

***University of Abertay******Internal Audit Annual Report******November 2009******Distribution****Audit Committee*

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## Section 1 – Introduction

We are pleased to present our annual report to the Audit Committee in respect of the year ended 31 July 2009. This report has been prepared in line with guidance issued by the Scottish Funding Council (SFC). The main purpose of this report is to provide a summary of the Internal Audit work performed during the year and highlight the important findings arising.

As Internal Auditors, our role is to provide management, the Audit Committee and the University with independent assurance as to the adequacy and effectiveness of the systems of internal controls reviewed, to report any weaknesses identified and make recommendations for improvement. We fulfil this role by carrying out appropriate audit work in accordance with the annual Internal Audit plan approved by the Audit Committee on behalf of the Court.

Our approach is consistent with the SFC Code of Audit Practice and guidance contained in the Government Internal Audit Standards. Our main point of contact is the Deputy Secretary to the Court and Head of Finance, although we have the right of direct access to the Principal and the Audit Committee. We meet regularly with the Audit Committee during the year.

During the year we issued eleven reports containing a total of 53 recommendations (excluding recommendations contained within the Follow-Up report). This included a total of 4 priority one recommendations where immediate management attention should be focused. University management has accepted all of the recommendations and agreed future actions and timescales for implementation. A summary of our findings for each of the reviews undertaken in 2008/09 is provided at **Section 4**.

We would like to take this opportunity to formally record our thanks for the co-operation and support we have received from management and staff of the University during the year.

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## Section 2 – Annual Internal Audit Statement

As Internal Auditors to the University we are required to provide the Audit Committee and Board of Management with an annual Internal Audit Statement on Internal Control.

The University and its management are responsible for ensuring that a sound system of controls, financial and otherwise, is established and maintained in order to carry out the operations of the University in an orderly and efficient manner, to ensure adherence to management policies, to safeguard the assets, and to secure, as far as possible, the completeness and accuracy of records. Our responsibility as Internal Auditors is to evaluate the University's systems and associated internal controls and to report to the Audit Committee and Board of Management on our assessment of the design, implementation and operating effectiveness of the controls and systems reviewed. Our work is performed in accordance with the annual Internal Audit plan approved in advance by the Audit Committee. We cannot examine the whole system of controls, nor is Internal Audit a substitute for management's responsibility to maintain an adequate level of internal control over financial and operational systems.

Final reports on the systems reviewed (please refer to the summaries at **Section 4** of this report) have been agreed with University management and approved by the Audit Committee. The number and priority of the recommendations raised during the year are summarised at **Section 3**.

In formulating our statement we have taken account of:

- all audits undertaken during the year;
- the balance of probity work against special investigations and value for money work;
- our perception of the extent of 'control awareness' amongst the staff of the University interviewed by us;
- follow up on action taken in respect of previous years' audit findings; and

*On the basis of the work undertaken in the year ended 31 July 2009, we consider that the University has appropriate controls over the systems we examined as summarised in **Section 4** of this report (subject to the satisfactory implementation of the agreed audit recommendations). In providing such an opinion we would draw your attention to our detailed findings as presented in the individual internal audit reports issued during the year, and in particular the High Priority recommendations identified.*

**We take responsibility for this report which has been prepared on the basis of the limitations set out at Section 6.**

## Section 3 – Ranking of Recommendations for Year Ended 31 July 2009

Review Title	Status	Budget Days	Actual Days	Number of Recommendations (by Priority)			
				High	Moderate	Low	Total
Strategic Planning	Complete	7	7	0	1	3	4
Income Generating Overseas Operations	Complete	6	8	2	5	3	10
Registry	Complete	7	7	0	2	4	6
Severance Payments	Complete	5	7	1	0	1	2
IT Security and Firewalls	Complete	6	6	0	6	3	9
Budgetary Control, Monitoring and Management	Complete	7	7	0	2	3	5
Financial Controls Framework Implementation	Complete	6	6				
TRAC Review	Complete	4	6	0	2	7	9
Risk Management	Complete	7	8	1	2	0	3
Records Retention	Complete	6	6	0	3	2	5
Follow Up on 2007/08 Recommendations	Complete	5	5				
Audit Committee preparation and attendance, general contract management and client liason	Complete	19	20				
		85	93	4	23	26	53

**Key**    **High**    High risk control weakness/improvement opportunity

**Moderate**    Moderate risk control weakness/improvement opportunity

**Low**    Lower risk control weakness/improvement opportunity

## Section 4 – Summary of Findings



### 4.1 Transparent Approach to Costing

#### Scope and Approach

The principal objective of this audit was to review the controls in place to provide assurance that the University was compliant with the minimum requirements for TRAC reporting as set out by the Joint Costing and Pricing Steering Group and the Research Councils UK (RCUK) Quality Assurance and Validation (QAV) Process.

