



**Creating the University of the Highlands and Islands**



**THE UHI MILLENNIUM INSTITUTE**

**Annual Internal Audit Report 2008/09**

**14/09/09**

# Internal Audit Annual Report

2008/09

## CONTENTS

1.	Introduction.....	3
2.	Responsibilities for Risk Management, Control, Governance and Value for Money	3
3.	Role of Internal Audit.....	3
4.	Performance against the Internal Audit Plan .....	4
5.	Summary of Internal Audit Work undertaken .....	5
6.	Follow up of agreed management actions .....	7
7.	Annual opinion on the adequacy and effectiveness of the UHI Millennium Institute's arrangements for risk management, control and governance; economy, efficiency and effectiveness (value for money). .....	8
8.	Internal Audit Key performance Indicators .....	11
9.	Internal Audit Service Quality Assurance programme .....	11
10.	Conclusion.....	13

### Appendices

Appendix A - The Institute of Internal Auditors UK and Ireland - An approach to implementing Risk Based Internal Audit.....	14
Appendix B- Evaluation of Internal Audit .....	20

# Annual Internal Audit Report

**2008/09**

## **1. Introduction**

- 1.1. The UHI Millennium Institute recruited an in-house Internal Auditor and established a Co-Sourced Internal Audit Service with Henderson Loggie Chartered Accountants in February 2009. This Annual Internal Audit Report provides a summary of the Internal Audit Service's activities since February 2009 for the financial year 2008/09.
- 1.2. The Internal Audit Terms of Reference require the UHI Millennium Institute Internal Auditor to give an annual opinion to the Board of Governors and Principal, through the Audit Committee, on the adequacy and effectiveness of UHI's arrangements for:
  - risk management, control and governance; and for
  - economy, efficiency and effectiveness (value for money)
- 1.3. The opinion is provided in section 7 of this report.

## **2. Responsibilities for Risk Management, Control, Governance and Value for Money**

- 2.1. Within the UHI Millennium Institute, responsibility for risk management, control and governance arrangements and the achievement of value for money rests with the Board of Governors and management, who should ensure that appropriate and adequate arrangements exist without reliance on the UHI Millennium Institute's Internal Audit Service. The Internal Audit Service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems.

## **3. Role of Internal Audit**

- 3.1. The UHI Millennium Institute Internal Audit Service is responsible for providing an objective, independent appraisal of all the UHI Millennium Institute's activities, financial and otherwise. It provides a service to the whole organisation, including the Board of Governors and all levels of management. It is not an extension of, nor a substitute for, good management, although it can have a role in advising management. The Internal Audit Service is responsible for evaluating and reporting to the UHI Millennium Institute's Board of Governors and Principal, through the Audit Committee, thereby providing them with assurance on the arrangements for risk management, control, governance and value for money. It remains the duty of management, not the internal auditor, to operate these arrangements.
- 3.2. The UHI Millennium Institute Internal Auditor is required to give an annual opinion to the Board of Governors and Principal, through the Audit Committee, on the adequacy and effectiveness of the arrangements for risk management, control and governance and for economy, efficiency and effectiveness (value for money) within UHI, and the extent to which the Board of Governors can rely on these.

### **3.3. Independence**

- 3.4. The Internal Audit Service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. The UHI Millennium Institute

Internal Auditor, subject to any guidance from the Audit Committee is solely responsible for the management and development of the UHI Millennium Institute co-sourced Internal Audit Service.

- 3.5. For day-to-day administrative purposes only, the UHI Millennium Institute Internal Auditor reports to the Deputy Secretary. The UHI Millennium Institute Internal Auditor has right of access to UHI's Principal.
- 3.6. The Institute of Internal Auditors International Standards for the Professional Practice of Auditing state that "internal audit activity should be free from interference in determining the scope of internal auditing, performing work, and communicating results".
- 3.7. Where there are differences of opinion between Internal Audit and management, the Board of Governors (on the advice of the Audit Committee) should ultimately determine whether or not to accept audit recommendations, recognise and accept the risks of not taking action, and instruct management to implement recommendations.

#### 4. Performance against the Internal Audit Plan

- 4.1. The UHI Millennium Institute Internal Audit plan for 2008/09 plan was prepared using a planning methodology in line with the Scottish Funding Council (SFC) guidance and current best practice from the Combined University Chairmen (CUC), Institute of Internal Auditors (IIA), Higher Education Funding Council for England (HEFCE), the Council of Higher Education Internal Auditors (CHEIA) and also in the context of UHI's risk management infrastructure.
- 4.2. The Internal Audit Planning Methodology and proposed Internal Audit Plans were discussed and reviewed by the External Auditor who was of the opinion that the Internal Audit Plan and the associated methodology were of a good standard and in line with best practice, and were clearly risk based.
- 4.3. The Audit Committee approved the Internal Audit Plan at its meeting on the 28th of April 2009. Based on the audit days applied to the plan, the plan is 90% complete. The following table records the progress made against the Internal Audit Plan.

Internal Audit Plan 2008/09	Risk score	Audit Plan Days	Progress
Curriculum planning and development /course development & review	44	15	Report to Audit Committee Sept 09
Governance and management of SDB projects - planning and implementation - meeting spend targets	37	20	Report to Audit Committee Sept 09
Contingency planning, business continuity, incident planning and management	31	15	Report to Audit Committee Sept 09
Monitoring academic partners - early warnings - financial viability / performance	29	7	Report to Audit Committee Sept 09
Data Management, information accessibility and security	27	10	Audit Scope and Objectives agreed and fieldwork underway
VFM Strategy and planning		5	Report to Audit Committee Sept 09

Assessment of risk management framework	1	Report to Audit Committee April 09
<i>Follow up reviews</i>	0	--
<i>Contingency</i>	0	--
<i>Planning, management and liaison</i>	10	--
<b>Audit Plan Total</b>	<b>83</b>	

## 5. Summary of Internal Audit Work undertaken

5.1. The following paragraphs provide a summary of the Internal Audit work undertaken from the Internal Audit Plan 2008/09.

