

AC08/07

COVER SHEET FOR COMMITTEE PAPERS

Committee Title	Audit Committee
Date of Meeting	18 November 2008
Item Number and Title/Subject	Internal Audit Annual Report for the year ended 31 July 2008
Author	Internal Audit - PricewaterhouseCoopers LLP
Brief Summary of Issues/Topic	Internal Audit Annual Report summarising our work for the year and providing our annual opinion.
Recommendation(s)	Audit Committee Members are asked to note our annual internal audit opinion for the year ended 31 July 2008
Strategic Policy Implications	Not Applicable
Financial Implications	None
Equal Opportunities Implications	None
Freedom of Information	
Can this paper be included in open business?	Yes
If No or Yes in edited form, why must the paper (or parts of it) be withheld and for how long?	
Stakeholder Interest	
Risks	Not Applicable
Consultation	Director of Finance and Deputy Director of Finance.

Government and Public Sector
Internal Audit Services

October 2008

Glasgow Caledonian University Internal Audit Annual Report for the year ended 31 July 2008

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1. Background and Scope

Purpose

- 1.01 It is accepted "best practice" that the Head of Internal Audit provides the Audit Committee with an Annual Statement on the effectiveness of internal controls based on the work carried out during the financial year. This report constitutes this statement and covers the period from 1 August 2007 to 31 July 2008. The Audit Committee should use this and other sources of assurance it has gained during the year to make an Annual Report to the Court. Additionally we would expect our report to help inform the Audit Committee and the Court's consideration of the Statement of Internal Control. The opinion of the internal auditors does not supersede the Court's responsibility for risk, control and governance.

Scope and Responsibilities

- 1.02 Our agreed work plan is prepared on the basis of the University's strategic risk register, existing sector knowledge, appropriate discussion with management and the focus and findings of prior internal audit work. We prepared an internal audit plan based on the risk profile which was approved by the Audit Committee.
- 1.03 It is management's responsibility to maintain systems of risk management, internal control and governance. Respective responsibilities of management and internal audit are set out in our engagement letter.
- 1.04 Internal Audit is an element of the internal control framework established by management to examine, evaluate and report on accounting and other controls over operations. Internal audit assists management in the effective discharge of its responsibilities and functions by examining and evaluating controls. Internal auditors cannot be held responsible for internal control failures.
- 1.05 This allocation of responsibilities is consistent with the Turnbull guidance on responsibilities for maintaining a sound system of internal control and the Scottish Funding Council (SFC) Code of Audit Practice. In summary, this guidance suggests that:
- the Court should set appropriate policies on internal control and seek regular assurance that the system of control is functioning effectively;
 - management should implement the Court's policies on internal control and design, implement and monitor suitable systems; and
 - internal audit should provide an independent assessment of the adequacy of the system of internal control.

Internal Audit Work Conducted

- 1.06 Our internal audit work has been conducted in accordance with our letter of engagement, the SFC Code of Audit Practice and the agreed strategic and annual audit plans. Appendix A summarises the internal audit activity undertaken during the period 1 August 2007 to 31 July 2008 in accordance with our agreed plan.

2. Our Annual Opinion

Basis of Assurance

2.01 We are able to provide assurance on the adequacy of internal controls within the University arising only from the results of reviews we have completed during the period (see Appendix A), in accordance with the programme approved by the Audit Committee. In this context it is important to note that:

- it is management's responsibility to maintain internal control on an ongoing basis;
- the internal audit function only forms part of the overall internal control structure of the University; and
- whilst we have planned our work so that we have a reasonable expectation of detecting significant control weakness, internal audit procedures do not guarantee that fraud, or any other irregularities, will be detected.

Limitations

2.02 There are inherent limitations as to what can be achieved by internal control and consequently limitations to the conclusions that can be drawn from this engagement. These limitations include the possibility of incorrect judgements in decision making, control breakdowns because of human error, control activities being circumvented by the collusion of two or more people and of management overriding controls. Also there is no certainty that internal controls will continue to operate effectively in future periods or that the controls will be adequate to mitigate all significant risks that may arise in future.

Overall Assessment

2.03 We have completed the programme of internal audit work for the year ended 31 July 2008 and can report that our work did not identify any critical control weaknesses that we consider to be pervasive in their effects on the system of internal control.

2.04 However, we did identify a number of areas of higher risk in the specific systems and processes, which are outlined in Appendix B for information. It is emphasised that corrective action to address these areas has been agreed with management and a number of actions have already been implemented by management to address our findings. The findings from our review of the Moffat Centre financial controls were followed up during 2007/08 and good progress has been made by management. In addition, all outstanding actions will be followed up during our audit programme in 2008/09.

2.05 Taking account of the matters noted in Appendix B, we can give moderate assurance on the adequacy and effectiveness of the System of Internal Control. The definitions of our assurance levels are provided at Appendix C. For ease of reference the definition of moderate assurance is reproduced below.

Moderate Assurance

We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risk recommendations and/or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.

