

# University of Stirling

## Annual Report

### Year ended 31 July 2006



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## **Introduction**

### **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 2005 to 31 July 2006. 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 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.

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 SHEFC 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 SHEFC Code of Audit Practice and the agreed strategic and annual audit plans. The attached Appendix summarises the internal audit activity undertaken during the period 1 August 2005 to 31 July 2006.

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## INTERNAL AUDIT ANNUAL REPORT FOR THE YEAR ENDING 31 JULY 2006

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### Basis of Assurance

1.07 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

1.08 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

1.09 The internal audit work carried out during the year ended 31 July 2006 was completed as part of the five-year Strategic Internal Audit Plan and included the follow up of recommendations made in previous years. On the basis of this work, we conclude that the University's established internal control procedures were:

- adequate to meet the control objectives agreed with management for each system reviewed; and
- on the basis of our selective testing, generally operated satisfactorily during the period under review.

1.10 Summaries of the issues arising in relation to each system or activity covered by the internal audit work in 2005/06 have been reported separately to the Audit Committee. Appropriate responses to the recommendations made in our reports have been obtained and, when actioned, these should provide management with additional comfort that the systems of control operate as intended.

1.11 Furthermore, nothing has come to our attention that would lead us to believe that the opinion of the Audit Committee, to be contained in its report for 2005/06 to the University Court, is not appropriate.

### Acknowledgements

1.12 We would also wish to express our thanks to all those staff who assisted in supporting the internal audit activity and would particularly comment on the briefing provided to members of our team by the finance department on the developments within the University's financial systems and processes. The latter assisting in further developing the knowledge of our staff and the partnership that exists between the University and PricewaterhouseCoopers LLP.

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**Appendix A - Internal Audit Input against plan for year ending 31 July 2006**

| Planned audit cover                                  | Report Number | Planned Audit Days | Actual Audit Days | Status   | Total Recommendations | Grading |
|--|---------------|--------------------|-------------------|----------|-----------------------|---------|
| <b>Financial and Computer Systems Assurance</b>      |               |                    |                   |          |                       |         |
| Budgetary Control & Financial Reporting              | 81            | 10                 | 10                | Final    | 4                     | B       |
| Payroll  | 77            | 5                  | 5                 | Final    | 4                     | B       |
| Creditors and Expenses                               | 80            | 10                 | 10                | Final    | 7                     | B       |
| Information Technology                               | -             | 10                 | -                 | Deferred | -                     |         |
| <b>Total Systems Assurance</b>                       |               | <b>35</b>          | <b>25</b>         |          | <b>15</b>             |         |
| <b>Operational Effectiveness and Value for Money</b> |               |                    |                   |          |                       |         |
| Departmental Financial Systems                       |               |                    |                   |          |                       |         |
| Film and Media Studies                               | 87            | 3                  | 3                 | Final    | 3                     | B       |
| Psychology   | 88            | 3                  | 3                 | Final    | 3                     | B       |
| Applied Social Sciences                              | 86            | 3                  | 3                 | Final    | 5                     | B       |
| Institute of Education                               | 85            | 3                  | 3                 | Final    | 8                     | B       |
| Biological and Environmental Sciences                | 89            | 3                  | 3                 | Final    | 5                     | B       |
| Capital Project Management                           | 78            | 10                 | 10                | Final    | 3                     | B       |
| Library Services                                     | 79            | 5                  | 5                 | Final    | 11                    | B       |
| MacRoberts Arts Centre                               | 91            | 5                  | 5                 | Final    | 4                     | B       |
| Stirling Management Centre                           | 90            | 5                  | 5                 | Final    | 2                     | B       |
| Registration and Admissions                          | 84            | 10                 | 10                | Final    | 6                     | B       |
| Estates  | -             | 10                 | -                 | Deferred | -                     |         |
| Commercial Operations                                | 82            | 10                 | 10                | Final    | 6                     | B       |
| <b>Total Operational &amp; VFM</b>                   |               | <b>70</b>          | <b>60</b>         |          | <b>56</b>             |         |
| <b>Governance and Risk Management</b>                |               |                    |                   |          |                       |         |
| Corporate Governance                                 | 83            | 10                 | 10                | Final    | 5                     | B       |
| <b>Total Governance</b>                              |               | <b>10</b>          | <b>10</b>         |          |                       |         |
| Follow Up Reviews                                    |               | 5                  | 5                 | Final    | N/A                   |         |
| Attendance at Audit Committees                       |               | 4                  | 4                 |          |                       |         |
| Client Service Meetings                              |               | 4                  | 4                 |          |                       |         |
| Annual Report  |               | 1                  | 1                 |          |                       |         |
| Liaison with External Audit                          |               | 1                  | 1                 |          |                       |         |
| <b>Total Audit Management</b>                        |               | <b>15</b>          | <b>15</b>         |          |                       |         |
| <b>TOTAL</b>   |               | <b>130</b>         | <b>110</b>        |          | <b>76</b>             |         |

\*The Information Technology and Estates reviews have been deferred at the request of management and will be conducted during our 2006/07 programme...

## Appendix A - Internal Audit Input against plan for year ending 31 July 2006

To assist management we have graded each of the internal audit reports as follows:

| Grade | Definition  |
|-------|---|
| A     | Controls satisfactory, no systems weaknesses  |
| B     | Controls largely satisfactory, although some minor systems weaknesses were identified.  |
| C     | Significant systems weaknesses were identified which are likely to result in financial loss, poor value for money or significant adverse public reaction. |
| D     | Significant weaknesses identified which are likely to impact upon the ability of the University to meet its corporate objectives.                         |