### 5.2. Risk Management

5.3. An Internal audit review on Risk Management was carried out using a template provided by the Institute of Internal Auditors (IIA) which helped to enable an assessment of an organisations risk maturity to be undertaken.

5.4. We found that the Revised Process for Risk Identification and Management provided a sound starting point to define and formalise UHI's risk management framework processes and procedures. To fully realise the benefits of effective risk management this process needed to be complied with and further embedded as part of routine business processes.

5.5. On conclusion of the assessment it was the Internal Auditor's opinion that UHI's risk maturity could be classified as 'Risk Defined'. The IIA describe the key characteristics of being risk defined as having the "strategy and policies in place and communicated. Risk appetite defined". The IIA suggest that in these circumstances Internal Audit's approach should be to "facilitate risk management / liaise with risk management and use management assessment of risk where appropriate".

5.6. Ten recommendations for improvement in control were identified, of which two were prioritised as high, five were medium, and the remainder were low priority. Actions to improve control were agreed by management, with the final action due for implementation by the 30 September 2009.

### 5.7. Review of the Strategic Delivery Body

5.8. An internal audit review of the Strategic Delivery Body ('SDB') project was undertaken.

5.9. The UHI Millennium Institute was offered grant funding as part of the 2007–2013 European Structural Funds grant programme, from both the European Social Fund ('ESF') (£4.1m) and European Regional Development Fund ('ERDF') (£12.3m) strands. This offer of grant was accepted by UHI in August 2008. In addition an Operating Agreement was signed between UHI and the Scottish Government setting out the amounts of ESF and ERDF grants and the profile of how much must be spent in each year of the programme. UHI was appointed a SDB which gives UHI a non-competitive position for funding within the EU programme rules. The Scottish Government has entrusted a body HIPP with administering the funds.

5.10. The grant funding must be matched with funding from UHI or other partners. For the ESF grant the match-funding required is 50% (£4.1m) and for ERDF match funding of 60% (£18.4m) is required. UHI has secured match-funding from the Scottish Funding Council ('SFC'), Highlands and Islands Enterprise ('HIE') and from other sources.

5.11. Based on our audit work we found that, the structures and processes for identifying, approving, initiating, carrying out and monitoring SDB projects were considered satisfactory. The four main issues (classified as 'High') highlighted by this report were:

- There was a risk that the contracted Eurosyst spend profile would not be achieved as it was significantly more difficult than that in the Scottish Government Operating Agreement and if UHI was held to the Eurosyst spend profile this could lead to a significant clawback of funding. UHI had nothing formal stating which of the contracts should be complied with and it would be beneficial for this to be formally confirmed.
  - Without a formal process to ensure eligibility issues raised by HIPP were discussed and formally resolved, projects may be stalled or claimed expenditure may not be paid out by HIPP.
  - Discussions with HIPP on the grant terms and conditions had not been formally documented in terms of a signed minute or an agreed upon action plan and without this there was a risk that agreement on an issue may be disputed by HIPP at a later date.
  - To date no formal match-funding contract had been agreed with HIE and SFC, and without this requirements for the match-funding may not be known and it may be difficult to apply these retrospectively.
- 5.12. 17 areas of concern were identified, of which four were prioritised as High, five were Medium, and the remainder were low priority. No further management action was proposed for four areas of concern. 13 actions to improve control were agreed by Management, with the final action due for implementation by the 30 September 2009.
- 5.13. Monitoring of Academic Partners' Financial Position**
- 5.14. An audit internal audit review on monitoring Academic Partners' financial position was undertaken.
- 5.15. UHI is a partnership of 13 Scottish colleges and research institutes, and one associated institution, which carry out teaching and research. It is in the best interests of UHI to ensure that each partner is financially viable in order to provide quality teaching provision, ensure research capacity is maintained and ensure that there is no impact on UHI's aim to gain university title.
- 5.16. The current process for monitoring the financial position of Academic Partners is inadequate due to UHI not being able to obtain information for monitoring and not having formally identified the key risk areas for each Academic Partner. A formal framework for identifying and evaluating Academic Partners' risks in conjunction with the Academic Partners requires developing.
- 5.17. UHI has processes in place for reviewing and reporting information received on major financial issues at Academic Partners to the Finance and General Purposes Committee and the Audit Committee. However, many of these issues are notified to UHI after they have been allowed to escalate and this limits the mitigation action that UHI can undertake. It would be beneficial for new Service Level Agreements to be signed which include the right to receive timely financial and risk information from Academic Partners.
- 5.18. Contingency plans need to be developed and reputational risk management plans need to be tested to strengthen the procedures in place should an Academic Partner fail.
- 5.19. 12 areas of concern have been identified, which have been prioritised as three at High, five at Medium, and the remainder as low priority. Actions to improve control have been agreed by Management, with the final action due for implementation by the 31 January 2010.
- 5.20. Curriculum Development and Review**
- 5.21. An internal audit review on Curriculum Development and Review was undertaken.
- 5.22. The scope of the audit was to assess the adequacy and effectiveness of the processes and procedures for managing and controlling curriculum development and review. The

review focused on the business processes for curriculum development and for the review of existing curriculum provision. This review did not look at Academic Quality Assurance or the academic nature/delivery of the curriculum.

