

University of Stirling

Annual Report

Year ended 31 July 2007



CONTENTS

	Pages
Annual Report	1 -2
Appendix A - Internal Audit Input for year ending 31 July 2007	

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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 2006 to 31 July 2007. 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 SFC 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 2006 to 31 July 2007.

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 2007 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 2006/07 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 2006/07 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 2007

Planned audit cover	Report Number	Planned Audit Days	Actual Audit Days	Status	Total Recommendations	Grading
Financial and Computer Systems Assurance						
Payroll	99	10	10	Completed	9	B
Income - students	96	10	10	Completed	6	B
Information Technology	97	20	20	Completed	6	B
Creditors & Expenses	95	10	10	Completed	4	B
Total Systems Assurance		50	50			
Operational Effectiveness and Value for Money						
Departmental Financial Systems	100-104	15	15	Completed		B
Research Services- enhanced follow up	98	5	5	Completed	N/a	B
Estates	106	10	10	Completed	8	B
Catering	94	5	5	Completed	6	B
Residences	105	5	5	Completed	3	B
Total Operational & Vfm		40	40			
Governance and Risk Management						
Strategic and Business Planning	93	10	10	Completed	9	B
Risk Management	93	5	5	Completed	9	B
Total Governance		15	15			
Audit Management						
Follow Up Reviews	107	5	5			
Attendance at Audit Committees		4	2			
Client Service Meetings		4	2			
Annual Report		1	1			
Liaison with External Audit		1	1			
Total Audit Management		15	15			
TOTAL		120	120			

Appendix A - Internal Audit Input against plan for year ending 31 July 2007

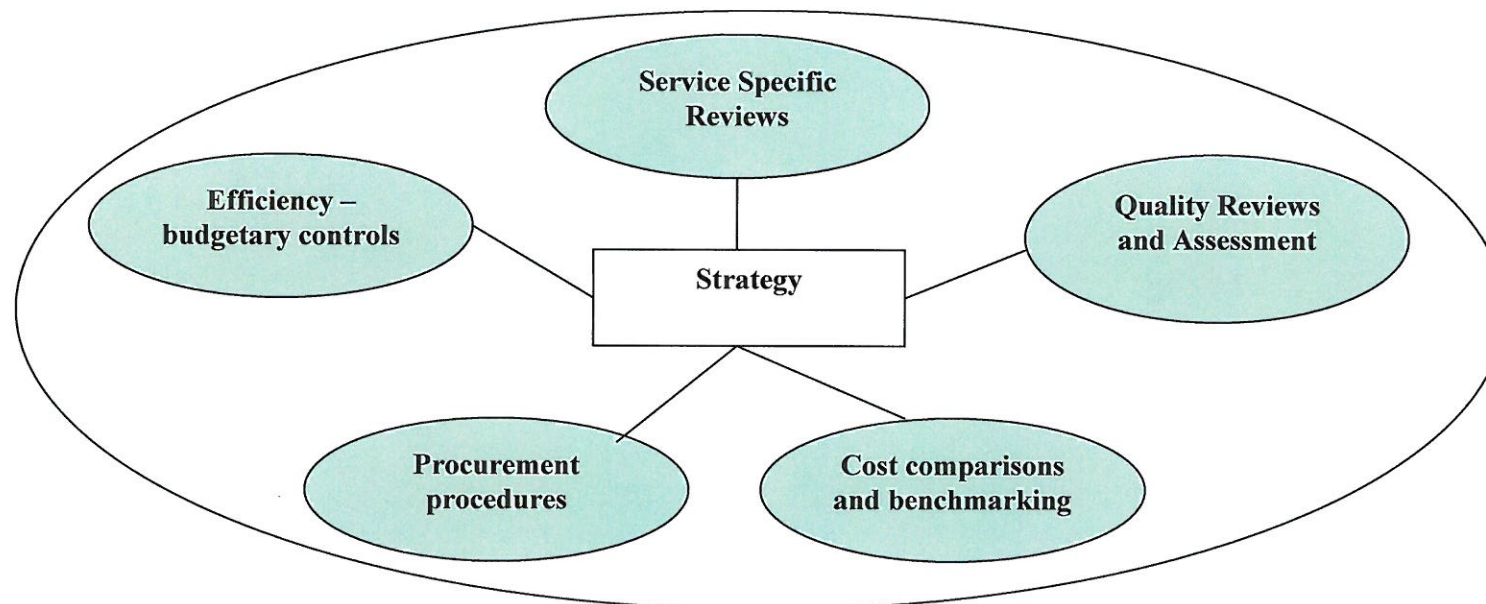
To assist management we have graded each of the internal audit reports as follows:

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.

Appendix B: Commitment to continuous improvement – a focus on best value

Overview

The University has an overall strategy for securing best value / value for money as recommended by the Scottish Higher Education Funding Council. The strategy recognises that value for money is multi-faceted and requires to be integral to the day-to-day operating arrangements and decision making processes across the University. Key elements of the overall strategy include:



Audit Committee oversight

During the last year, the Audit Committee have received a number of reports from management and internal audit, which comment on aspects of the above approach and the effectiveness of the arrangements in place. Examples include:

- The presentation of the **annual procurement report** from the Head of Procurement, highlighting the activities undertaken to review supplier arrangements and subject a number to market testing, monitor compliance with established procedures and ensure that the University's arrangements are in line with best practice.
- The internal audit **follow up review on research contracts** confirmed the significant progress made in improving the organisational arrangements supporting research and commercial opportunities and implementing robust planning and performance management processes.
- Other internal audit reviews identified improvements in controls and processes for which management actions have been agreed. We were also able to verify the significant progress made by management in implementing prior year audit recommendations, highlighting the **commitment of management to continuous improvement**.