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1 Introduction

- 1.1 This Annual Report which the Internal Audit Service (IAS) has prepared is intended to meet two objectives:
- To provide the University's Court and Accounting Officer (the Principal) through Audit Committee, with a formal opinion on the adequacy of the University's arrangements for:
 - Risk management, control and governance;
 - Economy, efficiency and effectiveness;
 - To provide the University's Court and Accounting Officer (the Principal) through Audit Committee, with an account of the activities and resources of IAS during the period from 1 August 2007 to 31 July 2008.
- 1.2 The Report is grounded in the whole activity and the work of the IAS, whether in terms of formal audit evidence and work, ad hoc/consultancy activity, or evidence gathered through being 'part' of the institution as an 'in-house' service.

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

2.2 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.

2.3 Objectives

In order to provide that assessment, the IAS 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.

2.4 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;
- 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.

2.5 Independence

The IAS 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 IAS. The IAS 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. The reporting lines of the IAS, enables the service to remain, very clearly, independent. For day-to-day administrative purposes, the Head of the Internal Audit Service reports directly to the Secretary to the University. However the IAS has unrestricted rights of access to all of the University's records, information, staff and assets, which it considers necessary to fulfil its responsibilities. The Head of the Internal Audit Service has a right of direct access to the Convener of Court, the Convener of Audit Committee, the Treasurer and the Principal. The Head of Internal Audit meets on a regular basis with the Convener of Audit Committee outwith the cycle of Audit Committee meetings.

3 Staff Structure

- 3.1 The IAS had a full complement of staff throughout 2007/08; there are three full time posts in the department: -

Head of Internal Audit : Clare Urquhart [B.Acc, CPFA]

E-mail: cl@xxx

The Head of Internal Audit has overall responsibility for the management and development of IAS; the preparation of detailed annual audit plans; liaison with external auditors and other consultants; monitoring and review of all the University's management practices, operations, systems and procedures; preparation of the IAS Annual Report and ensuring the department's adherence to relevant professional auditing standards and the Funding Council's Code of Audit Practice.

Senior Internal Auditor : John Basketter [BA (distinction), CPFA]

E-mail: john.bask@xxx

The Senior Internal Auditor is responsible for his own portfolio of audits; carrying out ad-hoc investigations as well as deputising for the Head of Internal Audit and assisting in the development of the department.

Internal Auditor : Margaret Gray

E-mail: mg@xxx

The Internal Auditor undertakes her own portfolio of audit visits to departments as well as support work on other audits undertaken by the audit team and a variety of other work as directed by the Head of Internal Audit.

In addition, from January 2008, administrative support has been provided one day a week to the IAS by **Amanda Reid**, ar@xxx, who is based three days a week within the Safety Services department.

- 3.2 Appendix B outlines the summary staff skill set of the IAS during 2007/08. The particular skill set which the three members of staff bring to the IAS will continue to strengthen IAS in 2008/09.

4 2007/08: A Review of the Year

- 4.1 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 2007/08.

Alignment with the Excellence Agenda

- 4.2 Throughout 2007/08, IAS has continued to be active in the CAS consultation process regarding the University's new Strategic Plan (2007 - 2011). Both the Head of Internal Audit and the Senior Internal Auditor attended a variety of meetings and discussion forums throughout the year.
- 4.3 In line with other CAS departments, IAS also produced a Strategy Statement Implementation update report in March 2008 (which identified the main areas of progress in relation to the IAS Strategy Statement produced in July 2007).
- 4.4 The update exercise highlighted how the IAS is very clearly focused and aligned with the University's 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. This assists 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.

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 arrangements for Risk Management, Control, Governance and economy, efficiency and effectiveness as contained in this annual report; 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.
- 4.5 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.
 - 4.6 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

- 4.7 Risk identification and assessment belongs to Management. It is therefore essential that the audit strategy and plans incorporate Management's risk priorities. The University's current approach provides a structured methodology to identify, assess and manage risks to the achievement of the University's objectives.

- 4.8 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 approach from both the bottom up (departments) and top down (management) perspectives. Strategic issues which have emerged from the University's internal risk management and identification processes have also been assessed and incorporated into the IAS work plans.
- 4.9 The risk reports produced by the Faculties/CAS have been examined by the Head of Internal Audit and further discussed during the audit planning meetings, which the Head of Internal Audit and Senior Internal Auditor undertake each year with the Deans, Senior Officers and Senior Administrative Staff. During the course of the 2007/08 up date exercise, IAS staff met with 20 senior members of staff, giving management an opportunity to raise areas of concern and to highlight processes considered to be of high risk.
- 4.10 IAS seeks to utilise Management's resulting risk analysis and evaluation, to help form the basis for operational and strategic plans. In this way, IAS is able to provide the assurance to Management and Audit Committee on the key risks facing the University as well as assisting in managing/reducing those risks through IAS recommendations.
- 4.11 During 2007/08, 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 C. 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.
- 4.12 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 2007/08.
- 4.13 In 2007/08, approximately 26 risk assessment reports were also submitted to UMC by non Faculty departments (e.g. ITS, Estates Management, Finance Office, Secretariat, Human Resources, Research and Innovation, Library Services 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.
- 4.14 Every unit manager at Strathclyde must be aware of risk and demonstrate in their reports that they are anticipating and managing them (the 'bottom – up' approach). During 2007/08, 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. Holistic Business Process Review Group, Full Economic Costing for Research Working Group, Estates Strategy Committee) are established within the University which provide a more strategic forum for reviewing risk (the 'top-down' approach).
- 4.15 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.
- 4.16 In line with the University's risk management process, an assessment of the perceived key risks affecting IAS was reviewed and updated during 2007/08. The Risk Assessment was presented to Audit Committee at its June 2008 meeting.

- 4.17 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 are being managed effectively.

Areas Reviewed

- 4.18 The following ten reports have been undertaken during 2007/08:-
- Hunter Centre
 - Centre for Skills Enhancement
 - Biological Procedures Unit
 - History
 - Bioengineering
 - Modern Languages
 - Glasgow School of Social Work
 - Treasury Management
 - Scottish Institute for Residential Childcare
 - Disability Services
- 4.19 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 (e.g. Treasury Management), a more tailored audit programme is prepared and undertaken. Work has also been undertaken to review and further enhance the IAS audit programme for departmental internal audit reviews. For 2007/08 the audit programme also included additional sections on reviewing departmental procedures regarding Ethics, Disability and the implementation of the new departmental Strategic Plans.
- 4.20 During 2007/08, IAS also finalised a review on a University Fraud Prevention Policy (incorporating a detailed Fraud Response Plan) and updated the IAS Audit Manual to ensure the manual reflects current best auditing practice.
- 4.21 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 including an overview of the University's TRAC model in line with Quality Assurance and Validation (QAV) methodology utilised by the Research Councils UK;
 - Review of the Transparency Review Return for 2007 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;
 - Absence Management;
 - Student Recruitment;
 - VAT;
 - Ethical Review and Clinical Guidance;
 - Project Management Procedures;
 - Additional Staffing Payments.
- 4.22 IAS also undertook a detailed investigation in 2007/08 under the University's Public Interest Disclosure Policy regarding University expense claims within a department (See Section 7).
- 4.23 The IAS also investigated two incidences of theft within Residence and Catering and provided further assistance at strengthening controls in a number of operational systems within the department.
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- 4.24 The work of the year has encompassed both academic and administrative departments across both campuses. The listing illustrates the broad mix of different types of areas which have been reviewed during the course of the year.
- 4.25 An analysis of the recommendations made and the specific areas where the recommendations were made is summarised in Appendix D. The common themes which emerged from the audits undertaken during 2007/08 included instances where:-
- Departments bypassed the University's commitment accounting system;
 - Departments showed unfamiliarity with the University's Purchasing Manual with regard to invoices not being signed or authorised correctly;
 - Departments allowed staff to purchase IT equipment through expense claims;
 - Departments showed some unfamiliarity with the University's tendering procedures and the requirement to complete, where appropriate, a single source justification form;
 - The University's proforma forms for disposal of assets was not always completed and authorised;
 - Departments did not always have sufficient evidence to demonstrate compliance with the University's data protection policy;
 - Departments did not always have a mechanism in place for recording Freedom of Information requests.
- 4.26 IAS also continues to undertake the audit certification of EU 6th Framework grant claims. This has again proved both challenging and interesting given the diversity and complexity of contracts in which the University has been involved in, over the past year. The involvement of IAS has saved the University from the direct cash costs of external accounting fees. The IAS is the only in-house Internal Audit Service in Scottish Higher Education currently undertaking such certification work. Audit work undertaken in this area however compliments the audit review work undertaken within departments, particularly with regards procurement practices and expense claim certification. During the course of 2007/08 a total of 32 claims (17 claims in 2006/07) have been reviewed by IAS and an appropriate audit certificate, in accordance with EU guidelines has been provided. During 2007/08 the University's procedures for the compilation of EU claims (including audit certification) was reviewed externally by EU appointed Auditors. The outcome of the review concluded that the EU Auditors were fully satisfied at the current systems and procedures in place within the University.