- 5.23. UHI is currently changing and developing its processes as it progresses towards achieving University Title. The structures and processes for curriculum development and review were being subject to scrutiny and change. The need to improve student information had been recognised and would help to underpin the ongoing review and development of the curriculum.
- 5.24. Review of the processes highlighted scope to improve the controls to help ensure that curriculum development and the ongoing provision are in line with and contribute towards UHI Strategy. There were also opportunities to improve information on market research, market demand and financial viability to help ensure that course/programme development and the ongoing curriculum portfolio remain sustainable.
- 5.25. Six recommendations for improvement in control have been identified, of which one has been prioritised as High, and the remainder as medium priority. Actions to improve control have been agreed by Management, with the final action due for implementation by April 2010.

#### **5.26. Business Continuity Planning and Management**

- 5.27. An internal audit review on Business Continuity Planning and Management was undertaken.
- 5.28. UHI had recognised the need for and benefits of implementing a Business Continuity Plan. The Deputy Secretary was in the process of overseeing the preparation of a draft UHI Business Continuity Plan for Executive Office.
- 5.29. There was scope identified to further improve the processes for, business impact analysis (prioritising the key business functions and services), developing and documenting recovery and continuity strategies, communicating the business continuity plan to staff, training staff and testing the plan.
- 5.30. Learning Information Services were in the process of developing their own Business Continuity Plan but had not finalised its completion. Key Technical Contacts have been assigned to key UHI IT Services these staff were responsible for recovery of these services in the event of a disaster. There was scope identified to further strengthen IT disaster recovery processes by formally documenting and testing Disaster Recovery Plans.
- 5.31. Nineteen recommendations for improvement in control were identified, of which six were prioritised as high, nine as medium, and the remainder as low priority. Actions to improve control were agreed by Management, with the final action due for implementation by the 30 June 2010.

### **6. Follow up of agreed management actions**

- 6.1. The co-sourced Internal Audit Service was established in February 2009. The Internal Audit Service has developed a follow-up process to monitor the implementation of agreed management actions. At this time it is too early to conduct follow-up reviews for the Internal Audit Reports issued as the agreed management actions have not yet all reached their action dates. Follow-up reviews will be carried out and reported on a timely basis to future Audit Committee meetings.

**7. Annual opinion on the adequacy and effectiveness of the UHI Millennium Institute's arrangements for risk management, control and governance; economy, efficiency and effectiveness (value for money).**

7.1. The Internal Audit Terms of Reference require the UHI Millennium Institute Internal Auditor to give an annual opinion to the Board of Governors and Principal, through the Audit Committee, on the adequacy and effectiveness of UHI's arrangements for:

- risk management, control and governance;
- economy, efficiency and effectiveness (value for money).

7.2. It is important to note that:

- The opinion is based upon the internal audit work undertaken since February 2009 from the Internal Audit Plan 2008/09, summarised earlier in section five.
- Internal control can provide only a reasonable and not absolute assurance to management and the Board of Governors regarding achievement of UHI's objectives.
- Responsibility for risk management, control and governance arrangements and the achievement of value for money rests with the Board of Governors and management, who should ensure that appropriate and adequate arrangements exist without reliance on the UHI Millennium Institute's Internal Audit Service.
- Internal Audit reviews have a reasonable chance of detecting significant control weaknesses but cannot guarantee that fraud, error or non compliance will be detected.

**7.3. Adequacy and Effectiveness of the UHI Millennium Institute's arrangements for Risk Management, Control and Governance**

**7.4. Findings**

Risk Management

7.5. An internal Audit Review of Risk Management was undertaken during the year and a summary of the review was included in paragraphs 5.2 to 5.6. Appendix A also includes the internal audit assessment on UHI's risk maturity. The review concluded that the Revised Process for Risk Identification and Management provided a sound starting point to define and formalise UHI's risk management framework processes and procedures. To fully realise the benefits of effective risk management this process needed to be complied with and further embedded as part of routine business processes. Recommendations for improvement in control were identified and actions to improve control were agreed by management.

Control

7.6. During the year the Internal Audit Service has reviewed and tested many of UHI's internal controls based upon the Internal Audit Plan. A summary of the findings of these reviews is included in section 5.

7.7. Each internal audit undertaken during the year has resulted in recommendations being made to improve control. The following table shows the categorisation of internal audit recommendations.



<b>Categorisation of recommendation</b>	<b>Definition of category</b>	<b>Number of recommendations made</b>	<b>Percentage of actions agreed by management</b>
High	Inadequate systems and controls which if not addressed could expose the institution to significant financial, operational or reputational risk and adversely impact on implementation of its strategic plan.	16	100%
Medium	Systems and controls which are not fully effective, and failure to improve them could adversely affect operational plans at departmental level.	29	93%
Low	Good practice dictates that some enhancements to existing systems and controls are desirable.	19	89%
<b>Total</b>		<b>64</b>	<b>94%</b>

- 7.8. There were no significant internal audit recommendations that the Internal Audit Service consider had not received adequate management attention. The implementation of the agreed management actions corresponding to the recommendations will continue to improve UHI's internal control arrangements.

