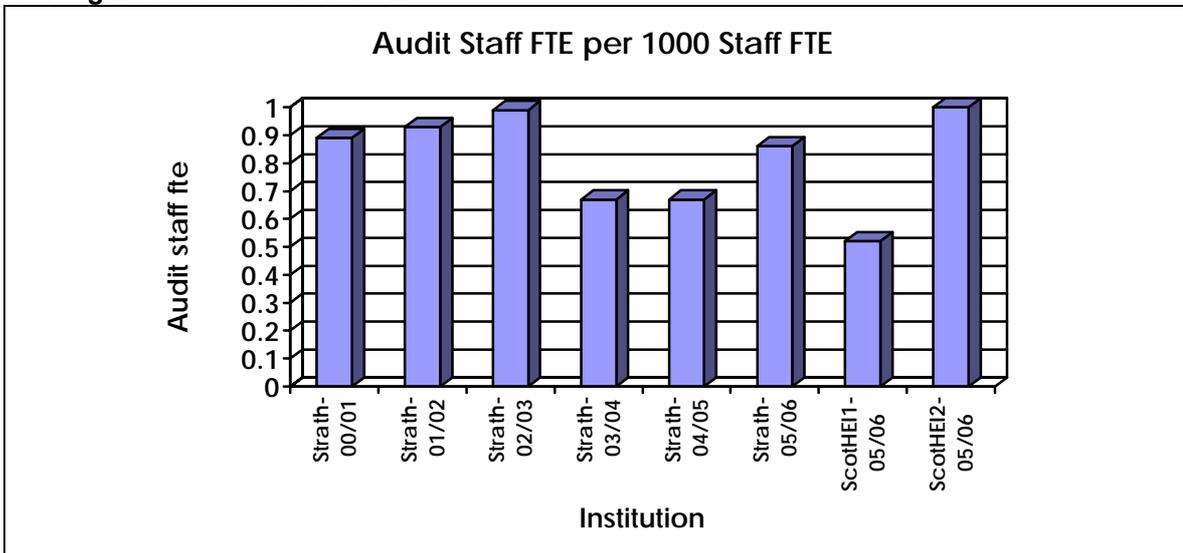
With just 2 audit staff during 2003/04 and the majority of 2004/05, Strathclyde's IAS changed markedly from previous years. The return to 3 full time members of staff in 2005/06 sees the ratio increase to approximately .86 audit staff fte per 1000 staff fte. In relation to the two other Scottish HEIs with in-house teams, although one (ScotHEI1) has more audit staff than Strathclyde, their higher total University staff fte results in the above graph comparison. Similarly ScotHEI2 has the equivalent to 1 audit staff fte per 1000 staff fte although their total University staff ftes are the lowest in the group.

4.6   **Experience of Staff**

Audit experience is only one aspect of experience which a member of staff brings to IAS. Experience of the University itself (or the wider sector) can be just as important. The following graph therefore shows the relative experience within IAS of these two key aspects. It shows that in 2005/06, there was 27 years of audit experience and 26 years experience of the University within the department.

