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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 fifteenth Annual Report which the Internal Audit Service (IAS) has prepared. It sets out the work undertaken in the year 2006/2007, the achievements, performance and the audit plan for the year 2007/2008.

- 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 Report has summarised the main changes affecting the provision of this service to the University. The Annual Report records the development of the department over the years. The Annual Report also documents the main control issues and systems, which have been investigated by the IAS. This report covers the period from 1 August 2006 to 31 July 2007.

The Location

- 1.4 In April 2007 the IAS moved location from the McCance building to the Graham Hills Building. The transfer of location occurred with minimum disruption to the operation of the department.
- 1.5 The central proximity of the new offices means that IAS staff continue to be located close to colleagues in a wide range of departments (both administration and academic). IAS staff have many and varied contacts within the University and this central location, allows IAS staff to continue 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

- 1.6 The IAS had a full complement of staff throughout 2006/07. In 2006/07, there were three posts in the department: -

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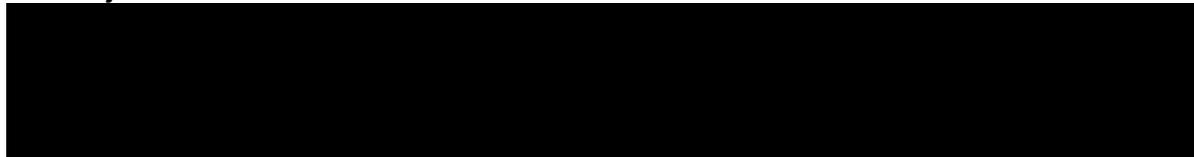


Senior Internal Auditor

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[REDACTED]

- 1.7 The particular skill set which the three members of staff bring to the IAS will continue to strengthen internal audit at this University in 2007/08.

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 Section)
- 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 section) 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
- Treasurer
- Secretary to the University
- Director of Finance
- Dean (or CAS budget-holder)
- Convener to Audit Committee
- Audit Committee members
- Secretary to Audit Committee
- External Auditors
- Auditee representative(s)

3 2006/07 : 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 good collaboration and exchange of information during 2006/07.

Alignment with the Excellence Agenda

3.2 Throughout 2006/07, IAS has been active in the CAS consultation process regarding the University's new Strategic Plan (2007 - 2011) which was formally launched on 3rd May 2007. Both the Head of Internal Audit and the Senior Internal Auditor attended a variety of meetings and discussion forums throughout the year with the Head of Internal Audit also undertaking a presentation at one of the consultation meetings to other CAS Heads of Department on the topic of Benchmarking and Performance Measures.

3.3 In line with other CAS departments, IAS also produced a Strategy Statement for 2007/08 which amongst other things highlighted how the department is very clearly focused and aligned with the University's new Vision, Mission and Agenda for Excellence.

The Vision

Within the IAS, we review and assess a wide range of University activities on an annual basis ranging from academic departments all the way through to core business systems. In this work, we assist the University in progressing towards better controls, improvements in the provision of service, identification of new opportunities and issues, all of which help to ensure the University excels in its field.

The IAS also recognises the University's interaction with the wider national and global community. Accordingly audit attention is always focused upon encouraging and promoting good practice and probity in the University's dealings with outside agencies, irrespective of whether those agencies are UK based or overseas. The IAS through its guidance and assistance does all it can to ensure those interactions are professional and proper, reflect well on the University and maintain or increase the high regard for the University, as one which does the right thing, at the right time, in the right way.

The Mission

The IAS has and will continue to inform Senior Management, Audit Committee and Court on two main areas:-

(1) Providing an annual overall objective assessment of the adequacy and effectiveness of management's internal control systems; and

(2) Highlighting the added value of the audit process by identifying those departments and areas of the University activity which are providing leading examples of excellence, high standards and good practice in their management and use of resources; and conversely, those departments and areas which are not yet achieving or have fallen short of standards expected. Where that has happened IAS prioritises and reports on those issues which require corrective action by Senior Management in either the department or wider University.

3.4 An innovative institution which encourages its staff to develop new ideas, approaches and initiatives need not be an institution at risk. The IAS through its own proactive assistance to departments, units and centres of the University and its programme of audit visits, facilitates such innovation but within a solid, protective framework incorporating, individuals, departments and the University.

3.5 The IAS is concerned with consistency when auditing all aspects of the University. The audit work undertaken covers all units, centres and departments, crossing faculties and CAS areas. This University-wide review helps to identify and thereafter reduce inconsistencies of quality and control which might impact on the students and other stakeholders. In flagging those areas for Deans, CAS budget holders and Senior Officers, IAS helps empower management to act.

Risk Assessment and Management

3.6 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.

3.7 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.

3.8 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 2006/07 the planned audit coverage was again 'mapped' onto the University's strategic risks (as identified in the UMC Annual Report to Court and presented to Audit Committee), as shown in Appendix B. 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.

3.9 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. All of the areas of University activity which report to UMC have complied with the risk reporting requirement in 2006/07.

3.10 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 2006/07, the IAS has continued to request each area being audited to identify their three top risks and to identify how these risks are being managed. These risks are reported in each final IAS Report. In addition a number of other groups (e.g. Change Management Team, Full Economic Costing for Research Working Group, Estates Strategy Steering Group) are established within the University which provide a more strategic forum for reviewing risk (the 'top-down' approach).

- 3.11 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.
- 3.12 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.
- 3.13 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.
- 3.14 In 2006/07 approximately 28 risk assessment reports were also submitted to UMC by non Faculty departments (e.g. ITS, Estates Management, Finance Office, Secretariat, Personnel, Research and Innovation, Library Services, Purchasing Office to name but a few). From review of these reports (which was supplemented with further discussion on the matter with the 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.
- 3.15 In line with the University's risk management process, an assessment of the perceived key risks affecting IAS was reviewed and updated during 2006/07. The Risk Assessment was presented to Audit Committee at its June 2007 meeting.

Reports

- 3.16 The following ten reports have been undertaken during 2006/07:-
- Security Services
 - Professional Development Unit
 - Cash Office
 - Chemical & Process Engineering
 - Estates Management (Central Administration)
 - Law School
 - Hospitality & Tourism Management
 - Glasgow Graduate Law School & Centre for Professional Legal Studies
 - Curricular Studies
 - Student Advisory & Counselling Service
- 3.17 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 (Professional Development Unit, Cash Office) a more tailored audit programme was prepared and undertaken. During 2006/07 work was also undertaken to review and further enhance the IAS audit programme. For 2007/08 the audit programme will now also include additional sections on reviewing departmental procedures regarding Ethics, Disability and the implementation of the new departmental Strategic Plans.