Value for Money

- 4.27 The term 'value for money' (VFM) is commonly used to describe the combination of economy (spending less), efficiency (spending well), and effectiveness (spending wisely). More recently, definitions of VFM in the public sector have focussed on four elements:
- Inputs – in terms of price, quantity and quality;
 - Outputs - in terms of price, quantity and quality;
 - Processes – activities that convert inputs into outputs;
 - Allocative efficiency – the deployment of limited resources to deliver the maximum overall benefit to the organisation in terms of its agreed strategy.

VFM benefits are also often classified as 'cashable' or 'non cashable':

- Cashable – where there is a direct financial saving or benefit;
 - Non cashable – where there may not be lower costs or increased income but where there is improved performance for the resources used.
- 4.28 The Funding Councils, internal audit practitioners, and audit committees have recognised for a number of years, a need to move away from the one off style of VFM reporting towards a more holistic review process. In this way, management integrates its VFM activities into regular management processes (academic and non academic) with the ultimate aim of it being embedded in the institution's management culture in a similar fashion to risk management. During 2007/08 the Head of Internal Audit produced a briefing paper for Audit Committee members to highlight to Audit Committee the current changes in perspective with regards VFM contained within the new 2008 HEFCE Accountability and Audit: Code of Practice, and to outline how VFM is reviewed within the context of the University.

- 4.29 Conducting VFM studies is not the only way to show a commitment to value for money. Existing management practices that seek to integrate VFM principles and the active promotion of a culture of continuous improvement are two alternative approaches. Conducting a VFM study does not in itself demonstrate VFM. This is dependent on the result of the study and on any action taken in response to its findings.
- 4.30 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.
- 4.31 A number of activities can also be identified as giving a wider appreciation of the University's effectiveness than the more traditional market testing and bench marking of service provision. Examples of such activities undertaken by the University which can be viewed as facets of performance include:
- Strategic planning process;
 - Key performance indicators;
 - Financial strategy and the budget setting/cost reduction process;
 - Costing and pricing policies (TRAC/fEC);
 - National Student Survey;
 - Risk Management;
 - Course costing and portfolio reviews;
 - Business process reviews and systems development;
 - Performance appraisals and career development;
 - Purchasing activities;
 - Programme quality processes;
 - Discrete reviews via the Holistic Review process.
- 4.32 A year into implementation, the Agenda for Excellence has had a very real impact not only on the work of IAS but across every area of the University. Firstly, the self examination opportunity provided by the whole exercise has resulted, from an operational viewpoint, in further enhancements to day to day work practices to enable areas to do things more efficiently and effectively (e.g. post graduate recruitment process). Secondly, the knock on effect of the changes and reviews being undertaken across all University departments and key systems has resulted in changed priorities and enhanced streamlining.
- 4.33 It has become very apparent to IAS during 2007/08, as the implementation process has progressed, of the very real potential to harness synergy and forge collaboration to fulfil both audit reporting requirements to Audit Committee and provide independent and useful information to help inform the Holistic Business Process Review Group, established by the University to oversee business process reviews in identified priority areas (Marketing, Undergraduate Admissions, Undergraduate Experience, Information and Communication Technology, Procurement, Estates decision making and the Staff Experience). The aim of the reviews is to identify how the processes could work more efficiently, saving both time and money. Business process review is very much in the same genre of what IAS is all about. During 2007/08, IAS contributed via financial analysis and advisory comment, to the work of some of the specific review groups established to review Marketing spend and IT spend. The Head of Internal Audit has also contributed advice and helped facilitate workshops for the Holistic Review Group set up to review Procurement practice within the University.
- 4.34 The IAS is committed via work contained in our audit plans to helping the University ensure that satisfactory arrangements are in place, via a variety of different mechanisms, to continue to promote and secure value for money within the University. In 2007/08, the IAS has also undertaken work with some key University departments.
- 4.35 In liaison with Finance Office, Purchasing Services, and Information Technology Services (ITS), IAS continues to examine the opportunities for potential savings to the University through increased use of electronic commerce. The University's e-Procurement Strategy and the introduction of the PECOS e-procurement system has many VFM implications for the University. IAS's involvement on the e-procurement Working Group alongside representatives from Purchasing, Finance and ITS,

ensures that opportunities are grasped whilst ensuring that the associated risks have been identified, measured and managed. Working with colleagues in Purchasing, Finance Office and ITS, IAS has helped the ePS Working Group assess the likely costs/benefits and practicalities associated with introducing PECOS at Strathclyde and any future constraints or limitations that may arise from its introduction.

- 4.36 Work with Estates Management has included attendance by IAS staff at over 24 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. As a result of our ongoing liaison with senior Estates staff, IAS monitoring of large capital projects, continues to be strengthened with access to the Progress Report Template used by Project Managers to track the progress (financial and technical) of each project.
- 4.37 During 2007/08 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 was completed in this area in December 2007.
- 4.38 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 2007/08 were again questioned by IAS.
- 4.39 The implementation of the reports recommendations helps 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.
- 4.40 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. During 2007/08 further enhancements to the IAS working documents has been undertaken which will require Auditors to complete a Process Evaluation Summary for each audit review, which amongst other things will require specific sign off on any indications of poor value for money.
- 4.41 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 2008/09.
- 4.42 Based on the value for money work undertaken during 2007/08 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.

Follow-Up Activity

- 4.43 It is essential that audit recommendations, once accepted by management, are acted upon. Follow up of internal audit reports and assessing whether agreed action arising from recommendations made, has been implemented, is an important aspect of the IAS. 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. This revised reporting format for follow-up was implemented in 2007/08. The overall aim has been to further enhance the effectiveness of IAS

written communication to Audit Committee and its wider University audience. In 2007/08 follow-up activity involved a review of eighteen reports.

