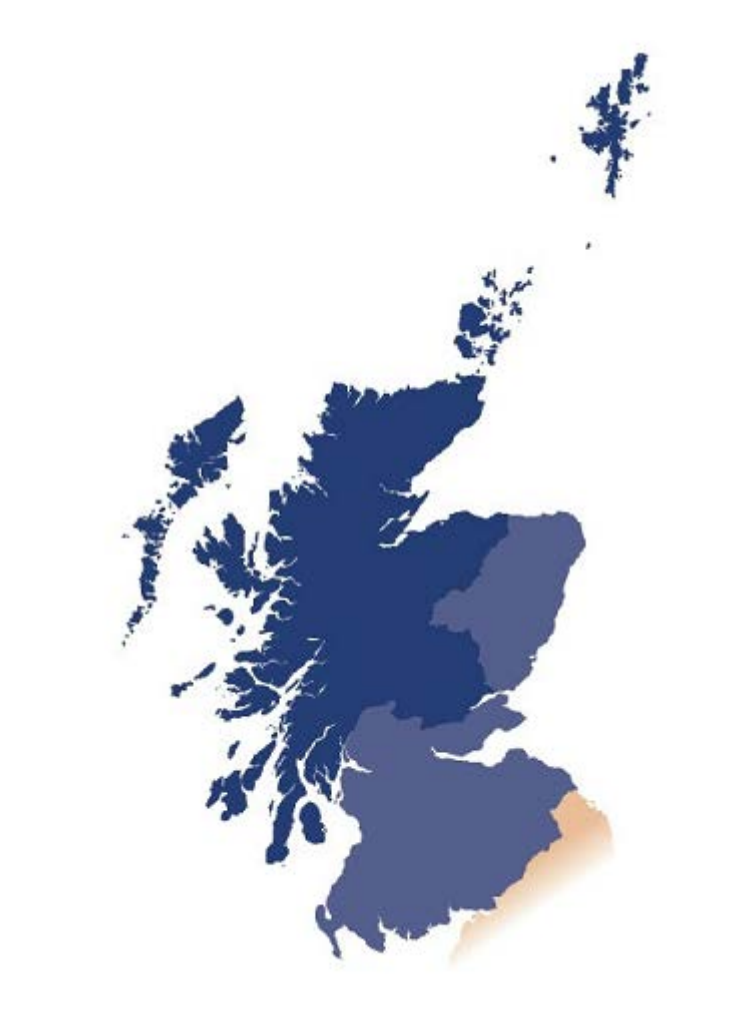UHI
Millennium
Institute

Creating the University of the Highlands and Islands

THE UHI MILLENNIUM INSTITUTE
Internal Audit Service

Annual Internal Audit Report 2009/10

30/08/2010

Fiona M Larg
UHI Executive Office
81110

Internal Audit Annual Report

2009/10

CONTENTS

Annual Internal Audit Report

2009/10

1. Introduction

1.1. The UHI Millennium Institute recruited an in-house Internal Auditor and established a Co-Sourced Internal Audit Service with Henderson Loggie Chartered Accountants in February 2009. This Annual Internal Audit Report provides a summary of the Internal Audit Service's activities since the 1st August 2009 for the financial year 2009/10.

1.2. The Internal Audit Terms of Reference require the UHI Millennium Institute Internal Auditor to give an annual opinion to the Board of Governors and Principal, through the Audit Committee, on the adequacy and effectiveness of UHI's arrangements for:

- risk management, control and governance; and for

- economy, efficiency and effectiveness (value for money)

1.3. The opinion is provided in section 7 of this report.

2. Responsibilities for Risk Management, Control, Governance and Value for Money

2.1. Within the UHI Millennium Institute, responsibility for risk management, control and governance arrangements and the achievement of value for money rests with the Board of Governors and management, who should ensure that appropriate and adequate arrangements exist without reliance on the UHI Millennium Institute's Internal Audit Service. The Internal Audit Service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems.

3. Role of Internal Audit

3.1. The UHI Millennium Institute Internal Audit Service is responsible for providing an objective, independent appraisal of all the UHI Millennium Institute's activities, financial and otherwise. It provides a service to the whole organisation, including the Board of Governors and all levels of management. It is not an extension of, nor a substitute for, good management, although it can have a role in advising management. The Internal Audit Service is responsible for evaluating and reporting to the UHI Millennium Institute's Board of Governors and Principal, through the Audit Committee, thereby providing them with assurance on the arrangements for risk management, control, governance and value for money. It remains the duty of management, not the internal auditor, to operate these arrangements.

3.2. The UHI Millennium Institute Internal Auditor is required to give an annual opinion to the Board of Governors and Principal, through the Audit Committee, on the adequacy and effectiveness of the arrangements for risk management, control and governance and for economy, efficiency and effectiveness (value for money) within UHI, and the extent to which the Board of Governors can rely on these.

3.3.   Independence

3.4.   The Internal Audit Service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. The UHI Millennium Institute Internal Auditor, subject to any guidance from the Audit Committee is solely responsible for the management and development of the UHI Millennium Institute co-sourced Internal Audit Service.

3.5.   For day-to-day administrative purposes only, the UHI Millennium Institute Internal Auditor reports to the UHI Principal. The UHI Millennium Institute Internal Auditor has right of access to the UHI Principal.

3.6.   The institute of Internal Auditors International Standards for the Professional Practice of Auditing state that "internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results".

3.7.   Where there are differences of opinion between Internal Audit and management, the Board of Governors (on the advice of the Audit Committee) should ultimately determine whether or not to accept audit recommendations, recognise and accept the risks of not taking action, and instruct management to implement recommendations

4.   Performance against the Internal Audit Plan

4.1.   The UHI Millennium Institute Internal Audit plan for 2009/10 plan was prepared using a planning methodology in line with the Scottish Funding Council (SFC) guidance and current best practice from the Committee of University Chairmen (CUC), Institute of Internal Auditors (IIA), Higher Education Funding Council for England (HEFCE), the Council of Higher Education Internal Auditors (CHEIA) and also in the context of UHI's risk management infrastructure.

4.2.   The Internal Audit Planning Methodology and proposed Internal Audit Plans were discussed and reviewed by the External Auditor who was of the opinion that the Internal Audit Plan and the associated methodology were of a good standard and in line with best practice, and were clearly risk based.

