

# Internal Audit Service

## Internal Audit Charter V2.0



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# Version Control and History

Title	Description	Author	Approval
IAS Terms of Reference V1.0	First version published on the University's website detailing objectives, scope and approach.	Head of Internal Audit 2008	Chief Financial Officer 2008 Audit & Risk Committee 2008
IAS Internal Audit Charter V2.0	Major redraft to ensure full compliance with the International Standards for the Professional Practice of Internal Auditing.	Head of Internal Audit July 2020	University Secretary & Compliance Officer August 2020 Audit and Risk Committee September 2020

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## 1. Introduction

The effective operation of the Internal Audit Service (IAS) is a key part of the control environment required for the University to achieve its objectives. This Charter sets out the purpose, activities, scope and responsibilities of the IAS within the University and the arrangements for the management of the function, including ensuring its independence from the operational management of the University.

The internal audit activity will govern itself by adherence to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing. The IIA's Mandatory Guidance constitutes the fundamental requirements for the professional practice of internal auditing and the principles against which to evaluate the effectiveness of the internal audit activity's performance. Adherence to the requirements within the Charter is mandatory for all IAS staff.

## 2. Purpose and Mission

The IAS forms a key part of the University's overall governance arrangements and provides its assurance and advisory service to the whole organisation, including Court and all levels of management. The IAS reports to Court, the Principal and the Audit and Risk Committee, thereby providing them with an evidence based annual assurance on the arrangements for risk management, internal control, governance, and value for money. The mission of the Internal Audit Service is as follows:

- To deliver a leading, high quality internal audit service to the University of Strathclyde;
- To provide the Principal and Court, through the Audit and Risk Committee, with an effective, independent and objective assurance and advisory service to evaluate and improve the adequacy and effectiveness of the University's risk management, internal control and governance processes; and
- To strive to provide quality advice that adds value and assists management achieve their objectives and in turn contributes to the achievement of the University's strategic objectives.

## 3. Scope of the Internal Audit Service

All of the University's activities, regardless of the funding source, fall within the remit of the IAS. The scope of internal auditing encompasses, but is not limited to, the examination and evaluation of the adequacy and effectiveness of the organisation's governance, risk management, and internal control processes in relation to the organisation's defined goals and objectives. Internal control objectives considered by the IAS include:

- Achievement of the organisation's strategic objectives;
- Reliability and integrity of financial and operational information;
- Effectiveness and efficiency of operations and programmes;
- Safeguarding of assets; and
- Compliance with laws, regulations, policies, procedures and contracts.

In undertaking the scope of work, IAS will determine whether the University's risk management, control and governance processes, as designed by management, are adequate and functioning in a manner to ensure:

- Risk appetite is established and risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Sufficient management information is used for decision-making;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;

- Resources are acquired economically, used efficiently, and adequately protected;
- Programmes, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the University's control processes; and
- Significant legislative or regulatory issues impacting the University are recognised and addressed properly.

IAS is responsible for evaluating all processes of the University including governance processes and risk management processes. IAS may perform consulting and advisory services related to governance, risk management and control as appropriate for the organisation. It may also evaluate specific operations at the request of the Audit & Risk Committee or management, as appropriate.

To ensure compliance with the Scottish Funding Council (SFC) Financial Memorandum requirements, IAS includes reviews of financial and other management control systems along with key risk areas affecting the USSA within its annual plan.

Based on its activity, IAS is responsible for reporting significant risk exposures and control issues identified to the Audit and Risk Committee and management, including fraud risks, governance issues, and significant control weaknesses.

IAS may also conduct any special reviews requested by Court, Audit and Risk Committee or senior management, provided such reviews do not compromise its objectivity or independence. Where the resources required to undertake such reviews could impact on the achievement of the approved audit plan, the Head of Internal Audit is required to notify the Convener of Audit and Risk Committee and the Principal to this effect.

## **4. Responsibilities**

### **Management**

It is management's responsibility to establish a sound internal control system. The internal control system comprises the whole network of systems and processes established to provide reasonable assurance that organisational objectives will be achieved, with particular reference to:

- risk management;
- the effectiveness of operations;
- the economic and efficient use of resources;
- compliance with applicable policies, procedures, laws and regulations;
- safeguards against losses, including those arising from fraud, irregularity or corruption; and
- the integrity and reliability of information and data.

