
UHI Millennium Institute

Internal Audit Annual Report

November 2006

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Introduction

As Internal Auditors, our role is to provide the Audit Committee, Board and Management with independent assurance as to the adequacy and effectiveness of the systems of internal control we review, and to report weaknesses identified together with recommendations for improvement. We fulfil this role by performing appropriate audit work in accordance with the annual internal audit plan approved by the Audit Committee.

This annual report summarises the overall results of our internal audit work programme undertaken in respect of the financial year ended 31 July 2006. We have presented our Annual Internal Audit Statement on page 3.

In terms of overall progress we can confirm that all fieldwork has been completed in accordance with the agreed audit programme.

Results of Work Undertaken at 15th October 2006

A summary of the results of each of our projects during the year is outlined below.

PROCESS AREA	Status / Timing	Budgeted Input	Actual Input 31/10/2006	Recommendations by Priority			
				1	2	3	
Strategy and Planning	Corporate Governance	Final Report Issued	5	5	0	2	1
	Strategic & Operational Planning	Deferred 2006/07	10	1	-	-	-
Student Registration System	Student Registration System	Final Report Issued	15	15	0	0	3
Financial Management Processes	Accounts Receivable	Final Report Issued	4	4	0	2	2
	Allocation of Funding to Partners	Deferred 2006/07	10	3	-	-	-
	Fixed Assets	Final Report Issued	4	4	0	6	0
	Banking Arrangements	Final Report Issued	4	4	0	1	0
Managing Risk of Key Business & Systems Change	Risk Management	Final Report Issued	4	4	0	1	2
IT Risk	IT Governance	Final Report Issued	10	10	0	2	0
	IT Security	Final Report Issued	5	5	0	2	0
Follow Up	Follow-Up on Prior Year Recommendations	Final Report Issued	5	2	-	-	-
Contract Management	IA Contract Management	Complete	3	3	-	-	-
	Audit Planning & Risk Assessment	Complete	2	2	-	-	-
	Audit Planning & Risk Assessment 2006/07	Complete	0	2	-	-	-
	Audit Committee Planning & Attendance 04/05	Complete	2	2	-	-	-
Total Input Days			83	66	0	16	8

2005/06 Reviews

In 2005/06, the focus of the UHIMI internal audit were not exclusively based within Executive Office. Instead, internal audit input was also focused on activities within Academic Partners but that had an effect on the operations and funding of UHIMI. As a result, our IT reviews and our review of the Student Registration System resulted in over 35% of our plan being delivered across the partnership. Reviews undertaken solely within the Executive Office were those on risk management, fixed assets, accounts receivable and the transfer of banking services from the Royal Bank of Scotland to the Clydesdale Bank.

24 recommendations were raised across our reviews, with 16 recommendations classed as priority two and 8 being classed as priority three.

Two reviews were deferred due to an increased priority in 2006/07 reviews that were brought forward to assist management in gaining assurance over these areas. The reviews of allocations to partners and strategic and operational planning will be undertaken in 2006/07.

Follow-up

Follow-up is an important part of the internal audit process as it ensures that recommendations from previous years are being implemented by designated officers. Our review of prior year recommendations identified that, of 11 recommendations raised, 6 had been fully implemented, with 4 recommendations in progress and one no longer applicable. Of those recommendations in progress, 2 were classed as priority two and 2 were classed as a priority three.

Annual Statement to the Audit Committee

Report to the Audit Committee

As Internal Auditors, we are required to provide the Audit Committee with an Annual Internal Audit statement. The UHI Millennium Institute and its management are responsible for ensuring that a system of control, financial and otherwise, is established and maintained. This is in order to carry on the operations of UHIMI 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 significant systems and processes and associated internal controls and to report to the Audit Committee on the adequacy of such controls and systems. We cannot examine the whole system of controls, financial or otherwise, nor is internal audit a substitute for management's responsibility to maintain adequate systems of internal control over financial or operational systems.

The number and priority of the recommendations that we raised during the year are summarised on page 2.

In considering our opinion on the framework of controls we have taken the following into consideration:

- all audits undertaken during the year
- the balance of probity work against review of management arrangements and value for money work
- our perception of the extent of 'control awareness' amongst staff.

On the basis of work undertaken in the year ended 31 July 2006 we consider that UHI Millennium Institute generally has an adequate framework of control over the systems we examined as summarised on page 2 (subject to implementation of the recommendations). In providing such an opinion we would draw to your attention our summary findings as presented in our individual reports issued throughout the year.

We take responsibility for this report, which has been prepared on the basis of the limitations set out on page 4.

Statement of Responsibility

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

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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 and Touche LLP

November 2006

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