Our approach involved discussion with the Cost and Management Accountant in order to document the methodology for the TRAC process as well as to assess the adequacy and effectiveness of the controls in place to ensure compliance with the minimum requirements of the TRAC guidance and QAV audit process.

#### Conclusion

Our overall conclusion was that the University had broadly met the requirements of the QAV audit programme with the exception of the following priority two rated recommendations:

- Finance have not documented the TRAC process in sufficient detail, such that it would provide adequate guidance in the event of key staff leaving the organisation.
- The institution has not completed and documented sufficient reasonableness review processes to fully comply with good practice as per the TRAC guidance.

## Section 4 – Summary of Findings



### 4.2 Registry

#### Scope and Approach

The principal objective of this review was to assess whether appropriate controls and arrangements were in place within the Registry department. Our approach initially involved discussion with Registry personnel in order to gain an understanding of the processes and controls in place. We then carried out testing on a sample basis to assess the operation of key controls and our work also included consideration of any potential efficiencies, value for money opportunities or process improvements.

#### Conclusion

Our work looked at the management of student information from registration of students through to department administration and budgeting and generally found that the Registry processes were well managed. However, we did identify 6 recommendations with 2 graded as Priority 2. The Priority Two items were:

- Performance against a suitable metric for the admissions application turnaround time target is not calculated or reported; and
- There was no formal review and sign off of flexitime timesheets.

## Section 4 – Summary of Findings



### 4.3 Financial Controls Framework Implementation

#### Scope and Approach

It is critical that the Board, Audit Committee and Senior Management have confidence in the robustness of the financial control systems in place at the University. To aid in obtaining this assurance, we provided the University with a financial control self assessment framework which has now been implemented by the Finance Department. The report presented is based on the first assessment return completed by the Head of Finance as at 28 February 2009.

#### Conclusion

The financial control self assessment return as at 28 February 2009 identified that five of the 122 controls assessed were not in place:

- Supplier performance is monitored on an ongoing basis and appropriate actions taken as required (*purchase ordering*);
- Goods Received Not Invoiced (GRNI) and Goods Invoiced Not Received (GINR) are identified and properly accounted for at each month end (*accounts payable*);
- Commercial customer credit limits are set, reviewed and any transactions exceeding these set limits are appropriately approved by senior management before proceeding (*accounts receivable and credit control*);
- All fixed asset investments are subject to assessment / appraisal and structured authorisation procedures (*fixed assets and capital planning*);
- Access to the finance system is subject to regular user access audits by a person independent of the system administrator (*IT controls*).

Of the 117 controls which are in place, 13 were assessed by the Head of Finance as requiring improvement, 14 were assessed as requiring minor improvement and 90 considered to be operating effectively.

On the basis of the self assessment completed as at 28 February 2009, management have evaluated the control deficiencies and have agreed actions to be implemented to address the weaknesses. The Finance Department will be required to update the self-assessment schedule on a six-monthly basis. As part of this process, we will assess the validity and accuracy of the self assessment responses by testing a sample of the controls on an ongoing basis.



## Section 4 – Summary of Findings



### 4.4 IT Security and Firewalls

#### Scope and Approach

This review focused on assessing the University's policies, procedures and controls in relation to IT security, firewall management and user access management. The University has an overall IT Security Policy, along with various detailed policies in specific Information Security areas including a draft Firewall management policy. Information Services are responsible for development of these policies, all of which have been approved by the University Court and are available for staff and students to view on the University's intranet.

