

DRAFT Audit Committee Report to Court, December 2009

1. Introduction

In line with good governance practice, the Audit Committee has in recent years submitted an annual report to Court. This provides a brief overview of the Committee's work in the course of the year. Crucially, it reflects the Committee's assessment of the adequacy and effectiveness of the institution's internal control system and the extent to which the governing body can rely on that system. This annual report summarises the work of the Committee for the year up to and including its meeting on 4 November 2009.

2 Summary of the Year's work

2.1 *Membership of the Committee*

There have been changes to the membership of the Committee this year. In February, Kevin Sweeney took over the chairmanship, succeeding Tom O'Connell, and in May the Committee was joined by two new members, Paul Brady and Neil Menzies. As at November 2009, membership of the Committee was: Kevin Sweeney (chair), Paul Brady, Hamish Guthrie, Margot Manson, Neil Menzies and Elizabeth Simpson. Margot Manson's period on the Committee ends in November 2009 and a successor will, via Nominations Committee, be recommended to the February meeting of Court. The Committee would like to place on record its appreciation of Margot's contribution to the work of the University over the last 4 years.

2.2 *Review of Effectiveness*

With a new chairman, and two new members, the Committee felt it important to review its own effectiveness, and this exercise has been taken forward with assistance from Deloitte. An important outcome has been a commitment by the Committee to brief itself more fully on the business of the University. It has therefore instituted a series of discussions with the University's senior managers, starting with the Principal, Secretary, Director of Finance and Group Financial Controller. While maintaining a high level of independence from the Executive and the Governing Body (just one of the six members of the committee is a member of Court), the Committee will continue to take steps to ensure that all members are well briefed on the strategic issues affecting the University. As part of this, Audit Committee members will in future routinely be invited to attend Court induction sessions.

2.3 *Financial Accounts*

The Committee has reviewed the University's accounts for 2008/09 and the commentary thereon, together with the audit results report prepared by the external auditor, Ernst & Young. The audit opinion was unqualified and, for the fourth successive year, the accounts reflect an operating surplus.

2.4 *Internal Audit Activity, 2008/09*

The Committee has continued to devote a substantial part of its time to the work of Internal Audit, a service provided by Deloitte. In the course of this year, the Committee has:

- reviewed the outcome of each new internal audit report and noted the principal areas requiring attention;
- required the Director of Finance and the Secretary of Court to report regularly on progress in implementing internal audit recommendations; and
- exceptionally, invited other University managers to attend the Committee to account for the action they are taking in response to significant audit recommendations.

Two years ago, the Committee recorded its concern at the relatively high proportion (24%) of Priority 1 recommendations appearing in internal audit reports. At that time, the University's senior managers showed a clear commitment to address Internal Audit's recommendations and the Committee believes good progress has been made. The last two years' audits have included fewer Priority 1 recommendations (10% in 2007/08 and 9% in 2008/09), and the Committee has therefore been able to focus more attention on these and to monitor more closely the management response.

2.5 *Internal Audit Plan, 2009/10*

At its October 2009 meeting, the Committee considered an internal audit plan that had been drafted by Deloitte in consultation with the Secretary of Court and Director of Finance. The Plan has been modified to reflect the Committee's input. It places emphasis on testing the efficiency and effectiveness of corporate systems, rather than simply monitoring compliance. In line with the Committee's guidance, the Plan affords greater weight this year to value for money.

2.6 *Risk Management*

Risk management workshops, at University and Faculty level, have been a feature of internal audit work since Deloitte took responsibility for Internal Audit in 2006. The Audit Committee has discussed the top-rated strategic risks. It is concerned that there should be greater clarity of responsibility for risk management in the University and has asked that the relevant senior executive officers be required to provide statements to the Principal confirming that they have assessed strategic risks and are taking appropriate action to manage them.

3 *Adequacy and Effectiveness of Internal Control*

On the basis of the internal audit work undertaken in the course of the year, and of the comments of the external auditors on the University's financial statements, the Audit Committee believes that the University has, in general, an adequate system of internal control.