An introduction to Internal Audit

What is internal audit?

The role of internal audit is to provide independent and objective assurance that the University’s risk management, governance and internal control processes are adequately designed and operating effectively. Internal audit is a key part of the University’s governance framework. The role of internal audit is to enhance and protect the University’s value by providing assurance, advice and insight in key areas of risk. Internal audit can assist the University in considering the response to new/emerging risks and support the effective management of change.

It is important to think of the internal auditor as the University’s critical friend – someone who can challenge current practice, champion best practice and be a catalyst for improvement, helping ensure that the University achieves its objectives.

Who are our internal auditors?

At the University the role of internal audit has been outsourced to Deloitte.

Deloitte’s team of internal auditors is led by Kirsty Searles, the lead partner in Deloitte’s Governance and Compliance Department. Kirsty leads the internal audit engagement with the Audit Committee, the Registrary, and has an indirect reporting line to the Director of Finance.

Kirsty is supported by an experienced team of internal auditors. The team is led on a day to day basis by Richard Neal, a Senior Manager, with extensive experience of internal audit in the Higher Education Sector. Richard’s role includes development of the internal audit plan, performance management of the service to the University, and compliance with professional standards (including the Chartered Institute of Internal Auditors and HEFCE’s Audit Code of Practice).

Andrew Patterson supports Richard in the management of the internal audit service with the support of a core team of internal auditors, including Aaron Mortlock.

In the delivery of internal services, Deloitte use a number of specialist staff to complement the work of the core internal audit team. At the University this includes regular involvement of Estate Management, Treasury Management, and IT and Security specialists.

Our IT specialist reviews are led by Dan Harris and managed by Tom Cropper and his team of IT auditors.

What do Internal Auditors do?

Internal auditors have a professional duty to provide an unbiased and objective view on the design and effectiveness of risk management, governance and internal control processes. Deloitte are independent from the operations of the University that are subject to audit.
The Audit Committee reviews the annual plan of work of the internal auditors, monitors progress and performance of the service during the year, and has access to final reports. Internal Audit attends each meeting of the Audit Committee.

Internal audit also has an indirect reporting line to the Registrary and Director of Finance in terms of monitoring Deloitte’s contract and receiving the secretary of internal audits. Within the “How does this operate” section we include details on the activity and reporting of internal audit.

**What is the value of internal audit to the University?**

Internal Audit is a requirement of the Memorandum of Assurance and Accountability between HEFCE and institutions: Terms and conditions for payment of HEFCE grants to higher education institutions. The Code states how effective accountability and audit coverage should be achieved. It sets out our minimum requirements for the reporting of risk management, control and governance arrangements, for internal and external audit arrangements, and the broad framework in which they should operate. Further details are available at the following link: [http://www.hefce.ac.uk/pubs](http://www.hefce.ac.uk/pubs)

Internal auditors deal with issues that are fundamentally important to the survival and prosperity of the University. Unlike external auditors, internal auditors look beyond financial risks and statements to consider wider operational issues such as, for example, the University’s reputation, growth, its impact on the environment, strategic projects, compliance with HEFCE requirements and the student experience.

It is important to remember that it is the responsibility of management (and not our internal auditors) to manage the risks to the University.

**How does this operate?**

**The Internal Audit Model**

![Internal Audit Model Diagram](image)

**Internal Audit Strategy and Annual Plan**

Internal Audit consults with key stakeholders; UAS central administrative Departments and key Divisions of the University (including the UIS, the Finance Division and HR), to name just a few, to produce a 3-4 year plan of internal audit coverage which will include:
• Priority risk audits, focussed on providing the University with assurance and insight over the management of priority risk areas;
• Cyclical audits, on key functions and activities that are integral for the ongoing success of the University; and
• Departmental assurance on key topics, including risk management, budgetary and IT controls (to name just a few), through the completion of a Self-Assessment Survey. This is supported and validated through targeted visits. Further detail is provided below.

Each year the strategy is revisited to ensure internal audit continues to focus their attention in the areas where the University would value their support. The annual plan considers emerging risk issues to the University and the wider sector and reconsiders whether the planned internal audit activity reflects the current risk profile of the University.

**Assurance over School and Department activity**

Internal Audit provides an informed and targeted assurance approach to assurance over School and Department activity. This approach is currently underpinned by the Departmental Assurance Self-Assessment Survey:

A survey is distributed to all Departments and a number of Non-school Institutions across the University. Survey questions cover a broad aspect of topics including risk management, budgetary control and IT controls. This exercise is performed on an annual basis. Internal Audit reviews the survey responses, and performs an analytical review of data (interrogation of management information compared to survey feedback) and targeted visits to a selection of Departments. The objective of the visits are to validate and understand the survey responses in addition to performing detailed testing in selected areas.