### **Internal Audit**

The IAS assists management by examining, evaluating and reporting on the controls in order to provide an independent assessment of the adequacy of the internal control system. To achieve this, the IAS should:

- analyse the internal control system and establish a review programme;
- identify and evaluate the controls which are established to achieve objectives in the most economic and efficient manner;
- report findings and conclusions and, where appropriate, make recommendations for improvement;
- provide an opinion on the reliability of the controls in the system under review; and
- provide assurance based on the evaluation of the internal control system within the organisation as a whole.

## 5. Professionalism

IAS is committed to the highest professional standards. Its work will be performed with due professional care and will govern itself by adherence to The Institute of Internal Auditors' mandatory guidance including the Definition of Internal Auditing; the Core Principles of Professional Practice of Internal Auditing; the Code of Ethics; and the International Standards for the Professional Practice of Internal Auditing (Standards). IAS are expected to comply with the ten core principles set out in the IIA International Professional Practices Framework:

- Demonstrate integrity;
- Demonstrate competence and due professional care;
- Be objective and free from undue influence (independent);
- Align with the strategies, objectives, and risks of the organisation;
- Be appropriately positioned and adequately resourced;
- Demonstrate quality and continuous improvement;
- Communicate effectively;
- Provide risk-based assurance;
- Be insightful, proactive, and future-focused; and
- Promote organisational improvement.

IAS must also comply with requirements laid down by professional bodies such as; the Chartered Institute of Internal Auditors (IIA); the Chartered Institute of Public Finance and Accountancy (CIPFA); the Association of Chartered Certified Accountants (ACCA); and the Scottish Funding Council (SFC) through its Financial Memorandum with the University. In practice, it will also ensure compliance with the UK Public Sector Internal Audit Standards, which derive from the IIA's International Professional Practices Framework.

In achieving its objectives, IAS will prepare and implement an audit strategy that takes cognisance of the University's arrangements for risk management, control and governance and for achieving value for money. Its approach is designed to be consultative, transparent, collaborative, supportive and focused on meeting the needs of both the University and its stakeholders. The IAS maintains an Internal Audit Manual that provides further guidance to audit staff on the standards and approach required.

The Head of Internal Audit will implement measures to monitor the effectiveness of the service and compliance with standards. This includes undertaking stakeholder satisfaction surveys and, on an annual basis, completing the Council for Higher Education Internal Auditors (CHEIA) Quality Assurance self-assessment tool. In line with the revised 2017 Public Sector Internal Audit Standards, the Head of Internal Audit is required to arrange an independent external quality assurance review every five years. The Audit and Risk Committee will consider and approve the performance measures and may also seek an independent assessment of internal audit's effectiveness.

IAS are committed to fully adhering to all of the University's relevant policies and procedures and confirms compliance via the annual Key Controls Checklist which is submitted to the University Secretary & Compliance Officer for review.

## 6. Independence and Objectivity

Internal audit must be completely independent of the activities subject to audit in order to provide objective and unbiased assurance.

IAS does not perform an executive or operational role, nor does it have any responsibility for the development, implementation or operation of systems. To maintain independence and objectivity, IAS activities must remain free from any interference or scope limitations from within the University. The Head of Internal Audit, subject to any guidance from the Audit and Risk Committee, is solely responsible for the

management and development of the service. The Head of Internal Audit reports functionally to the Chair of the Audit and Risk Committee and administratively to the University Secretary & Compliance Officer. The Head of Internal Audit also has direct access to the Convener of Court, the Treasurer and the Principal. IAS will:

- Disclose any impairment of independence or objectivity, in fact or appearance, to the Chair of the Audit and Risk Committee.
- Exhibit professional objectivity in gathering, evaluating, and communicating information about the activity or process being examined.
- Make balanced assessments of all available and relevant facts and circumstances.
- Take necessary precautions to avoid being unduly influenced by their own interests or by others in forming judgments.

The Head of Internal Audit will confirm the independence of the IAS team to the Audit and Risk Committee annually via the Annual Report.