Key: HIA=Head of Internal Audit; SIA=Senior Internal Auditor; IA=Internal Auditor
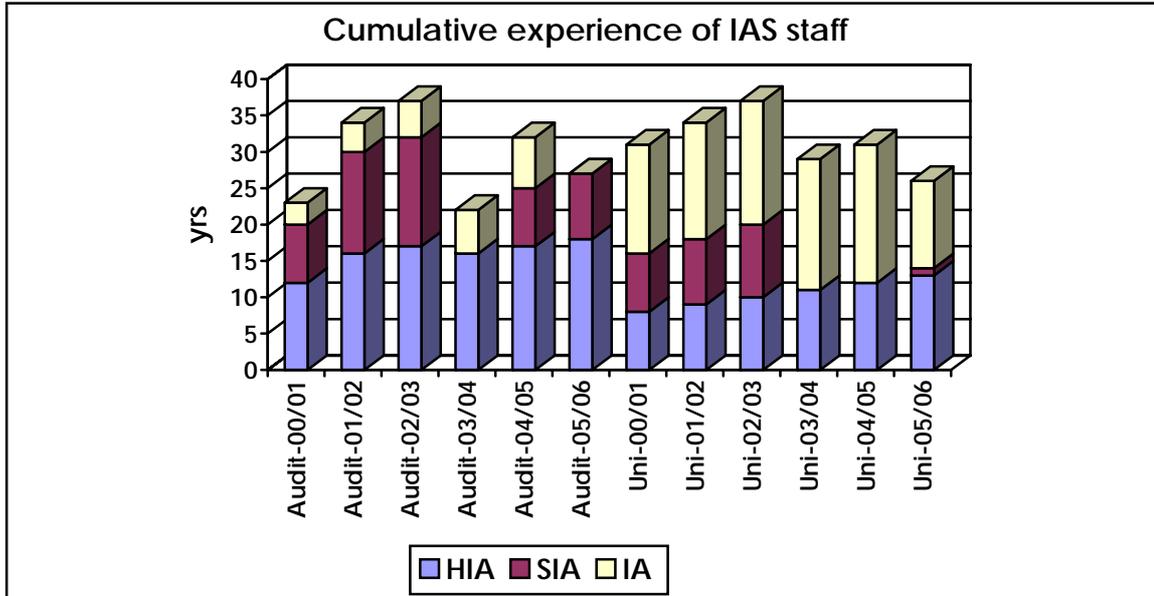
4.7   **Audit Costs**
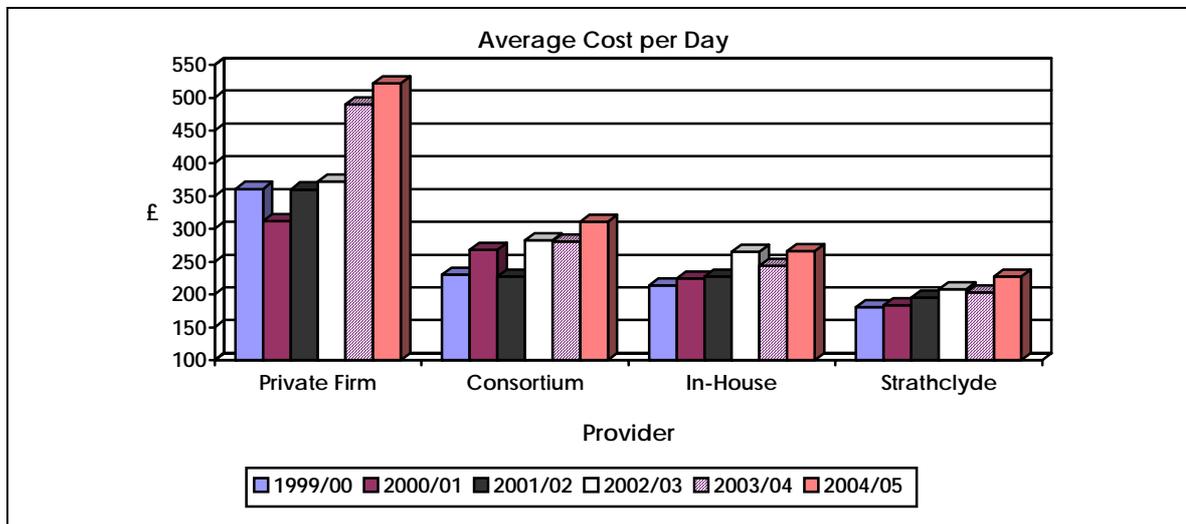
BUFDG collates annual information on costs, etc of both internal and external audit. The above graph is extracted from the most recent BUFDG Annual Audit Survey. The graph also includes the comparable information from previous years. It provides an indicator as to the value for money provided by IAS since its figure of £227 per day for 2004/05 is significantly lower than the average cost per day of the private firms (£522) and also compares favourably with the average cost per day (£266) of in-house providers and of Consortium providers whose average cost per day was £311. The total average cost per day across all providers is £356.

4.8   **Activity v Institutional Size**

Average Coverage £'000 per Audit day
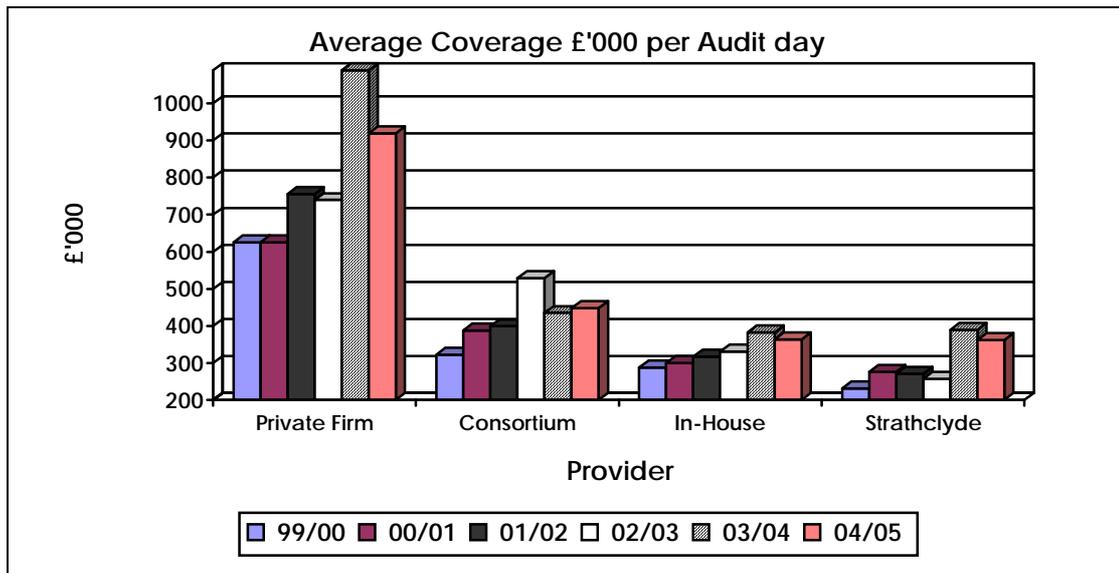
The above graph is similarly generated from the statistics extracted from the most recent BUFDG Annual Audit Survey. It is concerned with providing an indicator of audit coverage relative to the size of the institution. It highlights an interesting aspect relative to private firm external providers. For every one audit day, they cover on average almost £920k of University spend. In comparison, for every one audit day undertaken by Strathclyde's IAS, it covers approximately £362k of University spend. Consortium providers cover approximately £448k. This should be a reassuring message for Audit Committee. The average of all in-house providers (£363k) is slightly higher than Strathclyde's. The figures highlight the difference in audit coverage between external providers and in-house providers over the past five years. The total average coverage per audit day across all providers is £562k.