- 3.18 During 2006/07 IAS, also finalised a significant exercise undertaken in 2005/06 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. During 2006/07 IAS has liaised closely with colleagues both in Finance Office and Research and Innovation to help ensure a smooth implementation of the reports recommendations.
- 3.19 A number of other areas have also been worked on during the course of the year:-
- Ongoing compliance work regarding the implementation of TRAC guidance re Full Economic Costing;
 - Review of the Transparency Review Return for 2006, review of the voluntary resubmission of the 2005 Return and review of the voluntary TRAC for Teaching submission;
 - Ongoing review of the implications for IAS of the Information Commissioner's appeal findings and exemption guidance re FOISA;
 - Finance Office Research Contracts;
 - Centre for Skills Enhancement;
 - Hunter Centre;
 - Absence Management;
 - Fraud Prevention Policy;
 - Student Recruitment.
- 3.20 IAS also undertook two additional reviews for Audit Committee during 2006/07. The first addressed a query raised at Audit Committee with regards the robustness of the University's emergency management procedures in dealing with a possible terrorist threat. The work undertaken in this particular area concluded that the University was taking all necessary steps to ensure that the University is as best prepared as possible to deal with emergency situations (terrorist or otherwise). The regular meetings of the Emergency Management Team, ensures that these procedures continue to be enhanced and refined in line with best practice. IAS will continue to monitor developments in this area in 2007/08. The second area which was reviewed and reported to Audit Committee was in relation to the University's coordination role in an EU 6th Framework grant with an overall value of €1.5m. Audit review and testing concluded that the project management arrangements were robust and effective.
- 3.21 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.
- 3.22 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 2006/07 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;
 - Departments did not retain back up documentation to expenses claims;
 - 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;
 - 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.
- 3.23 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 2006/07 a total of 17

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

- 3.24 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. 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 2006/07, the IAS has undertaken work with some key University departments.
- 3.25 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, has many 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. As part of the 'Efficient Government' initiative the Scottish Executive in partnership with CapGemini formed an organisation known as Eps Scotland, which was sponsored to roll out an industry standard e-procurement system (PeCOS) within public sector organisations. As an extension to the programme SFC invited the University to play a key role in the evaluation of the PeCOS system as befits an HE organisation. A Scope and Readiness Assessment was undertaken between 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, IAS helped the ePS Working Group assess the likely costs/benefits and practicalities associated with introducing such a model at Strathclyde and any future constraints or limitations that may arise from its introduction.
- 3.26 Work with Estates Management has included attendance by IAS staff at over 26 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 ongoing update 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 for projects within the Estates Development Framework. As a result of our ongoing liaison with senior Estates staff, IAS monitoring of large capital projects, was further strengthened during 2006/07, with access to the Progress Report Template used by Project Managers to track the progress (financial and technical) of each project.
- 3.27 During 2006/07 the Estates Management Document Strategy Group (convened to examine the benefits, options and costs of moving towards a paperless office environment), requested assistance, given IAS knowledge of the department's various systems and procedures, to document process flows and paperwork (via flowchart presentation) for the Administration and Project Management sections of the department. Work commenced early Summer 2007 with completion scheduled for Autumn 2007.
- 3.28 During 2006/07 the IAS also undertook a review and evaluation of competing IT development resources within the Room Bookings System, Registry and Planning for the Secretary to the University. The work undertaken by IAS regarding the value for money of alternating investments in information systems development within each of these areas enabled the University to make an informed decision and prioritise its resources effectively.

- 3.29 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 2006/07 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 IAS web pages also include a section for good practice templates to help facilitate this process further.
- 3.30 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 2007/08.
- 3.31 Based on the value for money work undertaken during 2006/07 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.
- 2006/07 Follow-Up Activity**
- 3.32 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.'*
- 3.33 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 2006/07 follow-up activity involved a review of six reports.
- Follow-Up Process**
- 3.34 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'*.
- 3.35 On the completion of the follow-up exercise, it was noted that 80% of all significant recommendations and 78% 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.
- 3.36 During 2006/07 work has been ongoing within IAS to streamline the reporting format of follow up work to Audit Committee to bring it in line with the new main reporting format introduced in 2006/07. Once approved by Audit Committee it is envisaged that this revised reporting format for follow up will be implemented in 2007/08.

Other Work

3.37 A variety of other work has been undertaken throughout 2006/07, a sample of which is detailed below:-

- Meetings were held during the year with the Principal, Vice-Principal, Pro Vice-Principal, Deputy Principals, Convener of Audit Committee, Secretary to the University, Director of Finance, Director of Information Services, Director of Estates Management, Director of Research and Innovation, Head of Purchasing, Head of Safety Services, TRAC Project Manager, the Deans of all five faculties, and External Audit staff;
- Training was provided by the Senior Internal Auditor on financial matters for incoming USSA Executive;
- CIPFA continuing professional development work was undertaken by the Head of Internal Audit and the Senior Internal Auditor;
- General audit advice was given to a variety of departments on request;
- Use of the University Seal was reviewed;
- The Court members Register of Interest was reviewed;
- IAS Audit Manual was substantially revised and updated;
- Estates Management Hospitality Book and annual declaration forms were reviewed;
- IAS staff attended Print Unit Management meetings;
- In June 2007, IAS staff undertook their annual 'away day'. 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;
- 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 Stirling University;
- Advice given to the Deputy Principal and Disability Services with regards improving the administrative operation of the Disability Resource Development Fund;
- IAS staff attended Area Safety Committee meetings;
- The Head of Internal Audit attended a joint meeting of the Audit Committee's of Glasgow, Glasgow Caledonian and Strathclyde Universities along with some members of Audit Committee and the Secretary to the University on the 2nd November at Glasgow Caledonian University;
- The Head of Internal Audit attended the safety audit of the Students' Association undertaken by the Head of Safety Services;
- IAS staff also continued to attend the CHEIA regional meetings throughout 2006/07. 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;
- Meetings with key staff on the Personnel/Payroll implementation project team;
- All IAS staff also participated in the Governance and Risk Forum programme of meetings;
- The Head of Internal Audit also continued to communicate with her counterparts from the Universities of Twente and Charles Sturt University in Bathurst NSW. There has been a good exchange of relevant documentation, of interest to all departments;
- The Internal Audit Service is also a member of the Scottish Audit Group (SAG). The Group consists of members from a variety of areas (private and public sector) within Scotland. All members of IAS attended meetings of SAG throughout 2006/07.

3.38 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.

Transparency Review/Full Economic Costing

3.39 During 2006/07 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 (TR) and review of the ongoing process of refining the TRAC model in line with the guidance.

