Deloitte.

University of Abertay

Internal Audit – Year Ended 31 July 2006

Annual Report

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Section 1 – Introduction

1.1   We are pleased to present our annual report to the Audit Committee for the year ended 31 July 2006. 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.

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

1.3   Our approach is consistent with the Scottish Funding Council Code of Audit Practice and guidance contained in the Government Internal Audit Manual. Our main points of contact are the Head of Finance and Deputy Secretary, although we have right of direct access to the Principal and Audit Committee. We meet regularly with the Audit Committee during the year.

1.4   Our audit work is led, planned and controlled from our Aberdeen office by the following staff:

         Partners
         Manager

1.5   Value for money considerations are included within the work scope for all our probity and operational reviews. As a result the findings of these reviews identify a number of areas where there are opportunities to improve the efficiency of existing procedures and practices.

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

Section 2 – Executive Summary

Internal Audit Plan

2.1   During the year we issued 10 reports, which included a follow up review on prior year reports. In total we raised 51 new recommendations in the reports issued during the year.

In terms of overall progress we can confirm that all scheduled fieldwork has been completed in accordance with the agreed audit programme. Final management responses have been agreed on all of our reports. We input 85 working days during the year ended 31 July 2006. Our annual service report is shown at Appendix A.

A summary of all our projects reported during the year is included in Section 3 of this report.

Report to Audit Committee

2.2   As Internal Auditors to the University we are required to provide the Audit Committee with an Annual Statement on internal Control. The University and its management are responsible for ensuring that a system of controls, financial and otherwise, is established and maintained in order to carry on the operations of the University in an orderly and efficient manner. This is 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 significant financial systems and associated internal controls and to report to the Audit Committee on the adequacy and effectiveness of such controls and systems. Our work is performed in accordance with an Internal Audit Plan that is approved by the Audit Committee at the start of the year. We cannot examine the whole system of controls, financial or otherwise, nor is internal audit a substitute for management's responsibility to maintain adequate and effective systems of internal control over financial and operational systems.

2.3   In assessing the level of assurance to be given we have taken account of:

- All audits undertaken during the year;
- The balance of probity work against special investigations and value for money work;
- Follow up action taken in respect of last year's audit work;
- Our perception of the extent of 'control awareness' amongst the staff of the University; and
- Our overall coverage planned during the term of our contract.

Overall Conclusion

2.4   *On the basis of work undertaken in the year ended 31 July 2006, we consider that the University has appropriate controls over the systems we examined as summarised in Appendix A to this report subject to the implementation of the agreed recommendations. In providing such an opinion we would draw to your attention our findings as presented in the individual internal audit reports issued throughout the year.*

Section 3 – Summary of Findings

This section summarises our main findings in all of the areas reported to Audit Committee during the year to 31st July 2006.

Report 1 – Strategic Planning

3.1   Our overall conclusion for the review was that adequate arrangements were in place at an institutional level over the development and monitoring of strategy. However, we identified a number of areas where existing arrangements could be improved or strengthened within the strategic planning and monitoring processes. The main areas requiring further focus related to increasing the linkage between the School plans to the overall University objectives and ensuring that the School plans have considered and included objectives, responsibilities and timeframes over all of the key areas of activity. We also recommended that the University should finalise the reporting and planning mechanisms to be introduced over the Service Departments and consider whether the School and Department planning and budgetary cycles can be co-ordinated more effectively.

Report 2 – Creditors

3.2   Our overall conclusion was that the University had an adequate system of control in place over most of our objective areas. However a number of areas were identified where controls were lacking or capable of improvement. The main areas for further focus relate to increasing the level of control over the supplier master files, access to the BACS files, bank details, and the invoice matching process. The key recommendations from our review are summarised below.

- Supplier masterfile amendment reports should be produced and reviewed on a monthly basis to provide a monitoring control over changes to supplier master data. New supplier bank details should also be obtained by a person other than the person requesting a new supplier to be set up.

- The process of invoice matching should be documented in University procedures and reiterated to staff in the Schools and Support Services.

- All BACS files should be read only to ensure that no changes can be made prior to transmission.

- Our review of aged creditors and testing of invoice payments identified that the University credit terms of 30 days are not being fully met. All University personnel involved with the processing and authorisation of invoices should be reminded of the University credit terms and the importance of processing invoices promptly.