4.3.   The Audit Committee approved a draft Internal Audit Plan for 2009/10 at its April 2009 meeting. The final Internal Audit Plan for 2009/10 was approved by the Audit Committee on the 22 September 2009 (as the earlier meeting in June was cancelled). Eight out of the eleven planned internal audits have been completed. Two audits are still being progressed (one of which is to be undertaken by an external contractor). Three audits on the internal audit plan required significantly more time than initially anticipated, these were Data Management, Information Accessibility and Security, Research Business Planning and Development and the Student Fees audit. This has therefore, comprised the ability to deliver all the planned audits within the agreed timescale. The audit scheduled for Recruitment and Admissions was moved to the reserve list of the 2010/11 internal audit plan.

Audit Plan 2009/10	Audit days	Progress to date
1. Data Management, Information accessibility and security	20	• Report to 23 February Audit Committee
2. Transparent Approach to Costing (TRAC)	10	• Report to 23 February Audit Committee
3. Human Resources and Payroll	8	• Report to 27 April Audit Committee
4. Research Business Planning and Development and review	17	• Report to 27 April Audit Committee
5. HIE funding – Grant Claims	11	• Report to 22 June Audit Committee
6. Risk Management	7	• Report to 22 June Audit Committee
7. Business Transformation	15	• Report to 6 September Audit Committee
8. Student Fees	11	• Report to 6 September Audit Committee
9. Student retention and management of withdrawals	15	• Scope and objectives issued. • Fieldwork underway
10. Network Vulnerability Test	15	• Scope and objectives issued and agreed • Quote for testing service prepared and advertised (10 August) on Public Contracts Scotland website • Deadline for return of quotes 27 August

5. Summary of Internal Audit Work undertaken

5.1. The following paragraphs provide a summary of the Internal Audit work undertaken from the Internal Audit Plan 2009/10.

5.2. Data Management Information Accessibility and Security

5.3. An internal audit review of data management information accessibility and security was carried out to assess the adequacy and effectiveness of the processes and procedures for data management, information accessibility and security.

5.4. The penalties for non-compliance with the Data Protection Act were due to increase as the Information Commissioner's Office gained powers in early 2010 to issue monetary penalties. There was scope identified to further improve and better develop UHI policies, practices and processes for data management, information accessibility and security. This would help UHI to better demonstrate ongoing compliance with the Data Protection Act requirements.

5.5. The following five areas of concern were prioritised as high priority:

- To help underpin compliance with the Data Protection Act, UHI should consider developing and maintaining a comprehensive UHI record of all the types of

personal or sensitive personal data processed including the staff with responsibilities for ownership or control. As well as implementing a coordinated process to notify the Information Commissioner's Office of any changes within 28 days.

- There was scope to further raise awareness of the Data Protection Act amongst UHI staff and to help ensure compliance by:

  - Providing Data Protection Act awareness, information and training where relevant as part of UHI induction process for new staff.

  - Identifying staff who have data controller responsibilities and fostering accountability by formally defining their roles and responsibilities as data controllers and where necessary providing them with appropriate training.

  - Developing mechanisms for identifying and promulgating data protection best practice throughout UHI.

- There was scope to review the existing UHI Data Protection Policy and the Staff Manual policy on Data Protection and Access to Personal Information with a view to creating a single policy statement on Data Protection that could also form part of UHIMI Terms and Conditions of Employment. A communication strategy should also be adopted to ensure that a 'golden copy' of the policy can be readily accessed by all UHI staff. The revised policy should be formally approved by the Board of Governors.

- There was scope to improve control surrounding the timely completion of the UHI Information Security Policy.

- There was scope to further develop and better formalise UHI information security governance arrangements and acceptable use policies by including these in the new service level agreements between UHI and Academic Partners.

5.6.   Twenty three recommendations for improvement in control were identified, of which five were prioritised as high, twelve as medium, and the remainder as low priority. Actions to improve control were agreed by Management, with the final action due for implementation by the 28th February 2011.

5.7.   Transparent Approach to Costing (TRAC)

5.8.   An internal audit review was carried out to review the adequacy of the arrangements in place to prepare the Annual Transparency Review Return 2008/09.

5.9.   UHI had been developing its processes for TRAC over a period of time. To date UHI had been preparing its TRAC returns on the basis of being able to apply dispensation. Institutions applying dispensation still have to comply with the TRAC requirements although they do not have to use fully robust methods. It was unlikely that UHI would be able to apply dispensation in future years as income received for UHIMI own research would probably be greater than the £500k threshold. UHI will therefore, need to further develop its TRAC processes to be more demonstrably robust.

5.10. There was an opportunity to further improve the arrangements for the oversight of TRAC policy and methods by formalising these through the establishment of a TRAC Steering Group. Improved TRAC documentation would also help to better demonstrate TRAC compliance, aid in knowledge transfer and make it easier for new staff to undertake TRAC.

5.11. There was also scope identified to further improve the TRAC information provided to the Finance and General Purposes Committee to better support it in carrying out its role of confirming compliance with the TRAC return requirements.

5.12. Three recommendations for improvement in control were identified, all of which have been prioritised as medium priority. Actions to improve control were agreed by Management, with the final action due for implementation by 31 January 2011.

5.13. Human Resources and Payroll

5.14. An Internal audit review of human resources and payroll systems at UHI was carried out to review the adequacy and effectiveness of the processes and procedures in place to ensure that payroll payments made on UHI's payroll system are valid, authorised, made accurately, and monitored.

5.15. Manual human resources starter, leaver and change authorisation processes were in place and, on the whole, these were adequate to ensure that payroll payments made on UHI's payroll system were valid, authorised and made accurately. However, there was not always evidence available to confirm that induction training had been carried out timeously for new starts.

5.16. Finance staff process and review input to, and output from, the payroll system, however there was a lack of evidence of independent checks being undertaken on this. Reconciliations were undertaken between the payroll system and UHI's main accounting system and payments to third parties of deductions were appropriately controlled.

5.17. Budget holders regularly receive high level summary information for monitoring payroll expenditure. However, there was scope to improve control to enable budget holders to better monitor their payroll transactions by providing more detailed salary monitoring information.

5.18. Six areas of concern were identified, three of which were prioritised as medium priority and the remainder as low. Actions to improve control were agreed by Management, with the final action due for implementation by the 1st of September 2010.

5.19. Research Business Planning and Development

5.20. An internal audit review of research business planning and development was carried out. The review sort to assess the adequacy and effectiveness of the processes and procedures for managing and controlling the preparation of research bids; costing and pricing bids; and recovering overheads.

5.21. UHI had defined a strategic objective to diversify income and to strengthen UHI's financial sustainability. One of the critical success factors declared was to increase research income by growing UHI's research base. A Research and Commercialisation Implementation Plan had been developed to help deliver this. UHI had established a Research Office and the Vice Principal, Research and Enterprise had recognised the need to review the existing business processes supporting the preparation and submission of funding applications.