Follow-Up Process

- 4.44 Heads of Department are asked to provide, three months following the issue of a final report, an update which details progress made on the implementation of agreed recommendations. 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. Conversely, it also highlights areas where little or no action has been taken which require further investigation by the IAS. This process enhances but does not replace the requirement to undertake a full follow-up audit visit to each area.
- 4.45 Following receipt of the three month progress report, the IAS visits the relevant department and performs audit work which is designed to obtain assurance on the implementation of recommendations. This is achieved through sample audit testing, review of documentation and discussions with members of staff. IAS assess the status of the recommendations using a simple traffic light basis for reporting purposes e.g. fully implemented (green), partly implemented (amber) and not implemented (red).
- 4.46 On the completion of the follow-up exercise, it was noted that 75% of all recommendations had been fully implemented for areas which had undergone a first follow up visit. An analysis is included in Appendix E. 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, regarding implementation of the outstanding recommendations.
- 4.47 In order to heighten awareness of action required to be taken to address recurrent audit recommendations, the Convener of Audit Committee accompanied by the Head of Internal Audit attended a meeting of the University's Management Committee in May 2008 to discuss a briefing paper produced by IAS on common audit findings. The paper was well received and is currently being circulated widely throughout the University.

Transparency Review/Full Economic Costing

- 4.48 During 2007/08 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.
- 4.49 The most significant impact on the TRAC process for the year under review has been the introduction of a Quality Assurance process by the Research Councils. The introduction of fEC has resulted in the Research Councils paying a greater proportion of the costs of research that they fund. This has resulted in the development of a Research Council policy for a quality assurance and validation review of each Institutions operation of TRAC. As a result of the QAV review coordinated by the fEC Accounting Manager, with necessary input from members of the University's Full Economic Working Group (FECWG), all elements of the TRAC process have been reviewed during the completion of the 2006/07 Return
- 4.50 Members of IAS (Head of Internal Audit and Senior Internal Auditor) have also continued to attend 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 the University to be informally benchmarked by IAS against peer Institutions.
- 4.51 IAS has regular meetings (normally monthly) throughout the year with the fEC Accounting 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 fEC Accounting 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 meetings, the Auditor met with the fEC Accounting Manager and specifically reviewed the collation of the TR Return for 2006/07 and the QAV documents.

- 4.52 In the past year, changes have arisen as a result of the undernoted three key reasons:
- Changes arising from updates to the TRAC Guidance Manual;
 - Changes arising from the QAV Review;
 - Changes arising from work undertaken on the University's revised Resource Allocation Model (RAM).
- 4.53 Specifically work has been undertaken in reviewing:
- The Income model which is used for allocating income across the five reporting categories and the implementation of the Guidance updates;
 - The expenditure model which is used for allocating costs across the five reporting categories and the implementation of the Guidance updates;
 - The TRAC adjustments (infrastructure, which compensates for the understatement arising from the use of historic costs and the 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;
 - Approach taken by the University with regards charge out rates for Laboratory Technicians and Major Research Facilities (MRF);
 - The Estates Driver information including the weighted space calculation;
 - The charge out rates for Research;
 - Work was also undertaken in reviewing the voluntary TRAC for teaching submission.
- 4.54 Audit testing of arrangements for the 2006/2007 Transparency Review Return and on the general progress of the University meeting the TR requirements proved satisfactory. Review work 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. The outcome from the QAV review undertaken in July 2008 has also confirmed this IAS viewpoint. IAS will continue to monitor and review closely developments in this area during 2008/09.

IAS Communications

- 4.55 Communication is a key factor in the work that IAS undertakes. It is essential that the department communicates effectively with all its clients. During 2007/08 a number of enhancements have been made to a number of our communication mechanisms.
- 4.56 We have continued to enhance the IAS web pages to ensure that they are clear, relevant, up to date and user friendly to enable the pages to be viewed by all staff as a useful reference site with regards information on good administrative practices and internal control guidance.
- 4.57 IAS has commenced our aim to be more proactive in the provision of training on audit related matters via presentations to a variety of forums throughout the University. Each new Head of Department was contacted in November 2007 to arrange a suitable time to meet with the Head of Internal Audit to discuss in an informative yet informal manner the key policies and expected controls from an IAS perspective which should be operating within any department. In addition, each department has been offered the opportunity to have a member of the IAS team attend a departmental meeting or other suitable departmental forum, to enhance the understanding and perception of the IAS, to ensure that the work of the IAS is clearly seen to add value and be helpful to departments in achieving their goals. IAS staff attended a number of such departmental meetings and were encouraged by the feedback received from departments visited. It is planned that these types of visits to departments will continue in 2008/09.
- 4.58 IAS launched its first audit newsletter 'Audit Insights' in November 2007. The quarterly Audit newsletter aims to provide another forum for good practice, areas to watch out for and for the general operation of IAS to be communicated in a relatively informal yet informative manner. Hard copies have been issued to all Deans, Senior Officers and Heads of Department, with the electronic version available via the IAS web pages. Notification of the availability of the electronic version has been communicated by e-mail to the wider University Community via the University's Weekly Digest.

4.59 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. To help facilitate this during 2007/08 IAS introduced 'Drop-in Sessions' every Thursday between 12.00pm and 2.00pm where staff can come to the IAS offices in person (no appointment is necessary) to discuss a variety of matters on a one to one basis with a member of the Internal Audit Service team. Audited departments (and indeed staff in general) regularly contact IAS for advice. As a department we welcome this.

Other Work

4.60 A variety of other work has been undertaken throughout 2007/08, 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, Librarian and Head of the Information Resources Directorate, Director of Finance, Director of Information Services, Director of Estates Management, Director of Research and Innovation, Head of Purchasing, Head of Safety Services, fEC Accounting 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;
- The Court members Register of Interest was reviewed;
- IAS staff attended Print Unit Management meetings;
- In June 2008, 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 all staff are 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;
- All staff attended CHEIA's annual conference at Aston University;
- IAS staff also continued to attend the CHEIA regional meetings throughout 2007/08. 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;
- The Head of Internal Audit also continued to communicate with her counterparts from the Universities of Twente, Charles Sturt University in Bathurst NSW and Melbourne. 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 2007/08;
- IAS now has its own Safety Committee. The Senior Internal Auditor has taken on the role of the IAS Safety Convener and attended a variety of Safety Training courses in 2007/08;
- The Head of Internal Audit attended a meeting with other Higher Education Heads of Internal Audit (in-house and external) at the Scottish Funding Council in August 2007;
- The Head of Internal Audit (along with the fEC Accounting Manager) attended a workshop run by the Head of Assurance at RCUK in Edinburgh in October. The aim of the workshop was to provide an overview on the aims of the QAV process;
- In November all members of staff attended the 'Excellence in Higher Education Internal Audit' Conference hosted by HEFCE in London;
- The Internal Auditor attended Post Court and Post Senate de brief meetings throughout 2007/08;
- Further enhancements were undertaken to IAS's monitoring schedules with the weekly timesheets now completed in hourly tranches instead of quarter days. This has enhanced our monitoring of audit time charged against the assignments detailed on the annual audit plan to ensure that the efficiency of the service provided can be clearly monitored;

- IAS has also reviewed, updated and expanded our departmental Audit Programme to ensure that it is 'fit for purpose'. The review process involved consultation with the appropriate Heads of Service (e.g. Safety Services, Disability Service) to ensure the scope and depth of audit testing was appropriate;
- Clearer linkage between our Audit Programmes, electronic audit working papers and audit report findings and recommendations has also been strengthened during 2007/08.