- The University should introduce formal communication mechanisms from Human Resources to ensure that all employees who have left the University have their access to Finance systems removed.

Section 3 – Summary of Findings (continued)

Report 3- TRAC Income Allocation

3.3 Our overall conclusion was that the University had satisfactory controls in place over compliance with the requirements of the TRAC guidance on income allocation, with only a minor matter for consideration identified from our review. We also noted that the University had implemented a new student accounting system since the last annual TRAC return which should assist with completing the return for next year.

Report 4 – People Development

3.4 Our report recognised that there was a growing awareness and commitment within senior management to the area of people development and that progress continued to be made with respect to HR development at the University. However, our overall conclusion for the review was that the current processes and systems in place to support and deliver the HR strategy offer substantial scope for improvement. The key challenges for the University going forward included the need to map business requirements and demand with staff profile, introduce an effective performance appraisal process to align individual and institutional objectives, link performance with reward and to develop and co-ordinate a central training and development function. The key recommendations from our review are further summarised below.

- The University should introduce detailed medium to long term forward planning and budgeting requirements over staff resourcing and profiling.
- The level of detail, content, information and analysis included with the School forward plans under the headings of staff development and staff resources required to be strengthened and given increased focus within the planning cycle.
- The University should formally assess the current HR leadership arrangements and consider whether the associated risks of not having a dedicated HR Director are being adequately managed. Consideration should also be given to introducing a longer term solution and more cost effective method of HR direction than the use of an external Consultant.
- We recommended that the University conduct a full survey of all staff over all key areas within people development at the University.
- The University should develop a new performance appraisal / management process at the University to replace the current Career Review process.
- If the current Career Review Process is to continue, the University should ensure that it is consistently and transparently applied and that this is subject to internal monitoring and review.
- The University requires to co-ordinate and centrally communicate the training available at the University and develop the courses available based on the needs identified during the Career Review process or alternate.
- The University should develop a policy and provide guidance to Schools / Departments on succession planning and best practice.

Section 3 – Summary of Findings (continued)

Report 5 – IT Strategy and Planning

3.5   Our overall conclusion was that the University had an adequate system of control in place over most of our objective areas. However a number of areas were identified where controls were capable of improvement. The main areas for further focus related to increasing the level of control over monitoring the progress of short term goals against set objectives and introducing more formal reporting structures across the Information Services function.

Report 6 – Payroll and Personnel

3.6   Our overall conclusion was that the University had an adequate system of control to manage payroll and personnel in most of the objective areas reviewed. However, during our review we identified a number of processes where improvements could be made to further develop and strengthen the University systems in place. The key recommendations from our review are summarised below:

Payroll

- The access rights for amending payroll standing data should be reviewed to ensure sufficient segregation of duties are in place between the HR and Payroll personnel. In addition, controls over reviewing all amendments to standing data and a reconciliation of prior and current month gross pay should be re-implemented as soon as possible to ensure the validity and accuracy of the monthly payroll.

- The University should identify areas of expenditure where VAT could potentially be recovered from expenses.

- A standard overtime sheet should be used by all Departments / Schools and supported by a formal University overtime procedure.

- Where advances have been paid, the submission of post-travel forms should be monitored and reported upon against the one month timescale required by procedures. In addition, a formal timescale should also be set for the submission of post travel forms where no advance was paid to ensure timely submission.

- Formal management reporting arrangements should be introduced at a School and Department level on a monthly basis over key payroll and personnel management information.

Personnel

- The University should ensure that recruitment forms are completed in advance of posts being filled and ensure that appropriate records are kept in line with best practice to evidence the result of the vetting and verification process during recruitment

- The University should ensure that all new starts should have a contract in place prior to their first day and that signed copies of contract change forms are obtained and held on file to evidence the acceptance of all changes in employee contractual terms.

Section 3 – Summary of Findings (continued)

Report 7 –Institutional Projects

3.7   Our overall conclusion was that the University had no consistent approach to project management and a number of improvements required to be progressed to implement a uniform, formal and robust project management process within the institution. The key issues of our review related to the lack of a formal project management methodology, procedures, required documentation and reporting arrangements. Our recommendations are summarised below.

- A formal project management methodology and management procedures should be developed and implemented at the University, containing details of the key project steps, controls, processes and documentation to be followed.