5.22. There was scope identified to improve the process of objectively reviewing and approving grant applications prior to submission to help minimise UHI risk exposure. Management information to enable the monitoring of research development and planning could be enhanced and there was an opportunity to improve the transparency surrounding whether research applications cover their full costs or provide a contribution towards UHI overheads. There was also scope identified to improve control by providing a policy to help mitigate exchange rate losses and also by providing a clear and robust pricing policy and strategy.

5.23. One high priority recommendation was made which identified scope to better formalise Partner accountability and Partner acceptance of risk by ensuring that evidence was required of senior partner staff's (with budgetary responsibilities) review of research application, approval of costs and acceptance of responsibility for delivery of the project prior to the research application submission by UHI.

5.24. Nine recommendations for improvement in control were identified, of which one was prioritised as high, five as medium, and the remainder as low priority. Twelve actions to improve control were agreed by Management, with the final action due for implementation by the 1st October 2011.

5.25. **Highlands and Islands Enterprise (HIE) Funding – Grant Claims**

5.26. An audit of HIE Funding had been scheduled on the 2009/10 Internal Audit Plan. The terms and conditions of HIE grant funding require an independent audit to be carried out to certify grant claims. UHI engaged Ernst & Young LLP on the 24 April 2009 and later on the 24 February 2010 to conduct the HIE grant audits. Audit reports were prepared for sixteen HIE grant claims with a total defrayed expenditure value of £7,003,661.

5.27. Given the level of audit / assurance work commissioned in this area it was decided that it would not be beneficial for internal audit to commit further resources at this time to auditing these activities. It was therefore agreed with the UHI Principal that the Internal Auditor would review the work of the Ernst & Young LLP in this area and if content provide a summary report of the findings to the Audit Committee. There were no significant control issues identified in any of the audit reports provided. Four minor claim errors were found resulting in a net over claim of £6,900.35. This represents an error of 0.1% of the total value of the claims audited. The Director, Finance and Strategy confirmed that the errors identified were corrected in the next claims. No recommendations for improvement in control were made.

5.28. **Risk Management**

5.29. An internal audit review on risk management was carried out using a template provided by the Institute of Internal Auditors (IIA) which helps to enable an assessment of an organisations risk maturity to be undertaken.

5.30. The Revised Process for Risk Identification and Management provided a sound starting point to define and formalise UHI's risk management framework processes and procedures. To fully realise the benefits of effective risk management this process needs to be complied with and further embedded as part of routine business processes.

5.31. The formation of the Risk Review Group and its ongoing work should help to provide a continuing impetus to improve risk management processes and help to better ensure the implementation and monitoring of the risk management policy.

5.32. On conclusion of the assessment it is the Internal Auditor's opinion that UHI's risk maturity could be classified as 'Risk Defined'. The IIA describe the key characteristics of being risk defined as having the "strategy and policies in place and communicated. Risk appetite defined". The IIA suggest that in these circumstances Internal Audit's approach should be to "facilitate risk management / liaise with risk management and use management assessment of risk where appropriate".

5.33. Three recommendations for improvement in control were identified, of which one was prioritised as high, one as medium, and the remainder as low priority. Actions to improve control were agreed by Management, with the final action due for implementation by 30 September 2010.

5.34. **Business Transformation**

5.35. An internal audit review of Business Transformation was carried to assess the adequacy and effectiveness of the processes and procedures for managing and controlling business transformation activities.

5.36. Business Transformation was actively supporting the change management process through personal involvement, consultation with involved parties, and via the provision of implementation plans, user guides and system documentation.

5.37. There was an opportunity over the longer term to consider improving the process for identifying areas for Business Transformation activity/review by developing a UHI wide business transformation planning and prioritisation process that engages business areas and appropriate stakeholders to help identify areas for business improvement. Transparency surrounding business transformation activities could be further improved by developing a more standardised process/lifecycle supported by key documentation.

Definition of key performance indicators or metrics at the outset of business transformation activities would help to enable the monitoring of delivery and better demonstrate whether business transformation activities represented value for money.

5.38.   Seven recommendations for improvement in control have been identified, of which three have been prioritised as Medium, and the remainder as low priority. Actions to improve control have been agreed by Management, with the final low priority action due for implementation by 1st July 2012.

5.39.   Student Fees

5.40.   An internal audit review of Student Fees was carried out to assess the adequacy and effectiveness of the processes and procedures in place to ensure that student fees are complete, accurate and collected on a timely basis. The audit covered the procedures in place within both UHI and Academic Partners.

5.41.   The findings in the report were based on written responses from Academic Partners, followed up with clarification of these written responses by e-mail and telephone. Where controls, processes or procedures were noted as being in place these were stated on the basis of the responses provided by the relevant Academic Partners.

5.42.   The processes used by four Academic Partners were inadequate to ensure that all Higher Education student fees that should be received had been correctly calculated and invoiced as formal controls over completeness were not in place. The use of an integrated student registry and debtor system, such as the SITS/SAM system, would improve controls over completeness and accuracy of student fee invoicing. A range of data quality checks were undertaken by Academic Partners, including checks requested from UHI Executive Office.

5.43.   An analysis was performed by UHI Executive Office Finance and Planning staff which identified differences between expected and reported income. It was not possible to determine within the scope of this audit whether there were valid reasons for these, however control weaknesses in the completeness and accuracy of student fee income, as noted above, could contribute to the differences.

5.44.   Two Academic Partners have detailed Higher Education discretionary fee waiver policies, one Academic Partner had a set policy but also allowed some management discretion, one used senior management discretion only as to when to apply discretionary fee waivers and eight did not award discretionary fee waivers.

5.45.   Forty two recommendations were made to Academic Partners where there was scope identified to improve control and thirty seven management actions agreed.

5.46.   Six areas of concern were identified for UHI Executive Office, which were prioritised as medium. Five actions to improve control were agreed by Management, with the final action due for implementation by 1st October 2011.

6.   Follow up of agreed management actions

6.1.   As part of the normal Internal Audit process the Internal Audit Service follows up the implementation of agreed management actions to provide assurance to the Audit Committee that actions to improve control or further mitigate risk are being implemented on a timely basis.

6.2.   The UHI Internal Audit Service records all agreed management actions to improve control in a follow-up database. The follow-up database is used to provide managers with a monthly reminder/update of their agreed management actions. The Internal Auditor provides the Audit Committee with a follow-up report at each meeting which the Committee uses to closely monitor the implementation of agreed management actions.

