The University's responsibilities and its arrangements for internal audit
Internal audit protocol 2014/15 to 2016/17

Summary

This paper sets out the University's current obligations and arrangements for internal audit, and defines the responsibilities, processes and requirements (the "internal audit protocol") that govern the internal audit process during the period of the internal audit contract for the years 2014/15 to 2016/17.

Internal audit

Internal audit is defined as "an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes." [1]

HEFCE's requirements for internal audit and assurance

Under the terms of the 'Memorandum of assurance and accountability between HEFCE and the University'[2], Council must ensure that it is fulfilling its responsibilities to ensure that the University has a robust and comprehensive system of risk management, control and corporate governance; and that it uses public funds for proper purposes and seeks to achieve value for money from public funds. Council must also ensure that it has effective arrangements for the management and quality assurance of data submitted to HESA, the Student Loans Company, HEFCE and other funding bodies.

The role of Council

Although responsibility for these arrangements remains fully with Council, Council seeks assurance on these matters from the Audit and Scrutiny Committee.

The role of the Audit and Scrutiny Committee

The Audit and Scrutiny Committee is responsible under Annex A to the Memorandum of assurance and accountability, the 'Audit Coder of Practice' for assuring Council about the adequacy and effectiveness of the following areas:

   i.   risk management;
   ii. control;
   iii. governance;
   iv. Value for Monet ('VFM'); and
   v.   the management and quality assurance of data.

The Committee reports annually to Council on its opinion as to the adequacy and effectiveness of the University's arrangements for these five areas.

The Audit and Scrutiny Committee's opinions on these arrangements are based on the information presented to the Committee. This includes (but is not confined to) evidence presented by the University's internal auditors, whose annual reports include an opinion on the five elements above. Internal audit is designed to provide "reasonable assurance" in relation to these areas, and cannot provide any guarantee against material errors, loss or fraud.

---

[1] Global Institute of Internal Auditors; http://www.iia.org.uk/en/Knowledge_Centre/global_professional_guidance/Definition.cfm
[2] http://www.hefce.ac.uk/whatwedo/reg/instfinance/maa/

The University's internal audit function

The University's internal audit function is provided by an external firm, PricewaterhouseCoopers LLP ('PwC'), under an outsourcing arrangement, currently a three-year contract from 2014/15 to 2016/17. While the internal auditors are external to the University, the planning, delivery and reporting of their work is supervised by the Audit and Scrutiny Committee. The internal audit plan is developed in collaboration with, and is approved by, the Committee, and adopts a risk-based approach to focus audit work on the Committee's priorities and the key risks facing the University.

In order to be effective, the internal auditors have access to the Chair of the Audit and Scrutiny Committee, the Vice-Chancellor, the Registrar and other senior officers as necessary. In addition, departments and other units that receive visits from the internal auditors are required to assist them in the scoping, planning and delivery of their audit work so that the resulting report is of maximum possible value both to the audited unit[3] and to the Committee in the development of its annual opinion.

The Audit Management Group

The Audit Management Group is responsible for the management and monitoring of the internal audit contract on behalf of the Audit and Scrutiny Committee. Membership of the Group is given in Part E. Members are drawn from the University and the internal auditors. In terms of its internal audit work, the Group oversees the preparation of the annual internal audit plan, for approval by the Audit and Scrutiny Committee. It monitors the progress of audit work and coordinates reporting to the Audit and Scrutiny Committee. It also manages the follow-up of internal audit recommendations (see Part C). The University members of the Group consider questions relating to the independence and objectivity of the external and the internal auditors (see Part D). As the University develops its risk management and assurance processes and capability, the Group will monitor and report on these matters to the Audit and Scrutiny Committee.

The internal audit protocol 2014/15 to 2016/17

This internal audit protocol has been developed to set out clearly the responsibilities of the internal auditors and the audited units, and to define the responsibilities, timetables and processes that govern the internal audit process - see Parts A-E of this document.

Contact details

The relationship with the internal auditors is managed by the Senior Assistant Registrar (Assurance) within Council Secretariat on a day-to-day basis. Colleagues are invited to contact the Senior Assistant Registrar (Assurance) to discuss any concerns they may have with internal audit, or to raise areas requiring investigation (sally.vine@admin.ox.ac.uk, (2)80179).

---

[3] In this regard, "audited units" refers to the units of the University being audited, to include academic divisions, departments, faculties and research centres, administrative and service departments, subsidiaries and other auditable units.

Part A: process, timetable and reporting

These processes and timescales are indicative and may be altered with the agreement of the auditable unit, the internal auditors and the Senior Assistant Registrar (Assurance). Some audit work will not fit easily into this outline timetable and a flexible approach will need to be adopted. In circumstances where agreement cannot be reached, the Audit Management Group will set out the timescale that will be required.

