

## ANNUAL REPORT TO THE BOARD OF GOVERNORS FROM THE AUDIT COMMITTEE for the period 1 August 2007 to 31 July 2008

**The Board is asked to approve the annual report from the Audit Committee.**

### 1 INTRODUCTION

1.1 The Audit Committee met on three occasions during the period 1 August 2007 to 31 July 2008, namely on 29<sup>th</sup> November 2007, 26<sup>th</sup> February 2008 and 24<sup>th</sup> June 2008.

1.2 The Committee Chair throughout the period was Wilma Campbell, a member in attendance at the Board of Governors in her role as Chair of the Management Board of Argyll College.

1.3 During the period to 31<sup>st</sup> December 2007 the Internal Auditors were Deloitte & Touche LLP. At the audit committee meeting on 26<sup>th</sup> February 2008, a revised approach to the provision of internal audit services was approved. The Committee agreed to move to a co-sourced arrangement whereby UHI would employ a full time internal auditor reporting to the Deputy Secretary. This post would be supported by an external accounting firm in an advisory/specialist capacity. Advice on procurement of this arrangement was provided by Ernst & Young. These revised arrangements are currently being finalised. The External Auditors were Ernst & Young following their appointment in 2006/7.

1.4 Internal and external auditors attended the meeting held on 29<sup>th</sup> November 2007. As provided in the remit of the Committee one private meeting was held with external and internal auditors and without the presence of UHI employees. This meeting was subsequently reported to the Committee and a record incorporated in the Minutes of the Committee. No issues of concern were raised during the private meeting between the Auditors and the Committee.

### 2 GOVERNANCE

#### 2.1 Risk Management

A revised process for risk identification and management was introduced during the year and approved by the Board of Governors in March 2008. The underlying objective of the new risk management framework is to ensure that, as much as possible, it can be seamlessly integrated into current working practices utilising existing organisational governance frameworks to avoid the establishment of further layers of management activity.

The framework involves:

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- The adoption of common measurement criteria – initially within faculties and departments in Executive Office but which offers a good practice methodology which can be used by Academic partners
- The enhancement of risk management reporting by adding “traffic light” reporting
- The review and approval of risk registers is embedded in faculty/departmental/SMG management meetings on a quarterly basis with top tier risks being a standard agenda item at Executive Board, Finance & General Purposes Committee.
- The adoption of a common escalation path for major risks and issues via SMG, Executive Board to Finance & General Purposes committee who will also set the strategy for risk Management within UHI.
- The review of strategy and top level risks on a regular basis by the Audit Committee.

The new risk management framework is closely aligned with the UHI project management methodology which was developed during the year and is based on Prince2. All projects undertaken by UHI Executive Office and all projects funded through the European SDB framework will be managed using the agreed UHI project management methodology.

This methodology requires an initial assessment of risk to be carried out at the stage when a project brief or project initiation document (PID) is being prepared. The risk assessment must be approved and signed off at the same time as the project brief/PID to ensure that the risk to the organisation associated with the project has been correctly identified and understood by approvers and resources allocated accordingly.

A risk register for each project is then prepared and maintained by each project manager. Again, risks will be reviewed regularly by the project owner and at each meeting of the project board. Risks are scored against the common criteria to assess impact. Risks with high scores will be escalated to the Senior Management Group, Finance & General Purposes Committee and Board of Governors as above.

Academic Partner Risks. The Committee considered a number of reports throughout the period relating to the monitoring of risks posed to UHI by circumstances pertaining at academic partners. In the case of Ness Foundation the Committee considered the changes in the Foundation’s circumstances and accepted mitigations in place to accommodate PhD students. The Committee sought reassurance as to steps being taken to secure the financial position of Lochaber College and ensure that UHI students would not be adversely affected. The UHI Deputy Secretary has regularly attended Lochaber College board meetings throughout the year and the Committee accepted that all necessary steps are being taken to monitor the situation. The committee noted that Audit Scotland had recommended that the deficit at Orkney College be reversed and that assistance had been sought from the Funding Council with this. Mitigating actions put in place to alleviate cash flow problems at Highland Theological College were agreed by the Committee.