5 QUALITY ASSURANCE AND PERFORMANCE MEASURES

Quality Assurance Arrangements

- 5.1 During 2006/07 HEFCE in collaboration with CHEIA launched a self-assessment toolkit aimed at enhancing and developing internal audit practice across the higher education sector. Three in-house internal audit providers piloted the tool during 2006/07. Using feedback from the pilots, CHEIA agreed a definitive version of the tool for use to assess the 2007/08 year.
- 5.2 The tool is a spreadsheet based assessment comprising of 60 questions, against which the assessor rates the audit service on a four point scale as either Best Practice, Good Practice, Partially Compliant or Potentially non-Compliant. Responses to these questions are then weighted across the six assessment categories resulting in a web diagram which illustrates the department's operating position across the six criteria: due professional care; strategy; methodology; people; independence and quality assurance.
- 5.3 In 2008 the respective heads of the audit services of the original pilot Universities; Newcastle, Durham and Edinburgh, were joined by the Head of Internal Audit to participate in a four way independent review of the quality of the audit services provided at each of these institutions'. The Secretary to the University and the Convener of Audit Committee both welcomed IAS's participation in this process. The purpose and spirit of the review process was seen to be very much in line with the University's Agenda for Excellence.
- 5.4 The 2007/08 peer review process involved completion of the revised electronic toolkit with submission to reviewers of all necessary evidence to support the assessment category identified in the toolkit. Review of the individual toolkits and the submitted evidence was then undertaken by the other three Heads of Internal Audit with a face to face meeting held at Edinburgh University in July 2008 for all participants to seek clarification on any issues independently identified by the peer reviewers. The outcome from the process is peer validation of the assessment categories generated via the toolkit.
- 5.5 The internal audit self assessment tool provides a percentage score, with 100% representing best practice. The results of the review of the IAS are detailed below with the resulting web diagram illustrated in Appendix F:

Criteria	Strathclyde University
Due Professional Care	80%
Strategy	75%
Methodology	77%
People	70%
Independence	84%
Quality Assurance	75%
Overall Average	77%

- 5.6 These gradings have been agreed and validated by the heads of audit of the three other participating institutions and a formal opinion has been issued by the three respective heads of audit on the IAS self assessment.

5.7 As can be seen from Appendix F the IAS at Strathclyde sits well, however we must never become complacent. A detailed action plan has been prepared and throughout 2008/09 measures will be put in place to increase our scoring further. The measures to be implemented have been reported to Audit Committee.

BUFDG Audit Survey Results

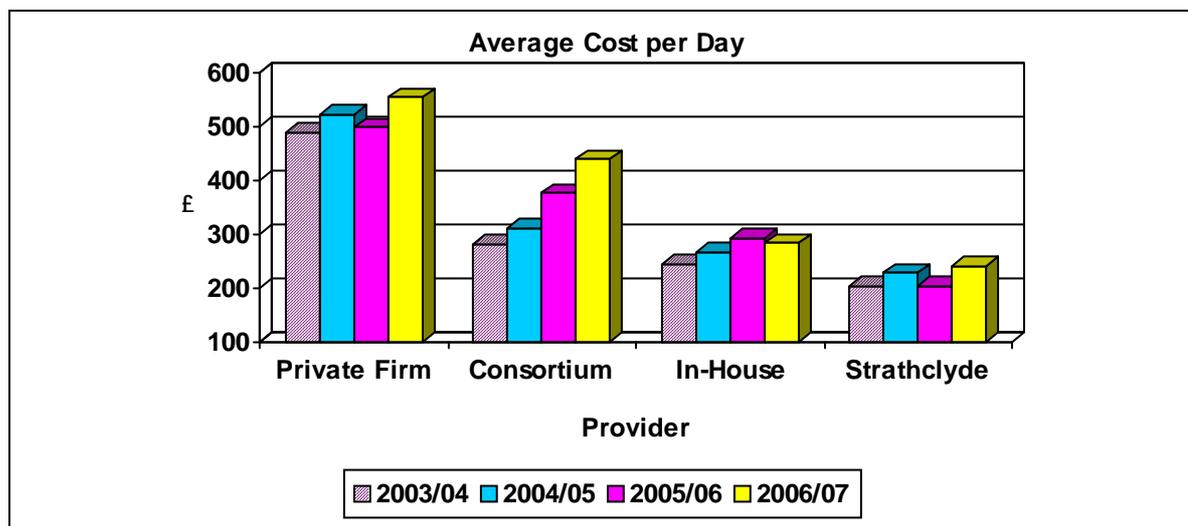
5.8 The latest British Universities Finance Directors Group (BUFDG) Annual Audit Survey relating to 2006/07 was issued in July 2008. The results of the survey are used by a number of Institutions to help benchmark both their internal and external audit provision. The response rate of 120 institutions from a possible 162 gave a response rate of 74% (66% in the previous year). 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 and the costs of internal staff are most likely not the full economic cost). The survey has confirmed, the percentage split over the different methods of internal audit provision as:-

Internal Audit Provider	2006/07	2005/06	2004/05	2003/04
External firm	68%	66%	65%	60%
In-house	14%	18%	23%	28%
Consortium	13%	11%	10%	8%
Other	5%	5%	2%	4%

5.9 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. Some institutions chose to combine in-house internal audit with professional firms' services.

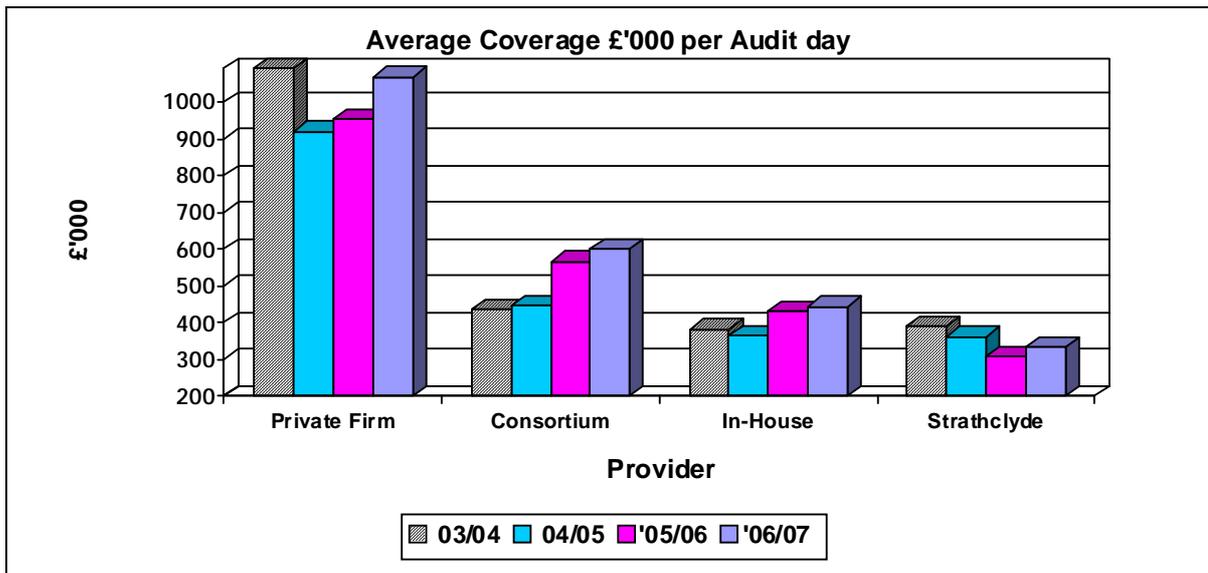
5.10 From the most recent BUFDG Annual Audit Survey results, an analysis of 20 Universities where the gross annual expenditure was greater than £200m (Strathclyde's = £197m) indicated that 35% of these institutions utilised in-house provision of internal audit services.