A report showing trends in positive areas of assurance and areas where responses suggest there is scope for improvement is shared with Schools, Faculties, central administrative Departments and the Audit Committee. Actions are agreed to help develop the control environment and to manage risk to an acceptable level.

Additional and specifically targeted internal audits in certain Schools and Departments may be agreed to be performed during the year, as considered necessary by the Audit Committee.

**Internal Audits**

Every internal audit has a senior management sponsor who supports the scoping of the assignment and is responsible for leading the development of a management action plan to address findings identified.

Internal Audit co-develops expectations with the key stakeholders and designs a scope for each assignment to determine how key risks are being managed in the audit topic area. A Terms of Reference will be agreed by the audit sponsor at the University.

The execution of the internal audit is conducted through meetings with relevant staff, documentation requested to support the work and the auditors will perform testing on a sample basis to test the effectiveness in the operation of key controls. Where appropriate, sample testing will include visiting Departments to determine the effective application of control processes. The results of the most recent Departmental Assurance Self-Assessment Survey is used to inform Departments to sample.

Results are communicated through an exit meeting and a draft report will be issued to management for agreement. Unless the work completed is a fact-finding investigation,
advisory assignment or follow up review the report will include an opinion. See table below for opinion definitions:

<table>
<thead>
<tr>
<th>Opinion</th>
<th>Description</th>
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<tbody>
<tr>
<td>Full</td>
<td>There is a sound system of internal control designed to achieve the University’s objectives. The control processes tested are being consistently applied.</td>
</tr>
<tr>
<td>Substantial</td>
<td>While there is a basically sound system of internal control, there are weaknesses, which put some of the University’s objectives at risk. There is evidence that the level of non-compliance with some of the control processes may put some of the University’s objectives at risk.</td>
</tr>
<tr>
<td>Limited</td>
<td>Weaknesses in the system of internal controls are such as to put the University’s objectives at risk. The level of non-compliance puts the University’s objectives at risk.</td>
</tr>
<tr>
<td>Nil</td>
<td>Control processes are generally weak leaving the processes/systems open to significant error or abuse. Significant non-compliance with basic control processes leaves the Processes/systems open to error or abuse.</td>
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Recommendations will be raised where weaknesses in the design or effectiveness of processes to manage risks are observed during internal audit activity. The recommendations are to assist management in the improvement of internal controls. Recommendations are prioritised based on the risk exposure from fundamental (1) to housekeeping suggestions (4). It is the responsibility of University management to assess and manage risks to acceptable levels, this includes owning the management action plan and assigning clear action owners and realistic timeframes.

The final approved reports are presented to key responsible staff involved in the internal audit, the Director of Finance, the Registrary, and are reported to the University’s Audit Committee. By reporting to the Audit Committee that important risks have been evaluated and highlighting where improvements are necessary, Deloitte helps management to demonstrate that they are managing University risks effectively.

Sponsors of audit reports which have a Limited or Nil assurance rating are expected to attend the Audit Committee to discuss their response and proposed actions to address the findings of the audit report.

All reports are made available to the Audit Committee and detail of the discussions held at the Committee are reported to key staff involved in the internal audit by the Assistant Secretary to the Audit Committee.

**Follow-up**

It is the responsibility of University management to implement the agreed actions within internal audit reports in a timely manner.

Internal Audit reports regularly to the Audit Committee on progress with explanations of any delays in implementing agreed action plans. Internal Audit prompts action owners for status updates on their actions in order to provide an accurate report to the Audit Committee.

For actions which are not on track to be implemented by their due date or which become overdue, Internal Audit will escalate this to the Registrary. Management may be requested to update the Audit Committee with further details including proposed revised timescales.
A key requirement for the Higher Education Funding Council for England (HEFCE) is for internal audit to provide an annual statement of assurance on the adequacy and effectiveness of risk management, internal control and governance arrangements, and economy, efficiency and effectiveness (value for money). Internal Audit prepares an annual report which is presented to the Audit Committee which encapsulates this information and in line with the HEFCE Audit Code of Practice. The report also summarises actual delivery against the approved annual plan. After the report has been considered by the Audit Committee it is submitted to HEFCE as part of University annual reporting.