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University of Abertay Dundee

Annual internal audit report 2012-13

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Annual opinion

Based on our work undertaken in 2012-13, we are of the opinion that the systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of the University of Abertay Dundee's objectives.

Assessment of the effectiveness of the system of internal control

This report of our 2012-13 internal audit findings represents the principal matters we wish to bring to the attention of the audit committee. These findings should be considered in the context of the services contract, our detailed observations, findings and scope of our work, as set out in the individual reports presented to the audit committee during the year.

Based on our work undertaken in 2012-13, we are of the opinion that the University's systems provide a reasonable basis for maintaining control and that the control framework provides reasonable assurance regarding the effective and efficient achievement of strategic objectives.

We have reported, in our assignment reports, certain matters which we understand are being addressed by management; our opinion on systems of internal control is based on our recommendations being satisfactorily implemented.

Internal audit plan

Our internal audit plan for 2012-13, agreed with the audit committee, was developed based on consideration of:

- previous years' internal audit plans, observations and key findings arising from internal audits conducted during 2011-12;
- discussions with members of the senior management team and comments from the chair and members of the audit committee;
- consideration of the University's risk register, as developed and provided by management;
- requirements for internal audit;
- known changes in the operating environment and state of control as identified through discussions with management; and
- consideration of key business processes.

Through these activities, potential internal audits were identified and prioritised, based on those areas viewed as of greatest benefit by management and the audit committee.

Background

Purpose of internal control

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 performed during the financial year. This report constitutes this statement and covers the period 1 August 2012 to 31 July 2013. The audit committee should use this and other sources of assurance to make its annual report to the Court. In addition, we would expect our report to inform the audit committee and Court's consideration of the governance statement included with the financial statements. The opinion of the internal auditors does not supersede the University's responsibility for risk, control and governance.

Responsibilities for internal control

It is management's responsibility to maintain systems of risk management, internal control and governance. The respective responsibilities of management and internal audit are set out in the services contract.

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. This allocation of responsibilities is consistent with Turnbull guidance on responsibilities for maintaining a sound system of internal control and the requirements of the Scottish Funding Council. In summary, this guidance suggests that:

- the University should set appropriate policies on internal control and seek regular assurance that these are functioning effectively;
- management should implement the University'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.

Limitations

There are inherent limitations as to what can be achieved by internal control and, consequently, limitations in conclusions reached. These limitations include the possibility of incorrect management judgement 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. In addition, there is no certainty that internal controls will continue to operate effectively in future periods or that controls will be adequate to mitigate significant risks that may arise in the future.

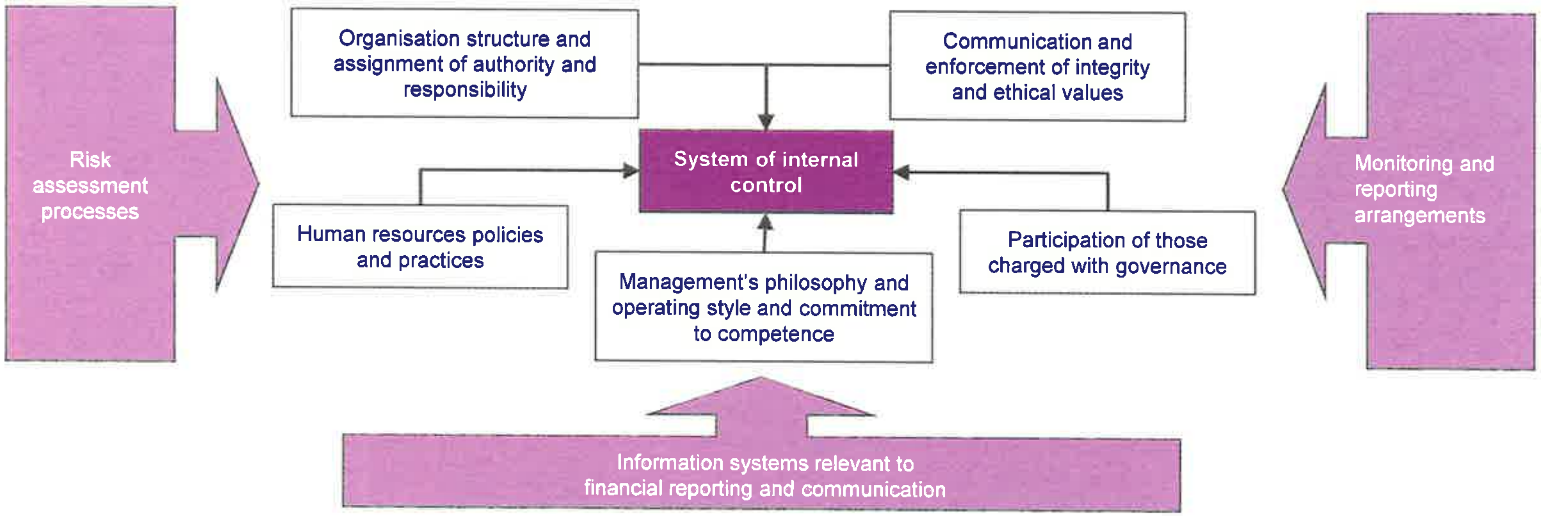
Background (continued)

