Government and Public Sector
Internal Audit Services

September 2009

Glasgow Caledonian University

Internal Audit Annual Report for the year ending 31 July 2009

Contents

1. Background and scope

Background to this report

1.01   The Scottish Funding Council require that the Head of Internal Audit provides a written report to the Accountable Officer timed to inform the organisation's annual Statement on Internal Control. As such, the purpose of this report is to present our annual opinion on the adequacy and effectiveness of Glasgow Caledonian University's (the University) system of internal control. This report is based upon the work set and agreed by the Audit Committee in the annual internal audit plan and conducted during the year.

1.02   Whilst our report is a key element of the assurance framework required to inform the Statement of Internal Control, there are also a number of other sources from which the Accountable Officer should gain assurance. The level of assurance required from Internal Audit was agreed with the Audit Committee at the beginning of the year and presented in our annual internal audit plan. As such, our opinion does not supplant the Accountable Officer or Audit Committee's responsibility for forming their own overall opinion on internal controls, governance arrangements, and risk management activities.

1.03   This report covers the period from 1 August 2008 to 31 July 2009.

Acknowledgements

1.04   We are grateful for the assistance that was provided to us by University Management and Staff in the course of our work.

2. Our annual opinion

Introduction

2.01   Under the terms of our engagement we are required to provide the accountable officer with an opinion on the overall **adequacy and effectiveness** of the University's:

- risk management;
- control; and
- governance processes.

2.02   Collectively we refer to all of these activities in this report as "**the system of internal control**".

2.03   Our opinion is based on the audit work performed as set out in the 2008/09 internal audit plan agreed by the Audit Committee. Our opinion is subject to the inherent limitations set out at Appendix B of this report.

Annual opinion on internal controls

2.04   It is management's responsibility to develop and maintain a sound system of internal control, and to prevent and detect 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.

2.05   We have planned our work so that we had a reasonable expectation of detecting significant control weaknesses in those areas subject to review. However, internal audit procedures alone, although they are carried out with due professional care, do not guarantee that fraud will be detected. 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.

2.06   We have completed the programme of internal audit work for the year ended 31 July 2009 and can report that our work did not identify any critical control weaknesses within the areas reviewed (see Section 3), that we consider to be pervasive in their effects on the system of internal control. We did however identify a number of areas of higher risk in a number of specific systems and processes (Appendix A). We do not believe that any of these areas require specific disclosure on the Statement on Internal Control. It is emphasised that corrective actions to address these areas have been agreed with management and that these actions will be followed up in 2009/10

Signed: PricewaterhouseCoopers LLP

(PricewaterhouseCoopers LLP)

Date: 17 September 2009

3. Internal audit work conducted – 2008/09

Internal Audit work conducted during 2008/09 is summarised below. See Appendix C and D for individual report grading definitions.

Review	Status	Total Recommendations	Number of Recommendations				
			Grade	Critical	High	Medium	Low
Strategic Focus							
Research and Innovation – Commercial Income	Complete	8	A	3	3	2	-
Production of key performance indicators	Complete	4	C	-	-	1	3
VFM arrangements – Capital and Estates Projects	Complete	3	C	-	-	1	2
Governance, Risk and Compliance							
Reputational Risk Management	Complete	3	C	-	-	2	1
Review of Risk Management Arrangements	Complete	N/a					
IT Assurance and Effectiveness							
Review of IT Interface between ISIS and the General Ledger	Complete	5	C	-	-	3	2
Review of IT General Controls	Complete	9	C	-	-	4	5

Review	Status	Total Recommendations	Number of Recommendations				
			Grade	Critical	High	Medium	Low
Operational Assurance and Effectiveness							
Review of Business Unit Plans (VFM)	Complete	7	C	-	-	2	5
Student Recruitment	Complete	9	B	-	3	4	2
Management of overseas projects	Complete	N/a					
Absence Management Arrangements (VFM)	Complete	7	B	-	2	4	1
Financial Assurance and Process Improvement							
Financial Reporting and Budgetary Control	Complete	2	D	-	-	-	2
Financial Controls	Complete	5	C	-	-	1	4
Business and Cultural Centre Follow Up	Complete	N/a					
Expenses	Complete	4	D	-	-	1	3
Follow Up of 2007/08 Recommendations	Complete	N/a					

Appendix A: Summary of our Higher Priority Recommendations for the year ended 31 July 2009

We have noted below the high priority recommendations raised as part of the internal audit programme for 2008/09, together with the detailed responses provided by Management which will be followed up as part of our 2009/10 internal audit programme.