- 3.40 Members of IAS (Head of Internal Audit and Senior Internal Auditor) have also attended the Scottish University Self Help Group. These meetings provide a useful forum to understand the sector wide issues with regards the implementation of the TRAC Guidance and enables the progress at Strathclyde University to be informally benchmarked by IAS against peer Institutions.
- 3.41 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.
- 3.42 During 2006/07 audit work was undertaken to review the resubmission of the 2004/05 Annual TRAC Return (reported to Audit Committee at the September 2006 meeting) and latterly on the updates to the TRAC model as specified in new Guidance issued in July 2006 and the collation of the TR return for 2005/06. Work was also undertaken in reviewing the voluntary TRAC for teaching submission prepared by the TRAC Project Manager.
- 3.43 Specifically work has been undertaken in reviewing:
- The Income model which is used to allocate income across the five reporting categories and the subsequent July 2006 update.
 - The expenditure model which is used to allocate costs across the five reporting categories and the subsequent July 2006 update.
 - The TRAC adjustments (infrastructure, which compensates for the understatement arising from the use of historic costs and the new Return for Financing and Investment (RFI), 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 Estates Driver information including the weighted space calculation.
 - The charge out rates for Research (Estates and Indirect).
- 3.44 Audit testing of arrangements for the 2005/06 Transparency Review return and on the general progress of the University meeting 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.
- 3.45 The implementation of TRAC/fEC is continually being reviewed by IAS. The following 12 months will be crucial to ensure that the level of robustness in the University's model and processes fully meets the TRAC requirements. The University will be subject to review via the Research Councils UK Quality Assurance and Validation of TRAC process during 2008. IAS will continue to monitor and review closely these developments in 2007/08.

Grading of Recommendations

- 3.46 Communication is a key factor in the work that IAS does. It is essential that the department communicates effectively with all its clients. 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.
- 3.47 During 2006 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 agreed and supported by Audit Committee. At the May 2006 meeting of Audit Committee a detailed paper was presented identifying the proposed new grading structure for recommendations 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.

- 3.48 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 introduced in the 2006/07 audits.
- 3.49 Over the years attempts have been made within IAS to look at ways in which an overall audit opinion 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 opinion can be seen to link to the grading of recommendations.
- 3.50 In order to help the transparency of reaching the audit opinion 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.
- 3.51 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.
- 3.52 The following overall Audit opinions were proposed:
- Highly Satisfactory
Satisfactory
Requires Improvement
Unsatisfactory
- 3.53 Professional judgement is required to be applied in allocating an audit opinion to an area of work undertaken by IAS. However the risk matrix helps illustrate the reasoning behind the allocation.
- 3.54 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 introduced in the 2006/07 audits.

4 Benchmarking Internal Audit

- 4.1 The latest British Universities Finance Directors Group (BUFDG) Annual Audit Survey relating to 2005/06 was issued in spring 2007. 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 108 institutions was the highest number to date representing 66% of all member institutions and greater than last years response when 92 institutions replied. Like every year the figures require to be regarded with *caution* as the figures submitted by Institutions are taken at face value (i.e. the method of assessing days provided is not necessarily consistent). The survey has confirmed, the percentage split over the different methods of internal audit provision as:-

Internal Audit Provider	2005/06	2004/05	2003/04	2002/03	2001/02	2000/01
External firm	66%	65%	60%	54%	58%	53%
In-house	18%	23%	28%	32%	29%	35%
Consortium	11%	10%	8%	12%	13%	11%
Other	5%	2%	4%	2%	0%	1%

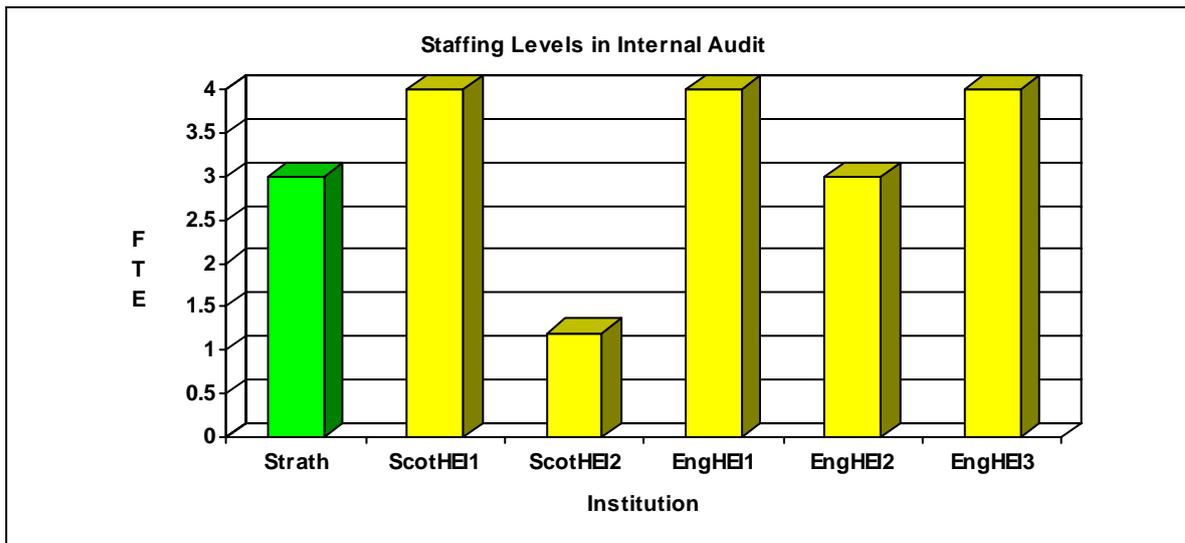
The 'Other' category refers to institutions which have opted for methods which fell outside of the other categories such as a mixture of in-house and bought-in consultancy, being part of the NHS or being involved in a city council audit.

4.2 From the most recent BUFDG Annual Audit Survey results, an analysis of 20 Universities where the gross annual expenditure was greater than £170m (Strathclyde's = £184m) indicated that 50% of these institutions utilised in-house provision of Internal Audit services.