It is important to note that:

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

System of internal control

We provide assurance on the adequacy of internal controls, including their operating effectiveness, based on the results of work completed during the year, in accordance with the programme approved by the audit committee. During our internal audits we performed procedures to gain an understanding about the design and implementation of specific controls including enquiries with University staff, observing the application of specific controls and inspecting documents and reports.


Risk assessment processes
Organisation structure and assignment of authority and responsibility
Communication and enforcement of integrity and ethical values
System of internal control
Human resources policies and practices
Management's philosophy and operating style and commitment to competence
Participation of those charged with governance
Monitoring and reporting arrangements
Information systems relevant to financial reporting and communication

In assessing the level of assurance given, we have considered:

- internal audit work undertaken during 2012-13;
- management's progress in implementing internal audit recommendations reported prior to 2012-13, and matters arising from previous reports to the University, as appropriate; and
- the effects of any significant changes in the University's objectives or systems.

Summary of completed assignments 2012-13

In completing the 2012-13 internal audit plan we identified and reported 38 recommendations; no graded ‘critical’, four graded ’high’, 16 graded ‘moderate’ and 18 graded ‘low’ priority.

In each of our reports we prepared an action plan highlighting the recommended action to be taken to address identified control weaknesses. Against each recommendation management has provided an action plan highlighting the action to be taken, the individual responsible for implementing the recommendation and the timeframe for completion.

Ref	Assignment	Assignment days	Status	Critical	High	Moderate	Low
			Recommendations				
2012.01	Prototype fund follow up*	3	Complete	-	3	3	1
2012.02	Controls risk self-assessment	5	Complete	-	-	-	3
2012.03	TRAC review	6	Complete	-	-	2	4
2012.04	Schools and Services reviews	15	Complete	-	-	2	4
2012.05	ICT transformation programme review	7	Complete	-	-	3	2
2012.06	Collaborations and partnerships	7	Complete	-	-	2	1
2012.07	Allocation of public funding	9	Complete	-	-	1	2
2012.08	Follow up**	4	Complete	-	-	-	-
2012.09	Procurement***	6.5	Complete	-	1	3	1
	Total	62.5		-	4	16	18

* This report is a follow up from work performed in the 2011-12 internal audit plan. Recommendations noted are those remaining outstanding at the time of our review.

** The follow up review assesses recommendations from prior year reports regarding their implementation, as such it does not lend itself to new recommendations.

*** On request from management we performed a review covering certain aspects of the University’s procurement arrangements.

Summary of completed assignments 2012-13 (continued)

We recognise the importance of implementing a performance framework that allows stakeholders to measure the contribution from internal audit. To monitor and demonstrate this, key performance indicators have been identified and are used to provide feedback, which is important to us and of value to you.

These indicators provide information over our achievement of key reporting deadlines, continued compliance with mandatory internal audit standards and adherence to agreed timetables with management for communications including update meetings and billing.

The table below summarises our performance of the internal audit plan against identified key performance indicators in 2012-13.