6.3.   The following table describes the categories used to prioritise recommendations to improve control.

Categorisation of recommendation	Definition of category
High	Inadequate systems and controls which if not addressed could expose the institution to significant financial, operational or reputational risk and adversely impact on implementation of its strategic plan.
Medium	Systems and controls which are not fully effective, and failure to improve them could adversely affect operational plans at departmental level.
Low	Good practice dictates that some enhancements to existing systems and controls are desirable.

6.4.   The following table shows the total number of agreed management actions by Audit Year and priority.

Priority	2008-9	2009-10	Total
High	17	7	24
Medium	26	34	60
Low	17	55	72
	60	**96**	**156**

6.5. The following table provides a summary of **all** the agreed management actions by audit since February 2009. It is important to note that the table includes agreed management actions that are **not** yet due for completion.

Audit Ref	Audit Title	High		Medium		Low		Total	Total Completed	Percentage completed
		Total	Completed	Total	Completed	Total	Completed			
09-01	Risk Management (2009)	3	3	4	4	3	3	10	10	100%
09-02	Review of the Strategic Delivery Body	4	4	3	3	6	6	13	13	100%
09-03	Curriculum Development and Review	1	1	5	5			6	6	100%
09-04	Business Continuity Planning	6	4	9	7	4	2	19	13	68%
09-06	Monitoring Academic Partners' financial position	3	1	5	2	4	3	12	6	50%
10-03	Research Business Planning and Development	1		7	2	4	1	12	3	25%
10-04	Business Transformation			3		4		7	0	0%
10-05	HR Payroll			3	2	3	2	6	4	67%
10-07	Student Fees			5	1	37		42	1	2%
10-09	Data Management Information Accessibility and Security	5		12	3	6	2	23	5	22%
10-11	Risk Management (2010)	1		1		1		3	0	0%
10-19	Transparent Approach to Costing			3				3	0	0%
	Total	24	13	60	29	72	19	156	61	39%
	Percentage Complete	**High 54%**		**Medium 48%**		**Low 26%**		**Total 39%**		

7.   Annual opinion on the adequacy and effectiveness of the UHI Millennium Institute's arrangements for risk management, control and governance; economy, efficiency and effectiveness (value for money).

7.1.   The Internal Audit Terms of Reference require the UHI Millennium Institute Internal Auditor to give an annual opinion to the Board of Governors and Principal, through the Audit Committee, on the adequacy and effectiveness of UHI's arrangements for:

- risk management, control and governance;

- economy, efficiency and effectiveness (value for money).

7.2.   It is important to note that:

- The opinion is based upon the internal audit work undertaken since the 1st August 2009 from the Internal Audit Plan 2009/10, summarised earlier in section five.

- Internal control can provide only a <u>reasonable</u> and <u>not absolute</u> assurance to management and the Board of Governors regarding achievement of UHI's objectives.

- Responsibility for risk management, control and governance arrangements and the achievement of value for money rests with the Board of Governors and management, who should ensure that appropriate and adequate arrangements exist without reliance on the UHI Millennium Institute's Internal Audit Service.

- Internal Audit reviews have a reasonable chance of detecting significant control weaknesses but cannot guarantee that fraud, error or non compliance will be detected.

7.3.   **<u>Adequacy and Effectiveness of the UHI Millennium Institute's arrangements for Risk Management, Control and Governance</u>**

7.4.   **Findings**

Risk Management

7.5.   An internal Audit Review of Risk Management was undertaken during the year and a summary of the review was included in paragraphs 5.28 to 5.33. Appendix A also includes the internal audit assessment on UHI's risk maturity.

7.6.   The review concluded that the Revised Process for Risk Identification and Management provided a sound starting point to define and formalise UHI's risk management framework processes and procedures. To fully realise the benefits of effective risk management this process needs to be complied with and further embedded as part of routine business processes. The formation of the Risk Review Group and its ongoing work should help to provide a continuing impetus to improve risk management processes and help to better ensure the implementation and monitoring of the risk management policy. Recommendations for improvement in control were identified and actions to improve control were agreed by management.

Control

7.7.   During the year the Internal Audit Service has reviewed and tested many of UHI's internal controls based upon the Internal Audit Plan. A summary of the findings of these reviews is included in section 5.

7.8. The majority of internal audits undertaken during the year have resulted in recommendations being made to improve control. The following table shows the categorisation of internal audit recommendations.

Categorisation of recommendation	Definition of category	Number of recommendations made	Percentage of actions agreed by management
High	Inadequate systems and controls which if not addressed could expose the institution to significant financial, operational or reputational risk and adversely impact on implementation of its strategic plan.	7	100%
Medium	Systems and controls which are not fully effective, and failure to improve them could adversely affect operational plans at departmental level.	35	97%
Low	Good practice dictates that some enhancements to existing systems and controls are desirable.	60	92%
Total		**102**	**94%**

7.9. There were no significant internal audit recommendations that the Internal Audit Service consider had not received adequate management attention. The implementation of the agreed management actions corresponding to the recommendations will continue to improve UHI's internal control arrangements.

Governance

7.10. In the previous financial year the UHI Millennium Institute Deputy Principal - Secretary oversaw a review process to revise the UHI Millennium Institute Statement of Governance and Code of Practice and the Handbook for Members of the Board of Governors. The Statement of Governance and Code of Practice was revised to take into account the guidance issued by Committee of University Chairmen and other authorities. Both documents seek to ensure that UHI governance is in line with sector best practice.

7.11. At its June 2009 meeting, the Board of Governors granted interim approval to the draft Statement of Governance and Code of Practice and the draft Handbook for Members of the Board of Governors and referred both for detailed consideration to Finance and General Purposes Committee and the Audit Committee. The Finance and General Purposes Committee and the Audit Committee approved the revisions to the Code of Practice and the proposed Governors' Handbook subject to some amendments. On the

15 December 2009 the Board of Governors noted the revised Statement of Governance and Code of Practice and the revised Handbook for Members of the Board of Governors.

7.12.   Earlier in 2009, Ernst & Young were commissioned to review the UHI Millennium Institute, Executive Office organisation structure and report on how this could be improved. At an early stage in their work, they highlighted the cumbersome UHI committee structure being supported which took considerable staff resource to service. A radical overhaul of the governance process and the role of UHI committees was subsequently undertaken to reduce the committee system to the minimum number of higher level committees essential for providing governance at a strategic level. The restructuring proposals set out that each UHI committee and working group would have a clear remit and statement on delegated authority agreed by its senior committee.