4.9   Whilst The BUFDG Annual Audit Survey has been a key provider of benchmarking information over the years in Higher Education, Audit Scotland in 2004 published a follow up report on *'A job worth doing – raising the standard of internal audit in Scottish Councils'* The report highlighted six critical success factors for Internal Audit. These success factors together with some of the linked statements of good practice have again been reviewed in relation to the operation of IAS at Strathclyde and as can be seen from Appendix E, the IAS would appear to operate favourably against each success factor.

5.   **2005/2006: Performance**

5.1   The Code of Audit Practice recommends that draft audit reports should be produced *'normally'* within one month of the conclusion of each audit assignment. At Strathclyde, that completion date is usually taken to be the "wash-up" meeting between the Auditor and the Head of the Department concerned. At this meeting, he/she would be appraised of the main findings of the audit and the consequent recommendations. The aim is to ensure that there are no major surprises for them when they receive the draft report. In certain circumstances, audit work can continue after the wash-up meeting.

5.2   During 2005/06 the average number of days between the wash-up meeting and the issue of the draft report has, at times, exceeded one month. This is the effect of a number of factors including a new member of staff (new to the work of internal auditing) commencing in the department, some ad hoc exercises taking priority and three of the reports issued during 2005/06 having some issues which required to be resolved prior to the draft report being issued (Bioaccelerate Review, Payables Review, Navel Architecture and Marine Engineering). Three other reports exceeded the 30 day target (Geography & Sociology, Management Science and Design Manufacturing and Engineering Management). These reviews were undertaken by both the Head of Internal Audit in conjunction

with the Internal Auditor and in effect took the form of 'training' exercises as these were the first ever audits undertaken by the Internal Auditor. Throughout the year the Convener of Audit Committee has been kept fully updated on all relevant issues at the regular meetings with the Head of Internal Audit (slippage in audit plans due to the slight delay in filling the Internal Auditor's post, re prioritisation of work etc.) However, IAS has a number of control mechanisms (weekly timesheets, recording of key dates during the life cycle of an audit review) in place which enables the Head of Internal Audit to monitor time spent against the audit plan. It is the Head of internal Audit's aim to ensure that in 2006/07, given the continuity and full complement of staff, the number of days from fieldwork to the issue of the draft report is 30 or below.

5.3   Ten reports were undertaken in 2005/2006. This builds upon those that were issued in 2004/2005 and all previous years. The coverage undertaken by IAS has enabled a spread of the University's activities to be examined: ranging over academic and administrative departments, system reviews, ad-hoc exercises and enquiries etc.

5.4   During 2005/06 departments have again responded well, in general, adhering to providing a response by the specified date detailed in the memo accompanying the draft report.

5.5   The level of coverage shows that despite the changed skills mix within the department from previous years, a significant quantity of work has been undertaken. In terms of the quality of work, reliance is placed on a number of other sources - audited departments, SFC, the External Auditors, recipients of the full audit report and Audit Committee itself. As illustrated earlier in this report satisfactory comments have been made about the conduct of the audits and the audit reports by both the recipients of the full report and by the members of Audit Committee. The External Auditors, Ernst & Young, continue to place reliance upon the work of IAS.

6   Audit Planning Approach and Audit Plans for 2006/2007

Risk Analysis
6.1   IAS seeks to utilise Management's resulting risk analysis and evaluation, to help form the basis for current and future plans. In this way IAS is able to provide the assurance to management on the key risks facing the University as well as assisting in reducing those risks through our recommendations.

6.2   As well as using the University's Strategic Risk Register, IAS also undertakes additional work to inform its approach. We take into account

   ▪   Previous assessment of systems and processes;
   ▪   Length of time since specific systems have been reviewed;
   ▪   IAS knowledge of the (strengths, weaknesses, opportunities and threats) both internal and external;
   ▪   Other sources of assurance (e.g. external audit).

6.3   IAS will continue to conduct an annual review of the University's risk management process to ensure that it can continue to place reliance on management's risk assessment to help inform audit planning.

6.4   IAS reviews its plans at least annually to take account of revisions in the University's risk assessment, enable new developments to be taken into account and allow for the plan to be rolled forward appropriately.

Audit Coverage
6.5   The overall objective of IAS is to provide the University's Principal and Court with an audit opinion on the adequacy and effectiveness of the University's systems of internal control. There must therefore be sufficient evidence underpinning our opinion to make it reliable.

6.6   When determining the coverage necessary to provide our assurance, IAS applies the following considerations

- University's risk management arrangements continue to be reviewed each year to confirm the validity of the analysis to inform audit planning;
- Some high risk areas require more frequent review;
- The need for audit coverage to encompass the whole range of risks which the University has identified as 'key' to the achievement of its objectives;
- The need for an adequate range of non-key risks to be included to ensure our opinion is based on comprehensive coverage across the whole of the University;
- The need to audit projects and developments is identified as they impact on the University's risk management control and governance processes.