Acknowledgements

2.06 We would also wish to express our thanks to all those staff who assisted in supporting the internal audit activity.

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October 2008

Appendix A: Internal Audit Plan 2007/08

Planned audit cover	Audit Days	Status	Total Recommendations				
			Critical	High	Medium	Low	Total
Full Income Budgeting	15	Complete	N/A	N/A	N/A	N/A	N/A
Performance Measurement	10	Complete	-	1	2	1	4
Student Records – Review of Project Documentation	10	Complete	-	-	-	2	2
National Framework Agreement	15	Complete	-	2	-	2	4
Procurement	10	Complete	-	2	6	1	9
Business Unit Reviews	50	Complete	-	-	9	4	13
Risk Management Arrangements	10	Complete	N/A	N/A	N/A	N/A	N/A
Follow Up Report	7	Complete	N/A	N/A	N/A	N/A	N/A
Contract Management							
N/A	15	N/A	N/A	N/A	N/A	N/A	N/A
Additional Reviews							
Moffat Centre Review	6	Complete	4	6	-	-	10
Academic Governance	10	Complete	-	-	4	2	6

Appendix B: Critical and High Risk Recommendations

Procurement Arrangements

1. The procurement manual should be reviewed and updated to reflect revised procurement arrangements (**High Risk**).
2. Training should be provided to all relevant budget holders and staff of the procurement policy and the need to comply with procedures (**High Risk**).

National Framework Agreement

1. Management should implement an automatic feed from the Oracle HR system to the Payroll system. Until this is established, HR data should be reconciled monthly with payroll information (**High Risk**).
2. A review of information held on Oracle HR should be performed to ensure that the details for each employee are accurate, up to date and complete (**High Risk**).

Performance Measurement

1. It is recommended that the current Business Unit indicators be reviewed and made SMART where possible in order for the indicators to be reviewed and assessed for whether achieved (**High Risk**).

Moffat Centre





During the course of our review we identified 6 critical and 4 high risk recommendations. Recommendations included the need to define the objectives of the Centre, the need to set a realistic and achievable budget, review the process for allocating donations and agree appropriate charge out rates. Due to the nature of the findings from our review we undertook a separate follow up exercise in September 2008. Overall, good progress has been made in implementing our recommendations and further follow up will be undertaken during 2008/09.

Appendix C: Annual Assurance Levels and Risk Ratings

Annual assurance statements

Level of Assurance	Assessment rationale
High	We will provide 'high' assurance in our annual opinion where we have only identified low and medium rated risks during the course of our audit work on business critical systems.
Moderate	We will provide 'moderate' assurance in our annual opinion where we have identified mostly low and medium rated risks during the course of our audit work on business critical systems, but there have been some isolated high risks recommendations and/or the number of medium rated risks is significant in aggregate. The level of our assurance will therefore be moderated by these risks and we cannot provide a high level of assurance.
Limited	We will provide 'limited' assurance in our annual opinion where we have identified high or critical rated risks during our audit work on business critical systems, but these risks are not pervasive to the system of internal control and there are identifiable and discrete elements of the system of internal control which are adequately designed and operating effectively. Our assurance will therefore be limited to these elements of the system of internal control.
No	We will provide 'no' assurance in our annual opinion where we have identified critical rated risks during the course of our audit work on business critical systems that are pervasive to the system of internal control or where we have identified a number of high rated risks that are significant to the system of internal control in aggregate.

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
 Critical	<p>Control weakness that could have a significant impact upon not only the system, function or process objectives, but also the achievement of the organisation's objectives in relation to:</p> <ul style="list-style-type: none"> the efficient and effective use of resources the safeguarding of assets the preparation of reliable financial and operational information compliance with laws and regulations
 High	<p>Control weakness that has or is likely to have a significant impact upon the achievement of key system, function or process objectives. This weakness, whilst high impact for the system, function or process does not have a significant impact on the achievement of the overall organisational objectives.</p>
 Medium	<p>Control weakness that has a low impact on the achievement of the key system, function or process objectives; or This weakness has exposed the system, function or process to a key risk, however the likelihood of this risk occurring is low.</p>
 Low	<p>Control weakness that does not impact upon the achievement of key system, function or process objectives; however implementation of the recommendation would improve overall control.</p>

Appendix D: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Internal control

Internal control, no matter how well designed and operated, can provide only *reasonable* and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of achievement is affected by limitations inherent in all internal control systems. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and of internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses and, if detected, we carried out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

We have carried out sufficient procedure to confirm that we are independent from the organisation and management.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist, unless we are requested to carry out a special investigation for such activities in a particular area.

Basis of our assessment

In accordance with the Scottish Funding Council Code of Audit Practice, our assessment on risk management, control and governance is based upon the result of internal audits completed during the period in accordance with the Plan approved by the Audit Committee and the accountable officer. We have obtained sufficient, reliable and relevant evidence to support the assertions that we make within our assessment of risk management, control and governance.

Access to this report and responsibility to third parties

This report has been prepared solely for Glasgow Caledonian University in accordance with the terms and conditions set out in our engagement contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. However, we acknowledge that this report may be made available to third parties, such as the external auditors. We accept no responsibility to any third party who may receive this report for any reliance that they may place on it and, in particular, we expect the external auditors to determine for themselves the extent to which they choose to utilise our work.

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