Key performance indicator	Target	Actual	Direction of travel
Internal audit days completed in line with the agreed timetable	100%	100%	⇨
Compliance with mandatory internal audit standards	100%	100%	⇨
Draft reports issued within two weeks of exit meeting and final provision of information	100%	89%	⇨
Final reports issued within two weeks of receipt of management responses	100%	100%	⇨
Agreed timetable for billing and administrative procedures	100%	100%	⇨
Ready access to core team members at all times	100%	100%	⇨
Attendance at meetings of the audit committee	100%	100%	⇨
Attendance at quarterly management meetings	100%	100%	⇨

Summary of completed assignments 2012-13 (continued)

We have summarised the findings of our internal audits undertaken during 2012-13.

The internal audit plan has covered a range of central and devolved arrangements, across financial and non-financial risks.

We summarise below the findings of internal audits undertaken in line with the agreed 2012-13 internal audit plan.

Assignment	Summary of findings
Prototype fund follow up	In 2011-12, the University's previous internal auditor reported on the status of the Prototype Fund project; having reviewed the overall management control framework for the project and the related grants received. The 2011-12 internal audit report made 10 recommendations to improve the control framework and project management of the Prototype Fund project. The implementation dates agreed with management varied from April to September 2012. Three were considered 'high' risk, five were considered 'moderate' risk and two were considered 'low' risk. We reviewed the recommendations made in 2011-12 and tested management's progress in implementing them. At the time of our follow up review, three recommendations were fully implemented, five recommendations were in progress and two recommendations had not yet been implemented. All 'high' risk recommendations had been implemented to some degree, but were not fully complete. All recommendations that were in any part outstanding were given revised implementation dates, with the latest being in February 2013.
Controls risk self-assessment	Control risk self-assessment ("CRSA") allows organisations to assess the design and effectiveness of controls over risks associated with key processes. It covers controls of routine financial processes, processes for preparing the annual financial statements, and controls over key operational systems at the University, such as IT security and general business continuity. The assessment is presented in the form of a questionnaire and is used by management to make an assessment, at a high level, of the internal control environment, based on the responses to the CRSA questionnaire. The University's 2012-13 score was 98%. While care needs to be taken in making comparisons, this appears better in absolute terms when compared to other higher education institutions' average score from assessments during 2010-11 and 2011-12 (an average of 88% across multiple institutions). We tested, on a sample basis, the responses provided to the questionnaire for 22 controls across 12 processes. Our testing considered the design, implementation and operating effectiveness of each control. Our testing identified three 'low' risk graded recommendations relating to reinforcing existing financial controls and reviewing policies and procedures in a timely manner.

Summary of completed assignments 2012-13 (continued)

Assignment	Summary of findings
TRAC review	The University is required to submit a TRAC return on an annual basis. The purpose of the TRAC return is to establish the full costs of research and other publicly funded activities for each institution, and more widely to improve the accountability for the use of public funds. It is a requirement that the University determines the breakdown of its total expenditure into the headings of research, teaching and 'other' within its return. We reviewed management's processes for preparing and submitting the TRAC return for 2011-12, including sample testing over the draft return figures and underlying methodology, testing of prior year recommendations for implementation, and compliance with existing TRAC guidance. From the work performed during the TRAC and fEC review, we considered that the TRAC and fEC systems were satisfactory and in line with current TRAC requirements. We made six recommendations that address areas for improvement in the preparation of the return that the University needs to implement.
ICT transformation programme review	In November 2012 the University Court approved a business case for management's proposed £2 million Information and Communications Technology ("ICT") transformational programme. The programme was divided into three projects and has subsequently incorporated an additional fourth project of investment in classroom AV technology. Overall the ICT transformation programme was found to be progressing as intended against established timeframes, and management were confident the intended benefits will be realised. We identified three 'moderate' and two 'low' risk graded recommendations, all relating to risk areas that will have a future impact on the successful delivery of the ICT transformation programme without sufficiently robust procedures to mitigate them in the short or medium-term. In particular, recommendations related to; ■ developing an ongoing IT strategy to build upon the expected benefits realised from the transformation programme; ■ ensuring procedures are in established to effectively manage any required changes to the project going forward; ■ being proactive in considering which benefits prioritisation in the event of having to reduce deliverables to meet budgets; and ■ clarifying project management roles where there is existing uncertainty.

