



UHI SHETLAND  
INTERNAL AUDIT PLAN  
FY2023 - 24 DRAFT

JUNE 2023

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# INTRODUCTION

UHI Shetland (“the College”) was founded in August 2021 through the merger of Shetland College UHI, NAFC Marine Centre UHI and Train Shetland and is the most northern partner of the UHI partnership.

Our approach, as set out in BDO’s Internal Audit Manual, is to help the College accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our approach complies with best professional practice, in particular, the United Kingdom’s Chartered Institute of Internal Auditors’ Position Statement on Risk Based Internal Auditing, and the Chartered Institute of Internal Auditors’ (CIIA) International Professional Practices Framework (IPPF) Code of Ethics and International Standards.

The purpose of this paper is to set out and seek agreement from the Audit Committee on the Internal Audit Plan for 2023-2024. The 2023-2024 Internal Audit (IA) plan has been created to align the Internal Audit year to the College’s academic year (i.e., August to July).

## Internal Audit at UHI Shetland

Our role as Internal Auditors is to provide an independent, objective assurance, and consulting activity, designed to add value and improve an organisation’s operations. We are focused on helping management to improve risk management, governance and internal control mechanisms, so reducing the effects of any significant risks facing the College.

Responsibility for the College’ internal control arrangements remain fully with management, who should recognise that Internal Audit can only provide ‘reasonable assurance’ and cannot provide any guarantee against material errors, loss or fraud.

The Audit Committee should use this document to confirm they are comfortable with the risks determined by management, management’s assessment of the level of risk exposure and the mitigations that management have documented are in place and operating effectively.

## Strategic Planning Approach

Our risk based approach to Internal Audit uses the Colleges’ own risk management processes as a starting point for audit planning, as this represents the organisation’s own assessment of the risks to it achieving its strategic objectives.

The extent to which we can rely on management’s own perception of risk largely depends on the maturity and effectiveness of the Colleges’ own risk management arrangements.

In establishing the Internal Audit Strategy we have sought to further clarify our initial understanding of the operations at the College, together with its risk profile in the context of:

- ▶ The overall strategy and objectives of the College
- ▶ Key challenges facing the College, by reviewing the standing risk register
- ▶ Key areas where management wish to monitor performance and the manner in which performance is measured
- ▶ Financial and non-financial measurements and indicators of such performance
- ▶ The information required to ‘run the organisation’
- ▶ Outcomes from previous Internal Audit plans
- ▶ Performance observations reported by the college’s External Auditors following completion of their work

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# INTERNAL AUDIT APPROACH

## Our Risk Based Planning Approach for 2023-2024

In 2022, we prepared our three-year internal audit plan. Discussions were held with senior management to identify management's future area of focus and priorities, making sure that our audit activity provides sufficient coverage over areas of principal risk, effectively addresses any assurance gaps, and is prioritised to those issues most pertinent to the College.

We are now in year 2 of our three-year internal audit programme. We have refreshed our understanding of the College's principal risks and priorities through discussion with senior management and Audit Committee.

An initial internal audit programme was established using information provided by management and our wider knowledge of risk and assurance from across our higher and further education client base.

This was presented to the wider Senior Management Team (SMT) to obtain their input and feedback before presentation to the Audit Committee.

The 2023-2024 Internal Audit (IA) plan has been created to align the Internal Audit year to the Colleges' academic year (i.e., August to July).

## Types of internal audit reviews

During our planning, we have considered the most appropriate reviews and indicated this in the Internal Audit plan. The four main types of review are:

- ▶ **Risk Aligned Audit Activities:** Assurance reviews that will provide an opinion over both the design and operational effectiveness of the internal controls in place for corporate risk areas.
- ▶ **Key Policy Assurance:** Compliance testing and assurance of the Colleges' key policies to help building a culture of compliance and accountability across the business.
- ▶ **Controls Assurance of Key Processes & Systems:** Controls testing and assurance of key processes and systems selected from the Audit Universe on a risk prioritised basis.
- ▶ **Assurance over Change:** Considering key change initiatives, capital expenditure and mission critical projects where assurance may be required as to progress made, realisation of notable benefits, and being delivered in line with good practice.
- ▶ **Follow up of previous Audit Activities:** Management's agreed actions in response to each audit periodically followed up to ensure that they have been properly implemented as agreed and to escalate any concerns regarding their implementation to management and the Audit Committee.