7.13.   At its meeting of the 15th of December 2009, the Board of Governors approved the proposals for the new UHI committee structure, in principle, but subject to agreement by the Executive Board. The new UHI committee structure was implemented on the 4th January 2010.

7.14.   The Delegated Authorisation Schedule has been amended to take account of the revisions to both the UHI Committee Structure and the Executive Office and was approved by the Board of Governors at its meeting of the 27 April 2010.

7.15.   Opinion

> **On the basis of the work carried out since 1 August 2009, the UHI Millennium Institute Internal Auditor concludes that where scope to improve controls was identified management actions have been agreed to address these. There is sufficient evidence of controls and procedures to provide reasonable assurance that UHI has adequate and effective arrangements for risk management, control and governance.**

7.16.   Adequacy and Effectiveness of the UHI Millennium Institutes arrangements for Economy, efficiency and effectiveness (value for money)

7.17.   Findings

7.18.   The Scottish Funding Council Financial memorandum mandatory requirements effective from the 14 October 2008, state that the 'institution must have a strategy for systematically reviewing management's arrangements for securing value for money. As part of its internal audit arrangements, the institution must obtain a comprehensive appraisal of management's arrangements for achieving value for money'.

7.19.   In April 2009 Internal Audit discussed the need to prepare a UHI Value for Money (VFM) Strategy with the Deputy Principal - Secretary and the Director of Finance and Planning. A VFM Strategy was prepared and the Finance and General Purposes Committee agreed at its 9th of June 2009 meeting to recommend approval of the strategy to the Board of Governors and welcomed the fact that UHI already fulfilled many of the requirements. The Board of Governors approved the VFM Strategy at its meeting on the 23rd of June 2009.

7.20.   The VFM Strategy was prepared in line with guidance issued by HEFCE[1]. The Finance and General Purposes Committee is responsible for developing and overseeing the VFM Strategy. The VFM Strategy also sets out a comprehensive action plan of actions to be undertaken that will help to contribute further to the achievement of value for money.

---

[1] Higher Education Funding Council England (HEFCE) – Guidance on value for money (VFM) strategies and reporting

7.21.   Executive Board and Senior Management Group have operational responsibility for developing the improvement arrangements and identifying resource requirements, co-ordinating and delivering work against the plan.

7.22.   The VFM Strategy states that Finance and General Purposes Committee will receive a progress report twice a year to monitor progress against the VFM improvement plan and to ensure that recommendations are implemented. The Finance and General Purposes Committee is scheduled to receive (at its meeting of the 31st of August 2010) a progress report for approval on the VFM improvement plan. This reports progress to September 2010 and also provides revised actions and dates.

7.23.   Additional to the actions identified in the VFM improvement plan, a zero based budgeting exercise was carried out during the year, to prepare operational budgets for financial years 2010-13. The purpose was to ensure resources were aligned to UHI's strategic and operational priorities, The process involved a constructive challenge of each departmental budget based on best value concepts of the 'Four C's'; that is, challenging why, how and by whom, comparing performance, consulting where possible with users, and competing for resources with other departments.

7.24.   Opinion

> **On the basis of the work carried out since 1 August 2009, the UHI Millennium Institute Internal Auditor concludes that in June 2009 the Board of Governors approved a Value for Money Strategy which defined the objectives, approach, roles, responsibilities, reporting requirements and provides an action plan to help promote and secure value for money within UHI.**
>
> **There is sufficient evidence (subject to the full implementation of the Value for Money Strategy and action plan) that there are now processes and procedures to provide reasonable assurance that UHI has adequate and effective arrangements to promote economy, efficiency and effectiveness (value for money).**

8.   Internal Audit Key performance Indicators

8.1.   The Internal Audit Terms of Reference require the UHI Millennium Institute Internal Auditor to implement measures to monitor the effectiveness of the Internal Audit Service. The Key Performance Indicators were discussed and agreed with the Secretary. They are derived from Key Performance Indicators suggested in the Committee of University Chairmen, Handbook for Members of Audit Committees in Higher Education.

Internal Audit Performance indicator	Target	Actual 2009/10
Percentage of audit work delivered by qualified staff.	60%	100%
Internal Audit Plan to be submitted by June each year.	June of each year	Draft Internal Audit Plan for 2009/10 approved by Audit Committee in April 2009. Final Audit Plan for 2009/10 approved by Audit Committee in September 2009 as June meeting was cancelled.
Follow-ups to be performed within 3 months of the last action date of recommendations made.	Within 3 months of the last action date of recommendation	Management are provided with a monthly update on their agreed management actions and a follow up report is provided to each meeting of the Audit Committee.
Issue of draft reports within 30 days of work being completed.	30 working days	100%
Issue of final report within 10 working days of receipt of management responses.	10 working days	100%
Recommendations made compared with recommendations accepted.	80%	94%
Internal audit reviews that added value.	90%	100%
Internal audit attendance at audit committee meetings.	100%	100%
Issue of internal audit annual report.	September of each year	Report provided to September 2010 Audit Committee

9.   Internal Audit Service Quality Assurance programme

9.1.   The UHI Millennium Institute Internal Audit Service is required through its Terms of Reference to perform internal audit work with due professional care, in accordance with appropriate professional auditing practice and with regard to Treasury and the Institute of Internal Auditors standards (see later paragraph 9.11).

9.2.   The letter of agreement established between the UHI Millennium Institute and the co-sourced internal audit partner Henderson Loggie affirms that the co-sourced internal audit partner will perform internal audit services in accordance with relevant professional standards and guidelines and in accordance with the Scottish Funding Council Financial Memorandum.

9.3.   Compliance with the Institute of Internal Auditors, International standards requires the UHI Millennium Institute Internal Auditor to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity. The Institute of Internal Auditors International standards requires that the Internal Audit Service Quality Assurance Programme must include both internal and external assessments.

9.4.   The UHI Millennium Institute Internal Audit Service has established a two tier approach to its quality assurance and improvement program:

- The ongoing process of monitoring the performance of internal audit activity.

- Internal Audit Annual Quality Assurance assessments. An internal review undertaken by the Principal and the Secretary and an external evidence based peer review assessment.

9.5.   Ongoing Performance Monitoring of Internal Audit Activity

9.6.   The UHI Millennium Institute internal Auditor manages the provision of the co-sourced Internal Audit Service on an ongoing basis. A monthly reporting process is in place to keep the Principal informed of Internal Audit's progress. The Internal Audit Service has introduced Internal Audit Performance Questionnaires that are issued to management and staff at the conclusion of internal audit work. Feedback from management and staff on the performance of Internal Audit reviews is valued by the Internal Audit Service and helps enable the service provided to be improved and assists the Audit Committee in forming an opinion on the efficiency and effectiveness of the Internal Audit function.