#### Governance

- 7.9. In the latter part of the financial year the UHI Millennium Institute Deputy Principal - Secretary oversaw a review process to revise the UHI Millennium Institute Statement of Governance and Code of Practice and the Handbook for Members of the Board of Governors.
- 7.10. A paper was submitted to the June 2009 meeting of the Board of Governors stating "The UHI Millennium Institute Statement of Governance was drawn up in December 2005. Since that time new guidance has been issued by the CUC (Committee of University Chairmen). The Statement of Governance and Code of Practice has therefore been revised to take into account the new guidance. In addition a new Handbook for Members of the Board of Governors has been drafted. This likewise draws on CUC and other authorities. Both documents seek to ensure that UHI governance is in line with sector best practice. The draft documents draw attention to instances where UHI practice diverges from CUC guidelines and show major changes".
- 7.11. At its June 2009 meeting, the Board of Governors granted interim approval to the draft Statement of Governance and Code of Practice and the draft Handbook for Members of the Board of Governors and referred both for detailed consideration to Finance and General Purposes Committee and the Audit Committee.
- 7.12. At its meeting on the 7th of July 2009 the Finance and General Purposes Committee approved the revisions to the Code of Practice and the proposed Governors' Handbook subject to some amendments.

- 7.13. The Audit Committee is scheduled to review the UHI Millennium Institute Statement of Governance and Code of Practice and the Handbook for Members of the Board of Governors at its September 2009 meeting.

**7.14. Opinion**

**On the basis of the work carried out since February 2009, the UHI Millennium Institute Internal Auditor concludes that where scope to improve controls was identified management actions have been agreed to address these. There is sufficient evidence of controls and procedures to provide reasonable assurance that UHI has adequate and effective arrangements for risk management, control and governance.**

**7.15. Adequacy and Effectiveness of the UHI Millennium Institutes arrangements for Economy, efficiency and effectiveness (value for money)**

**7.16. Findings**

- 7.17. The Scottish Funding Council Financial memorandum mandatory requirements are effective from the 14 October 2008. These state that the 'institution must have a strategy for systematically reviewing management's arrangements for securing value for money. As part of its internal audit arrangements, the institution must obtain a comprehensive appraisal of management's arrangements for achieving value for money'.
- 7.18. In April 2009 Internal Audit discussed the need to prepare a UHI Value for Money (VFM) Strategy with the Deputy Principal - Secretary and the Director of Finance and Planning. A VFM Strategy was prepared and the Finance and General Purposes Committee agreed at its 9th of June 2009 meeting to recommend approval of the strategy to the Board of Governors and welcomed the fact that UHI already fulfilled many of the requirements. The Board of Governors approved the VFM Strategy at its meeting on the 23rd of June 2009.
- 7.19. The VFM Strategy was prepared in line with guidance issued by HEFCE<sup>1</sup>. The Finance and General Purposes Committee is responsible for developing and overseeing the VFM Strategy. Executive Board and Senior Management Group have operational responsibility for developing the improvement arrangements and identifying resource requirements, co-ordinating and delivering work against the plan.
- 7.20. The VFM Strategy also sets out a comprehensive action plan of actions to be undertaken that will help to contribute further to the achievement of value for money.
- 7.21. The Value for Money Strategy states that the organisation will produce an annual VFM report which will be adopted by the Board of Governors on advice of the Finance and General Purposes Committee.

**7.22. Opinion**

**On the basis of the work carried out since February 2009, the UHI Millennium Institute Internal Auditor concludes that in June 2009 the Board of Governors approved a Value for Money Strategy which defines the objectives, approach, roles, responsibilities, reporting requirements and provides an action plan to help promote and secure value for money within UHI.**

**There is sufficient evidence (subject to the full implementation of the Value for Money Strategy and action plan) that there is now processes and procedures to provide reasonable assurance that UHI has adequate and effective arrangements to promote economy, efficiency and effectiveness (value for money).**

<sup>1</sup> Higher Education Funding Council England (HEFCE) – Guidance on value for money (VFM) strategies and reporting

## 8. Internal Audit Key performance Indicators

- 8.1. The Internal Audit Terms of reference requires the UHI Millennium Institute Internal Auditor to implement measures to monitor the effectiveness of the internal Audit Service. The Key Performance Indicators were discussed and agreed with the Deputy Secretary. They are derived from Key Performance Indicators suggested in the Committee of University Chairmen, Handbook for Members of Audit Committees in Higher Education.

Internal Audit Performance indicator	Target	Actual 2008/09
Percentage of audit work delivered by qualified staff.	60%	100%
Internal Audit Plan to be submitted by June each year.	June of each year	Draft Plan provided to April 09 Audit Committee
Follow-ups to be performed within 3 months of the last action date of recommendations made.	Within 3 months of the last action date of recommendation	Not applicable see early paragraph 6.1
Issue of draft reports within 30 days of work being completed.	30 working days	100%
Issue of final report within 10 working days of receipt of management responses.	10 working days	100%
Recommendations made compared with recommendations accepted.	80%	94%
Internal audit reviews that added value.	90%	100%
Internal audit attendance at audit committee meetings.	100%	100%
Issue of internal audit annual report.	September of each year	Report provided to September 09 Audit Committee

## 9. Internal Audit Service Quality Assurance programme

- 9.1. The UHI Millennium Institute Internal Audit Service is required through its Terms of Reference to perform internal audit work with due professional care, in accordance with appropriate professional auditing practice and with regard to Treasury and the Institute of Internal Auditors standards.
- 9.2. The letter of agreement established between the UHI Millennium Institute and the co-sourced internal audit partner Henderson Loggie affirms that the co-sourced internal audit partner will perform internal audit services in accordance with relevant professional standards and guidelines and in accordance with the Scottish Funding Council Financial Memorandum.
- 9.3. Compliance with the Institute of Internal Auditors, International Professional Practices Framework requires the UHI Millennium Institute Internal Auditor to develop and maintain a quality assurance and improvement program that covers all aspects of the internal audit activity.