## Individual Audits

In determining the timing of our individual audits, we will seek to agree a date most convenient to the business and which ensures the availability of key stakeholders. Once this plan is agreed we will discuss priorities and workloads with management and re-issue the plan including the proposed phasing of our internal audit work.

For each audit, we will identify the key objectives of the area subject to audit and the risks of those objectives not being met. We will assess the 'unmitigated' risk (i.e. before the operation of the controls in place) and, having identified and tested those controls, evaluate the 'mitigated' risk. This will enable us to confirm that the control infrastructure does reduce risk to a level that the College is comfortable with.

## Variations to the Audit Plan

We will continue to keep the Internal Audit Plan under review throughout the year. We will highlight for consideration any significant areas of risk identified during that period, which may need to be included as part of the annual plan.

We acknowledge that variations to this plan may arise if the Colleges' strategic priorities, risk profile or governance arrangements change. Approval will be sought from the Audit Committee before any changes to the Internal Audit Plan are made.

# INTERNAL AUDIT RESOURCES & OUTPUTS

## Staffing

The Core Internal Audit Delivery Management Team has been set out below. The team will be supported by specialists from BDO LLP's national Digital & Risk Advisory Services (DRAS) team and the wider firm, as and when appropriate.

| NAME             | ENGAGEMENT ROLE               | CONTACT DETAILS            |
|------------------|-------------------------------|----------------------------|
| Claire Robertson | Head of Risk & Internal Audit | Claire.Robertson@bdo.co.uk |
| Chloe Main       | Internal Audit Manager        | Chloe.Main@bdo.co.uk       |

Our Core Delivery Management Team will from time to time be supported by specialists from across BDO, including our Digital and Cyber teams.

## Staff Mix

Our indicative staff mix to deliver the programme is shown below:

| Grade    | 2023-2024 (days) | GRADE MIX (%) |
|----------|------------------|---------------|
| Director | 6.8              | 20            |
| Manager  | 10.2             | 30            |
| Auditors | 17               | 50            |
| Total    | 34               | 100           |

## Working Protocols

We have defined operating protocols for managing each assignment. These can be found in Appendix III. The procedures take account of how we will communicate with stakeholders before, during and after each audit, and the process we go through to create and confirm our reports and recommendations to improve the economy, efficiency and effectiveness of the Colleges' activities.

### Internal Audit Charter

We have formally defined Internal Audit's purpose, authority and responsibility in an Internal Audit Charter, which can be found in Appendix III. The Charter establishes Internal Audit's position within the College and defines the scope of its activities.

### Internal Audit Communications

Strong communication is fundamental to quality delivery and for maintaining trusting relationships with our stakeholders. We communicate with management in full accordance with agreed protocols, including during annual meetings to confirm the audit programme for the forthcoming year, and quarterly update meetings to evaluate progress and discuss activities and priorities for the next quarter.

We also provide monthly updates against an agreed set of performance indicators and meet regularly with relevant directors and managers throughout the year to stay abreast of developments.

During audit assignments, we hold planning meetings in person or by video conference, by phone or by email to discuss the terms of reference and scope prior to commencement of any fieldwork, and hold debrief meetings at the conclusion of each piece of fieldwork to discuss audit findings and resolve any outstanding issues.

Note that travel expenses would be payable by the College.

## Reporting to the Audit Committee

We will submit the annual Internal Audit Plan for discussion and approval by the Audit Committee. We will liaise with the Executive Board and other senior officers, as appropriate, to ensure that internal audit reports summarising the results of our visits are presented at the most appropriate Audit Committee meeting.

Following completion of the Internal Audit Plan for each year, we will produce an Internal Audit Annual Report summarising our key findings and evaluating our performance in accordance with agreed service requirements.