6.7   Audit coverage is achieved by a combination of strategic and operational audits. Strategic audits focus on the extent to which risk management, control and governance arrangements are well directed, whilst operational audits cover the extent to which these arrangements are working in practice.

Methodology : Audit Universe
6.8   The list of auditable entities has been compiled by IAS. Strathclyde University, like many HEI's, limit their risk register to the top 20 significant risks. Where appropriate, an auditable entity on the audit universe is 'starred' to highlight the links with the key institutional risks identified by the risk management process.

6.9   Audit Committee in June 2004 indicated that it would be useful to review the University's Audit Universe on 'a regular basis'. A paper detailing the University's Audit Universe was presented to Audit Committee at its meeting in February 2005 and also in February 2006.

6.10   The first stage is the identification of all the main financial and other systems and activities of the University. Through discussion with a wide variety of staff in the University including Finance Office, Deans and Senior Officers and by reviewing relevant information (e.g. Annual Accounts, Calendar, various key committee papers and minutes etc), a detailed list is prepared, currently amounting to 149 auditable areas. The activities of the University, for the purpose of planning, have been split broadly into the following categories:
- Financial Systems
- Administration and Central Services
- Academic and Student Services
- Academic Departments
- Strategic issues
- Other Areas
- Contract Audit
- Value for Money

6.11   The audit planning process is helped by CHEIA's Audit Universe document. The Audit Universe essentially brings together a comprehensive listing of audit areas within universities. This listing contains over two hundred distinct areas. As part of the guidance document published by HEFCE in 2004 'Risk-based Internal Audit in Higher Education' a suggested listing of auditable entities is also included. Both the CHEIA listing and the HEFCE listing provide a useful checklist to ensure the completeness of the Strathclyde Audit Universe.

Methodology : Scoring
6.12   The next stage is the prioritisation of the systems/activities which have been identified. This assessment utilises the IAS' knowledge of the University, professional judgement and experience. However this subjective criteria is supported by a more methodical approach. Each system/activity has been assessed over set attributes. For each attribute, a score is given.

Risk Score	Assessment
1	Low Risk
2	Medium Risk-low
3	Medium Risk-high
4	High Risk

Each system/activity has been assessed over the following five attributes:

Materiality

6.13   Materiality is a measure of the relative importance of a system or auditable area often based on the value of income and expenditure that flows through it. Factors to be considered include:

- value of individual transactions
- value of cumulative transactions
- perceived importance of the system/activity

6.14   Information on the Materiality of the system or department was readily obtained from the most recent set of accounts (2004/05) and the Finance Oracle system. Oracle reports were written to review income and expenditure flow through a number of Financial Account sort codes. Additional information was also available within the Finance Office (e.g. payroll system) and Personnel Office (e.g. Human Resource Information System) and elsewhere in the University.

Inherent Risk

6.15   Inherent risk is the risk associated with a particular activity or audit area by its very nature. Some transactions have a high inherent risk even though the amounts involved are small. Importantly, IAS also needs to consider risks that could harm the University's reputation. Factors to be considered include:

- is the system susceptible to error
- is the system susceptible to fraud
- is the system complex
- is the system long established

6.16   Information on the Inherent Risk was obtained from IAS' knowledge of the systems or department and the level of risk that is generally associated with such a system or department. This was informed by discussions with senior staff in the Finance Office and elsewhere in the University centre and, where appropriate, senior staff in the activity (e.g. department or unit) itself.

Control Risk

6.17   This is the risk that controls within a system will fail to identify any errors. The assessment of the adequacy of the internal controls, are based on the results of previous internal and external audits and the internal control environment. Factors to be considered include:

- is internal control adequate
- is data processed accurately
- is data processed completely
- is data reliable
- is it subject to few manual adjustments

6.18   Information on the Control Risk was similarly obtained via audit overviews, audit work itself, discussion with Finance Office staff (and others throughout the University) and staff in the activity itself, where appropriate.

Reported Weaknesses

6.19   The following factors to be considered include:

- any weaknesses identified by management
- any weaknesses identified by external audit
- any weaknesses identified by others

6.20   Information on Reported Weaknesses was obtained by detailed review of key university committee papers and minutes, audit reports, management letters, discussions with senior management, the external auditors and any other reports – e.g. risk management reports from departments and faculties.

Strategic Risk Register

6.21   In addition where a system or activity maps onto a strategic risk identified by the University in its Strategic Risk Register then this is separately 'starred' on the Audit Universe.

6.22   As can be seen from the above, the maximum score for any system or activity is 16 (with a 'star' flag). The Audit Universe is then analysed firstly by star category, overall scoring and then on the scoring within each of the eight key categories identified at para 6.10.

