

Internal Audit – Operating Framework

The purpose of this paper is to brief staff of the University of Edinburgh on how the Internal Audit function operates. It is the policy of the University of Edinburgh's Court and Audit Committee to support a quality internal audit function.

Internal Audit's Terms of Reference¹ were approved by Court on 23 June 2014 and are available via the Internal Audit website.

Role

Internal Audit is an independent appraisal function, which operates as a service to the University through the Audit Committee, Court and senior management. Its role, as part of the overall governance and control environment in the University of Edinburgh, is to provide an independent and objective assurance and consulting service; to evaluate the adequacy and effectiveness of the risk management, internal controls, operations and governance processes throughout the University. It must also provide an opinion on the institution's arrangements for economy, efficiency and effectiveness, i.e. value for money.

To fulfil this role, the Mandatory Requirements of the Scottish Funding Council's (SFC) Financial Memorandum 2008 requires the internal audit service to cover all the financial and other management control systems. It must cover all activities in which the institution has a financial interest, including those not funded by the Council, such as subsidiaries or associated companies, students' unions, and collaborative ventures or joint ventures with third parties.

Internal Audit operates in accordance with recognised professional standards.

Authority

Internal Audit operates with the direct authority of the Court and under the general supervision of the Audit Committee. The Audit Committee assists the Court in ensuring that the University's responsibilities for proper financial management and for the effectiveness of the internal control and management systems have been properly discharged.

Internal Audit is empowered to audit all systems and activities and has unrestricted access to all records, reports, personnel, IT systems and assets for audit purposes. This includes all subsidiary companies. It will consult with appropriate management to set mutually convenient dates for audit work to take place, but the timing of the audit is at the ultimate discretion of the Chief Internal Auditor.

¹ <http://www.ed.ac.uk/schools-departments/internal-audit/audit-process/audit-process>

Responsibilities of Internal Audit

Internal Audit's objectives and responsibilities are set out in their Terms of Reference. Internal Audit discharges its responsibilities by identifying and reporting strengths and weaknesses in systems, processes and controls and making appropriate recommendations.

Internal Audit is responsible for ensuring the confidentiality and safekeeping of all records and information accessed in the course of its work.

The Chief Internal Auditor manages the Internal Audit service. The Chief Internal Auditor is responsible for the preparation of the annual Audit Plan and for agreeing it with the Audit Committee. Prior to drawing up the plan the Chief Internal Auditor will consult with senior management and will take account of any topics put forward by them. The Chief Internal Auditor will be responsible for the effective implementation of the Audit Plan.

Independence

In order to preserve its objectivity and independence, Internal Audit will not assume operating responsibilities for, and will remain independent of, the activities it audits. However, it may review systems under development and advise management on appropriate controls so long as it does not prejudice its ability to subsequently audit such systems.

The Chief Internal Auditor reports functionally to the Audit Committee, through the Convener, and has direct access to the Principal.

Audit Methodology and Reporting

In carrying out its duties, Internal Audit will work constructively with management and staff. During the course of an audit, management and staff will be required to co-operate fully with Auditors' requirements.

Internal Audit will normally notify appropriate management prior to the commencement of an audit. In the course of each audit the audit team will discuss its findings with the management concerned. Draft audit reports will subsequently be issued to appropriate senior management for response. A response will be expected from senior management within 4 weeks. Final reports, incorporating management's response, will be issued to the primary process owner and summarised findings will be presented to the Audit Committee. Summarised findings will also be presented to Central Management Group at least once a year. Where no response is received or Internal Audit and management fail to reach agreement on issues / recommendations considered by Internal Audit to be of material importance, the final audit report will reflect the positions of both and the issue(s) will be specifically drawn to the attention of the Audit Committee and the Court. The Chief Internal Auditor shall report regularly to the Audit Committee and will have direct access to the Principal and Convener of Audit Committee.

The Chief Internal Auditor may request periodic updates from management on the implementation of agreed audit recommendations, in order to evaluate progress thereon. The purpose of such "follow-up" audits is to confirm that management has taken appropriate action following reported audit findings and agreed recommendations. These will be carried out within a timescale to be determined by the Chief Internal Auditor. The Audit Committee and appropriate senior management will be informed of any instances where audit recommendations have not been implemented as originally

agreed or where corrective action taken by management following reported audit findings / recommendations is considered inappropriate or insufficient.

University Management Responsibilities

Management has primary responsibility for establishing and maintaining a proper and effective control environment and for managing risk. Management also bears primary responsibility for the prevention and detection of fraud as set out in the University's Fraud and Misappropriation Policy.

Senior management will be expected to co-operate with the Chief Internal Auditor in the annual audit planning process, by identifying, through the use of risk analysis, areas and activities which carry significant financial, operational and other business risks.

Senior management are expected to work proactively with Internal Audit; to respond to draft audit reports within 4 weeks. They will be responsible for addressing audit concerns and for the complete and timely implementation of accepted audit recommendations.

Monitoring of Service Provided by Internal Audit

The performance of Internal Audit is monitored through a series of performance indicators presented annually to the Audit Committee. The External Auditors perform an annual review of the work carried out by Internal Audit and report to the Audit Committee and the Court through their annual Audit Highlights Memorandum on the level of assurance that they have placed on the work of Internal Audit. The Audit Committee is also provided with an annual Performance Review of the Internal Audit Service from senior officers based upon the headings in the CUC Handbook.

Internal Audit participates in a peer-based quality assessment exercise on a regular basis and reports the findings to the Audit Committee.

Approved by the Audit Committee on 29th May 2014
Approved by Court on 23rd June 2014