#### Conclusion

Although we did not identify any Priority One issues, our review identified a number of important control weaknesses and opportunities for improvement which should be taken forward by management. The following summarises the key findings from our review:

- The coverage of the current suite of IT security policies is insufficient to provide adequate guidance for staff and students within the University;
- A user awareness program has not been fully established within the University to provide comprehensive guidance on information security;
- User accounts are being set up using mirrored user IDs;
- The Registry department employees have been assigned the same level of access within the SITS system which has resulted in some users being assigned access rights in excess of those required to perform their job role;
- Generic accounts are being used by the Oracle DBA to undertake the administrative work in relation to the SITS database. No monitoring is undertaken of the activity performed using these accounts; and
- Testing highlighted user accounts of leavers that had not been disabled on a timely basis. Adequate user entitlement reviews are not being performed

## Section 4 – Summary of Findings



### 4.5 Income Generating Overseas Operations

#### Scope and Approach

As part of the review we looked at the financial processes that underlie managing overseas operations; monitoring of teaching quality; strategic alignment of overseas engagements with the overall UAD plan, as well as the governance and legal framework under which such collaborations are set up.

#### Conclusion

Overall, we have raised two High Priority and four Medium Priority recommendations in respect of income generating overseas operations:

- Students enrolled on two collaborative programmes are not recorded on the SITS database and there is a lack of sufficient monitoring of these payments being undertaken (High Priority);
- SEGi invoices for the 1st and 2nd instalments of January 2007, July 2007 and the 1st instalment of January 2008 had not been issued until 26th September 2008. Furthermore, a 9% withholding fee charged by the Malaysian government had not been included in invoices raised against SEGi (High Priority);
- There is no detailed report of income received from collaborations available to Heads of School (Medium Priority);
- 2 out of 4 of the Schools do not have a Collaborative Provision Committee. For the Schools which do, neither sends their minutes to the Collaborative Task Group (Medium Priority);
- SEGi payments for stage 2 and 3 students' registration and exam fees are received directly by the Dundee Business School rather than sent to Finance. In addition, there is no audit trail maintained for cheques from SEGi students passed to the University cashier (Medium Priority); and
- The Memoranda of Agreement are not reviewed on an annual basis (Medium Priority).

## Section 4 – Summary of Findings



### 4.6 Severance Payments

#### Scope and Approach

The principal objective of our review was to review the controls in place to ensure the correct calculation and payment of severance payments.

#### Conclusion

The findings from our review work have not highlighted any errors or omissions that would require the University to contact HMRC to declare any errors or miscalculations of payments made. However, we have made two recommendations related to the following four exceptions (High Priority) identified:

- There was no evidence of notice of termination being given to one member of staff ('Officer 3'), although the individual's contract provided for "one term's" notice. Lack of documentation supporting the provision of this notice could prompt HMRC to argue that part of the compensation paid relates to payment in lieu of notice (PILON);
- Within the personnel file for another member of staff ('Senior Officer 1'), there were references to 'retirement arrangements'. The severance payment could be challenged by HMRC on the basis that it refers to early retirement as opposed to a termination of employment. In addition, notice of termination is not evidenced within the personnel file and HMRC could therefore argue that part of the compensation paid relates to PILON ;
- Within the personnel file for a third member of staff ('Senior Officer 2'), there were also references to 'retirement arrangements'. The severance payment could be challenged by HMRC on the basis that it relates to early retirement as opposed to a termination of employment. In addition, notice of termination is not evidenced within the personnel file and HMRC could therefore argue that part of the compensation paid relates to PILON ; and
- SFC guidance applies to all senior staff (earning over £70k) and / or for any severance payments over £100k. There has been confusion over the applicability of this guidance within the two cases of senior staff ('Senior Officers 1 and 2'), where the guidance has been understood by management to be applicable in instances where the individual earned in excess of £70k **and** the payment was over £100k. However, it should be noted that UAD has still complied with the guidance in all cases.

## Section 4 – Summary of Findings



### 4.7 Budgetary Control, Monitoring and Management

#### Scope and Approach

The scope of this review was to assess the controls in place over the management and monitoring of performance against financial budgets, as well as the effectiveness of the management accounting processes and systems.