6.23   The following "risk gauge" is used by IAS in assessing the level of risk calculated.
                        High Risk Scoring [12 – 16]
                        Medium Risk Scoring [7 – 11]
                        Low Risk Scoring [6 or below]

6.24   It is acknowledged that this produces a priority listing based on a structured approach. No matter how carefully the four factors are assessed, together with the starred items the Head of IAS requires to review the outcome and use knowledge and judgement to decide whether the audit frequency 'looks' right. Any such adjustments to the scoring are 'flagged' via the use of a comments box on the planning spreadsheet. The arithmetic of the exercise does not and should not predominate over IAS' knowledge and experience of the University. The full planning documentation is presented to the Secretary to the University and Director of Finance as well as the Convener of Audit Committee to ensure that other, possibly intangible, factors are not missed and are taken into account. As a result of such discussions the audit plans for 2006/07 incorporated in time to undertake a generic review of the University's escalation and trigger mechanisms.

6.25   A Microsoft Excel Workbook has been designed which automates much of the planning process. The workbook contains six related worksheets i.e.
                        -    Audit Universe & Scoring
                        -    Overall Ranking of Audit Universe
                        -    Section Ranking of Audit Universe
                        -    Analysis of Audit Days
                        -    Analysis of Meetings & Training Requirements
                        -    Annual Audit Plan and three year Strategic Plan

        This spreadsheet is reviewed as audits are completed and as major issues are discussed/resolved by Court/UMG.

6.26   The development of this plan takes into account the strategic risks identified by the University as part of the risk management process and then maps those strategic risks to the University's systems as detailed on the Audit Universe.

6.27   The audit plan for 2006/2007 was generated using the process described above. The audit plan for 2006/07 also takes into account the changed skills mix within the department, compared to say three to four years ago when all three members of staff had considerable audit and University experience. Training days (to be provided by both internal and external sources) have been shown separately in the annual and strategic plans. This will enable all members of staff to continue to develop and enhance their current skills base. The Annual and Strategic Plans were presented and approved at the May 2006 meeting of the Audit Committee, and the June 2006 meeting of Court. The 2006/07 Annual Plan is included as Appendix F to this document, for information.

7   Public Interest Disclosure Policy

        During 2005/06 IAS did not deal with any cases under this procedure.

8   Freedom of Information (Scotland) Act 2002

        During 2005/06 two requests were made for information held by IAS under the Freedom of Information Act. In both circumstances the University's Freedom of Information Officer, Head of Internal Audit and the University Secretary liaised to handle the requests. The Convener of Audit Committee was also kept informed of the requests. The Head of Internal Audit's Activity Report

which is submitted to each meeting of Audit Committee contains, as a standing item, a Freedom of Information section which updates Audit Committee members with regards requests to the IAS under the Act.

9   2005/2006 : The Audit Assessment

9.1   The IAS has operated over the majority of this year with three members of staff. The department's audit plans are based on a comprehensive assurance strategy which is compiled from a detailed analysis of the University's audit universe which takes into account the University's identified risks including all the strategic risks. Slight adjustment to the audit plan during 2005/06 was required due to the timing of the arrival of the new Internal Auditor (October 2005). Recognition was also given this year with regards training for the differing skills mix which the team now possesses, compared to pervious years. A crucial aspect to the success of IAS is the skills mix of qualified staff combined with staff with detailed knowledge of University personnel and of how the University's financial and administrative systems work in practice. The skills which both the Senior Internal Auditor and the Internal Auditor have brought to the team have helped in continuing to improve and update our delivery of a high quality Internal Audit Service.

9.2   As is evidenced from the detail contained in this annual report, despite a temporarily reduced staffing level, the IAS has still been able to undertake a wide variety of audit work in academic and administrative departments across both campuses, review the risk assessment reports and management process, undertake follow-up audits, provide audit certification of EU 6th Framework Grant claims, undertake system reviews and ad-hoc exercises. On the basis of the findings and conclusions of all of the audit work undertaken during 2005/06, which builds upon work undertaken in previous years, the Head of Internal Audit concludes that the University's systems of internal control have operated adequately and effectively. For each audit that has been undertaken during the year, recommendations have been made. The implementation of these recommendations will continue to improve the University's control systems further.

10   Conclusion

10.1   2005/06 has again been a year of change for IAS. At the start of the year we welcomed the arrival of a new Internal Auditor. The University knowledge and experience which the Internal Auditor brought was complemented with the Senior Internal Auditor's diverse audit experience in both the public and private sector. These complementary skills coming from out with the department have strengthened the overall knowledge base within IAS. An essential part to the effective operation of the department is the ability for all members to work as a cohesive team. The Head of Internal Audit is particularly pleased that in a very short space of time, the team dynamics were operating effectively both for individuals and for the team as a whole.

10.2   This was the second full year of IAS working with the Convener of Audit Committee. An effective and productive schedule of meetings is in place between the Convener of Audit Committee and the Head of Internal Audit in order to discuss pertinent issues. This is supplemented, where necessary, with electronic communication via e-mail and/or telephone. The continued support given by the Convener to the department throughout 2005/06 is appreciated.

10.3   During the year a wide range of audit work has been performed. Audit activity has focused on a variety of audit work ranging from the more traditional system reviews, audits of academic and CAS departments as well as a number of specific enquiries (e.g. Bioaccelerate Review, Emergency Management procedures, on going TRAC review) and the audit of EU 6th Framework grant claims. Follow-up activity remains on schedule with a total of six departments visited during the course of the year and refinements made to the follow-up procedures. The work continues to encompass both campuses. It has also seen support work in a wide range of areas – e- procurement, Estates Management, Full Economic Costing etc . This has been undertaken with two relatively new members of staff, the contribution of every member of the audit team has been significant.