## **2.2 Academic Partner Agreements**

The Board of Governors requested that the Audit Committee give its views on the Board's decision not to rewrite or update Academic Partner Agreements at this stage. A working party set up to review the agreements had recommended that costs and time issues would outweigh any benefits which would be derived. The Audit Committee reviewed and accepted the Board's decision on this.

## **2.3 Constitution – ex officio/"in attendance" representatives on the Board**

The Board of Governors requested that the Audit Committee review its decision on the balance of "in attendance" versus voting members at the Board. The Audit Committee again reviewed and accepted the Board decision.

## **3 INTERNAL AUDIT AND CONTROL**

### **3.1 TRAC (Transparent Approach to Costing) Review (AU07-16)**

All HEIs are required to make a TRAC return each year. In addition, full economic costing (fEC) of research is required. However UHI did not make a fEC return in 2005-06 as it did not have research activity of its own to undertake fEC. UHI now has active research through the Health Faculty and it would be to UHI's benefit to apply its own fEC rates instead of using the default rates for HEIs, and a process was underway to achieve this.

Deloitte Touche undertook a narrow scope review of the TRAC process, addressing the actions recommended by the KMG report. A lead person, with considerable TRAC experience, had been involved, and made four priority 3 recommendations. The committee reviewed the report and welcomed the conclusion that processes were generally robust and addressed the actions from KPMG.

### **3.2 Health & Safety Review (AU07-17)**

The Committee noted and discussed the report on Health & Safety prepared by Deloitte Touche. Nine recommendations had been made, one of which was priority 1 viz. *a full health & safety risk assessment of (Executive Office) premises to be made as soon as possible.*

The management response accepted the recommendation but commented that the building had been completed and handed over on the basis that it was designed to be as safe as is reasonably practicable.

The full risk assessment was carried out and at their subsequent meeting the Audit Committee reviewed all recommendations from Deloitte plus the outcome of the risk assessment and noted that all actions had been progressed with many closed.

It was noted that two health & safety committees had been set up, one focussing on the executive office and the employees of the Board, and the other focussing on the wider partnership. The review had concentrated on the executive office. It was acknowledged that UHI's responsibility for Academic Partner health & safety was limited.

It was further noted by the Committee that there was a positive development in the sharing of best practice among academic partners.

### **3.3 Summary of Principal's Expenses (AU07-18)**

The Committee noted the summary of the Principal's expenses, and approved the suggestion that the expense claims be referred to the Internal Auditors for scrutiny. This scrutiny revealed no irregularities and was subsequently approved.

### **3.4 Statement of Internal Control**

The Audit Committee noted that the Principal had signed the Statement of Internal Control: the Committee submitted the statement to the Board in December 2007 as principal element of the Audit Committee's assurance to the Board that appropriate and adequate financial control mechanisms existed in UHI in the period to which the report refers.

### **3.5 Internal Audit Plan**

A strategic internal audit plan for 2008/11 based on major areas of risk as identified in the risk register, major projects and key business processes was approved by the Audit Committee.

## **4. EXTERNAL AUDIT**

### **4.1 Statement of Accounts for the Period 1 August 2006 to 31 July 2007 (AU07- 19)**

The Committee considered a draft statement of annual accounts and discussed in detail the control aspects of the accounts including the notes referring to pensions and the management letter. The Committee affirmed their view that the Board had satisfactorily discharged the Governors' responsibilities as described in the "Statement of Directors' Responsibilities", and recommended to the Board the approval of the accounts.

### **4.2 Statement of Accounts for UHI Students' Association to 31 July 2007 (AU07 -21 )**

The Committee noted the statement of accounts of UHISA (the UHI Students' Association). UHISA received its funding from UHI, and the accounts gave assurance to UHI about the use of the funds.

### **4.3 Statement of Accounts for UHI Development Trust to 31 July 2007 (AU07-20)**

The Committee noted the accounts of the Development Trust which is an independent organisation.