9.4. The UHI Millennium Institute Internal Audit Service has established a two tier approach to undertaking quality assurance and improvement program:

- The ongoing process of monitoring the performance of internal audit activity.
- Annual internal audit performance reviews performed through self assessment and by other persons within the UHI Millennium Institute with sufficient knowledge of internal audit practice.

**9.5. Ongoing Performance Monitoring of Internal Audit Activity**

9.6. The UHI Millennium Institute internal Auditor manages the provision of the co-sourced Internal Audit Service on an ongoing basis. A weekly reporting process is in place to keep the Deputy Secretary informed of Internal Audit's progress. The Internal Audit Service has introduced Internal Audit Performance Questionnaires that are issued to management and staff at the conclusion of internal audit work. Feedback from management and staff on the performance of Internal Audit reviews is valued by the Internal Audit Service and helps enable the service provided to be improved and assists the Audit Committee in forming an opinion on the efficiency and effectiveness of the Internal Audit function.

9.7. The table below presents a summary of the Internal Audit Performance Questionnaire responses received. The responses illustrate that on the whole 96% of the respondents were either fully satisfied or satisfied.

<b>Internal Audit Performance Questionnaire</b>	<b>Fully Satisfied</b>	<b>Satisfied</b>	<b>Not Satisfied</b>	<b>Fully Dissatisfied</b>	<b>N/A</b>
1. Were you given adequate notification of the audit?	<b>83%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
2. Were you adequately informed of the audit scope and objectives?	<b>83%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
3. Were the appropriate staff consulted for the audit area covered?	<b>60%</b>	<b>40%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
4. Did the auditor display a professional, constructive and positive approach during the review?	<b>50%</b>	<b>33%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>
5. Did the auditor discuss key results/findings with you during the review?	<b>83%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
6. Were you given the opportunity to discuss the draft report with the auditor prior to finalisation?	<b>83%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
7. Was the report produced to a professional standard?	<b>66%</b>	<b>17%</b>	<b>17%</b>	<b>0%</b>	<b>0%</b>
8. Overall, were you satisfied with the review? Has it been worthwhile and added value to your work?	<b>67%</b>	<b>33%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>
<b>Percentage Totals</b>	<b>73%</b>	<b>23%</b>	<b>4%</b>	<b>0%</b>	<b>0%</b>

**9.8. Annual Internal Audit Performance Reviews**

- 9.9. The CUC guide for members of Audit Committees in HE provides some useful templates to help in the annual evaluation of internal audit. The Deputy Secretary, Director of Finance and Planning have completed checklists which provide an independent evaluation of the Internal Audit Service. The UHI Millennium Institute Internal Auditor has also completed the relevant self assessment checklist as well. The completed checklists provide a focus for the Internal Audit Service improvement efforts. The internal audit evaluation checklists are included in Appendix B.
- 9.10. As mentioned in earlier in paragraph 4.2, the UHI Millennium Institute External Auditor also provided independent feedback on the Internal Audit Service's Internal Audit Planning Methodology and Internal Audit Plans.

**10. Conclusion**


- 10.1. The co-sourced Internal Audit Service was established in February 2009. The Internal Audit Service is continuing to develop its role within the UHI Millennium Institute and seeks to assist the UHI Millennium Institute in progressing towards achievement of its objectives by providing independent, objective assurance on risk management, control and governance.

## Appendix A - The Institute of Internal Auditors UK and Ireland - An approach to implementing Risk Based Internal Audit

**Assessing the University's risk maturity** -This assessment was made by reviewing the UHI Millennium Institute's practices, processes and relevant supporting documentation such as the risk management strategy, policy and risk registers.

Risk Maturity	Risk naive	Risk aware	Risk defined	Risk managed	Risk enabled	Sample audit test	Summary findings of
<b>Key characteristics.</b>	No formal approach developed for risk management.	Scattered silo based approach to risk management.	Strategy and policies in place and communicated. Risk appetite defined	Enterprise approach to risk management developed and communicated.	Risk management and internal controls fully embedded into the operations.		
<b>The organisation's objectives are defined.</b>	Possibly.	Yes - but may be no consistent approach.	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Check the organisation's objectives are determined by the board and have been communicated to all staff. Check other objectives and targets are consistent with the organisation's objectives.	The UHI Millennium Institute's objectives are defined in the Strategic Plan.
<b>Management have been trained to understand what risks are, and their responsibility for them.</b>	No	Some limited training.	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Interview managers to confirm their understanding of risk and the extent to which they manage it.	Managers were aware of risk and their responsibility for managing it. Managers also confirmed that they carried out activities to actively manage risk.

<b>A scoring system for assessing risks has been defined.</b>	No	Unlikely, with no consistent approach defined.	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Check the scoring system has been approved communicated and is used.	The Board of Governors has defined a scoring system for assessing risks.
<b>The risk appetite of the organisation has been defined in terms of the scoring system.</b>	No	No	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Check the document on which the controlling body has approved the risk appetite. Ensure it is consistent with the scoring system and has been communicated.	The Board of Governors risk appetite has been defined in terms of the scoring system.
<b>Processes have been defined to determine risks, and these have been followed.</b>	No	Unlikely	Yes, but may not apply to the whole organisation. <input checked="" type="checkbox"/>	Yes	Yes	Examine the processes to ensure they are sufficient to ensure identification of all risks. Check they are in use, by examining the output from any workshops.	The Board of Governors has defined a process in which risk registers will be reviewed and updated monthly at faculty and team meetings to ensure actions are carried out and risks and scores are added/deleted/added as required. This process has not been fully embedded as various approaches were being taken to periodically identify risk. None of the managers consulted