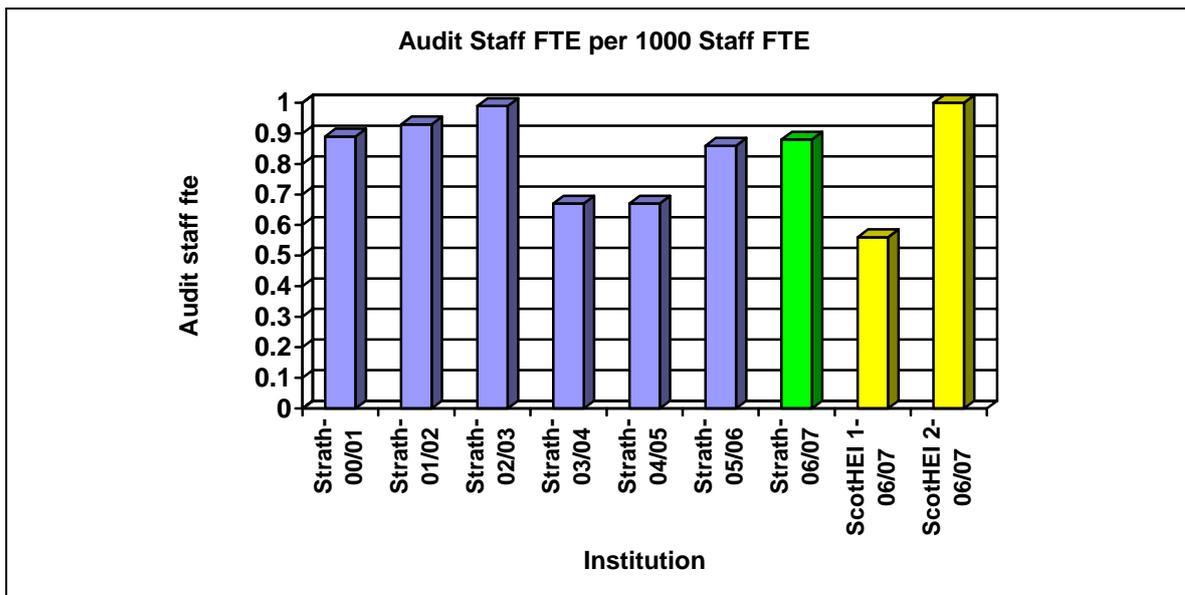
4.3 A simple comparison with the other Scottish Universities with in-house providers and with three other broadly comparable English Higher Education Institutions is illustrated below.

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 (to be increased to 3.2fte in 2007/08). The English HEIs average 3.7 fte staff.



4.5 **Staffing Level v Institutional Size**

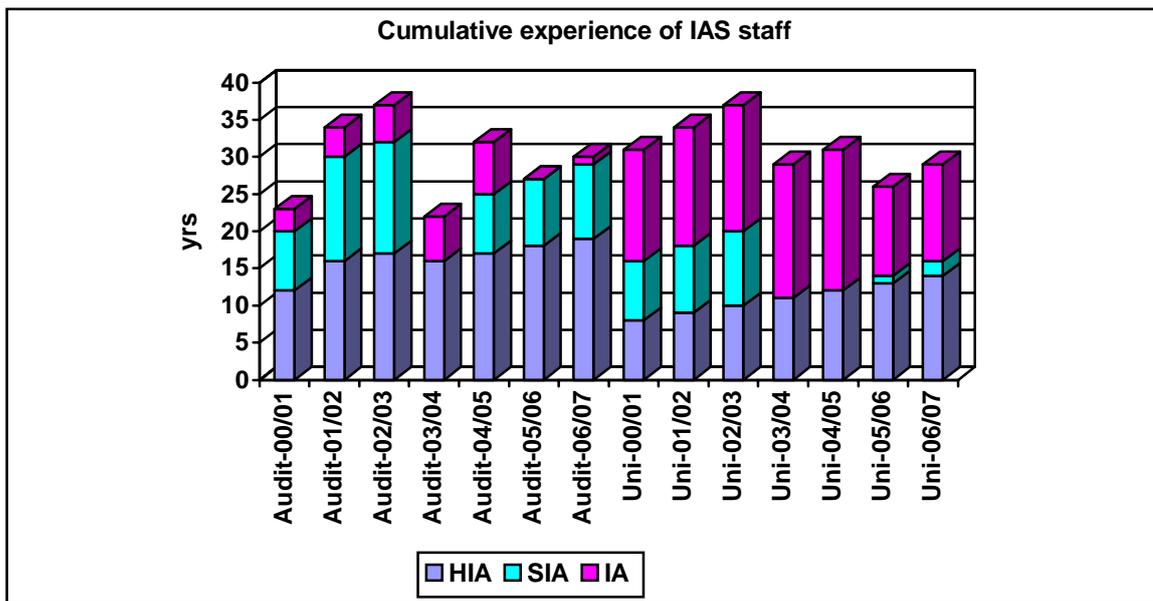


With 3 full time members of staff in 2006/07 the ratio results in approximately 0.88 audit staff fte per 1000 staff fte. In relation to the two other Scottish HEIs with in-house teams, although one (ScotHE1) has more audit staff than Strathclyde, their higher total University staff fte results in the above graph comparison. Similarly ScotHE2 has the equivalent to 1 audit staff fte per 1000 staff fte although their total University staff ftes are the lowest in the group.

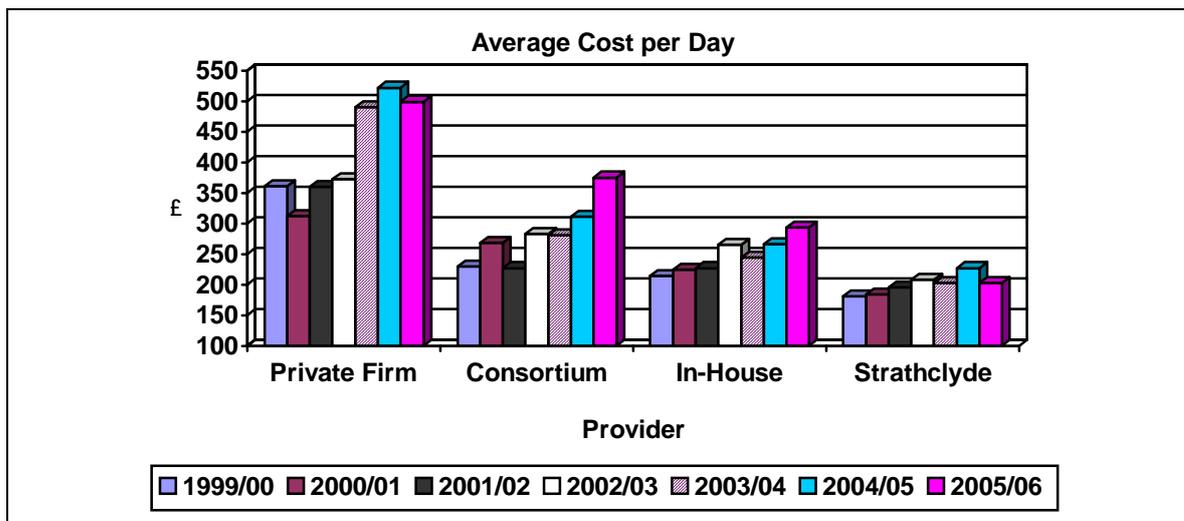
4.6 Experience of Staff

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 2006/07, there was 28 years of audit experience and 27 years experience of the University within the department.