### Definitions

We define in Appendix IV our approach for grading individual audit findings and overall audit reports. These definitions have been designed to make the ratings clear to both the Internal Audit team and audit stakeholders.



**INTERNAL AUDIT PLAN - FY2023**

# INTERNAL AUDIT PLAN - 2023-2024

Set out below is the Internal Audit plan for 2023-2024. Executive sponsors have been assigned to each review. The Executive sponsors will be responsible for identifying the relevant colleagues who should be involved in each stage of the Internal Audit review (e.g., planning, fieldwork, reporting, follow up.). The budgeted number of days is subject to change, following the completion of the planning stage of each review and will be charged at the agreed APUC day rate. In addition, the detailed corporate risks each Internal Audit is associated with can be found on page 14.

| REF          | INTERNAL AUDIT   | RISK # | PRIMARY SOURCE   | PROPOSED EXECUTIVE SPONSOR(S) | BUDGETED DAYS |
|--------------|------------------|--------|--|-------------------------------|---------------|
| UHS/FY23/01  | Payroll          | N/A    | Audit Assessment, Request from Management                | Shelly McInnes                | 6             |
| UHS/FY23/02  | Cyber Security   | 12     | Audit Assessment, Risk Register                          | Gemma MacGregor               | 6             |
| UHS/FY23/03  | Student Support  | 9      | Audit Assessment, Risk Register                          | Laura Burden                  | 6             |
| UHS/FY23/04  | Data Protection  | 5      | Audit Assessment, Risk Register, Request from Management | Gemma MacGregor               | 6             |
| UHS/FY23/05  | Follow Up        | N/A    | Audit Assessment   | Shelly McInnes                | 3             |
| NA           | Audit Committee  | N/A    | N/A  | N/A                           | 3             |
| NA           | Client Liaison   | N/A    | N/A  | N/A                           | 3             |
| NA           | Annual Reporting | N/A    | N/A  | N/A                           | 1             |
| <b>Total</b> |                  |        |  |                               | <b>34</b>     |

# INTERNAL AUDIT PLAN - 2023-2024

For each review which forms part of the proposed Internal Audit plan for FY2023, we have outlined a high-level scope for illustration purposes to support the planning phase. Executive sponsors have been assigned to each review. The Executive sponsors will be responsible for identifying the relevant colleagues who should be involved in each stage of the Internal Audit review (e.g., planning, fieldwork, reporting, follow up.). The budgeted number of days is subject to change, following the completion of the planning stage of each review.

| REF         | RISK REVIEW     | HIGH LEVEL SCOPE   | EXEC SPONSOR(S) |
|-------------|-----------------|--|-----------------|
| UHI/FY23/01 | Payroll         | We will review the design and operational effectiveness of the controls in place in relation to payroll, including review and processing of payroll payments, and processing of changes to master data.  | Shelly McInnes  |
| UHI/FY23/02 | Cyber Security  | The review will provide an independent assurance over the position at the time of the review and provide insight to further areas of focus due to either regulatory change or market enhancement within this area. The review will consist of a risk-based design and implementation review of selected domains based on the Centre for Information Security Top 18 Technical domains (key domains to be determined during scoping). | Gemma MacGregor |
| UHI/FY23/03 | Student Support | Given the current economic climate, and current inflation rates, students are needing an increasing amount of support. We will consider the types of services being offered, the management of the services, the student feedback sought and how it is actioned, and the continuous improvement practices in place in order to improve student support in the future.  | Laura Burden    |
| UHI/FY23/04 | Data Protection | We will review the College's data governance arrangements and business processes to ensure continuing compliance with GDPR and Data Protection Act 2018 obligations.   | Gemma MacGregor |
| UHI/FY23/05 | Follow Up       | The effectiveness of the internal control system may be compromised if management fails to implement agreed audit recommendations. Our follow up work will provide the Audit Committee with assurance that prior year, and in some cases in-year, recommendations are implemented within the expected timescales.  | Shelly McInnes  |



# INTERNAL AUDIT SCHEDULE - 2023-2024

The chart below sets out the proposed delivery schedule for the 2023-2024 Internal Audit plan.