10.4   In addition, feedback on the conduct of IAS activities from recipients of audit reports, the external auditors and audited departments, has remained very positive. Such feedback greatly encourages IAS.

10.5   There are a number of new and exciting developments which IAS will face in the coming year; further key development of the full economic costing methodology, progress of projects identified via the Estates Development Framework, expansion of the web based payments facility, formation of the Strathclyde Institute of Pharmacy and Biomedical Sciences, development of the Payroll/Personnel system and the tender for the IT infrastructure contract, to name but a few. It is the intention of IAS to embrace fully all new challenges, to ensure that the department continues to provide the highest level of service to the University.

10.6   Over the last two years a number of proposed enhancements and improvements to procedures and communication mechanisms used by the IAS has had to progress at a slower pace, given the changes in personnel within the department and the requirement to continue to provide the core internal audit service. With the return to a full complement of staff in 2005/06, the department was able to move forward with many of these initiatives to help enhance further, the overall quality of the service provided. Examples of such enhancements included significant improvement of IAS web pages to provide an interactive and user friendly portal to the department, introduction of a more structured and focused customer satisfaction survey, changes in the grading of audit recommendations, introduction of an audit opinion and the streamlining of the audit report format.

10.7   The aim for 2006/07 is therefore clear. It is to continue to enhance the quality of the IAS and to add value to the University. IAS shall provide advice on risk and internal control issues, identify and encourage good practice to reduce the opportunities for waste of resources, fraud or irregularities which may occur. IAS greatly looks forward to the challenges (known and unknown) which 2006/07 will bring.

**Clare Urquhart
Head of Internal Audit**

Appendices

Appendix A	**Terms of Reference**
Appendix B	**Mapping of IAS Strategic Plan to University's Strategic Risks**
Appendix C	**Analysis of Audit Recommendations 2005/06**
Appendix D	**Analysis of Follow-Up**
Appendix E	**Extract from Audit Scotland : Benchmarking 'A job worth doing'**
Appendix F	**2006/2007 Audit Plan**

Terms of Reference

Mission Statement
To provide an objective assessment to the Principal and Court of the adequacy and effectiveness of the University's internal systems of control via review of management practices, operations, systems and procedures throughout the University, with the aim of improving control and achieving better value for money.

1. Objectives

1.1   In order to provide that assessment, the Internal Audit Service will undertake a cyclic programme of work which has been agreed by Audit Committee and which includes these objectives:
   - To appraise the adequacy and effectiveness of the University's internal system of control;
   - To ensure compliance with established policies and procedures;
   - To ascertain the integrity and reliability of financial and other information held;
   - To ensure that the University's assets are properly controlled and exposure to losses from irregularity is minimised;
   - To ensure that the University's systems of control encourage the economic, efficient and effective use of resources.

2. Customers of Internal Audit

2.1   The main customers of the Internal Audit Service are :-

Internal
   - Principal
   - Audit Committee
   - Court
   - University Management
   - All University Departments

External
   - SFC Governance and Management : Appraisal and Policy (GMAP)
   - External Auditors
   - Other Institutions
   - Professional Groups (CHEIA, Cipfa, etc)

3. Scope and Approach

3.1   All the University's activities, funded from whatever source, fall within the scope of the Internal Audit Service. The scope of internal audit work shall cover all operational and management controls, including those at departmental level, and shall not be restricted to the audit of those systems and controls necessary to form an opinion on the financial statements.

3.2   The Internal Audit Service's work will be performed with due professional care, in accordance with appropriate professional auditing practice, including the Auditing Practices Committee's "Guidance for Internal Auditors" (June 1990). It will have regard to the relevant sections of the Government Internal Audit Manual, guidance issued by SFC and will comply with the Council's Code of Audit Practice.

4. Operational Areas and Activities

The main areas of service provision are:-

   - To undertake a planned series of audit visits to both academic and non-academic departments throughout the University.
   - To review critical systems in operation across the University (e.g. Finance Office systems).
   - To identify possible savings and identify improvements in service provision via specific

value for money reviews.
- To encourage and promote best practice in departments in relation to internal control.
- To respond to requests for assistance and advice from departments in internal control matters.
- To respond to specific requests from senior committees and management of the University.
- To liaise with the external auditors, SFC' Governance and Management: Appraisal and Policy Service (GMAP) and other auditors to enhance the audit service provided to the University.

5. Independence

5.1 The Internal Audit Service has no executive role within the University. The Head of Internal Audit, subject to any guidance from the Audit committee, is solely responsible for the management and development of the Internal Audit Service. The Service has no responsibility for the development, implementation or operation of systems although it may provide advice on implementation, control and related matters, subject to resource constraints and the need to maintain objectivity. For day-to-day administrative purposes, the Head of the Internal Audit Service will report directly to the Secretary to the University.

6. Access

6.1 The Internal Audit Service has unrestricted rights of access to all of the University's records, information, staff and assets, which it considers necessary to fulfil its responsibilities.

6.2 The Head of the Internal Audit Service has a right of direct access to the Convener of Court, the Convener of the Audit Committee, the Treasurer and the Principal, as Designated Officer.

