

Internal Audit Annual Report 2011/2012

University of Stirling

For the Year Ended 31
July 2012

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Distribution List

For noting	Audit Committee 22 November 2012
For information	Director of Finance, Directors, University Secretary

This document has been prepared only for the University of Stirling and solely for the purpose and on the terms agreed with the University of Stirling.

1. *Executive summary*

Background

The purpose of this report is to present the results of our internal audit work on the University of Stirling's system of governance, risk management and control.

Whilst this report is a key element of the framework designed to inform the Annual Governance Statement, there are also a number of other important sources to which the Audit Committee should look for assurance. This report does not supplant the Audit Committee's responsibility for forming their own view on governance, risk management and control.

This report covers reviews performed for the year ended 31 July 2012. The specific time period covered by our work for each individual review is recorded in Section 3.

Scope

Our findings are based on the results of the internal audit work performed as set out in the Internal Audit Plan (2011/12) approved by the Audit Committee and any subsequent amendments that were approved by the Committee following Officer discussions.

The following reviews from the initial 2011/12 audit plan have been replaced with alternative reviews during the year and will form part of our work programme for 2012/13:

Review title	Update on progress
Knowledge transfer and sharing	This was substituted with an IT Procurement review during 2011/12. We are currently in the process of scoping this review for 2012/13, where we will use the assistance of PwC specialists.
Business Continuity Planning	This was substituted with a review of Financial Ledger controls during 2011/12. We propose to use our business continuity diagnostic to review the University's arrangements and identify gaps and future actions during 2012/13.

The above reviews have been deferred to account for external and internal development in this area and utilise internal audit input when most beneficial, therefore, this deferral does not impact on the University of Stirling's internal controls assessment. These reviews will be reported within our 2012/13 annual report on internal controls.

Scope limitations

Our findings are subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix 1.

Conclusion

We have completed the program of internal audit for the year ended 31 July 2012. Our work identified low and medium rated findings. We believe that these are isolated to the following specific systems and processes and when taken in aggregate are not considered pervasive to the system of internal control as a whole.

A summary of the key findings are described further in Section 2.

Acknowledgement

We would like to take this opportunity to thank the University Officers, for their co-operation and assistance provided during the year.

2. Summary of findings

Our annual internal audit report is prepared to inform the University's Annual Governance Statement.

A summary of key findings from our programme of internal audit work for the 2011/12 year work is recorded in the table below:

<i>Description</i>	<i>Detail</i>
<i>Overview of the internal audit work undertaken during 2011/12</i>	<p>We have completed seven internal audit reviews from the amended 2011/12 Internal Audit Plan. This resulted in the identification of 18 medium and 15 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p> <p>One review in relation to Institutional Performance Management has been reported in draft and we are currently working with the University to conclude this review, which is expected to be submitted to the next Audit Committee.</p> <p>Our findings have allowed Officers to identify specific control weaknesses within their current systems and to address these to improve the efficiency and effectiveness of controls and processes.</p>
<i>Internal Control Issues</i>	<p>During the course of our work we did not identify specific weaknesses that we consider should be reported in your Annual Governance Statement. In particular, our work on the University's financial systems did not identify any critical or high risk findings.</p>
<i>Follow up</i>	<p>During the year we have undertaken follow up work on previously agreed actions. An Audit Follow Up Matrix has been prepared and an assessment of progress made in these areas will be performed in November 2012.</p>
<i>Good practice</i>	<p>We also identified a number of areas of good practice within individual reviews. Where best practice has been identified this is reflected within the final individual internal audit reports.</p>

3. Internal Audit work conducted

Introduction

Our internal audit work was conducted in accordance with the Annual Internal audit plan for 2011/12.

The table below sets out the results of our internal audit work for 2011/12.

Results of individual assignments

Internal Audit review	Report status	Report classification and period covered	Number of findings				
			Critical	High	Medium	Low	Advisory
Revised Governance Arrangements	Final	Low Risk 1 August 2011 to 31 May 2012	-	-	-	3	-
IT Procurement	Final	Medium Risk At May 2012	-	-	5	-	-
Core Financial Controls Payroll and Expenses Review	Final	Medium Risk At October 2011	-	-	1	4	1
School Arrangements	Final	Medium Risk 1 August 2011 to 30 April 2012	-	-	3	2	-
Use of Library Services	Final	Medium Risk At November 2011	-	-	3	3	1
Student Recruitment/ Compliance with UK Border Agency Requirements	Final	Medium Risk 1 October 2010 to 30 September 2011	-	-	3	-	-
Institutional Performance Management	Draft Issued November 2012	Medium Risk At June/July 2012	Tbc	Tbc	Tbc	Tbc	Tbc
Financial controls - the financial ledger	Final	Medium At January 2012	-	-	3	3	-
Total			0	0	18	15	2

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and the Audit Committee, subject to the limitations outlined below.

Findings

Our findings are based solely on the work undertaken as part of the agreed Annual Internal audit plan, which provided for a total of 95 internal audit days. The work addressed the control objectives agreed for each individual internal audit assignment as set out in our individual assignment reports.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our findings may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. 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

Our assessment of controls relating to the University is for the year ended 31 July 2012. Historic evaluation of effectiveness may not be 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.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of officers and internal auditors

It is officer'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 officer's responsibilities for the design and operation of these systems.





We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry 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, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Findings rating</i>	<i>Points</i>
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

<i>Report classification</i>		<i>Points</i>
	Critical risk	40 points and over
	High risk	16– 39 points
	Medium risk	7– 15 points
	Low risk	6 points or less

Individual finding ratings

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance; or • Significant monetary or financial statement impact; or • Significant breach in laws and regulations resulting in significant fines and consequence; or • Significant impact on the reputation or brand of the organisation.
Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance; or • Moderate monetary or financial statement impact; or • Moderate breach in laws and regulations resulting in fines and consequences; or • Moderate impact on the reputation or brand of the organisation.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance; or • Minor monetary or financial statement impact; or • Minor breach in laws and regulations with limited consequences; or • Minor impact on the reputation of the organisation.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



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