Key: HIA=Head of Internal Audit; SIA=Senior Internal Auditor; IA=Internal Auditor

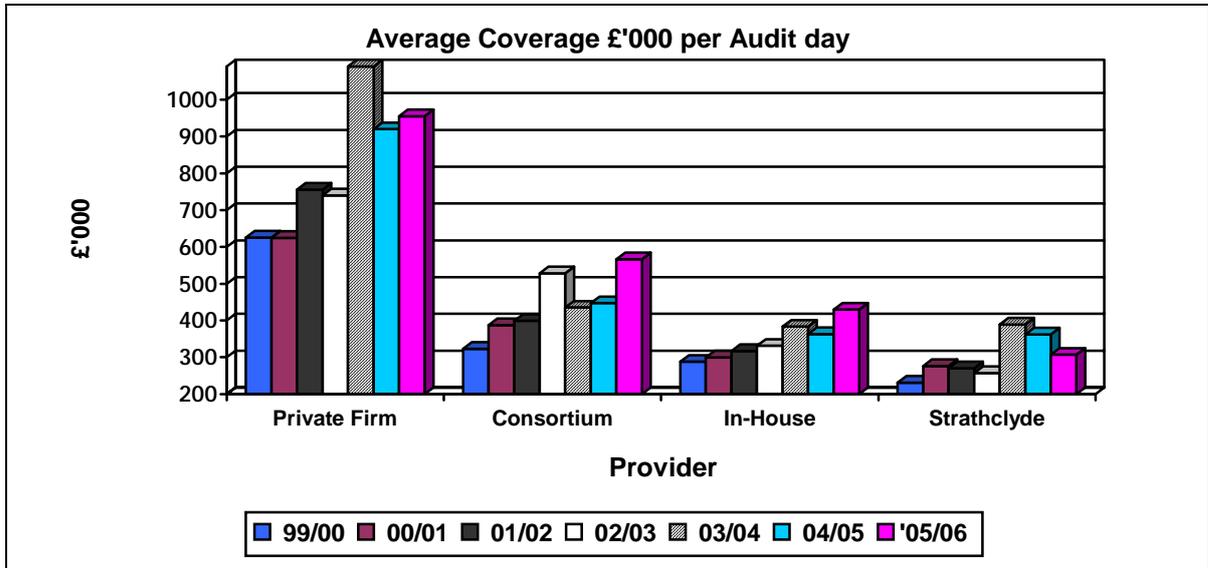


4.7 Audit Costs



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. The IAS figure of £203 per day for 2005/06 is considerably lower than the average cost per day of the private firms (£499) and also compares favourably with the average cost per day (£293) of in-house providers and of Consortium providers whose average cost per day is £375. The total average cost per day across all providers is £341.

4.8 Activity v Institutional Size



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. For every one audit day, private firms cover on average almost £955k of University spend. In comparison, for every one audit day undertaken by Strathclyde's IAS, it covers approximately £307k of University spend. Consortium providers cover approximately £567k. This should be a reassuring message for Audit Committee. The average of all in-house providers is £430k. 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 £535k.

4.9 Whilst The BUFDG Annual Audit Survey has been a key provider of benchmarking information over the years in Higher Education, Audit Scotland 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 continue to operate favourably against each success factor.

4.10 In addition the IAS has also completed the newly released HEI Internal Audit Capability self-assessment toolkit. The toolkit was designed in consultation with HEFCE Assurance Service and the CHEIA Executive. The Assessment covers six themes:

- Due Professional Care
- Strategy
- Methodology
- People
- Independence
- Quality Assurance

The toolkit which operates within an excel framework, consists of 60 detailed and specific assessment questions ranging from Best Practice, Good Practice, Partially Compliant and Potential non-Compliant. Although based on the HEFCE Code of Audit Practice it was deemed worthwhile to complete for internal quality assurance purposes. The questions are weighted across the six assessment categories resulting in a web diagram which illustrates the department's operating position across the six themes. As can be seen from Appendix F the IAS at Strathclyde sits well, however we must never become complacent and throughout 2007/08 measures will be put in place to increase our scoring further.

Research Councils' Dipstick Visit - December 2006

- 4.11 The Research Councils undertook a 'Dipstick' visit to the University in December 2006. The purpose of the visit was to seek assurance that the research grant administration at the University was 'robust' and 'fit for purpose'. Representatives from each of the main Research Councils made up the review team. The team visited IAS as part of the review process in order to ascertain how the IAS function operated at Strathclyde. The team met with the Head of Internal Audit and the Senior Internal Auditor.
- 4.12 The resultant report issued by the Team in January 2007 was very positive for the University with the overall conclusion being that there was 'adequate assurance' on the handling of Research Council Grants. The comments regarding IAS were very favourable i.e.

3. The IAS made good use of the WEB site to disseminate information, outlining policy, scheduling and reporting information on the Internal Audit Services.

3.1 The Dipstick team were left with the overall impression that although IAS was going through a process of change by the introduction of a more risk based reporting mechanism, it was felt that they offered a very professional service that was proactive and keen to raise the profile and influence of internal audit.

7.3 The team were also impressed with the professionalism and proactive approaches of both the IAS and Purchasing teams. Both demonstrated a clear interest in the administration of research grants and good links with the other business areas of the University. Both were keen to extend their sphere of influence and had considered ideas to take this forward. Examples of this are that IAS are introducing a more robust risk based audit process, while Procurement are trying to be more influential at the grant proposal stage. The University is lucky to have such progressive and enthusiastic teams.

5. 2006/07: 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 2006/07 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 some ad hoc exercises taking priority and three of the reports issued during 2006/07 having some issues which required to be resolved prior to the draft report being issued (Security Services, Professional Development Unit). 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. IAS also 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 2007/08, given further refinements to our reporting template, the number of days from fieldwork to the issue of the draft report is 25 days or below.

- 5.3 Ten reports were undertaken in 2006/07. This builds upon those that were issued in 2005/06 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 2006/07 departments have again responded well, in general, adhering to providing a response by the specified date detailed in the memo accompanying the draft report and completing the Client Satisfaction Survey.
- 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, and Audit Committee itself. As illustrated at para 5.9, satisfactory returns have been made about the conduct of the audits and the audit reports by both the recipients of the full report via the Client Satisfaction Surveys and by the members of Audit Committee. The External Auditors continue to place reliance upon the work of IAS.