6.3 The Internal Audit Service shall comply with any requests from the external auditors and SFC' GMAP for access to any information, files or working papers obtained or prepared during audit work that they need to discharge their responsibilities.

7. Planning

7.1 The Head of Internal Audit will prepare, before the beginning of each year, a rolling three-year Audit Plan supported by an audit needs assessment, and an annual audit plan. An appropriate extract of the Plan shall be submitted to Court for approval following consultation with relevant University managers and after consideration and endorsement by the Audit Committee.

8. Reporting

8.1 The Head of Internal Audit shall submit an annual report to Court and to the Principal (via the Audit committee) on work undertaken, which will include an opinion on the operation, adequacy and effectiveness of internal control at the University.

8.2 Draft audit reports will be issued timeously to audited departments following the completion of audit fieldwork and will include an opinion on control and recommendations, where appropriate. Draft reports will also be issued to the Secretary to the University and the Director of Finance. Final audit reports, including the auditee's response, will normally be issued to:
- The Convener of Audit Committee
- The Principal
- The Dean (or CAS budget-holder)
- The Secretary to Audit Committee
- The External Auditors
- The Treasurer
- The Secretary to the University
- The Director of Finance
- The Auditee

A management summary of final audit reports issued will be presented to Audit Committee.

Mapping of IAS Strategic Plan to University's Strategic Risks

Strategic Plan Theme	Strategic Risk	Audit Coverage
Innovative Learning	UG Student Recruitment	Student Recruitment (06/07)
	Identification of new overseas undergraduate markets	OMC – IGO (07/08)
	Over reliance on local market for large percentage intake?	Student Recruitment (06/07)
	Undergraduate student retention	Student Retention (07/08)
	Est. of new courses 　　Is there sufficient market demand 　　Is the course financially viable (long & short term)?	Student Recruitment (06/07) Collaborative Agreements (07/08)
	Collaborative arrangements	Collaborative Agreements (07/08)
Research Excellence	Failure to improve research performance in RAE 2008	RAE 2008 (06/07)
	Changes in RAE structure, danger of becoming sidelined in research	RAE 2008 (06/07)
	Sign off inappropriate research contracts	Bioaccelerate Review (05/06)
Personal & Professional Development	Inability to recruit or retain high quality staff	Recruitment & Retention (04/05)
	Failure to implement Framework Agreement to time or in a financially controlled manner	Pre implementation review (05/06) Post implementation review (06/07)
Strategic Management of the University Finances	Adequacy of Financial Control & ability to sustain LT financial viability of the Institution	Budgeting & Planning Processes (08/09) Investment & Treasury Management (07/08)
Strategic Management of the University Estate & the infra-structure	Under investment in the University Estate with potential detriment effect upon recruitment of students and staff	Capital Project Reviews (06/07, 07/08, 08/09) OMC – Alumni & Development (06/07)
	Poor Disaster Recovery Arrangements	Emergency Management Framework (08/09) previously reviewed (05/06)
	Power or Network Failure	IRD – ITS (06/07) Emergency Management Framework (08/09)
	Projects not completed on time on budget or to acceptable standard	EM – Project Management (06/07) EM procedures review (ongoing) IAS to get access to EM Progress Report Database (ongoing review)
	Hardware/software failure leading to disruption to teaching, research and/or support services	IRD – ITS (06/07) Emergency Management Framework (08/09)
	Security – corruption or loss of electronic information; unauthorised access to information or material; failure to comply with data protection legislation	IRD – ITS (06/07) Emergency Management Framework (08/09)
	Adequacy of IT contingency arrangements to cope with environmental occurrences, accidents	IRD – ITS (06/07) Emergency Management Framework (08/09)

Analysis of Audit Recommendations 2005/06

Area Reviewed	SR	GPR
Educational & Professional Studies	12	11
Sports Union Review	9	9
Web Based Payments	0	3
Geography & Sociology	8	12
Naval Architecture & Marine Engineering	17	19
DMEM	7	10
Payables Review	11	17
Bioaccelerate Review	6	7
Management Science	10	11
Total	**80**	**99**

Nature of Recommendation	SR	GPR
Budgetary Control	11	18
Staffing	6	16
Purchasing	13	9
Debtors	0	1
Stores/Stock Control	0	0
Cash	0	4
Research Contracts/Centres	6	3
Departmental Assets	5	4
Computer Arrangements	1	6
Safety Arrangements	11	2
Data Protection	5	1
Freedom of Information	1	2
Other **	21	33
Total	**80**	**99**

The nature of the recommendations classified under 'Other' primarily relate to reviews where a more specific and unique audit programme was required to be devised and undertaken. An analysis of the 'Other' recommendations by area is detailed below.