9.7. The table below presents a summary of the Internal Audit Performance Questionnaire responses received. The responses illustrate that on the whole 100% of the respondents were either fully satisfied or satisfied.

Internal Audit Performance Questionnaire	Fully Satisfied	Satisfied	Not Satisfied	Fully Dissatisfied	N/A
1. Were you given adequate notification of the audit?	67%	33%	0%	0%	0%
2. Were you adequately informed of the audit scope and objectives?	89%	11%	0%	0%	0%
3. Were the appropriate staff consulted for the audit area covered?	78%	22%	0%	0%	0%
4. Did the auditor display a professional, constructive and positive approach during the review?	78%	22%	0%	0%	0%
5. Did the auditor discuss key results/findings with you during the review?	78%	22%	0%	0%	0%
6. Were you given the opportunity to discuss the draft report with the auditor prior to finalisation?	78%	22%	0%	0%	0%
7. Was the report produced to a professional standard?	78%	22%	0%	0%	0%
8. Overall, were you satisfied with the review? Has it been worthwhile and added value to your work?	78%	22%	0%	0%	0%
Percentage Totals	**78%**	**22%**	**0%**	**0%**	**0%**

9.8.   Annual Internal Audit Quality Assurance Reviews

9.9. In January 2009, the Institute of Internal Auditors launched its International Professional Practices Framework. This is a revised version of the IIA Standards and Guidance. The revised requirements state that the Internal Audit Service Quality Assurance Programme must include both internal and external assessments.

Internal Quality Assessment Reviews

9.10. The Committee of University Chairmen guide for members of Audit Committees in Higher Education provides useful templates to help in the annual evaluation of internal audit. The Principal and Secretary completed assessments in August 2010, which provide an independent internal evaluation of the Internal Audit Service. The UHI Internal Audit Service internal quality assessments are included in Appendix B.

External Quality Assessment reviews

9.11. The UHI Internal Audit Service participated in an external evidence based peer-reviewed assessment to provide independent external assurance to the Audit Committee over quality control of the UHI Internal Audit Service and to demonstrate compliance with the IIA standards.

9.12. The Council of Higher Education Internal Auditors (CHEIA), with the support of the Higher Education Funding Council England (HEFCE) leadership fund, piloted an internal audit 'self assessment' tool in 2006/07 which was developed by RSM Robson Rhodes; this was then rolled out from 2007/08. The self assessment tool provides a means of benchmarking service delivery against recognised best practice and helps to achieve and maintain an even higher quality internal audit service in the higher education sector.

9.13. The self assessment tool is a spreadsheet-based assessment comprising of 60 questions, against which the assessor is required to rate the audit service on a four point scale, from 'best practice' to 'potentially non-compliant'. To ensure consistency of completion the assessment requires a response to be provided to all 60 questions regardless of whether they best fit an individual institution's Internal Audit Service arrangements or not. Responses to these questions are then weighted and calculated to deliver percentage scores against six criteria: due professional care; strategy; methodology; people; independence and quality assurance. The tool can be completed in three ways, by self assessment, peer reviewed self assessment and finally by an evidence based peer-review process. The tool is in widespread use across the UK and Ireland as promulgated by HEFCE and CHEIA.

9.14. The UHI Internal Auditor attended a meeting on the 29 July 2010 in Edinburgh with the Heads of Internal Audit of Newcastle University, University of Edinburgh and the University of Strathclyde to have an evidence based peer-review of the UHI Internal Audit Service carried out. The following table presents the results of the assessment.

Assessment Criteria	%		Key	
Due professional care	77		90% - 100%	Best Practice
Strategy	83		**60% - 90%**	**Good Practice**
Methodology	79		20% - 60%	Partially Compliant
People	74		0% - 20%	Potentially Non-Compliant
Independence	82			
Quality assurance	67			
Overall average	**77**			

9.15. The results of the UHI Internal Audit Service evidence based peer-reviewed assessment show that the UHI Internal Audit Service represents **Good Practice**. Some opportunities to better demonstrate good practice were identified and these will be progressed by the UHI Internal Auditor.

9.16. As mentioned in earlier in paragraph 4.2, the UHI Millennium Institute External Auditor also provided independent feedback on the Internal Audit Service's Internal Audit Planning Methodology and Internal Audit Plans.

10. Conclusion

10.1. The co-sourced Internal Audit Service was established in February 2009. The Internal Audit Service is continuing to develop its role within the UHI Millennium Institute and seeks to assist the UHI Millennium Institute in progressing towards achievement of its objectives by providing independent, objective assurance on risk management, control and governance.

Appendix A - The Institute of Internal Auditors UK and Ireland - An approach to implementing Risk Based Internal Audit

Assessing the University's risk maturity -This assessment was made by reviewing the UHI Millennium Institute's practices, processes and relevant supporting documentation such as the risk management strategy, policy and risk registers.

Risk Maturity	Risk naive	Risk aware	Risk defined	Risk managed	Risk enabled	Sample audit test	Summary of findings
Key characteristics.	No formal approach developed for risk management.	Scattered silo based approach to risk management.	Strategy and policies in place and communicated. Risk appetite defined	Enterprise approach to risk management developed and communicated.	Risk management and internal controls fully embedded into the operations.		
The organisation's objectives are defined.	Possibly.	Yes - but may be no consistent approach.	Yes ☑	Yes ☑	Yes ☑	Check the organisation's objectives are determined by the board and have been communicated to all staff. Check other objectives and targets are consistent with the organisation's objectives.	UHI's objectives are defined in the Strategic Plan.
Management have been trained to understand what risks are, and their responsibility for them.	No	Some limited training.	Yes ☑	Yes ☑	Yes ☑	Interview managers to confirm their understanding of risk and the extent to which they manage it.	Managers were aware of risk and their responsibility for managing it. Managers also confirmed that they carried out activities to actively manage risk.