#### Conclusion

The review identified that an adequate control framework was in place at UAD in relation to budgetary control. Although no High Priority recommendations were made, we have identified several opportunities for improvement of a moderate and lower risk nature. The priority two findings are listed below:

- Our sample testing found that for 6 out of 15 new budget signatories no change request form was in place to support the addition; and
- Formal limits of delegation of virement authority are not documented, there is no formal request form for budget virements and testing of a sample of ten virements performed highlighted one instance with no budget holder authorisation in place.

## Section 4 – Summary of Findings



### 4.8 Risk Management

#### Scope and Approach

The scope of our work was to review the implementation of the new risk management framework at the University and to ascertain how the new structure, processes and procedures are managed by the various responsible parties. We also assessed the reporting framework in place to govern the risk management process.

#### Conclusion

It is acknowledged that over the course of the last 18 months there has been a period of significant change with steady improvements made to the risk management framework at the University. It is also acknowledged that there remains work to be done in the implementation of the new framework. Our work identified one high priority finding:

- There are potential issues associated with the fact that the risk management process has not been fully implemented and embedded. Examples of facets that have not been implemented include the risk response plans not being complete, the mechanisms for monitoring and reporting have not been finalised, the risks have not been prioritised, and the total risk exposure has not been assessed. This means that the University will not be in a position to comprehensively demonstrate its management of these risks until such time as these risk management elements are implemented ;

We also identified two moderate rated findings relating to the following weaknesses:

- There are no school/department risk registers in place; and
- The University has not undertaken an exercise to calculate the residual risk arising from the strategic risks after considering the effectiveness of the internal controls in each risk area. This would be a useful next step in moving to a more mature risk management model.

## Section 4 – Summary of Findings



### 4.9 Records Retention

#### Scope and Approach

This review assessed the controls in place over the retention, access to and destruction of University records. These key processes have associated reputation and compliance risks with regard to both statutory legislation and good practice.

#### Conclusion

Over the past three to four years, significant improvements have been made to the Records Management function. The recruitment of a permanent Information Manager has enabled the University to begin to implement relevant systems, particularly in terms of policy documentation and development of filing procedures. However, our conclusion was that there remains work to be done to develop a fully embedded, consistently applied system of records management across the University.

A number of specific issues and improvement opportunities were identified during our review. Three of these were of Medium Priority as outlined below:

- Although, the rollout of fileplans, destruction logs and vital records registers is still a work-in-progress, in the course of testing we identified that current retention practices are not always in line with legislation. Specifically University Court outputs, and appeals against exam / assessment marks are not retained for the recommended period, conversely, Schools hold student files for longer than the recommended period;
- Records management is not included in the staff induction programme and there is no training currently provided to staff regarding their individual responsibilities under the Data Protection Act 1998; and
- The electronic Registry system that holds student records is not capable of archiving. In addition, the records held are not broken down and categorised to ensure compliance with all of the relevant retention periods.

## Section 4 – Summary of Findings



### 4.10 Strategic Planning

#### Scope and Approach

The scope of this audit was to review the University's strategic planning processes and to identify and evaluate the controls in place over the monitoring and reporting of progress against strategy. We also reviewed how the constituent strategies and plans within the University align with the overall strategy of the institution.

#### Conclusion

Our overall conclusion is that the controls in place around the strategic planning and monitoring processes are effective. UAD has a well established, detailed and comprehensive strategic planning process in place and it is noted that this approach has also received positive comment from the Scottish Funding Council, particularly with regard to its overall structure and alignment.

We have identified no specific control weaknesses but have made a small number of suggested improvement recommendations to further support the strategic planning process in relation to:

- Ensuring performance measures are monitored at the strategic plan level to further support the detailed monitoring at the operational plan level;
- Identifying and challenging the source of performance measurement information to ensure the accuracy and reasonableness of the content of KPI reporting;
- Considering a formal annual review of the strategic plans of other institutions as a further support to the strategic planning process within the University; and
- Ensuring that an exercise to cross refer from the current UAD strategic plan to the SFC strategic plan and to the up to date UAD risk register is undertaken regularly.

## Section 4 – Summary of Findings



### 4.11 Follow Up on 2007/08 Recommendations

The purpose of our work was to follow up on audit reports issued during the year ended 31 July 2008 to ensure agreed recommendations had been implemented and were functioning as intended.