Area of 'Other' Recommendation	SR	GPR
Sports Union Review	4	6
Web Based Payments	0	3
Naval Architecture & Marine Engineering	1	0
Payables Review	10	17
Bioaccelerate Review	6	7
Total	**21**	**33**

Appendix D

Analysis of Follow-Up
First Follow Up Visit

Department	No of SRs	No of GPRs	No of o/s SRs	No of o/s GPRs	Summary Heading of o/s Recommendations
Primary Education	8	6	1	2	• Purchasing procedures • Asset Register
Research & Consultancy Services	7	14	1	4	• Budgetary Control • Purchasing procedures • Asset Register • Business Development Managers • Patent Agents Tender
Marketing	11	14	1	0	• Purchasing Procedures
Careers Service	6	10	1	2	• Purchasing procedures • Cash
National Centre	12	25	2	8	• Purchasing Procedures • Debtors • Stock Control • Budgetary Control • Asset Register • Safety Risk (VDU) Assessment
Recruitment & Retention	9	15	1	3	• Finalisation of Recruitment Procedures • Short listing procedures
Total	53	84	7	19	
% of Total			**13%**	**23%**	

Extract from 'A job worth doing – raising the standards of internal audit in Scottish Councils' :A follow-up report (Part 1 exhibit 2)
Audit Scotland 2004

Critical Success Factor 1
Setting clear and properly focused objectives for internal audit.
Statement of good practice
- Internal Audit has agreed terms of reference. *[see Appendix A of this Annual Report]*
- The respective roles of management and internal audit in maintaining internal control are clearly defined and communicated. *[see Appendix A of this Annual Report]*

Critical Success Factor 2
Maintaining Internal Audit independence.
Statement of good practice
- Internal Audit has sufficient organisational status to be able to undertake its work effectively. *[see Appendix A: Section 6 of this Annual Report]*
- Internal audit is free from operational responsibilities that could compromise its independence *[see Appendix A: Section 5 of this Annual Report]*

Critical Success Factor 3
Planning and controlling the work of internal audit.
Statement of good practice
- Internal audit bases its work on a comprehensive risk assessment.*[See paragraphs 3.2 – 3.10 and Section 6 of this Annual Report]*
- Internal audit operates within a structured planning framework. *[IAS works within a framework of Strategic, Operational and Assignment Plans as specified in the Code of Audit Practice]*

Critical Success Factor 4
Resourcing the Internal Audit work programme.
Statement of good practice
- Internal Audit is adequately staffed and resourced. *[This is always considered as part of the planning process and reported to Audit Committee]*
- Internal Audit Staff are suitably trained and developed. *[Training is undertaken both internally and externally. Currently two members of the team are professionally qualified accountants]*

Critical Success Factor 5
Having effective reporting and follow–up arrangements.
Statement of good practice
- Internal Audit has clear reporting arrangements that provide management with an opinion on the adequacy of internal controls. *[see Appendix A: Section 8 of this Annual Report]*
- Internal Audit follow up their recommendations to ensure action is taken. *[See paragraphs 3.25 – 3.28 of this Annual Report]*

Critical Success Factor 6
Holding Internal Audit to account for its performance.
Statement of good practice
- The Chief Internal Auditor promotes and maintains professional standards in internal audit. *[Both qualified members of staff undertaking the CIPFA's CPD programme, Institute of Internal Auditors (IIA) Scottish Branch meetings attended, active participation in CHEIA, member of the Scottish Audit Group. HIA attends the IIA Heads of Internal Audit Service forum]*
- Internal Audit has a performance management framework that ensures continuous review of its performance. *[Weekly timesheets are completed by all IAS staff and key dates during the life cycle of an audit review are also maintained and monitored. This enables the Head of Internal Audit to monitor actual time spent against the audit plan .Comment on the conduct of an audit is also requested when the draft is issued. The Internal Audit Service will move to a more structured format in the form of a Client Satisfaction Survey questionnaire in 2006/07. The Questionnaire will be submitted to the Head of Department/Director of the area audited and returned to the Secretary to Audit Committee. A copy will also be received by the HIA who will then monitor the returns and provide feedback to Audit Committee which will be included in the IAS Annual Report from 2006/07 onwards.]*

Appendix F

2006/07 Audit Plan

Central & Academic Services			
Finance Office			
	Research Contracts	15	
	Debtors	15	
	VAT	10	
IRD – ITS		10	
IRD – ITS computer audit review		15	
EM – Central Admin		10	
EM – Project Management		15	
OMC – Alumni & Development		15	**105**
Strategic Areas (Faculty & University Wide)			
Full Economic Cost Arrangements		10	
Faculty of Engineering		15	
Integrated Pay & Grading Post Implementation		10	
Payroll/Personnel system pre implementation		10	
RAE 2008		15	
E-Procurement/McLelland Report		10	
Student Recruitment		20	**90**
Academic Departments			
SIPBS		10	
Immunology, Microbio & Biochem Div (SIPBS)		15	
Management		20	
Scottish Hotel School		15	
Law School		20	
Computer & Info Science		15	**95**
Value for Money			
Absence Management		20	
VFM Strategy		10	**30**
Audit Other			
Students Assoc – Commercial Services		10	
CPLS		15	
Glasgow Graduate Law School		15	
Centre for Skills Enhancement		10	
Collaborative Training Account		10	
Student Advisory & Counselling Service		15	**75**
Capital Project Review			
WestChem		10	
Colville Refurbishment		10	**20**
EU Grant Claims			**25**
Follow-up			**25**
Support Work			**30**
Meetings (Internal)			**40**
Training (Internal)			**30**
Training/Meetings (External)			**31**
Contingency			**40**
Total			**636**