A scoring system for assessing risks has been defined.	No	Unlikely, with no consistent approach defined.	Yes ☑	Yes ☑	Yes ☑	Check the scoring system has been approved communicated and is used.	The Board of Governors has defined a scoring system for assessing risks.
The risk appetite of the organisation has been defined in terms of the scoring system.	No	No	Yes ☑	Yes ☑	Yes ☑	Check the document on which the controlling body has approved the risk appetite. Ensure it is consistent with the scoring system and has been communicated.	The Board of Governors has defined its risk appetite and also set tolerance levels for approval of risks via its risk scoring system.
Processes have been defined to determine risks, and these have been followed.	No	Unlikely	Yes, but may not apply to the whole organisation. ☑	Yes	Yes	Examine the processes to ensure they are sufficient to ensure identification of all risks. Check they are in use, by examining the output from any workshops.	The Board of Governors has defined a process in which risk registers will be reviewed and updated However, this process has not been fully embedded. However, the formation and ongoing work of the Risk Review Group should help to ensure that risks are identified, assessed, managed and reported on a timelier basis.
All risks have	No	Some incomplete	Yes, but may	Yes	Yes	Examine the Risk	There was

been collected into one list. Risks have been allocated to specific job titles.		lists may exist.	not apply to the whole organisation. ☑			Register. Ensure it is complete, regularly reviewed assessed and used to manage risks. Risks are allocated to managers.	potentially a risk that the high level risk register may not be complete as processes to identify and review other risks registers and escalate risks to the relevant group or committee were not being complied with. However, the recent establishment of the Risk Review Group may help to improve this, as a new process requiring risk owners (e.g. members of the Senior Executive Team and Senior Academic Team) to review and update the high level risk register ahead of each quarterly meeting of the Risk Review Group was being proposed. The risk registers show that where risks have been collated, that they have been allocated to a Risk Owner.
All risks have been assessed in accordance with the defined	No	Some incomplete lists may exist.	Yes, but may not apply to the whole organisation.	Yes ☑	Yes ☑	Check the scoring applied to a selection of risks is consistent with the policy.	Risks were being assessed in accordance with the defined scoring system in the high

scoring system.						Look for consistency (that is similar risks have similar scores).	level risk register. However it was noted that a different scoring system had been used for the management school risk register.
Responses to the risks have been selected and implemented.	No	Some responses identified.	Yes, but may not apply to the whole organisation ☑	Yes	Yes	Examine the Risk Register to ensure appropriate responses have been identified.	Review of the high level risk register highlighted that responses to risks had been recorded for each risk. Many of the mitigating controls described required ongoing commitment to provide mitigation. It was noted that differing approaches were taken to recording mitigating controls and further actions. For some of the risks the person responsible and action timescale for further actions had been completed where no further action had been recorded. For some risks further actions were recorded with a responsible person but no timescale.
Management have set up methods to	No	Some monitoring controls.	Yes, but may not apply to the whole	Yes	Yes	For a selection of responses, processes and	A Risk Review Group had recently been established

monitor the proper operation of key processes, responses and action plans (monitoring controls).			organisation. ☑			actions, examine the monitoring control(s) and ensure management would know if the responses or processes were not working or if the actions were not implemented.	where risk owners will be invited to explain the risk, actions being taken to mitigate their risks, the constraints and issues faced and identify support needed from the group or the organisation to help manage risk. It is planned that a detailed review of each key risk will be undertaken on an annual basis. The Finance and General Purposes Committee will also be asked to consider a paper following each review group meeting which would identify emerging issues from the group. The minutes of the group will be reported to the Finance and General Purposes Committee and Board of Governors together with the updated risk register. An annual report on the work of the group will go to the Audit Committee.
Risks are regularly	No	Some risks are reviewed, but	Regular reviews,	Regular reviews, probably	Regular reviews, probably	Check for evidence that a	Responsibilities for

reviewed by the organisation.		infrequently.	probably annually. ☑	quarterly.	quarterly.	thorough review process is regularly carried out.	Committees to review risks at different levels throughout UHI had been agreed by the Board of Governors. In general these were not being complied with. However, the recent establishment of the Risk Review Group may help to improve this as processes were being developed to facilitate a quarterly review of the high level risk register and provide reports to the Finance and General Purposes Committee and the Board of Governors.
Management report risks to directors where responses have not managed the risks to a level acceptable to the board.	No	No	Yes, but may be no formal process. ☑	Yes	Yes	For risks above the risk appetite, check that the board has been formally informed of their existence.	The current risk management processes use the initial risk assessment (the gross risk) to define when risk should be reported to certain Committees for review and approval. There are currently no formalised processes to define the risk appetite (the level acceptable to

							the Board) for each risk.
All significant new projects are routinely assessed for risk.	No	No	Most projects.	All Projects. ☑	All Projects. ☑	Examine project proposals for an analysis of the risks which might threaten them.	Processes had been defined, communicated and implemented to help ensure that all new projects are assessed for risk by appropriately trained staff.
Responsibility for the determination, assessment, and management of risks is included in job descriptions.	No ☑	No ☑	Limited.	Most job descriptions.	Yes	Examine job descriptions. Check the instructions for setting up job descriptions.	Responsibilities for the determination, assessment, and management of risks were to be incorporated in job descriptions following the Executive Office restructure.
Managers provide assurance on the effectiveness of their risk management.	No ☑	No ☑	No ☑	Some managers.	Yes	Examine the assurance provided. For key risks, check that controls and the management system of monitoring, are operating.	A Risk Review Group had recently been established where risk owners will be invited to explain the risk, actions being taken to mitigate their risks, the constraints and issues faced and identify support needed from the group or the organisation to help manage risk. This will provide a forum

							where Managers can provide assurance on the effectiveness of their risk management.
Managers are assessed on their risk management performance. No	No ☑	No ☑	No ☑	Some managers.	Yes	Examine a sample of appraisals for evidence that risks management was properly assessed for performance.	An assessment of manager's risk management performance was to be included in the appraisal process following the Executive Office restructure.
Internal Audit approach	Promote risk management and rely on alternative Audit Planning method	Promote enterprise- wide approach to risk management and rely on alternative Audit Planning method.	**Facilitate risk management / liaise with risk management and use management assessment of risk where appropriate.**	Audit risk management processes and use management assessment of risk as appropriate.	Audit risk management processes and use management assessment of risk as appropriate.		

Appendix B - UHI Internal Audit Service internal quality assessment - peer reviews

UHI Internal Audit Service – Internal Peer Review

Adherence to the Institute of Internal Auditors International standards requires that the Internal Audit Service Quality Assurance Programme must include both internal and external assessments. The CUC guide for members of Audit Committees in HE provides the following template to help in the annual evaluation of internal audit.

Planning

1. Are internal audit's terms of reference sufficiently visible to everyone within the institution?

Yes ☐☒☐ No ☐ ☐

2. Has there been sufficient pre-planning and co-ordination by the internal auditors before the start of each phase of the internal audit or special project?