							were formally reviewing and updating their risk registers on a monthly basis. The consequence of this may be that there may be a failure to identify, manage and report risk on a timely basis.
<b>All risks have been collected into one list. Risks have been allocated to specific job titles.</b>	No	Some incomplete lists may exist.	Yes, but may not apply to the whole organisation. 	Yes	Yes	Examine the Risk Register. Ensure it is complete, regularly reviewed assessed and used to manage risks. Risks are allocated to managers.	The process approved by the Board of Governors defined a governance framework with responsibilities for review and approval of risks above defined scores. There was potentially a risk that the UHI Millennium Institute risk register may not be complete as processes to identify and review other risks registers and escalate risks to the relevant group or committee were not being complied with. The risk registers show that where risks have been collated, that they have been allocated to a Risk Owner.



<b>All risks have been assessed in accordance with the defined scoring system.</b>	No	Some incomplete lists may exist.	Yes, but may not apply to the whole organisation.	Yes <input checked="" type="checkbox"/>	Yes <input checked="" type="checkbox"/>	Check the scoring applied to a selection of risks is consistent with the policy. Look for consistency (that is similar risks have similar scores).	Risks were being assessed in accordance with the defined scoring system.
<b>Responses to the risks have been selected and implemented.</b>	No	Some responses identified.	Yes, but may not apply to the whole organisation <input checked="" type="checkbox"/>	Yes	Yes	Examine the Risk Register to ensure appropriate responses have been identified.	It was difficult to determine whether appropriate responses had been selected and implemented for all risks. In some risk registers the controls that mitigate each risk had not been recorded, in other risk registers the descriptions of the mitigating actions were vague or non-tangible.
<b>Management have set up methods to monitor the proper operation of key processes, responses and action plans (monitoring controls).</b>	No	Some monitoring controls.	Yes, but may not apply to the whole organisation. <input checked="" type="checkbox"/>	Yes	Yes	For a selection of responses, processes and actions, examine the monitoring control(s) and ensure management would know if the responses or processes were not working or if the actions were	The process of regularly reviewing risk registers and the mitigating controls was not being routinely carried out at faculty and team meetings. A few managers declared that they were reviewing their risks on a quarterly basis.

						not implemented.	
<b>Risks are regularly reviewed by the organisation.</b>	No	Some risks are reviewed, but infrequently.	Regular reviews, probably annually. <input checked="" type="checkbox"/>	Regular reviews, probably quarterly.	Regular reviews, probably quarterly.	Check for evidence that a thorough review process is regularly carried out.	Responsibilities to review risks at different levels throughout the UHI Millennium Institute had been agreed by the Board of Governors. In general these were not being complied with. The consequence of this may be a failure to identify, manage and report on risk on a timely basis.
<b>Management report risks to directors where responses have not managed the risks to a level acceptable to the board.</b>	No	No	Yes, but may be no formal process. <input checked="" type="checkbox"/>	Yes	Yes	For risks above the risk appetite, check that the board has been formally informed of their existence.	There was no formalised process in which the risk owner reviews the risk and reports an opinion as to whether the risk is being effectively managed or not.
<b>All significant new projects are routinely assessed for risk.</b>	No	No	Most projects.	All Projects. <input checked="" type="checkbox"/>	All Projects. <input checked="" type="checkbox"/>	Examine project proposals for an analysis of the risks which might threaten them.	Processes had been defined, communicated and implemented to help ensure that all new projects are assessed for risk by appropriately trained staff.
<b>Responsibility for the determination, assessment,</b>	No <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>	Limited.	Most job descriptions.	Yes	Examine job descriptions. Check the instructions for	Responsibility for the determination, assessment, and management of risks

and management of risks is included in job descriptions.						setting up job descriptions.	had not been incorporated into job descriptions.
Managers provide assurance on the effectiveness of their risk management.	No <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>	Some managers.	Yes	Examine the assurance provided. For key risks, check that controls and the management system of monitoring, are operating.	There is no formalised process in which managers provide assurance on the effectiveness of their risk management.
Managers are assessed on their risk management performance. No	No <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>	No <input checked="" type="checkbox"/>	Some managers.	Yes	Examine a sample of appraisals for evidence that risks management was properly assessed for performance.	The appraisal process for managers did not routinely involve an assessment of their risk management performance.
Internal Audit approach	Promote risk management and rely on alternative Audit Planning method	Promote enterprise- wide approach to risk management and rely on alternative Audit Planning method.	<b>Facilitate risk management / liaise with risk management and use management assessment of risk where appropriate.</b>	Audit risk management processes and use management assessment of risk as appropriate.	Audit risk management processes and use management assessment of risk as appropriate.		

## Appendix B- Evaluation of Internal Audit

*This part of the checklist should be completed by the head of finance and/or other senior managers and officers who have regular contact with the internal auditor.*

### Planning

1. Are internal audit's terms of reference sufficiently visible to everyone within the institution?

Yes ☒ No ☐

2. Has there been sufficient pre-planning and co-ordination by the internal auditors before the start of each phase of the internal audit or special project?

Yes ☒ No ☐

3. Has internal audit discussed its approach and major areas of audit focus with you?

Yes ☒ No ☐

4. Have you raised any major areas of concern that have not been reviewed by the internal audit team?

Yes ☐ No ☒

Comments
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### Skills and experience

1. Do you consider that the internal audit team have sufficient expertise, professional experience, project management ability, interpersonal skills and seniority to effectively carry out the work required?