## **7. Access**

IAS, with strict accountability for confidentiality and safeguarding records and information, is authorised full, free and unrestricted access to any and all of the University's records, physical properties and personnel pertinent to carry out the internal audit activities. At the direction of the Audit and Risk Committee, IAS can access the external specialist services deemed necessary to conduct an internal audit review.

All University employees and third parties are requested to assist IAS in fulfilling its roles and responsibilities. IAS have free and unrestricted access to the Audit and Risk Committee, the Convener of Court, the University Treasurer and the Principal.

The Head of Internal Audit should have the right to attend and observe all or part of executive committee meetings and any other key management decision-making fora. This enables internal audit to understand better the strategy of the business, key business issues and decisions, and to adjust internal audit priorities where appropriate. It also facilitates a better working relationship with executive committee members.

IAS will comply with all reasonable requests from the external auditors and the Scottish Funding Council for access to any information, files or working papers obtained or prepared during audit work that are required to discharge their own responsibilities.

## **8. Internal Audit Strategic Plan**

The Head of Internal Audit will present the annual strategic plan (which includes the planned reviews for the year ahead and a rolling three-year plan) to the Audit and Risk Committee once a year for review and approval. The strategic plan will include an indicative scope for each review and a high level overview of the number of days of IAS resource that will be dedicated to each review. The Head of Internal Audit will communicate any resource limitations to the Chair of the Audit and Risk Committee.

The IAS strategic plan is prepared using a risk based approach and aims primarily to ensure assurance can be given about the key risks faced by the University in achieving its objectives. This involves reviewing the University's Strategy and Corporate Risk Register as well as the subsidiary registers held within individual Directorates, Faculties, Schools and Departments. In developing the plan, IAS also take into account their inherent knowledge and experience of the University's governance and control systems including the results of previous audit activities.

In developing the plan, IAS consult with senior managers and other key stakeholders, including members of the Audit & Risk Committee, to ensure the reviews are targeted at areas where the most value can be added. Furthermore, IAS take cognisance of professional publications including the annual Risk in Focus

publication from the Chartered Institute of Internal Auditors which details the hot topics that internal audit functions should consider when developing their plan.

In addition to the risk-based plan, IAS also perform annual recurring audit work. This work is designed to meet the requirements of the Scottish Funding Council's Financial Memorandum and Outcome Agreement.

Furthermore, IAS curate the University's Assurance Statement process by distributing the Key Controls Checklist and collating the results from individual departments and directorates. This process is designed to ensure management remain vigilant about their governance and control responsibilities in key areas. IAS review the returns to identify areas of risk or potential weakness which may require follow up. At request of the Audit & Risk Committee, IAS perform spot checks of selected areas of the Key Controls Checklist across a sample of departments and directorates.

In addition to the delivery of the strategic plan, IAS will continue to monitor key developments across the University that impact on governance, control and risk management. This includes ongoing engagement with management and other stakeholders, including external audit. IAS also attend and monitor the activities of several key groups and committees such as the Risk Group to maintain a watching brief on major developments and provide advice and assurance where appropriate.

IAS have a statutory duty to consider both value for money and the risk of fraud in each of the reviews carried out.

The strategic plan is designed to be fluid and will be updated to reflect any changing priorities or emerging risks. Any proposed changes will be discussed with the Audit & Risk Committee in order to obtain approval.

## **9. Internal Audit Planning**

Following the approval of the IAS strategic plan, the Head of Internal Audit will identify the most appropriate Senior Officer to take on the role of Audit Sponsor. The Head of Internal Audit will contact each of the Audit Sponsors identified to conduct a scoping meeting, following which a draft scoping document will be issued for review and comment. The scoping document will include the background to the review, scope, objectives, timescales and key contacts likely to be involved in the process. The scoping document will be agreed by the Audit Sponsor prior to the start of the internal audit review.

## **10. Internal Audit Reporting and Monitoring**

A written report will be prepared and issued by the Head of Internal Audit or designee following conclusion of each internal audit engagement and will be distributed to the Audit Sponsor for management responses and comments.