#### Status of Recommendations

Overall, management has made good progress in the implementation of the recommendations with 47 out of 66 recommendations (71%) now graded as 'implemented'. This reflects good progress in areas such as bank and payroll control accounts; financial fraud controls, financial governance and debtors credit control.

At the time of the follow up audit, there were 8 recommendations partially implemented and these reflect the need for further work in relation to:

- Formalising and documenting a data retention policy;
- Exploring opportunities to automate debt management procedures;
- Improving the presentation of reporting on research grants;
- Updating the authorised signatory listing;
- Monitoring of space utilisation;
- Preparing a preferred supplier listing for Estates work;
- Re-establishment of the "Procurement Group" and the creation of a central procurement function; and
- Updating the financial regulations and the tender documentation available on the intranet.

Of the 11 recommendations not yet implemented, one was past the due date and related to the regular production and review of a vendor masterfile amendment report for suppliers. This was a priority two finding. The remaining 10 recommendations were not yet due as at the time of our fieldwork.



## Section 5 – Internal Audit Plan for Year Ending 31 July 2010

The following plan for 2009/10 has been agreed with management:

Audit Review	Summary Scope	Audit days
<b>Review of New Course Development</b>	New course development essentially covers the development of the portfolio of courses, degrees and awards which the University offers. The intention would be to consider the effectiveness of the management controls in this area to ensure that the University's provision is balanced, effective, subject to ongoing review and assessment and seeks to provide the optimum overall benefit for the University and students with particular emphasis on how this supports increased diversity within the University student body.	<b>9</b>
<b>School Review - Contemporary Sciences</b>	This review would continue the theme of our Department / School reviews by focusing on the financial and business process controls in place for managing and running individual Schools. This would also include consideration of overall School Governance as well as operational matters including student retention, recruitment, marketing, research activity and general compliance with University procedures. The focus on the School of Contemporary Sciences for 2009/10 reflects our planned cyclical coverage of each School.	<b>8</b>
<b>Review of Careers Advisory and Academic Support Service</b>	Given the current economic climate, the importance of the Careers Advisory and Academic Support Services to the student body (and the University's overall success) is fully understood and emphasised. It is important that student employability rates are maintained wherever practical and therefore the challenge and expectation upon these services is significant. Our review will assess how the management control framework and key operational processes in this area are responding to and addressing these challenges.	<b>10</b>
<b>Review of Computer Assurance</b>	This area will be included as part of our ongoing cyclical coverage of the general computer environment. The specific scope and objectives of the review have to be agreed with the Head of IT Services.	<b>9</b>
<b>Financial Controls Framework (Including detailed testing)</b>	We worked with the University finance management to develop the Financial Control Framework tool which was introduced last year. Our intention would be to build upon this approach with specific testing of key controls across the financial controls framework. Specific control areas for consideration would include selected key payroll and accounts payable controls. We will also agree any specific testing requirements in consultation with External Audit.	<b>9</b>
<b>TRAC Review</b>	There is an expectation from the Funding Council that TRAC processes will be subject to review on an annual basis. Given that the process is now well established within the University, our intention would be to follow up on our prior year report with some detailed testing and review in this area.	<b>6</b>
<b>Review of Implementation of Equality Impact Assessment Tool</b>	Implementation of the Equality Impact Assessment tool is being undertaken to assess the University's current position with respect to compliance with equality legislation. Our discussions with management indicate that it would be beneficial to consider a review of the implementation process and compliance during 2009/10.	<b>6</b>
<b>Follow Up On Prior Year Recommendations</b>	The standard Follow Up review of all the recommendations raised in the prior year.	<b>6</b>
<b>Preparation for and attendance at Audit Committee</b>	Estimated time for preparation and attendance at Audit Committee.	<b>6</b>
<b>General Contract Management</b>	Time for general contract management	<b>5</b>
<b>Overall Internal Audit Planning</b>	Annual planning and process universe risk assessment.	<b>5</b>
<b>Contingency Allowance</b>	Contingency for additional requests and ad hoc activities during the year	<b>6</b>
<b>Total days</b>		<b>85</b>

## Section 6 – Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our Internal Audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

**Deloitte LLP**

**Glasgow**

**November 2009**

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