Audit Costs



5.11 The above graph provides an indicator as to the value for money provided by IAS. The IAS figure of £240 per day for 2006/07 is considerably lower than the average cost per day of the private firms (£554) and also compares favourably with the average cost per day (£283) of in-house providers and of Consortium providers whose average cost per day is £439. The total average cost per day across all providers is £359.

Activity v Institutional Size



5.12 The above graph 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 £1069k of University spend. In comparison, for every one audit day undertaken by Strathclyde’s IAS, it covers approximately £334k of University spend. Consortium providers cover approximately £600k. This should be a reassuring message for Audit Committee.

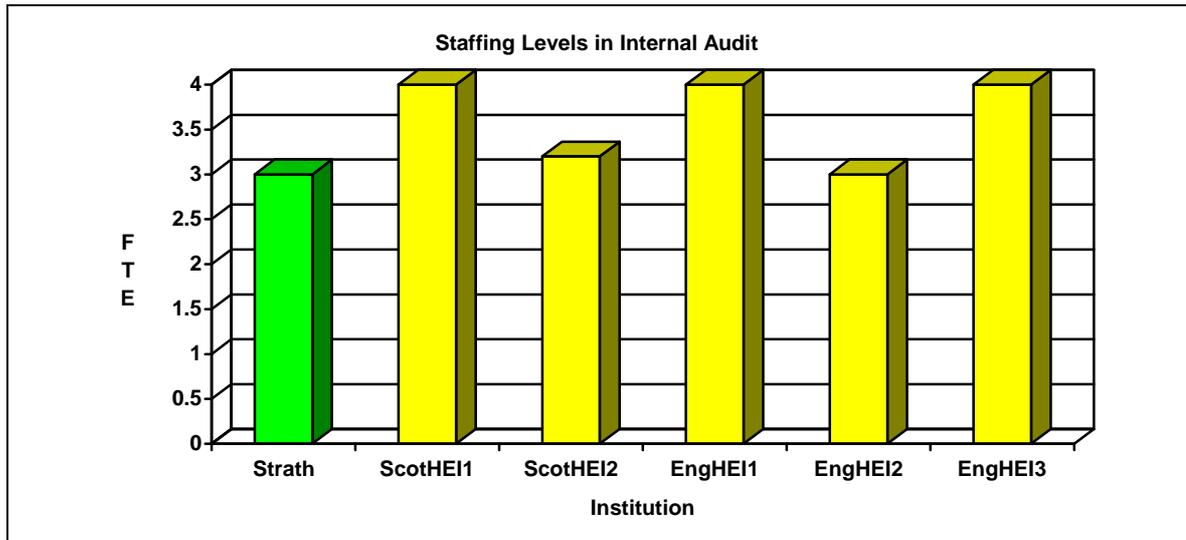
5.13 The average of all in-house providers is £443k. The figures highlight the difference in audit coverage between external providers and in-house providers over the past five years. The total average coverage per audit day across all providers is £568k.

Staffing Levels

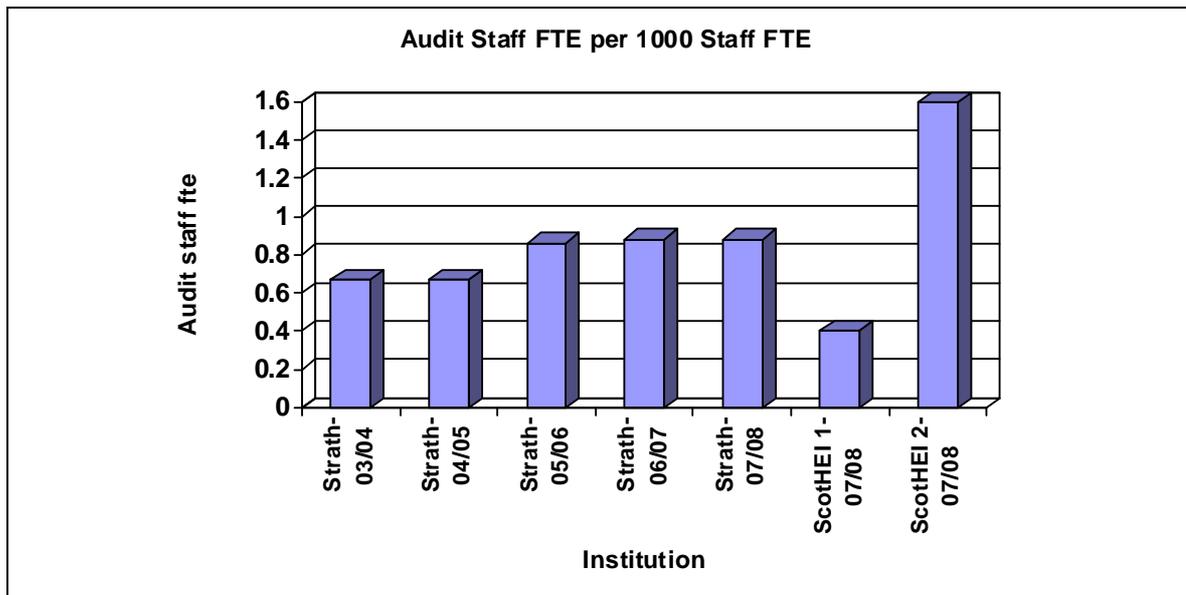
5.14 A simple comparison with the other Scottish Universities with in-house providers and with three other broadly comparable English Higher Education Institutions is illustrated below.

5.15 The graph on the following page indicates that Strathclyde comes near the lower end 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 3.2fte. The English HEIs average 3.7 fte staff.