Client Satisfaction Survey Results

- 5.6 Throughout the last fifteen 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 after each audit report and within the IAS annual report.
- 5.7 The lasting impression which audited departments have after the completion of an internal audit is a key factor. Audit committee in May 2006 endorsed the proposal put forward by the Head of Internal Audit for 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 secretary to Audit Committee then passes a copy of the completed survey to the Head of Internal Audit to review.
- 5.8 Previously Heads of Department had simply been asked to provide feedback on the 'conduct of the audit' when responding to the report recommendations. Whilst the response to this request was always encouraging, the unfocused and unstructured nature of the request resulted in a wide range of response formats. It also made 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.
- 5.9 The collated results of the Client Satisfaction Surveys completed in 2006/07 are detailed in the table below:

	Highly Satisfactory (%)	Satisfactory (%)	Unsatisfactory (%)
1. GENERAL			
How would you rate the overall usefulness of the audit?	71	29	
Explanation of audit objectives	86	14	
Professionalism of Auditor carrying out the work	86	14	
2. QUALITY OF AUDIT REPORT			
Overall clarity & presentation	71	29	
Relevance of findings and recommendations reported	43	57	
3. TIMING			
Duration of audit process	71	29	
4. COMMUNICATION			
Helpfulness of Auditor	86	14	
Sufficient consultation during audit process	71	29	
Consultation on findings & recommendations	71	29	

- 5.10 In addition some Departments have also made use of the facility on the Survey form to supply "other comments" examples of which are as follows:

"The audit was highly valuable both for the department and for me as a new Head of Department. The audit was carried out in a most efficient yet supportive manner. The duration of the audit was extended by issues out with the control of either internal audit or ourselves. The quality of the process is to be commended" PDU Report 205

"A very helpful process– efficiently conducted and with clearly presented findings/recommendations. The audit was undertaken at the same time as a major course accreditation visit hence the timing score – the audit staff were, however, very accommodating" DMEM Report 198

"This was a valuable process for me personally as a new Head of Department to understand and appreciate better the myriad of procedures of the University" Chemical & Process Engineering Report 203

"I appreciate that the audit process is restricted in the areas it can look at. Therefore in order to assist us further & maximise the benefits to us of the audit, IAS have been asked to do an analysis of business processes within EM administration to help us streamline some of our processes and procedures" EM Central Administration Section Report 208

During 2007/08 IAS aims to further enhance our Client Satisfaction Survey from a paper based system to an electronic version, for ease of completion and collation of results.

6 Audit Planning Approach and Audit Plan for 2007/08

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 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

- 6.4 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.
- 6.5 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.

6.6 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.

6.7 As part of the planning process both sets of Auditors have met to discuss their respective audit plans. These discussions were found to be of benefit to both sets of Auditors. Sharing of information between Internal and External Audit can avoid duplication of effort and enhance knowledge of the whole system of risk management, control and governance for both parties.

Methodology: Audit Universe

6.8 Strathclyde University, like many HEIs, limit their risk register usually to the top 20 significant risks. The list of auditable entities has been compiled by IAS. 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 for Audit Committee members to review the Audit Universe on 'a regular basis'. In February 2005, the Audit Universe which had been used to derive the 2004/05 – 2006/07 audit plans was presented to Audit Committee for review and comment. Similarly in February 2006 the Audit Universe which had been used to derive the 2005/06 – 2007/08 audit plans was presented to Audit Committee for review and comment.

6.10 In consultation with the Convener of Audit Committee, time was allocated at the Audit Workshop in October 2006 to discuss in more detail the current content of the Audit Universe. Audit Committee members conveyed satisfaction at the process with useful suggestions put forward for further enhancement, which have now been incorporated.

6.11 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 163 auditable areas. The activities of the University, for the purpose of planning, have been split broadly into the following categories:

- Governance
- Strategic Areas
- Value for Money
- Central and Academic Services
- Faculty Areas
- Other Audit Areas
- Capital Project Reviews

6.12 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 was also included. Both the CHEIA listing and the HEFCE listing provide a useful checklist to ensure the completeness of the Strathclyde Audit Universe.

Scoring

6.13 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 is assessed over five set attributes. For four of the attributes, a score is given.

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

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

Materiality

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

Information on the Materiality of the system or department is readily obtained from the most recent set of accounts (2005/06) 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 is 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

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

Information on the Inherent Risk is 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 is 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

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

Information on the Control Risk is 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

The following factors to be considered include:

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

Information on Reported Weaknesses is 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

- 6.15 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.
- 6.16 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 seven key categories identified at para 6.11.
- 6.17 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]

- 6.18 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 Internal Audit 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.
- 6.19 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 workbook is reviewed as audits are completed and as major issues are discussed/resolved by Court/UMC.

- 6.20 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.
- 6.21 The audit plan for 2007/08 was generated using the process described above. The Audit Plans also take into account the changed skills mix within the department, over the last few years. Training days (to be provided by both internal and external sources) have been shown separately in the strategic plan. 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 June 2007 meeting of the Audit Committee, and the June 2007 meeting of Court. The 2007/08 Annual Plan is included as Appendix G to this document, for information.

7 Public Interest Disclosure Policy

7.1 During 2006/07 IAS did not deal with any cases under this procedure.

8 Freedom of Information (Scotland) Act 2002

8.1 During 2006/07 no requests were made for information held by IAS under the Freedom of Information Act. 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 2006/07: The Audit Assessment

9.1 The IAS has operated over the 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. Recognition was also given this year with regards training for the differing skills mix which the team now possesses, compared to previous 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, the IAS has 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 2006/07, 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 IAS **can** and **does** make a difference. From departments audited, to systems reviewed and advice given to the general University community. The self examination opportunity provided by the Strategic Plan consultation exercise undertaken throughout 2006/07 has helped to ensure that the 'difference' IAS makes, remains very much relevant to the University's new Vision, Mission and Agenda for Excellence.

10.2 During the year a wide range of audit work has been performed. Audit activity has focused on a variety of areas ranging from the more traditional system reviews, audits of academic and CAS departments as well as a number of specific enquiries, monitoring of progress on the Estates Development Framework 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. The contribution of every member of the audit team has been significant.

10.3 This was the third full year of IAS working with the Convener of Audit Committee. An effective and productive schedule of monthly 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 2006/07 is much appreciated.

- 10.4 In addition, the 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; including the implementation of all departmental strategic plans in line with the University's new Strategic Plan, further key development of the full economic costing methodology, progress of projects identified via the Estates Development Framework, EU Framework 7 grants, formation of the Advanced Forming Research Centre, development of the Payroll/Personnel system, phased implementation of PeCOS the e-procurement ordering system and revision to the funding Council's Code of Audit Practice 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 2006/07 has also seen a number of proposed enhancements and improvements to procedures and communication mechanisms used by the IAS being able to be put into practice. Examples of such enhancements included significant improvement of the 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 2007/08 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 2007/08 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 2006/07
Appendix D	Analysis of Follow-Up
Appendix E	Extract from Audit Scotland: Benchmarking 'A job worth doing'
Appendix F	IA Capability Self -Assessment Toolkit
Appendix G	2007/08 Audit Plan

Appendix A

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". 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;

Appendix A

Terms of Reference (Contd)

- 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, the 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 the 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
 - Audit Committee members
 - 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