Yes ☒ No ☐

2. Assess the strength of internal audit's understanding of the institution and its risk involvement.

Strong ☒ Adequate ☐ Needs improvement ☐

3. How strongly have the members of the internal audit team demonstrated an appreciation of the issues key to your role and responsibilities?

Strong ☒ Adequate ☐ Needs improvement ☐

4. Have members of the internal audit team consistently demonstrated independence in

all their deliberations?

Yes ☒ No ☐

5. Have members of the internal audit team been adequately supervised?

Yes ☒ No ☐

Comments Co-sourced arrangements put in place earlier this year to ensure greater understanding of organisational risks but also ensure expert help and independence for function

### Work programme

1. Has effective co-operation been achieved between the internal auditors and your department, including avoidance of undue disruption to normal activities?

Yes ☒ No ☐

2. Is there a formal process to ensure that internal audit keeps you up to date with audit/project progress?

Yes ☒ No ☐

3. Has internal audit provided early identification and advice regarding contentious issues, problem areas and delays?

Yes ☒ No ☐

4. Has internal audit suggested how such issues could be resolved?

Yes ☒ No ☐

5. Were such suggestions realistic, robust and presented clearly and on a timely basis?

Yes ☒ No ☐

6. How responsive has internal audit been to the institution's needs, including requests for special investigations?

Strong ☐ Adequate ☒ Needs improvement ☐

7. Are internal audit reports:

Relevant, clear and constructive?

Yes ☒ No ☐

Sufficiently detailed to provide assurance that the necessary audit work has been carried out to support the opinions/conclusions?

Yes ☒ No ☐

Sufficiently detailed to enable effective management action?

Yes ☒ No ☐

Issued on a timely basis?

Yes ☒ No ☐

8. Have internal audit findings been discussed with you prior to being tabled with the audit committee?

Yes ☒ No ☐

9. Has internal audit followed up recommendations to see if they have been implemented?

Yes ☒ No ☐

10. Do you have any major unresolved disagreements with internal audit?

Yes ☐ No ☒

#### Overall performance

1. Has internal audit added value to the institution?

Yes ☒ No ☐

2. In what ways has internal audit added value to the institution?

**Overall comments** Service has recently been established on a co-sourced basis and has added value by assessing areas of risk across the spectrum of operational areas, focussing initial audit work on areas of greatest risk.

Name

F. Mearg

Position

Deputy Secretary

Signed

Fiona Mearg

Date

24/8/09

This part of the checklist should be completed by the head of finance and/or other senior managers and officers who have regular contact with the internal auditor.

### Planning

1. Are internal audit's terms of reference sufficiently visible to everyone within the institution?  
Yes ☒ No ☐
2. Has there been sufficient pre-planning and co-ordination by the internal auditors before the start of each phase of the internal audit or special project?  
Yes ☐ No ☒
3. Has internal audit discussed its approach and major areas of audit focus with you?  
Yes ☒ No ☐
4. Have you raised any major areas of concern that have not been reviewed by the internal audit team?  
Yes ☐ No ☒

Comments Pre-planning and coordination for the audit plan and the risk approach follows best practice and is sufficient. Pre-planning and co-ordination of the audit itself is perhaps an area for improvement (please see under work planning, below). .

### Skills and experience

1. Do you consider that the internal audit team have sufficient expertise, professional experience, project management ability, interpersonal skills and seniority to effectively carry out the work required?  
Yes ☒ No ☐
2. Assess the strength of internal audit's understanding of the institution and its risk involvement.  
Strong ☒ Adequate ☐ Needs improvement ☐
3. How strongly have the members of the internal audit team demonstrated an appreciation of the issues key to your role and responsibilities?  
Strong ☒ Adequate ☐ Needs improvement ☐
4. Have members of the internal audit team consistently demonstrated independence in all their deliberations?  
Yes ☒ No ☐
5. Have members of the internal audit team been adequately supervised?  
Yes ☒ No ☐

Comments

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**Work programme**

1. Has effective co-operation been achieved between the internal auditors and your department, including avoidance of undue disruption to normal activities?  
Yes ☐ No ☒
2. Is there a formal process to ensure that internal audit keeps you up to date with audit/project progress?  
Yes ☐ No ☒
3. Has internal audit provided early identification and advice regarding contentious issues, problem areas and delays?  
Yes ☒ No ☐
4. Has internal audit suggested how such issues could be resolved?  
Yes ☐ No ☒
5. Were such suggestions realistic, robust and presented clearly and on a timely basis?  
Yes ☐ No ☐
6. How responsive has internal audit been to the institution's needs, including requests for special investigations?  
Strong ☒ Adequate ☐ Needs improvement ☐
7. Are internal audit reports:  
Relevant, clear and constructive?  
Yes ☐ No ☒  
Sufficiently detailed to provide assurance that the necessary audit work has been carried out to support the opinions/conclusions?  
Yes ☐ No ☒  
Sufficiently detailed to enable effective management action?  
Yes ☐ No ☒  
Issued on a timely basis?  
Yes ☒ No ☐
8. Have internal audit findings been discussed with you prior to being tabled with the audit committee?  
Yes ☒ No ☐
9. Has internal audit followed up recommendations to see if they have been implemented?  
Yes ☐ No ☐
10. Do you have any major unresolved disagreements with internal audit?  
Yes ☐ No ☒

**Overall performance**

1. Has internal audit added value to the institution?  
Yes ☒ No ☐
  2. In what ways has internal audit added value to the institution?
-



**Overall comments** To explain responses to work programme:

- Q1. This arose mainly in the context of the SDB audit and feedback has already been provided on this.
- Q2. There is no formal process but there is an effective practice of discussion of issues at the end of the work. I have no concerns with this.
- Q4. There has been extensive discussion at Audit Committee on the very limited role of internal audit in providing advice and this has been followed. Q5 is therefore not applicable in these circumstances. I have no concerns with this.
- Q7. My main concern is that the quality of reports written mainly by the external internal auditors unfortunately falls short of the necessary standards outlined in the question. Issues raised are general or are not backed up by audit evidence, making it very difficult to address the issue. Until now this quality issue has been identified by the audited senior manager and I would prefer to see this resolved in earlier drafts before I am required to respond.