Process	Responsible	Timescale (these timescales are indicative only and are subject to change)
Audit planning		
Sponsor identified, outline scope developed.	Internal auditors, PwC; in collaboration with the Senior Assistant Registrar (Assurance) and others as appropriate.	As early as possible.
Internal auditors to identify the purpose of the review, its place in the current year's internal audit plan, and the assurance framework, the risks addressed by the work and the intended outcomes and deliverables. Sponsor contacted and consulted. Sponsors to agree scope of review.	Internal auditors and sponsors; also Senior Assistant Registrar (Assurance) if required.	As early as possible.
Draft Terms of Reference issued, confirming key audit milestone dates for the fieldwork and reporting stages of the audit.	Internal auditors	No less than 1 week before the start of audit fieldwork.
Final Terms of Reference issued.	Internal auditors	Before the start of fieldwork.
Audit fieldwork and closure		
Closing meeting to confirm matters arising from the audit.	Internal auditors and sponsors/departmental audit contacts as appropriate.	Last day of field work, or no more than 2 weeks after completion of fieldwork
Audit reporting – initial draft		
Initial draft audit report issued to stakeholders.	Internal auditors	As soon as possible after closing meeting; timescale will depend on the nature of the report.
Confirmation as to the material accuracy of the initial draft report and highlighting of issues to be discussed/ amended.	Sponsors/departmental audit contacts as appropriate	As soon as possible; will depend on nature of report.

Management responses (where required)		
Sponsors/departmental audit contacts provide (where the reporting format requires): (i) management responses to individual audit recommendations, including responsible officers for implementation and deadlines; (ii) overall conclusion for the executive summary of the report.	Sponsors/departmental audit contacts as appropriate	Ideally, no more than 3 weeks after confirmation of material accuracy of the initial draft report. Infrequently, it may be identified at the fieldwork closing stage that more time is required to provide management responses.
Internal auditors confirm the management responses, proposed delivery dates and responsible officers as acceptable for audit purposes and issue final draft report.	Internal auditors	No more than 2 weeks after receipt of management responses.
Final draft report		
Sponsors/departmental audit contacts confirm final draft report.	Sponsors/departmental audit contacts Internal auditors Senior Assistant Registrar (Assurance)	No more than 1 week after final draft report has been issued.
Final report		
Report graded if appropriate (see Part C: internal audit report grading) and final report circulated.	Internal auditors	Within 1 week of departmental confirmation of final draft
Post-audit recommendations		
Audit recommendations tracked and departments provide evidence as recommendations are completed.	Departmental contacts Senior Assistant Registrar (Assurance) Internal auditors	According to timing of individual recommendations.

Part B: post-audit recommendation tracking and extensions

Once an internal audit report has been finalised, any recommendations must be acted upon within the agreed timescale. This process will be managed by the Senior Assistant Registrar (Assurance), who will work with the internal audit team and the audited units to ensure that recommendations are completed and evidenced. In exceptional circumstances, the audited unit may need to seek an extension to the completion date. Extensions will be managed by the Senior Assistant Registrar (Assurance), and reported to the Audit Management Group. If the extension cannot be agreed, the Senior Assistant Registrar (Assurance) will refer the issue to the Audit Management Group for resolution. In the event that the Audit Management Group cannot reach a satisfactory resolution, the matter will be referred to the Chair of the Audit and Scrutiny Committee, and/or to a meeting of the Committee.

Departmental audit contacts are asked to note that it is essential that recommendations are discussed and understood as they arise during the fieldwork stage, at the completion meeting, and during the report drafting process. Full engagement in the process of developing the audit recommendations should ensure that the failure to address a recommendation by the deadline only occurs in exceptional circumstances.

Part C: internal audit report grading

Internal audit issues are given a risk rating in order to indicate the severity of the findings and to prioritise management action to address recommendations. Internal audit reports are also given an overall rating to indicate the severity of the issues in the report. The system is applied to all internal audit reports and will be reviewed regularly to ensure that it remains appropriate.

i. Issues ratings

An issue is a control failure, instance of non-compliance, or other matter identified during a review that requires, in the judgement of the internal auditors, reporting to management. Issues generally give rise to audit recommendations, require management responses, and are tracked to ensure that corrective action has been taken.

Issues may be reported in letters, formal audit reports, and other forms of reporting, but whatever the form of the report, the issues identified will have a formal rating attached, to facilitate tracking and management action. All issues will be tracked unless specific exceptions are made.

Ratings will be defined for issues identified during a review. Ratings take into account both the severity of the issue (for example: the level of non-compliance; the degree of control weakness identified; or the level of threat of fraud or loss) and the potential impact or scale across the University as a whole. That is, issues might be severe for the unit under review, but not material in the context of the University as a whole.

Proposed criteria for the severity and scale dimensions of issue ratings are set out in tables 1 and 2.