Appendix B

Mapping of IAS Strategic Plan to University's Strategic Risks

<u>Strategic Risk</u>	<u>Internal Audit Coverage</u>
1. UG Student Recruitment: failure to meet targets.	<ul style="list-style-type: none"> ▪ Student Recruitment (06/07)
2. Identification of new overseas undergraduate markets; Previous over reliance on a small number of partners/agents.	<ul style="list-style-type: none"> ▪ OMC – International & Graduate Office (07/08)
3. Over reliance on local market for large percentage intake?	<ul style="list-style-type: none"> ▪ Student Recruitment (06/07)
4. Undergraduate student retention rates: can these be improved?	<ul style="list-style-type: none"> ▪ Student Retention (07/08)
5. Establishment of new courses Is there sufficient market demand? Is the course financially viable (short & long term) and in terms of other resources (staff, skill sets etc)?	<ul style="list-style-type: none"> ▪ Student Recruitment (06/07) ▪ Collaborative Agreements (08/09)
6. Collaborative arrangements -that through poorly drafted, controlled or monitored agreements, the University jeopardises its income generation, teaching quality, service to students, reputation or globalisation potential. Research pooling with Glasgow University – loss of control over research strategy?	<ul style="list-style-type: none"> ▪ Collaborative Agreements (08/09)
7. Failure to improve research performance in RAE 2008.	<ul style="list-style-type: none"> ▪ RAE 2008 (06/07) overview & (07/08)
8. Changes in RAE structure, danger of becoming sidelined in research.	<ul style="list-style-type: none"> ▪ RAE 2008 (06/07) overview & (07/08)
9. Sign off inappropriate research contracts.	<ul style="list-style-type: none"> ▪ Bioaccelerate Review (05/06) & follow up review (06/07) & (07/08) ▪ Review of pFACT under TRAC (07/08)
10. Inability to recruit or retain high quality staff e.g. in research and education. Identification and development of suitable candidates for Deans, Vice Dean's, HoD's.	<ul style="list-style-type: none"> ▪ Recruitment & Retention reviewed (04/05) ▪ HR – Recruitment, appointments, induction & probation (08/09)
11. Failure to implement Framework Agreement to time or in a financially controlled manner.	<ul style="list-style-type: none"> ▪ Post implementation review (06/07)
12. Adequacy of Financial Control & ability to sustain long term financial viability of the Institution.	<ul style="list-style-type: none"> ▪ Budgeting & Planning Processes (08/09) ▪ Treasury Management & Investments (07/08) ▪ Financial Accounting (09/10)
13. Under investment in the University Estate with potential detrimental effect upon recruitment of students and staff.	<ul style="list-style-type: none"> ▪ Capital Project Reviews (06/07, 07/08, 08/09, 09/10) ▪ EM Central Admin review (06/07) ▪ EM Project Management Review (06/07) ▪ EM Space Management & Planning (07/08)

Appendix B

Mapping of IAS Strategic Plan to University's Strategic Risks (Contd)

14. Poor disaster recovery arrangements.	<ul style="list-style-type: none"> ▪ Emergency Management Framework (09/10) ▪ Overview of Emergency Management procedures reviewed (05/06)
15. Power or Network Failure.	<ul style="list-style-type: none"> ▪ IRD-ITS (06/07) ▪ Emergency Management Framework (09/10) ▪ IRD-ITS computer audit review (06/07), (07/08) , (08/09) &(09/10)
16. Projects not completed on time on budget or to acceptable standard.	<ul style="list-style-type: none"> ▪ Capital Project Reviews (07/08),(08/09) & (09/10) ▪ EM – Project Management (06/07) ▪ EM procedures review (ongoing) ▪ IAS has access to EM Progress Report Database (ongoing review)
17. Hardware/software failure leading to disruption to teaching, research and/or support services.	<ul style="list-style-type: none"> ▪ IRD-ITS (07/08) ▪ Emergency Management Framework (09/10) ▪ IRD-ITS computer audit review (06/07), (07/08), (08/09) &(09/10)
18. Security – corruption or loss of electronic information; unauthorised access to information or material; failure to comply with data protection legislation.	<ul style="list-style-type: none"> ▪ IRD-ITS (07/08) ▪ Emergency Management Framework (09/10) ▪ Compliance with DP Act (09/10) ▪ IRD-ITS computer audit review (06/07), (07/08), (08/09) &(09/10)
19. Adequacy of IT contingency arrangements to cope with environmental occurrences, accidents, network outages.	<ul style="list-style-type: none"> ▪ IRD-ITS (07/08) ▪ Emergency Management Framework (08/09) ▪ IRD-ITS computer audit review (06/07), (07/08), (08/09) &(09/10)
20. Legal liability, Financial Liability and Security of Systems Possible exposure to a range of telecommunications and publishing laws and the increased risk to security of IT systems with the increase of 'external' users (those who are neither contracted Strathclyde University staff nor registered students) .	<ul style="list-style-type: none"> ▪ IRD-ITS (07/08) ▪ Emergency Management Framework (09/10) ▪ IRD-ITS computer audit review (06/07), (07/08), (08/09) &(09/10)

Appendix C

Analysis of Audit Recommendations 2006/07

Area Reviewed	Compliance	Control Improvement	Good Practice
Security Services	7	21	14
Cash Office	0	4	4
Chemical & Process Engineering	6	8	7
Professional & Development Unit	12	8	4
Estates Management CAS Review	3	6	3
Law School	7	9	7
Hospitality and Tourism Management	6	7	3
CPLS & GGSL	3	3	10
Student Advisory & Counselling Service	1	3	0
Curricular Studies	3	7	3
Total	48	76	55

Nature of Recommendation	Compliance	Control Improvement	Good Practice
Budgetary Control	0	9	6
Staffing	8	20	13
Purchasing	19	14	3
Debtor	6	4	0
Stores/Stock Control	1	0	1
Cash	0	0	2
Research Contracts/Centres	2	2	0
Departmental Assets	8	1	2
Computer Arrangements	0	1	4
Safety Arrangements	4	6	4
Data Protection	0	8	1
Freedom of Information	0	0	4
Other **	0	11	15
Total	48	76	55

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	Compliance	Control Improvement	Good Practice
Security Services	0	7	10
Cash Office	0	4	3
CPLS & GGSL	0	0	2
Total	0	11	15

Appendix D

Analysis of First Follow-Up

Department	No of SRs	No of GPRs	No of o/s SRs	No of o/s GPRs	Summary Heading of o/s Recommendations
Human Resource Management	12	17	0	2	<ul style="list-style-type: none"> Asset Register. Data Protection.
Estates Management – Hospitality, Tender & Quotations	5	1	0	0	
Civil Engineering	14	18	7	4	<ul style="list-style-type: none"> Budgetary Control. Research Contracts/Centres. Department Assets. Computer Arrangements. Safety Arrangements. Data Protection.
Psychology	7	16	0	4	<ul style="list-style-type: none"> Budgetary Control. Purchasing. Computer Arrangements.
Mathematics	8	8	1	1	<ul style="list-style-type: none"> Purchasing. Department Assets.
Sports Union	9	9	3	4	<ul style="list-style-type: none"> Strategic Overview. Budgetary Control. Review of Sports Clubs. Expenditure Processing.
Total	55	69	11	15	
% of Total			20	22	

Note: SR (significant recommendation) and GPR (Good Practice Recommendation) relate to the previous categorisation of Internal Audit recommendations.