Summary of completed assignments 2012-13 (continued)

Assignment	Summary of findings
Schools and Services reviews	Across the University there are a number of financial and non-financial controls that are devolved from central functions, such as the finance department, to individual schools and services. Where controls are devolved across organisations it is important to ensure there are procedures to monitor implementation effectiveness and to provide guidance on what is expected, and who within the devolved function has responsibility for their implementation. We reviewed the School of Social and Health Sciences, Student Services and the Communications department. The assessed controls included expenditure controls, income and cash controls, research controls and payroll controls. We completed work over the assessed controls, testing operating effectiveness across each school and service through sample testing. We identified two 'moderate' and four 'low' risk graded recommendations. The 'moderate' graded recommendations were in respect of: ▪ a lack of training amongst cash handling staff within Student Services; and ▪ holiday carried forward to the new holiday year without appropriate authorisation within all three Schools and Services. The 'low' graded recommendations related to reinforcing existing financial controls over expense forms, cash which is not banked on a daily basis, staff absence reporting, and highlighting some efficiency opportunities within the supplier authorisation process within Student Services.
Collaborations and partnerships	The University has a number of academic partnerships and collaborations with other academic institutions within the UK and overseas including China, India, and Southeast Asia. Management is revising the University's strategic approach to academic partnerships and collaborations, with a more strategically focused approach to establishing and renewing partnerships in the future. We considered how a new strategy would be implemented and how existing partnerships should be reviewed in light of these strategic adjustments. We also considered compliance with existing processes and controls for a sample of ongoing arrangements, in particular how partnerships were quality assured and approved and the robustness of costing and pricing partnerships to minimise financial risk to the University. We identified two 'moderate' and one 'low' risk graded recommendations. Two recommendations related to areas for future consideration that will assist management's risk assessment, monitoring processes and controls when implementing the new strategy. The third recommendation related to improving and clarifying existing processes for pricing and costing of partnerships and collaborations.

Summary of completed assignments 2012-13 (continued)

Assignment	Summary of findings
Allocation of public funding	In 2011-12 funding body grants accounted for 52% (£18 million) of University income, the single largest grant being the Scottish Funding Council recurrent teaching grant of £15.3 million. Grant funding commonly has conditions to be met by the recipient, including in respect of how income is utilised and requirements for monitoring and reporting on the expenditure incurred. Throughout the year higher education bodies are required to submit returns to funding bodies on matters ranging from implementation of strategic aims and objectives to achievement of efficiency savings. This reporting requires an ongoing effective environment for monitoring and reporting of financial and operational activities to ensure compliance. We tested compliance with terms and conditions over a sample of grant funding in 2012-13 and considered processes for continuous monitoring of compliance, in particular monitoring of efficiency savings and student numbers. We identified two 'low' risk graded recommendations relating to improving monitoring processes to ensure compliance with Scottish Funding Council terms and conditions. We also made one 'moderate' recommendation in respect of ensuring finance review all proposal costings for future grant bids. We raised areas for future consideration over allocation of funding, compliance with outcome agreements and long term financial planning.
Follow-up	Management monitor the progress of all internal audit recommendations on a routine basis, following up with responsible officers on the status of recommendations that were previously outstanding. We reviewed recommendations that were outstanding from prior years, considering their implementation through discussion with management, supplemented by testing. Progress has been made by management in implementing previously agreed internal audit recommendations. Management reported 69% of all recommendations made in 2011-12 were 'complete', with 12 recommendations due to be completed still 'in progress'. 72% of all recommendations, including those from prior years were complete, with 14 recommendations in progress and two not started. In 2012-13 we completed separate follow up work for the recommendations made in respect of the 2011-12 Prototype Fund and TRAC reviews. All eight recommendations in relation to TRAC were confirmed as complete as of December 2012. The review of the Prototype Fund identified five recommendations 'in progress' and two 'not started' as of November 2012. All recommendations had revised implementation dates prior to June 2013.