Table 1: Severity dimension for issue rating criteria

Severity	Definition
SEVERE	An issue which is very serious or is indicative of control failure or serious weakness or substantial non-compliance, requiring action to protect the University's reputation, financial security, or the integrity of its processes; or to prevent some other threat, including fraud.
SIGNIFICANT	An issue indicating significant weakness of the control environment or significant non-compliance, which could develop into wider problems if not attended to.
MODERATE	An issue which needs to be corrected to ensure that the control environment in the unit is adequate and operating effectively; or to improve compliance.
MINOR	An issue where action is recommended to improve the control environment or to strengthen compliance, but that does not require urgent action.

Table 2: Scale dimension for issue rating criteria

Scale	Definition
CRITICAL	An issue which could cause significant financial or reputational damage across the University, or is likely to constrain the University's ability to achieve strategic or operational objectives, and which would be very serious in the context of the audited unit.
HIGH	An issue which could cause some financial or reputational damage across the University, or which might constrain the University's ability to achieve strategic or operational objectives, and which would be serious in the context of the audited unit.

MEDIUM	An issue that is material in the context of the audited unit but which would not materially affect the University as a whole.
LOW	An issue whose impact is restricted to and not material to the unit under review.

Once severity and scale ratings are defined for each issue, an overall issue rating can be derived from the severity and scale criteria by means of a table – see table 3. There are four issue ratings: critical (RED); significant (AMBER); moderate (YELLOW) and minor (GREEN).

Table 3: Consolidating severity and scale dimensions to give an overall issue rating

SEVERITY / SCALE	SEVERE	SIGNIFICANT	MODERATE	MINOR
CRITICAL	**Critical issue**	**Critical issue**	**Significant issue**	**Moderate issue**
HIGH	**Critical issue**	**Significant issue**	**Significant issue**	**Moderate issue**
MEDIUM	**Significant issue**	**Significant issue**	**Moderate issue**	**Minor issue**
LOW	**Moderate issue**	**Moderate issue**	**Minor issue**	**Minor issue**

ii. Report ratings

Some reports will also have a rating, but not all. Some, such a real-time reporting on IT programmes, or brief letters, will have issue ratings but not a report rating.

Report ratings should arise from issue ratings, so as to avoid subjectivity or difficulty in agreeing a report rating. A report will therefore be rated at the level of its most serious issue rating.

- Any report with a "critical" issue rating will be a "critical" (RED) report.
- Reports with no "critical" issues but with one or more "significant" issues will be an "unsatisfactory" (AMBER) report.
- Reports with no "critical" or "significant" issues but with one or more "moderate" issues will be a "partially satisfactory" (YELLOW) report.
- Reports with no "critical", "significant" or "moderate" issues but with one or more "minor" issues will be a "satisfactory" (GREEN) report.

Publication of reports according to report rating will follow the model in table 4, whereby "critical" reports are reported to Council and the summaries of all other reports bearing a report rating are posted on the intranet.

Table 4: Report circulation according to report rating

Report rating	Report circulation
Critical	Council will be included in final report distribution (including appendices) following approval from Audit and Scrutiny Committee.
Unsatisfactory	Report Executive Summary posted on the University intranet, following approval from the Audit and Scrutiny Committee.
Partially satisfactory	Report Executive Summary posted on the University intranet, following approval from the Audit and Scrutiny Committee.
Satisfactory	Report Executive Summary posted on the University intranet, following approval from the Audit and Scrutiny Committee.

Part D: processes designed to protect the independence and objectivity of the internal auditors

An important element of good governance is the independence and objectivity of the external and the internal auditors. The provision of any non-audit related services to the University by the external or the internal auditors, or the provision of any services (courses, training, consultancy or other academic services) to the external or the internal auditors by the University or any member of University staff must not compromise this independence and objectivity. Philanthropic support or sponsorship must only be accepted from the external or the internal auditors where it does not affect, or cannot be perceived to affect, the auditors' independence and objectivity.

The Policy to Safeguard the Independence of the External and the Internal Auditors[4] sets out the University's objectives for protection of the independence of the external and the internal auditors, and the arrangements it has adopted to enable it to safeguard the independence of the audit firms engaged by the University.

Colleagues wishing to engage the internal auditors for the conduct of non-audit work, or to supply any academic services to the internal auditors, or to accept gifts or sponsorship from the internal auditors, are asked to contact the Senior Assistant Registrar (Assurance) in the first instance (sally.vine@admin.ox.ac.uk, (2)80179).

---

[4] www.admin.ox.ac.uk/lso/statutes/policyonauditorsindependence/

Part E: the Audit Management Group: membership

Deputy University Secretary, Emma Rampton (chair)

Director of Finance, Giles Kerr

Deputy Director of Finance, Rob Williams

Engagement partner, PwC, Richard Bacon

Director, PwC, Neal Smith

Senior manager, PwC, Leon Mayfield

Secretary: Senior Assistant Registrar (Assurance), Sally Vine

Questions or concerns regarding internal audit should be directed to the Secretary to the Group, Sally Vine, on (2)80179 or sally.vine@admin.ox.ac.uk.