Staffing Levels in Internal Audit



Staffing Level v Institutional Size

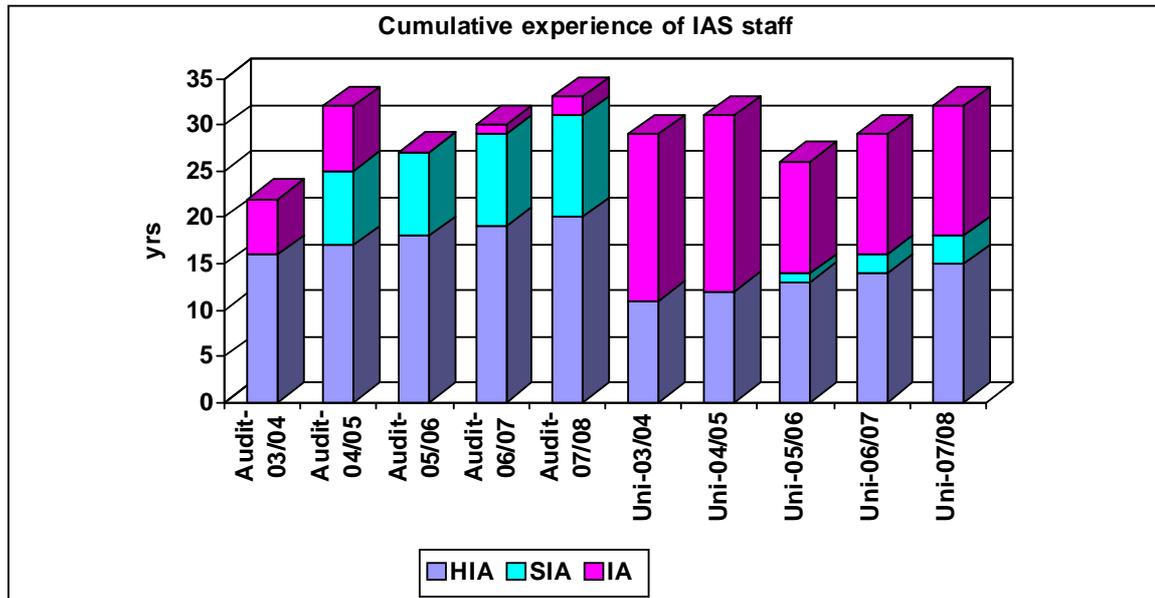


5.16 With 3 full time members of staff in 2007/08 the ratio results in approximately 0.88 audit staff fte per 1000 staff fte. In relation to the two other Scottish HEIs with in-house teams, although one (ScotHEI1) has more audit staff than Strathclyde, their higher total University staff fte results in the above graph comparison. Similarly ScotHEI2 has the equivalent to 1.6 audit staff fte per 1000 staff fte although their total University staff ftes are the lowest in the group.

Experience of Staff

5.17 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 2007/08, there was 33 years of audit experience and 32 years experience of the University within the department.

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



Performance

- 5.18 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.
- 5.19 During 2007/08 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. 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 2008/09, 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.
- 5.20 The reports undertaken in 2007/08 build upon those that were issued in 2006/07 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.
- 5.21 During 2007/08 departments have again responded well, adhering to providing a response by the specified date detailed in the memo accompanying the draft report and completing the Client Satisfaction Survey.
- 5.22 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. 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

- 5.23 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.
- 5.24 The collated results of the Client Satisfaction Surveys completed to date are detailed in the table below:

	Highly Satisfactory (%)	Satisfactory (%)	Unsatisfactory (%)
1. GENERAL			
How would you rate the overall usefulness of the audit?	62	38	0
Explanation of audit objectives	85	15	0
Professionalism of Auditor carrying out the work	85	15	0
2. QUALITY OF AUDIT REPORT			
Overall clarity & presentation	54	46	0
Relevance of findings and recommendations reported	38	62	0
3. TIMING			
Duration of audit process	31	69	0
4. COMMUNICATION			
Helpfulness of Auditor	82	15	0
Sufficient consultation during audit process	77	23	0
Consultation on findings & recommendations	69	31	0

- 5.25 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 carried out in a most efficient yet supportive manner. The quality of the process is to be commended."

"A very positive experience. Excellent people to work with"

6 Audit Planning Approach and Audit Plan for 2008/09

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 IAS 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, to enable new developments to be taken into account and to allow for the plan to be rolled forward appropriately.

Audit Coverage

- 6.4 There must be sufficient evidence underpinning the IAS assessment to make it reliable. 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 IAS 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.
- 6.5 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.
- 6.6 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 Risk Assessment

- 6.7 The Audit Universe is a listing of all the University processes that could be considered for internal audit review. The Audit Universe is a 'live' document that requires to be updated on a regular basis to ensure that it continues to capture all relevant University areas and processes.
- 6.8 In consultation with the Convener of Audit Committee, time was allocated at the Audit Workshop in February 2008 to discuss in more detail the current content of the Audit Universe. Audit Committee members conveyed satisfaction at the process.
- 6.9 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 167 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

- 6.10 Both CHEIA and HEFCE have developed suggested listings of auditable areas which provide a useful checklist to ensure the completeness of the Strathclyde Audit Universe.

Scoring

- 6.11 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.
- 6.12 Each system/activity has been assessed over the following four attributes:
- Materiality
 - Inherent Risk
 - Control Risk
 - Reported Weaknesses
- 6.13 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.
- 6.14 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 planning categories.
- 6.15 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]

- 6.16 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.
- 6.17 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.
- 6.18 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 2008 meeting of the Audit Committee, and the June 2008 meeting of Court. The 2008/09 Annual Plan is included as Appendix G to this Annual Report, for information.

7 Public Interest Disclosure Policy

- 7.1 During 2007/08 IAS dealt with one case (value investigated <£350) regarding University expense claims under this procedure. The Head of Internal Audit liaised with Senior Officers and the Convener of Audit Committee during the course of the investigation which was fully reported to Audit Committee members. IAS is satisfied that the University system in general, for processing expense claims, is satisfactory. The Expenses Guidelines were recently updated (August 2007) to provide a

clear and comprehensive written document which was widely circulated throughout the University. Controls are in place at departmental level or in the case where a Head of Department is concerned at Faculty level, via the Dean's Office, to appropriately authorise the expenses made by a claimant. Authorisation is required to be made on the basis that the authorising signatory is satisfied that expenses have been 'wholly, exclusively, reasonably and necessarily incurred in the performance of the (claimants) duties'. Controls are also in place within the Finance Office to review the claim forms to ensure they have been correctly authorised, that the expenditure claimed is in compliance with the Guidelines and that the expenditure is also adequately supported with legitimate receipts.

8 Freedom of Information (Scotland) Act 2002

- 8.1 During 2007/08 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 Internal Audit Assessment

Basis of Assessment

- 9.1 As well as adhering to the SFC's Code of Audit Practice, IAS staff are also required to conduct audit activity in accordance with the professional and ethical standards set out in the:
- Government Internal Audit Standards (GIAS) and various 'Good Practice Guides' (HM Treasury 2001 onwards);
 - Code of Ethics and International Standards (March 2004) of the Institute of Internal Auditors (IIA);
 - IIA Position Statement on Risk Based Internal Auditing (August 2003);
 - Professional Institute Auditing Standards (CIPFA).
- 9.2 Given the breadth and complexity of the systems operated by the University, it is unlikely that any annual operational assurance plan would manage to cover all systems for managing risk in sufficient depth – this is certainly the case at the University of Strathclyde. Consequently our assessment considers, not just the work performed in each year, but the work over the period of a strategic assurance plan (in this case three years). In addition the IAS Annual Assurance Strategy and plans report reviewed assurance coverage over the strategic risks of the University.
- 9.3 The IAS is required 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. In giving this assessment, IAS can only provide reasonable, not absolute assurance there are no major weaknesses in the University's risk management, governance, control and value for money arrangements. It should also be noted that the primary responsibility of the provision of adequate control and the detection of fraud lay with University Management. In assessing the level of assurance to be given, we have taken into account:
- All assurance work undertaken during 2007/08 and work undertaken in previous years over the period of the strategic assurance plan and in the period up to finalisation of this report;
 - All follow up action taken in respect of audits from previous periods;
 - The effects of any changes in the University's control environment;
 - The results of consultancy/adhoc work undertaken during 2007/08 specified in this report.
- 9.4 The IAS is satisfied that our work undertaken to date allows us to draw a reasonable conclusion as to the adequacy and effectiveness of the University's risk management, governance, control and value for money processes.