Appendix E

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 3.6 – 3.15 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 and detailed in the Assurance Strategy & Planning Document]***

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 undertaking CPD]***

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 9 of this Annual Report]***
- Internal Audit follow up their recommendations to ensure action is taken. ***[See paragraphs 3.32 – 3.36 of this Annual Report]***

Critical Success Factor 6

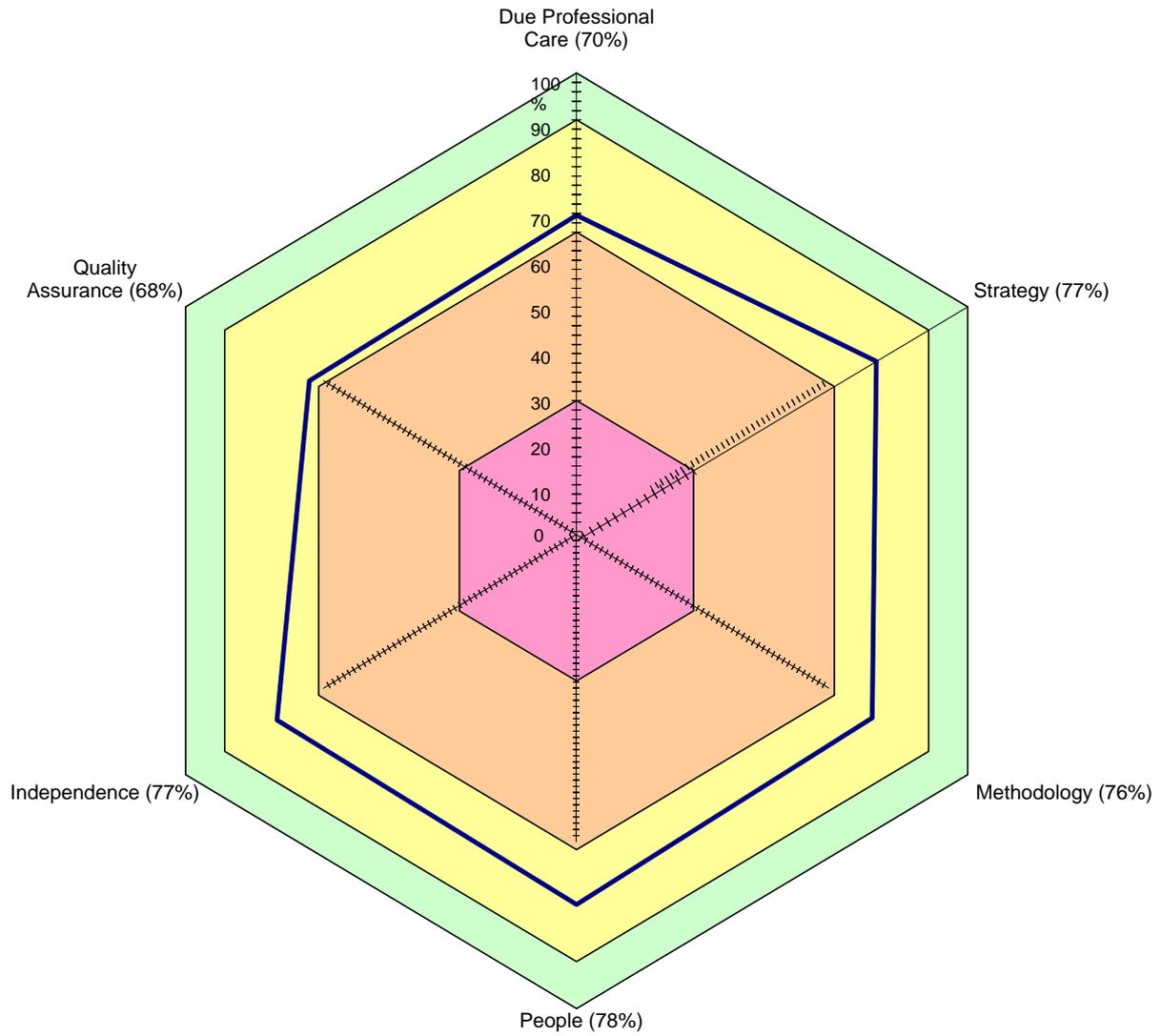
Holding Internal Audit to account for its performance.

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. Specific comment on the conduct of an audit is also requested via the Customer Satisfaction Survey which was implemented in 2006/07]***

Appendix F

Internal Audit Capability Self Assessment Toolkit



Appendix G

Internal Audit Plan 2007/08

2007/08	No of Days
Governance	
Strategic Plan 2007-2011(Implementation & Monitoring)	10
Ethical review & clinical governance	15
Policies & Procedures overview (inc assessment of trigger mechanisms)	10
	35
Strategic Areas	
TRAC / fEC implementation	15
Advanced Forming Research Centre (AFREC)	10
Payroll/HR system implementation overview	10
E-Procurement (McClelland Report)	10
Student Retention	20
Revision to SFC Code of Audit Practice	10
Fixed Contract Regulations (review of monitoring process)	5
RAE 2008	10
	90
Value for Money	
Environmental Policy & Management	10
Transportation	10
	20
Central & Academic Services	
Finance Office	
Treasury Management & Investments	15
Superannuation	10
VAT	10
IRD - ITS	15
ITS computer audit review (out sourced)	5
EM - Space Management & Planning	15
OMC -International & Graduate Office	15
Registry	20
HR -Disciplinary Procedures	10
Principal's Office	10
	125
Faculty Areas	
Strathclyde Institute of Pharmacy & Biomedical Sciences	15
Biological Procedures Unit	10
Management	10
Modern Languages	10
History	10
Bioengineering	10
Glasgow School of Social Work	15
Faculty of Engineering	10
	90
Other Audit Areas	
Students Association - Commercial Services	10
Students Assoc - Executive Expenses	5
Summer Academy @ Strathclyde	10
Scottish Institute for Residential Childcare	10
Disability Services	10
	45
Capital Project Review	
SIPBS	15
	15
EU Grant Claims	20
Follow-up	20
Contingency	50
Meetings (Internal)	28
Meetings (External)	10
Audit Committee	33
Audit Planning	13
Conference	12
Training (internal)	18
Training (external)	12
Total	636