Research and Innovation Services – Commercial Income Arrangements	
Recommendations	**Management Response**
Policies and Procedures Management should review the current commercial income policies and the communication of these, with a view to making them clearer and more concise. Additional training should be provided to all appropriate staff as soon as possible, emphasising the importance and necessity to comply with University policies and procedures at all times. Compliance with policies and procedures should be monitored and appropriate action taken where policies are not followed.	Management believe that that the University has clear policies and procedures set out in detail – for example – on the web. There is, however, recognition that urgent action is needed to ensure that these are thoroughly understood, implemented and monitored. They may need elaboration and/or clarification (including improving the definition and understanding of 'commercial') and training is evidently a pressing requirement. **Responsible Officer:** Director RIS, PVC (Research) **Implementation Date:** April 2009
Approval of Projects All projects should receive an appropriate level of approval prior to any work commencing. This arrangement should be enforced by Management and appropriate action taken where work commences before approval is sought.	Accepted. The implementation of current policies and procedures will be required immediately. Moreover there will be implementation of the uniform requirement for all projects, including those which have a low income and/or short duration, to be submitted to RIS following the mandatory process of Dean's approval for final sign off. In addition, it will be made clear that, for sums of £15k or more, proposals can be submitted to the PVC for signature only with the approval and sign-off by the Dean **Responsible Officer:** Director RIS, PVC Research **Implementation Date:** Immediate

Research and Innovation Services – Commercial Income Arrangements (Continued)	
Recommendations	**Management Response**
Risk Assessments A risk assessment checklist should be developed and completed for each project. This should document, as a minimum, the following: • Financial viability of third party • Previous relations with University • Any reputational risk to undertaking the work • Benefits of undertaking work to University and/or wider community • Financial viability of the project e.g. income generated This should form part of the approval process, and is especially key where projects are not expected to generate a surplus but are undertaken for non-financial reasons.	Agreed. Deans will be asked to sign that risk assessment has been appropriately conducted and to document on each PAF how risk has been reviewed and the conclusions of that review, as well as to confirm the financial acceptability of the proposal. We will arrange additional training for Deans and Senior Management in evaluating risk in commercial matters. **Responsible Officer:** Director RIS, PVC Research **Implementation Date:** Immediate
Contracts All contracts should be in place and signed prior to work commencing. The requirements for contracts should be communicated to all Business Units and arrangements applied consistently across the University. Where possible, all contracts entered into by the University should be under the University's agreed terms and conditions.	Agreed. The recommendation reflects the policy but the auditors findings demonstrate that it is not being adhered to. The observation by one Business Unit that contracts with a value under £5k do not require a contract is based on a misunderstanding of current regulations. No record of any such 'understanding' exists. **Responsible Officer:** Director RIS **Implementation Date:** Immediate

Research and Innovation Services – Commercial Income Arrangements (Continued)	
Recommendation	**Management Response**
Costing of Projects The cost and the price for each project should be calculated separately. The costs should be consistent across the University, based on staff time, equipment used and contribution towards overheads. The price should incorporate all costs, any reduction in overheads agreed by the Dean and any surplus applied to generate income. Where price is reduced this should be clearly documented and signed off as approved by an appropriate level of Management. In addition, training should be provided for all appropriate staff on the differences between cost and the price and the importance of costing and pricing activities correctly.	Agreed. Deans will be required to approve, and note reasons, where the price is set beneath the full cost. Training also needs to include the development of strong market awareness. **Responsible Officer:** Director RIS, Deans, Management Accounting Unit **Implementation Date:** April 2009
Adherence to completing a PAF with approval for every project undertaken RIS should remind all staff that for every piece of commercial income work undertaken a separate PAF should be completed and approval sought. In addition, each piece of commercial activity should be supported by an agreed contract.	Agreed. RIS to circulate all staff and policy is to be enforced. **Responsible Officer:** Director of RIS **Implementation Date:** Immediate