The Assessment

- 9.5 In our opinion the University of Strathclyde has adequate and effective arrangements for:
- Risk Management;
 - Control;
 - Governance; and
 - Economy, efficiency and effectiveness.
- 9.6 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.
- 10.2 The launch of the University's new Strategic Plan 'Investing in Excellence' has seen the University move forward in a very focused and dynamic way. The implementation of the new Plan across departments and key systems has in some instances resulted in changed priorities and therefore potential risk profiles. As the University moves further forward in implementing the Strategic Plan in 2008/09, undoubtedly new risks will emerge which the University will need to manage. IAS will monitor closely these developments and ensure that our audit coverage and plans reflect all necessary changes as the University implements its Agenda for Excellence.
- 10.3 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 eighteen departments visited during the course of the year and refinements made to the follow-up procedures. IAS has also been proactive in visiting a number of departments out with the formal audit review schedule along with informal meetings with new Heads of Department. The launch of the IAS audit newsletter during the year has also enabled us to provide another forum for good practice, areas to watch out for and for the general operation of IAS to be communicated in a relatively informal yet informative manner.
- 10.4 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.
- 10.5 This was the fourth full year of IAS working with the Convener of Audit Committee. An effective and productive schedule of regular meetings is in place between the Convener of Audit Committee and the Head of Internal Audit in order to discuss pertinent issues out with the scheduled Audit Committee meetings. This is supplemented, where necessary, with electronic communication via e-mail and/or telephone. The Head of Internal Audit appreciates the time given by the Convener for these meetings. The continued support given by the Convener to the department throughout 2007/08 is much appreciated.
- 10.6 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. Participation in the peer review quality assurance exercise during the year has also been of great benefit in assessing the department's position against sector and professional standards.

- 10.7 There are a number of exciting developments which IAS will face in the coming year; including the implementation of the Holistic Business Process Review outcomes, progress of projects identified via the Estates Development Framework, further key development of the full economic costing methodology, EU Framework 7 grants, formation of the Advanced Forming Research Centre, implementation of the Payroll/Personnel system and phased implementation of PeCOS the e-Procurement ordering system 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.
- 10.8 The aim for 2008/09 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 2008/09 will bring.

A handwritten signature in black ink, appearing to read "Clare Urquhart". The signature is written in a cursive style with a small dot at the end.

**Clare Urquhart
Head of Internal Audit**

APPENDICES

Appendix A Terms of Reference

Appendix B Staffing Skills Analysis

Appendix C Mapping of IAS Strategic Plan to University's Strategic Risks

Appendix D Analysis of Audit Recommendations 2007/08

Appendix E Analysis of Follow-Up

Appendix F IA Capability Self - Assessment Toolkit

Appendix G 2008/09 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

Staffing Skills Analysis (summary)

Staff Member	2007/08		2008/09 onward	
	Current Qualifications	Skills	Further Qualifications	Further Skills
Clare Urquhart	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
John Basketter	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
Margaret Gray	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

Appendix C

Mapping of IAS Strategic Plan to University's Strategic Risks

<u>Strategic Risk</u>	<u>Identified Likelihood</u>	<u>Identified Impact</u>	<u>Internal Audit Coverage</u>
1. UG Student Recruitment: failure to meet targets.	M	H	<ul style="list-style-type: none"> ▪ Student Recruitment (07/08)
2. Over reliance on limited overseas UG markets – over reliance on small number of partners / agents	M	M	<ul style="list-style-type: none"> ▪ OMC – IGO (10/11)
3. Over reliance on local market	M	M	<ul style="list-style-type: none"> ▪ Student Recruitment (07/08)
4. UG student retention rates	M	H	<ul style="list-style-type: none"> ▪ Student Retention (09/10)
5. Establishment of new courses – market demand, financial stability, resourcing	M	M	<ul style="list-style-type: none"> ▪ Student Recruitment (07/08) ▪ 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 or reputation	M	H	<ul style="list-style-type: none"> ▪ Collaborative Agreements (08/09)
7. 2008 RAE – failure to improve research performance	M	H	<ul style="list-style-type: none"> ▪ RAE 2008 (06/07) overview
8. Changes in RAE structure / Research pooling – loss of control?	M	H	<ul style="list-style-type: none"> ▪ RAE 2008 (06/07) overview
9. Sign off inappropriate research contracts (e.g. Contractual, financial, risk to reputation, liabilities etc)	M	M	<ul style="list-style-type: none"> ▪ Bioaccelerate Review (05/06) & follow up review (06/07) (07/08) & (08/09) ▪ Review of Pfact under TRAC review (annually)
10. Recruitment/retention of high quality staff. Identification and development of suitable candidates for HoD, Deans etc.	L	H	<ul style="list-style-type: none"> ▪ Recruitment & Retention reviewed (04/05) ▪ HR – Recruitment, appointments, induction & probation (10/11)

Appendix C

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

11. Adequacy of Financial Control & ability to sustain long term financial viability of institution	L	H	<ul style="list-style-type: none"> ▪ Budgeting & Planning Processes (08/09) ▪ Treasury Management & Investments (07/08) ▪ Financial Accounting (10/11)
12. Under investment in the University Estates with resulting impact on recruitment of staff and students	M	H	<ul style="list-style-type: none"> ▪ Capital Project Reviews (annually incorporated into audit plans) ▪ EM Central Admin review (06/07) ▪ EM Project Management Review (07/08) ▪ EM Space Management & Planning (08/09)
13. Poor disaster recovery arrangements.	L	H	<ul style="list-style-type: none"> ▪ Emergency Management Framework (10/11) ▪ Overview of Emergency Management procedures reviewed (05/06)
14. Power / Network Failure.	M	M	<ul style="list-style-type: none"> ▪ IRD – ITS (09/10) ▪ Emergency Management Framework (10/11) ▪ IT internal Audit Reviews (annually incorporated into audit plans)
15. Estates projects not completed on time, to budget or to an acceptable standard	M	M	<ul style="list-style-type: none"> ▪ Capital Project Reviews (annually incorporated into audit plans) ▪ EM – Project Management (07/08) ▪ EM procedures review (ongoing) ▪ IAS has access to EM Progress Report Database (ongoing review)
16. IT infrastructure – hardware/software failure leading to disruption of teaching, research & support services	L	H	<ul style="list-style-type: none"> ▪ IRD – ITS (09/10) ▪ Emergency Management Framework (10/11) ▪ IT internal Audit Reviews (annually incorporated into audit plans)
17. Security – corruption or loss of electronic information; unauthorised access to information or material; failure to comply with data protection legislation.	M	M	<ul style="list-style-type: none"> ▪ IRD – ITS (09/10) ▪ Emergency Management Framework (10/11) ▪ Compliance with DP Act (09/10) ▪ IT internal Audit Reviews (annually incorporated into audit plans)
18. Adequacy of IT contingency arrangements to cope with environmental occurrences, accidents, network outages.	L	H	<ul style="list-style-type: none"> ▪ IRD – ITS (09/10) ▪ Emergency Management Framework (10/11) ▪ IT internal Audit Reviews (annually incorporated into audit plans)

Appendix C

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

<p>19. Information & IT – legal/financial liability in respect of breach of telecommunications and publishing laws in respect of requests for access for non-staff/students of the University.</p>	<p>H</p>	<p>M</p>	<ul style="list-style-type: none"> ▪ IRD – ITS (09/10) ▪ Compliance with Copyright Act (08/09) ▪ Emergency Management Framework (10/11)
<p>20. Failure to successfully implement 2007 – 2011 Strategic Plan leading to institutional drift, loss of market position and loss of prestige.</p>	<p>L</p>	<p>H</p>	<ul style="list-style-type: none"> ▪ Strategic Plan Implementation & monitoring (annually incorporated into audit plans)
<p>21. Uncertainty re 2007 Comprehensive Spending Review and Scottish Executive funding.</p>	<p>M</p>	<p>M</p>	<ul style="list-style-type: none"> ▪ Resource Allocation (08/09)
<p>22. Implementation of new HR/Payroll system.</p>	<p>L</p>	<p>H</p>	<ul style="list-style-type: none"> ▪ Implementation Overview (08/09) ▪ Finance Office – Payroll review post implementation (09/10) ▪ HR – new central system overview (09/10)