Summary of completed assignments 2012-13 (continued)

Assignment	Summary of findings
Procurement	The review was requested following management's identification of a consultancy arrangement that had not been competitively tendered and had attracted media attention. Management identified a total of 38 similar consultancy suppliers and we selected 12 of these at random to consider if appropriate authorisation and monitoring had been conducted. Our review did not identify significant weaknesses in the design of the procurement policies and procedures. From our testing of a sample of procurement contracts we noted some instances where the policies and procedures were not being adhered to. One 'high' graded recommendation was identified in relation to student support services, where there was insufficient scrutiny of invoices received from contractors. We also identified three 'moderate' and one 'low' graded recommendations, in particular: ■ the financial regulations should be updated to include explicit procedures in relation to cumulative expenditure with suppliers, for example over a rolling 12 month period; ■ staff should be reminded of the required procedures in respect of procurement and non-compliance should be identified and communicated to the audit committee on a regular basis; and ■ as our review was on a sample basis, a full review of procurement contracts should be performed to identify any instances of non-compliance with procedures and policies.

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Appendices

Appendix one: Classification of findings

Appendix one

Classification of findings

The following framework for internal audit ratings has been developed and agreed with management for prioritising internal audit findings according to their relative significance depending on their impact to the process.

Rating	Definition	Examples of business impact	Action required
Critical	Issue represents a control weakness, which could cause or is causing severe disruption of the process or severe adverse effect on the ability to achieve process objectives.	▪ Potential financial impact of more than £1 million. ▪ Detrimental impact on operations or functions. ▪ Sustained, serious loss in brand value and/or market share. ▪ Going concern of the University becomes an issue. ▪ Decrease in the public's confidence in the University. ▪ Major decline in service/product delivery, value and/or quality recognised by students and customers. ▪ Contractual non-compliance or breach of legislation or regulation with litigation or prosecution and/or penalty. ▪ Life threatening.	▪ Requires immediate notification to the audit committee. ▪ Requires executive management attention. ▪ Requires interim action within seven to ten days, followed by a detailed plan of action to be put in place within 30 days with an expected resolution date and a substantial improvement within 90 days. ▪ Separately reported to chairman of the audit committee and executive summary of report.
High	Issue represents a control weakness, which could have or is having major adverse effect on the ability to achieve process objectives.	▪ Potential financial impact of between £0.5 million to £1 million. ▪ Major impact on operations or functions. ▪ Serious diminution in brand value and/or market share. ▪ Probable decrease in the public's confidence in the University. ▪ Significant decline in service/product delivery, value and/or quality recognised by students and customers. ▪ Contractual non-compliance or breach of legislation or regulation with probable litigation or prosecution and/or penalty. ▪ Extensive injuries.	▪ Requires prompt management action. ▪ Requires executive management attention. ▪ Requires a detailed plan of action to be put in place within 60 days with an expected resolution date and a substantial improvement within three to six months. ▪ Reported in executive summary of report.

Appendix one

Classification of findings (continued)

Rating	Definition	Examples of business impact	Action required
Moderate	Issue represents a control weakness, which could have or is having significant adverse effect on the ability to achieve process objectives	■ Potential financial impact of between £200,000 to £0.5 million. ■ Moderate impact on operations or functions. ■ Brand value and/or market share will be affected in the short-term. ■ Possible decrease in the public's confidence in the University. ■ Moderate decline in service/product delivery, value and/or quality recognised by students and customers. ■ Contractual non-compliance or breach of legislation or regulation with threat of litigation or prosecution and/or penalty. ■ Medical treatment required.	■ Requires short-term management action. ■ Requires general management attention. ■ Requires a detailed plan of action to be put in place within 90 days with an expected resolution date and a substantial improvement within six to nine months. ■ Reported in executive summary of report.
Low	Issue represents a minor control weakness, with minimal but reportable impact on the ability to achieve process objectives.	■ Potential financial impact of less than £200,000. ■ Minor impact on internal business only. ■ Minor potential impact on brand value and market share. ■ Should not decrease the public's confidence in the University. ■ Minimal decline in service/product delivery, value and/or quality recognised by students and customers. ■ Contractual non-compliance or breach of legislation or regulation with unlikely litigation or prosecution and/or penalty. ■ First aid treatment.	■ Requires management action within a reasonable time period. ■ Requires process manager attention. ■ Timeframe for action is subject to competing priorities and cost/benefit analysis, e.g. nine to 12 months. ■ Reported in detailed findings in report.

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