Yes ☐☒☐ No ☐ ☐

3. Has internal audit discussed its approach and major areas of audit focus with you?

Yes ☐☒☐ No ☐ ☐

4. Have you raised any major areas of concern that have not been reviewed by the internal audit team?

Yes ☐☐☐ No ☐ ☒

Comments

Skills and experience

1. Do you consider that the internal audit team have sufficient expertise, professional experience, project management ability, interpersonal skills and seniority to effectively carry out the work required?

Yes ☐☒☐ No ☐ ☐

2. Assess the strength of internal audit's understanding of the institution and its risk involvement.

Strong ☒☐ Adequate ☐☐ Needs improvement ☐

3. How strongly have the members of the internal audit team demonstrated an appreciation of the issues key to your role and responsibilities?

Strong ☐☐ Adequate ☒☐ Needs improvement ☐

Fiona M Larg
UHI Executive office
11210

4. Have members of the internal audit team consistently demonstrated independence in all their deliberations?

Yes ☐ ☒ ☐ No ☐ ☐

5. Have members of the internal audit team been adequately supervised?

Yes ☐ ☒ ☐ No ☐ ☐

Comments

Work programme

1. Has effective co-operation been achieved between the internal auditors and your department, including avoidance of undue disruption to normal activities?

Yes ☐ ☒ ☐ No ☐ ☐

2. Is there a formal process to ensure that internal audit keeps you up to date with audit/project progress?

Yes ☐ ☒ ☐ No ☐ ☐

3. Has internal audit provided early identification and advice regarding contentious issues, problem areas and delays?

Yes ☐ ☒ ☐ No ☐ ☐

4. Has internal audit suggested how such issues could be resolved?

Yes ☐ ☒ ☐ No ☐ ☐

5. Were such suggestions realistic, robust and presented clearly and on a timely basis?

Yes ☐ ☒ ☐ No ☐ ☐

6. How responsive has internal audit been to the institution's needs, including requests for special investigations?

Strong ☒ ☐ Adequate ☐ ☐ Needs improvement ☐

7. Are internal audit reports:

Relevant, clear and constructive?

Yes ☐ ☒ ☐ No ☐ ☐

Fiona M Larg
UHI Executive office
11210

Sufficiently detailed to provide assurance that the necessary audit work has been carried out to support the opinions/conclusions?

Yes ☐ ☒ ☐ No ☐ ☐

Sufficiently detailed to enable effective management action?

Yes ☐ ☒ ☐ No ☐ ☐

Issued on a timely basis?

Yes ☐ ☒ ☐ No ☐ ☐

8. Have internal audit findings been discussed with you prior to being tabled with the audit committee?

Yes ☐ ☒ ☐ No ☐ ☐

9. Has internal audit followed up recommendations to see if they have been implemented?

Yes ☐ ☒ ☐ No ☐ ☐

10. Do you have any major unresolved disagreements with internal audit?

Yes ☐ ☐ ☐ No ☐ ☒

Overall performance

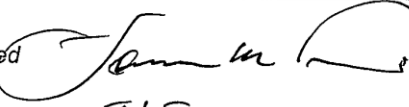1. Has internal audit added value to the institution?

Yes ☐ ☒ ☐ No ☐ ☐

2. In what ways has internal audit added value to the institution?

Overall comments

Name *JAMES M FRASER*, Signed *(signature)*

Position *PRINCIPAL* Date *18/8/19*

Fiona M Larg
UHI Executive office
11210

UHI Internal Audit Service – Internal Peer Review

Adherence to the Institute of Internal Auditors International standards requires that the Internal Audit Service Quality Assurance Programme must include both internal and external assessments. The CUC guide for members of Audit Committees in HE provides the following template to help in the annual evaluation of internal audit.

Planning

1. Are internal audit's terms of reference sufficiently visible to everyone within the institution?

Yes ☑ No ☐

2. Has there been sufficient pre-planning and co-ordination by the internal auditors before the start of each phase of the internal audit or special project?

Yes ☑ No ☐

3. Has internal audit discussed its approach and major areas of audit focus with you?

Yes ☑ No ☐

4. Have you raised any major areas of concern that have not been reviewed by the internal audit team?

Yes ☐ No ☑

Comments

Skills and experience

1. Do you consider that the internal audit team have sufficient expertise, professional experience, project management ability, interpersonal skills and seniority to effectively carry out the work required?

Yes ☑ No ☐

2. Assess the strength of internal audit's understanding of the institution and its risk involvement.

Strong ☑ Adequate ☐ Needs improvement ☐ .

3. How strongly have the members of the internal audit team demonstrated an appreciation of the issues key to your role and responsibilities?

Strong ☑ Adequate ☐ Needs improvement ☐

Fiona M Larg
UHI Executive office
11210

4. Have members of the internal audit team consistently demonstrated independence in all their deliberations?

Yes ☑ No ☐

5. Have members of the internal audit team been adequately supervised?

Yes ☑ No ☐

Comments

Work programme

1. Has effective co-operation been achieved between the internal auditors and your department, including avoidance of undue disruption to normal activities?

Yes ☑ No ☐

2. Is there a formal process to ensure that internal audit keeps you up to date with audit/project progress?

Yes ☑ No ☐

3. Has internal audit provided early identification and advice regarding contentious issues, problem areas and delays?

Yes ☑ No ☐

4. Has internal audit suggested how such issues could be resolved?

Yes ☑ No ☐

5. Were such suggestions realistic, robust and presented clearly and on a timely basis?

Yes ☑ No ☐

6. How responsive has internal audit been to the institution's needs, including requests for special investigations?

Strong ☑ Adequate ☐ Needs improvement ☐

7. Are internal audit reports:

   Relevant, clear and constructive?

Yes ☑ No ☐

Fiona M Larg
UHI Executive office
11210

Sufficiently detailed to provide assurance that the necessary audit work has been carried out to support the opinions/conclusions?

Yes ☑No ☐

Sufficiently detailed to enable effective management action?

Yes ☑No ☐

Issued on a timely basis?

Yes ☑No ☐

8. Have internal audit findings been discussed with you prior to being tabled with the audit committee?

Yes ☑No ☐

9. Has internal audit followed up recommendations to see if they have been implemented?

Yes ☑No ☐

10. Do you have any major unresolved disagreements with internal audit?

Yes ☐No ☑

Overall performance

1. Has internal audit added value to the institution?

Yes ☑No ☐

2. In what ways has internal audit added value to the institution?

Overall comments
① Much greater coverage of internal audit walk
② Directly aligned to high level risk register
③ Constructive & helpful reports & recommendations add significant value to control mechanisms

Name FIONA LARG   Signed F. M Larg

Position Secretary   Date 26·8·10

Fiona M Larg
UHI Executive office
11210