Appendix D

Analysis of Audit Recommendations 2007/08

Area Reviewed	Compliance	Control Improvement	Good Practice
Hunter Centre	3	3	2
Centre for Skills Enhancement	1	4	2
Biological Procedures Unit	2	1	9
History	6	5	9
Bioengineering	3	6	3
Modern Languages	4	8	12
Glasgow School of Social Work	0	2	0
Treasury Management	0	0	2
Scottish Institute for Residential Childcare	3	1	1
Disability Service	0	0	2
Total	22	30	42

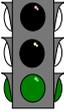
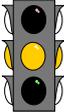
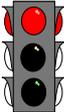
Nature of Recommendation	Compliance	Control Improvement	Good Practice
Budgetary Control	0	8	1
Staffing	0	4	9
Purchasing	13	8	8
Debtor	0	0	1
Stores/Stock Control	0	0	1
Cash	0	1	2
Research Contracts/Centres	0	0	1
Departmental Assets	5	2	4
Computer Arrangements	0	0	3
Safety Arrangements	4	4	6
Data Protection	0	2	1
Freedom of Information	0	1	3
Other **	0	0	2
Total	22	30	42

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
Treasury Management	0	0	2
Total	0	0	2

Appendix E

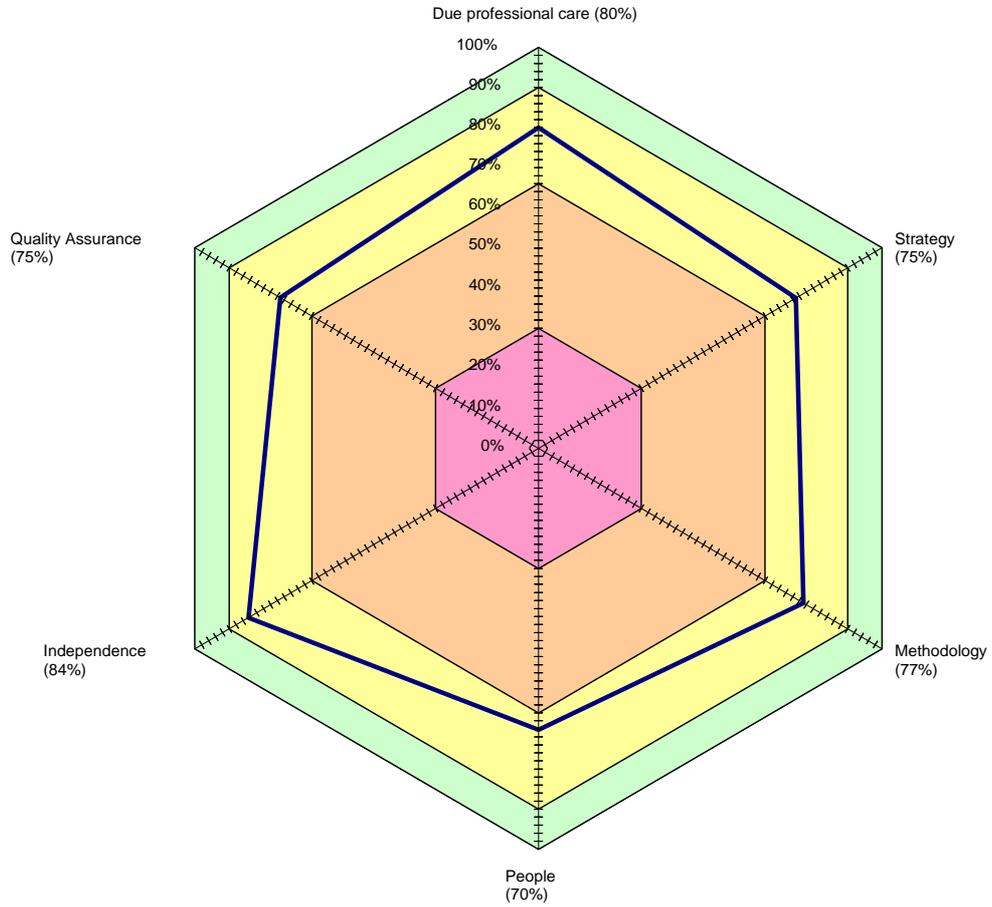
Analysis of First Follow-Up

Status	195 Web Based Payments	197 NAME	198 DMEM	199 Payables	201 Security Services	202 Cash Office	203 Chemical & Process Eng	204 Manage- ment Science	Total
 Fully Implemented	2	25	17	19	30	7	13	14	127 (75%)
 Partly Implemented	1	7	0	7	13	1	6	2	37 (22%)
 Not Implemented	0	2	0	1	0	0	2	1	6 (3%)
Total	3	34	17	27	43	8	21	17	170

Report	Themes of Outstanding Recommendations	
	Ongoing	Not Implemented
195 Web Based Payments	Extension of online payments system.	
197 NAME	Non-Annual Leave; Purchasing Procedures; Cash; Computer Arrangements; and charging policy.	Cash; and Data Protection.
199 Payables	Oracle User Guides; Transaction Testing; and Authorised Signatories.	Authorised Signatories.
201 Security Services	Security Environment; Security Risks; Crime Prevention; Security Procedures Manual; Annual Leave; Overtime Arrangements; Computer Arrangements; Identification Cards; Safety Arrangements; and Building Logbooks.	
202 Cash Office	Oracle User Guides.	
203 Chemical & Process Engineering	Purchasing Procedures.	Expense Claims; and Data Protection.
204 Management Science	Purchasing Procedures.	Purchasing Procedures.

Appendix F

Internal Audit Capability Self Assessment Toolkit



Appendix G

Internal Audit Plan 2008/09

2008/09	No of Days
Governance	
Strategic Plan 2007-2011(Implementation & Monitoring)	10
Compliance PBS of Immigration (systems & procedures)	15
Compliance with Copyright Act	10
	35
Strategic Areas	
TRAC / fEC implementation (Research & Teaching)	10
E-Procurement/Implementation of PECOS	20
Payroll/HR system implementation overview	15
Resource Allocation	20
Collaborative Agreements	10
	75
Value for Money	
Holistic Reviews - Business Process Streamlining	15
VFM Exercise (2)	10
	25
Central & Academic Services	
Finance Office	
Superannuation	10
Budgeting & Planning	15
IRD -Library	15
Management of IT audit review (out sourced)	5
EM - Space Management & Planning	15
HR - Staff Training & Development	10
Safety Services	15
	85
Faculty Areas	
Strathclyde Institute of Pharmacy & Biomedical Sciences	20
Pure & Applied Chemistry	15
Electronic & Electrical Engineering	15
EPRC	10
Social Statistics Laboratory	10
Childhood & Primary Studies	10
Faculty of Engineering	15
	95
Other Audit Areas	
Students Association - Overview of Finance Function	10
Students Assoc - Executive Expenses	5
Student Health Service	10
Centre for Sport & Recreation	10
	35
Capital Project Review	
AFRC	10
Jordanhill Associated works (James Weir)	10
EDF project monitoring overview	30
	50
EU Grant Claims	15
Follow-up	20
Contingency	40
Meetings	42
Audit Committee (attendance & support work)	54
Professional Update & Training	55
Safety Compliance	5
Audit Communications (Newsletter/website)	5
Total	636