Draft reports will be issued by email within 7 days of the closing meeting. The covering email will specify the deadline for management responses, which will normally be within a further two weeks. The management comments and response to the report will be overseen by the Audit Sponsor. IAS will then review the management actions and any comments on the report content. Once satisfied that the management actions adequately address the internal audit recommendations, IAS will issue the report as final to both the Audit Sponsor and the University Secretary & Compliance Officer for final review and approval. Once approval is granted by the University Secretary & Compliance Officer, the report is issued to Audit and Risk Committee members and will be presented at the next Committee meeting.

Each year, the Head of Internal Audit must submit an annual report to Court and the Principal through the Audit and Risk Committee. That report must include any significant findings up to the date of preparing the report. The report should give an overall opinion and assurance on the adequacy, reliability and effectiveness of the institution's arrangements for governance, risk management and internal control over the year to which it relates. It should also refer to the adequacy of the University's arrangements to ensure value for money. Interim reports on progress against the audit plan, including updates on findings and



recommendations will be presented to the Audit and Risk Committee at each meeting. IAS report on management's progress in respect of implementing agreed management actions twice per annum (March and November).

The Head of Internal Audit is required to report to the Principal any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work. If the Principal refuses to report the matter to the Scottish Funding Council Accounting Officer, the Convener of the Audit and Risk Committee and the Convener of Court, then the Head of Internal Audit must report to them directly.

## 11. Audit and Risk Committee

The Audit and Risk Committee meets five times a year, normally in September, November, February (Annual Workshop), March, and May. The Head of Internal Audit and Senior Internal Auditors (where appropriate) will attend all meetings of the Audit and Risk Committee.

IAS schedule its work as far as possible to ensure a reasonable spread of reports are reported to each Committee meeting, thus allowing sufficient time for presentation and discussion. The Head of Internal Audit will generally present specific reports to the Audit and Risk Committee as follows:

Internal Audit Report	Audit & Risk Committee Meeting
Internal Audit Strategic Plan	May
Draft Annual Report	September
Final Annual Report	November
Management Action Follow Up Reports	March and November
Activity Reports	All Committee meetings

The Audit and Risk Committee will meet privately with the Head of Internal Audit at least once a year, normally prior to the November Committee meeting.

## 12. Quality Assurance and Improvement Programme

The Public Sector Internal Audit Standards (PSIAS) were updated in April 2017 and state that the Chief Audit Executive must develop and maintain a Quality Assurance and Improvement Programme that covers all aspects of the internal audit activity. Per the requirements, the programme must be designed to enable an evaluation of the internal audit activity's conformance with the Standards and an evaluation of whether internal auditors apply the Code of Ethics. The programme should also assess the efficiency and effectiveness of the internal audit activity and identify opportunities for improvement. The programme must include both internal and external assessments, with an external assessment required at least once in every 5 years.

Separately, the Council for Higher Education Internal Auditors (CHEIA) developed a self-assessment tool for Internal Audit Services in the Higher Education sector in January 2014. This takes the form of 60 questions which are aligned to the PSIAS standards with the options for Heads of Internal Audit to rate their operations as Leading Practice, Meets Expectations, Developing and Immature. CHEIA notes that the PSIAS requirement for an external assessment can be discharged via completion of this tool with independent, external validation which is evidence based. CHEIA updated the self-assessment tool in April 2020 to ensure full alignment to the Chartered Institute of Internal Auditors Standards and to improve functionality.

The Head of Internal Audit completes the CHEIA self-assessment tool annually and submits the results to CHEIA in order to obtain benchmarking data from other Higher Education Institutions. The Head of Internal

Audit reports the results of the self-assessment tool (and the benchmarking data) to the Audit and Risk Committee via the Annual Report.

### **13. Liaison with Third Parties**

IAS will liaise with the University's external auditors on a regular basis to discuss matters arising from both internal and external audit reviews. IAS will also respond promptly to requests for information from other bodies such as UK Research and Innovation and the Scottish Funding Council

### **14. Conflicts of Interest**

Should a conflict of interest arise in the work performed by members of the IAS, the conflict of interest will be raised with the Head of Internal Audit in the first instance who will take immediate corrective action. Where the conflict of interest is deemed material or relates to the Head of Internal Audit, this will be reported immediately to the University Secretary & Compliance Officer and the Chair of the Audit and Risk Committee, in line with the University's Code of Practice.