| REF         | INTERNAL AUDIT  | AUG | SEP | OCT | NOV | DEC | JAN | FEB | MAR | APR | MAY | JUN | JUL | AC DATE    |
|-------------|-----------------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|------------|
| UHI/FY23/01 | Payroll         | █   |     |     |     |     |     |     |     |     |     |     |     | 12 Nov 23  |
| UHI/FY23/02 | Cyber Security  |     |     |     | █   |     |     |     |     |     |     |     |     | 4 March 24 |
| UHI/FY23/03 | Student Support |     |     |     |     |     |     |     | █   |     |     |     |     | 5 June 24  |
| UHI/FY23/04 | Data Protection |     |     |     |     |     |     |     | █   |     |     |     |     | 5 June 24  |
| UHI/FY23/05 | Follow Up       |     |     |     |     |     |     |     |     |     |     | █   |     | Sept 24    |

# INTERNAL AUDIT STRATEGY - 2022-2025

The chart below sets out the proposed delivery schedule for the 2023-2024 Internal Audit plan.

| ASSURANCE THEME        | INTERNAL AUDIT                      | RISK REGISTER | 2023-2024 | 2024-2025 | 2025-2026 |
|------------------------|-------------------------------------|---------------|-----------|-----------|-----------|
| Governance and Risk    | Risk Management                     |               | █         |           |           |
|                        | Strategic Planning                  |               |           |           | █         |
| Finance                | General Financial Controls          |               | █         |           |           |
|                        | Payroll                             |               |           | █         |           |
|                        | Procurement and Contract Management |               |           |           | █         |
| Resilience and Digital | Business Continuity Planning        |               | █         |           |           |
|                        | Cyber Security                      | 12            |           | █         |           |
|                        | Estates Management                  | 8             |           |           | █         |
| Students & Delivery    | Student Recruitment                 | 1             | █         |           |           |
|                        | Research Governance & Management    | 11            | █         |           |           |
|                        | Student Support                     | 10            |           | █         |           |
|                        | Curriculum Planning                 | 9             |           |           | █         |
| Compliance             | Staff Recruitment                   | 5             | █         |           |           |
|                        | Health & Safety                     | 5             | █         |           |           |
|                        | Data Protection                     | 5             |           | █         |           |
|                        | Follow Up                           |               |           |           | █         |

# APPENDICES



# APPENDIX I - RISK REGISTER COVERAGE

The table below sets out our mapping of planned internal audit assignments to the risk register as at May 2023.

| #  | RISK DESCRIPTION   | GROSS RISK      | RESIDUAL RISK   | 2023-24                          | 2024-25         | 2025-26             | OTHER SOURCES OF ASSURANCE      |
|----|--|-----------------|-----------------|----------------------------------|-----------------|---------------------|---------------------------------|
| 1  | College does not achieve allocated HE student number targets.  | 12              | 12              | Student Recruitment              |                 |                     | Reporting to LTR Committee      |
| 2  | College does not achieve allocated FE Credit targets.  | 16              | 12              | Student Recruitment              |                 |                     | Reporting to LTR Committee      |
| 3  | The institution has a poor reputation.   | 12              | 9               |                                  |                 |                     | Students Admission Survey       |
| 4  | Disruption to services/projects and/or partnership working resulting from loss of a key staff member.  | 9               | 6               |                                  |                 |                     |                                 |
| 5  | Non-compliance with relevant statutory regulations   | 15              | 10              | Health & Safety                  | Data Protection |                     | Annual audit of data register   |
| 6  | Governance Failure   | 20              | 9               | Staff Recruitment                |                 |                     | UHI Corporate Governance Report |
| 7  | Financial failure/operating loss. Inability to achieve a balanced budget.  | 16              | 12              |                                  |                 |                     | External audit                  |
| 8  | College estate not fit for purpose.  | 12              | 6               |                                  |                 | Estates Management  | Reporting to FP&G Committee     |
| 9  | Academic quality is sub-standard   | 3               | 1               |                                  |                 | Curriculum Planning | Capital Planning Group          |
| 10 | Poor Student Experience  | 6               | 4               |                                  | Student Support |                     | Reporting to LTR Committee      |
| 11 | Research outputs are sub standard  | 9               | 9               | Research Governance & Management |                 |                     | Reporting to LTR Committee      |
| 12 | Institutional, personal and sensitive data is corrupted, lost, stolen or misused or services are disrupted through malicious and illegal activities by external individuals or bodies.   | 12              | 6               |                                  | Cyber Security  |                     | Asset Database                  |
| 13 | Failure to act appropriately and timeously regarding progressing actions designed to achieve obligations to reduce emissions and to achieve net zero in the context of the climate emergency and in relation to all UHI activities and operations. | Not given score | Not given score |                                  |                 |                     | Mandated training               |