Student Recruitment Arrangements

Recommendations	Management Response
Accountability for the student recruitment process Management should review the responsibilities for student recruitment within the Executive Team to ensure that one person has overall responsibility for the development and co-ordination for strategy for student recruitment.	The Executive Board had already identified this issue, and as part of the planning and budgeting for 2009-10 it was agreed that there would be a restructuring and streamlining of corporate recruitment and admissions activity. Budgetary provision has been made for the appointment of a Director of Recruitment and Internationalisation (title subject to refinement). The estates implications of the restructure are also currently being examined. **Responsible Officer:** University Secretary **Date of Implementation:** Work ongoing. Target for full implementation November 2009.
University marketing strategy The Marketing and Communication Strategy should be finalised as soon as possible and communicated to all relevant staff. Each Business unit marketing plan should be aligned to the overall strategy.	Management agrees that the marketing strategy is vital and this is being taken forward by the PVC Learning Innovation who has Executive responsibility for Marketing and Communications. However, for the purposes of this audit, management would reaffirm the importance of a segmented and coordinated recruitment strategy which the marketing strategy must support. The development of a segmented recruitment strategy will be a key responsibility of the new Director of Recruitment and Internationalisation. **Responsible Officer:** PVC Learning innovation/Director of Marketing **Date of Implementation:** September 2009

Student Recruitment Arrangements (Continued)	
Recommendations	**Management Response**
No central database or standard procedures for responding to student recruitment enquiries The University has the potential to add value and increase the efficiency and effectiveness of it's student recruitment process by introducing a central system of recording and managing enquiries. We would recommend that consideration is given to rolling out the CRM only once a thorough review of the project has been conducted and the resources are available to successfully manage the project.	Agreed. The structural work identified in the first management response will enhance the usability and value of a CRM. A budget will have to be defined and there will have to be a review of ISIS implementation schedule and current priorities. **Responsible Officer:** Executive Director of Finance as Chair of ISIS project board/Incoming Director of Recruitment and Internationalisation. **Date of Implementation:** Summer 2010 (driven by the operational plan to be produced by the new Director)

Absence Management Arrangements

Recommendations	Management Response
Retention of documentation for employees' absent more than seven days Line management should be reminded of the procedures required in instances of absence of more than seven days. In particular, in all such instances a Medical Certificate should be obtained and a return to work interview held and formally recorded within HR records, if absence period is more than 7 days.	Agreed. HR will ensure that absence notification is accompanied with a medical certificate/self certificate with immediate effect. Managers will be reminded of the compliance with the policy in the email communication planned. **Responsible Officer:** Stella Bartram, HR Operations Manager **Timescales for Implementation:** October 2009 & February 2010
Timely recording of absence and absence records Management should be reminded of the importance of recording absence on a timely basis to ensure the University is able to monitor absences effectively. This message can be reinforced through an updated policy and training. All departments and Schools should be encouraged to make full use of ORACLE HR rather than maintaining their own individual records as this is considered a duplication of information and time and may lead to inaccurate data being recorded.	Agreed. The priority will be to complete the roll out to all schools & depts. of absence mgt in oracle Reporting procedures will be improved when the oracle absence module is fully implemented and oracle HR will be the single source of MI data. **Responsible Officer:** Stella Bartram, HR Operations Manager **Timescales for Implementation:** February 2010

Appendix B: 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 guidance, 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.

Appendix C: Risk Ratings

Definition of risk ratings within our individual audit assignments

Risk rating	Assessment rationale
●● Critical	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: • 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	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.
● Medium	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.
● Low	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.

Appendix D: Report Grading for individual reports

Key to Report Grading

A		*Weaknesses identified which are likely to impact upon the ability of the Board to meet its corporate objectives*
B		*Weaknesses were identified which may if not addressed result in increased risk of error, fraud or poor value for money*
C		*Overall controls largely satisfactory, although some systems weaknesses were identified*
D		*Controls satisfactory, no or minor systems weaknesses*

PricewaterhouseCoopers LLP