- Template documents should be developed for the key deliverables and planning documents for major projects at UAD. The template documents should be incorporated as appendices to the procedures recommended above and designed to facilitate the detailed requirements of the procedures and controls.

- For each institutional project, a responsible University committee should be identified and documented at an early stage. The approval of the projects should be based on consideration of a formal business case and options appraisal by the relevant committee and be documented within the meeting minutes**.**

- A formal project management team should be established for each institutional project, with roles and responsibilities being clearly defined and documented for the project management team as a whole and the key individuals responsible for the project. The constitution of a project management team should be a requirement of the procedures recommended above and also should ensure that appropriate representations are included from key areas such as Finance, Estates and other key departments / user groups.

- University procedures should require a risk register to be developed for each project, detailing the identified risks and controls inherent in the project. The project risk register should be kept up to date and considered on a regular basis by the project management team.

- The financial cost, budget position and status of each project should be formally reported on and monitored at each project management team meeting. Summary reports should also be monitored and discussed at the relevant University committee.

Report 8 – Follow Up 2004/05 Reports

3.8   From our follow up of the twelve reports issued in 2004/05 we reported that the implementation of our recommendations had progressed well with 32 of the 52 recommendations having been fully implemented. This represented an implementation rate of 62%. We recognised that 17 of the remaining recommendations (33%) were in the process of being implemented and also highlighted the importance of the University monitoring that these recommendations are progressed to full implementation.

There were two recommendations where progress had not been made. We noted that the implementation of both of these recommendations were dependent on other actions being concluded at the University beforehand. We also noted that the implementation of both these recommendations was still intended by the University.

Section 3 – Summary of Findings (continued)

Report 9 – School of Social and Health Sciences

3.9 Our overall conclusion was that adequate controls were in place over most of the objective areas reviewed. However, we identified a number of areas where there was opportunity to improve controls and develop current processes. The main areas identified for improvement are listed below.

- The School should introduce a more proactive approach to increasing research income and activity. It is recommended that the Research Committee assess the current skills, areas of expertise and academic interest within the School and target areas where research income could be generated, with financial research income targets set to allow performance to be monitored.

- The person requisitioning and preparing School manual order forms should be recorded on each form to provide an audit trail of the persons involved and evidence appropriate segregation of duties in the procurement process.

- All invoice request forms should be signed off in accordance with procedures prior to passing to Finance. The authorising signature provides evidence that the invoice request is valid and has been appropriately reviewed.

- The School should include details of student feedback obtained and acted upon in the overall Annual Report and roll out best practice across the School subject areas.

- The Senior Management Group meeting agenda should include the discussion of management accounts and specifically the budget to actual position for key areas as a formal item on a monthly basis.

- We recommended that the pre and post travel forms be matched and subsequently filed in the same folder to ensure that University procedures have been complied with.

Report 10 – Parker Street

3.10 Our overall conclusion was that there were a number of weaknesses identified in the project management process followed for the Parker Street project up until the point of planning refusal. In line with the findings of our Institutional Projects Report 7 we identified that a number of improvements require to be progressed at the University to implement a uniform, formal and robust project management process within the institution. The key issues of our review related to the lack of a formal project management methodology followed for the project, the lack of a formal business case with a clearly identified method of delivery for the project and a lack of formal reporting arrangements.

Section 4 – Statement of Responsibility

STATEMENT OF RESPONSIBILITY

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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.

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Appendix A

	Days	Total number of recommendations	Priority		
			1	**2**	**3**
Financial Processes					
Creditors	6	5	0	3	2
TRAC Income Allocation	3	1	0	0	1
Payroll & Personnel	7	7	0	4	3
Operational Processes					
People Development	10	8	0	8	0
Institutional Projects	10	6	0	6	0
School of Social and Health Sciences	8	6	0	2	4
Parker Street	5	6	0	6	0
Computer Assurance Reviews					
IT Strategy and Planning	6	5	0	3	2
Regulatory, Legal & Risk Management					
Strategic Planning	10	7	0	5	2
TOTAL FOR NEW REPORTS	**65**	**51**	**0**	**37**	**14**
Follow Up	5	n/a	n/a	n/a	n/a
Attendance at audit committee meetings, annual plan, needs assessment, client service meetings and service / annual reports	15				
TOTAL	**85**				