**On 'overall performance' Internal Audit has added significant value by the adoption of a strategic and risk-based approach, helping ensure the institution's focus on weaknesses that put delivery of the strategic objectives at risk.**

**Name: Hazel Allen**

**Position: Director of Finance and Planning**

**Signed: by email**

**Date: 9th September 2009**

## Evaluation of Internal Audit – The UHI Millennium Institute Internal Auditor Self Assessment

### Understanding

#### 1. Evaluate internal audit's understanding of:

The responsibilities and operation of the audit committee

Strong ☒ Adequate ☐ Needs improvement ☐

The institution

Strong ☐ Adequate ☒ Needs improvement ☐

The institution's risk environment

Strong ☒ Adequate ☐ Needs improvement ☐

The institution's control framework

Strong ☐ Adequate ☒ Needs improvement ☐

Comments: The co-sourced Internal Audit Service was established in February 2009. Internal Audit is continually increasing its knowledge of the UHI Millennium Institute and its understanding of the control framework throughout the course of carrying out its work.

### Charter and structure

#### 1. Do the terms of reference for internal audit define in sufficient detail for the purposes of directing internal audit:

Roles and responsibilities, including those in relation to other internal functions?

Yes ☒ No ☐

Expectations of the governing body/audit committee, officers and management?

Yes ☒ No ☐

Scope of internal audit work?

Yes ☒ No ☐

Access to information?

Yes ☒ No ☐

#### 2. Evaluate internal audit's current terms of reference in light of the organisation's current and future needs.

Strong ☒ Adequate ☐ Needs improvement ☐

## 3. Assess the structure of internal audit in terms of enhancing its:

## Objectivity

Strong ☒ Adequate ☐ Needs improvement ☐

## Understanding of the organisation's business issues

Strong ☐ Adequate ☒ Needs improvement ☐

## Ability to respond to the institution's needs

Strong ☒ Adequate ☐ Needs improvement ☐

Comments: See earlier comment with reference to understanding of the organisation's business issues.

**Skills and experience**

## 1. Assess the staff mix and competences of the internal audit team.

Strong ☒ Adequate ☐ Needs improvement ☐

## 2. Evaluate internal audit's independence from the activities it audits.

Strong ☒ Adequate ☐ Needs improvement ☐

Comments: A direct benefit of establishing a co-sourced Internal Audit Service arrangement is the inherent flexibility to adjust the skill mix where required.

The Audit Committee has stressed the need to for the UHI Millennium Institute Internal Audit Service to have a strong 'fire wall' and remain independent from management. The Internal Audit Service has adopted this robustly in fulfilling its role.

**Communication**

## 1. Evaluate internal audit's responsiveness to requests from the audit committee, including requests for special investigations.

Strong ☒ Adequate ☐ Needs improvement ☐

Note: To date the Audit Committee has not requested any special investigations.

## 2. Evaluate internal audit's frankness and candour with the committee.

Strong ☒ Adequate ☐ Needs improvement ☐

## 3. Evaluate internal audit's handling of difficult or contentious issues.

Strong ☐ Adequate ☐ Needs improvement ☐ Not Applicable ☒

Note: To date Internal Audit has not had to handle any difficult or contentious issues.

4. Over the last 12 months, has the chair of the audit committee been fully briefed on significant findings or developments prior to audit committee meetings?

Yes ☒ No ☐

Note: The UHI Millennium Institute Internal Auditor has corresponded with the Chair of the Audit Committee regarding liaison with the External Auditor over the approval of the Internal Audit Plans. There have been no significant findings or developments which the UHI Millennium Institute Internal Auditor needed to brief the Chair of the Audit Committee on ahead of an Audit Committee meeting.

5. Evaluate internal audit's process to monitor the status of open matters/recommendations.

Strong ☒ Adequate ☐ Needs improvement ☐

Note: The Internal Audit Service has established a follow-up process to monitor the implementation of agreed management actions. It is too early to conduct follow-up reviews for the Internal Audit Reports issued as the agreed management actions have not yet all reached there action dates.

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## Performance

1. In what way has internal audit added value to the institution?

The Internal Audit Service has adopted a strategically aligned and risk based approach to planning its work. This has resulted in the provision of assurance and recommendations for improvement in control over areas of high strategic importance which potentially represent significant risk. This has helped to significantly raise the profile and visibility of the UHI Millennium Institute Internal Audit Service and highlight the benefit of the work that it carries out.

2. How would you assess internal audit's overall performance?

Strong ☒ Adequate ☐ Needs improvement ☐

## Overall comments

The co-sourced Internal Audit Service was established in February 2009. The Internal Audit Service is continuing to develop its role within the UHI Millennium Institute and seeks to assist the UHI Millennium Institute in progressing towards achievement of its objectives by providing independent, objective assurance on risk management, control and governance.

*Name:* Jason Thurlbeck

*Position:* UHI Internal Auditor

*Date:* 24 August 2009