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# APPENDIX II - INTERNAL AUDIT CHARTER

## Purpose of this Charter

This Charter formally defines Internal Audit's purpose, authority and responsibility. It establishes Internal Audit's position within the College and defines the scope of internal audit activities and its relationship with the Audit Committee and Senior Management.

## Internal Audit's Purpose

Internal Audit provides an independent and objective assurance and consulting activity that is designed to add value and improve the Colleges' operations. It helps the College accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Internal Audit acts primarily to provide the Audit Committee (AC) with information necessary for it to fulfil its own responsibilities and duties. Implicit in Internal Audit's role is that it supports the Colleges' management to fulfil its own risk, control and compliance responsibilities.

## Internal Audit's Authority

The BDO Head of Internal Audit and internal audit staff are authorised to:

- ▶ Have unrestricted access to all of the Colleges' records, property, and personnel relevant to the performance of engagements
- ▶ Obtain the necessary assistance of the Colleges' personnel in relevant engagements, as well as other specialised services from within or outside the College.

Internal Audit has no authority or management responsibility for any of its engagement subjects. Internal Audit will not make any management decisions or engage in any activity which could reasonably be construed to compromise its independence.

## Internal Audit's Responsibility

The BDO Head of Internal Audit is responsible for all aspects of internal audit activity, including strategy, planning, performance, and reporting.

For each, the BDO Head of Internal Audit will:

### Strategy:

- ▶ Develop and maintain an Internal Audit Strategy
- ▶ Review the Internal Audit Strategy at least annually with management and AC.

### Planning:

- ▶ Develop and maintain an Internal Audit Plan to fulfil the requirements of this Charter and the Internal Audit Strategy
- ▶ Engage with management and consider the Colleges' strategic and operational objectives and related risks in the development of the Internal Audit Plan
- ▶ Review the Internal Audit Plan periodically with management
- ▶ Present the Internal Audit Plan, including updates, to the AC for periodic review and approval
- ▶ Prepare an internal audit budget sufficient to fulfil the requirements of this Charter, the Internal Audit Strategy, and the Internal Audit Plan
- ▶ Submit the internal audit budget to the AC for review and approval annually
- ▶ Coordinate with and provide oversight of other control and monitoring functions, incl. risk management, compliance and ethics, and external audit
- ▶ Consider the scope of work of the external auditors for the purpose of providing optimal audit coverage to the College.

## Performance:

- ▶ Implement the Internal Audit Plan
- ▶ Maintain professional resources with sufficient knowledge, skills and experience to meet the requirements of this Charter, the Internal Audit Strategy and the Internal Audit Plan
- ▶ Allocate and manage resources to accomplish internal audit engagement objectives
- ▶ Establish and maintain appropriate internal auditing procedures incorporating best practice approaches and techniques
- ▶ Monitor delivery of the Internal Audit Plan against the budget
- ▶ Ensure the ongoing effectiveness of internal audit activities.
- ▶ Ensure the principles of integrity, objectivity, confidentiality and competency are upheld.

## Reporting:

- ▶ Issue a report to management at the conclusion of each engagement to confirm the results of the engagement and the timetable for the completion of management actions to be taken.
- ▶ Provide periodic reports to management and the AC summarising internal audit activities and the results of internal audit engagements.
- ▶ Report annually to the AC and management on internal audit performance against goals and objectives.
- ▶ Report, as needed, to the AC on management, resource, or budgetary impediments to the fulfilment of this Charter, the Internal Audit Strategy, or the Internal Audit Plan.
- ▶ Inform the AC of emerging trends and practices in internal auditing.

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# APPENDIX II - INTERNAL AUDIT CHARTER

## Independence and Position within the College

- ▶ To provide for Internal Audit's independence, its personnel and external partners report to the Head of Finance, who in turn reports to the Chief Executive and to the AC.
- ▶ The BDO Head of Internal Audit has free and full access to the Chair of the AC.
- ▶ The appointment or removal of the BDO Head of Internal Audit will be performed in accordance with established procedures and subject to the approval of the Chair of the AC.
- ▶ The Internal Audit service will have an impartial, unbiased attitude and will avoid conflicts of interest.
- ▶ If the independence or objectivity of the internal audit service is impaired, details of the impairment should be disclosed to either the Chief Executive or the Chair of the AC, dependent upon the nature of the impairment.

The internal audit service is not authorised to perform any operational duties for the College; initiate or approve accounting transactions external to the service; or direct the activities of any the College employee not employed by the internal auditing service, except to the extent such employees have been appropriately assigned to the service or to otherwise assist the Internal Auditor.

## Internal Audit's Scope

The scope of internal audit activities includes all activities conducted by the College. The Internal Audit Plan identifies those activities that have been identified as the subject of specific internal audit engagements.

Assurance engagements involve the objective assessment of evidence to provide an independent opinion or conclusions regarding an entity, operation, function, process, system or other subject matter. The nature and scope of the assurance engagement are determined by Internal Audit.

Consulting engagements are advisory in nature and are generally performed at the specific request of management. The nature and scope of consulting engagements are subject to agreement with management. When performing consulting services, Internal Audit should maintain objectivity and not assume management responsibility.

## Standards of Internal Audit Practice

The internal audit function undertakes its work in line with the mandatory elements of the IIA's' International Professional Practices Framework, including 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 as set out by the Global IIA. This Charter is a fundamental requirement of the Framework.

## Approval and Validity of this Charter

This Charter shall be reviewed and approved annually by management and by the AC on behalf of the plc Board.

## APPENDIX III - WORKING PROTOCOLS AND PERFORMANCE

The tables opposite set out the principal communication and reporting points between and Internal Audit, which are subject to regular review. Any future changes to the communication and reporting points are reported to the Audit Committee for approval.

Table One: Liaison Meetings Between the College and Internal Audit and with External Audit

| MEETING  | FREQUENCY    | AUDIT COMMITTEE | HEAD OF FINANCE | MANAGERS | RELEVANT STAFF | EXTERNAL AUDIT |
|--|--------------|-----------------|-----------------|----------|----------------|----------------|
| Internal audit liaison meeting with management | Quarterly    |                 | ✓               |          |                |                |
| Internal audit update meetings                 | As required  |                 | ✓               |          |                |                |
| Quality Assurance Meeting                      | As required  |                 | ✓               |          |                |                |
| Liaison meeting with Chair of the AC           | As required  | ✓               |                 |          |                |                |
| AC to discuss audit progress                   | As necessary | ✓               |                 |          |                |                |
| Meetings to raise immediate concerns           | As necessary | ✓               | ✓               | ✓        | ✓              |                |
| Meetings with external audit                   | As necessary |                 |                 |          |                | ✓              |

Table Two: Key Reporting Points Between the College and Internal Audit

| MEETING                                      | AUDIT COMMITTEE | HEAD OF FINANCE | MANAGERS | RELEVANT STAFF |
|--|-----------------|-----------------|----------|----------------|
| Annual Internal Audit Plan                   | ✓               | ✓               |          |                |
| Individual internal audit planning documents |                 |                 | ✓        | ✓              |
| Draft Internal Audit Reports*                |                 |                 | ✓        | ✓              |
| Final Internal Audit Reports*                | ✓               |                 | ✓        | ✓              |
| Quality Progress Reports                     | ✓               |                 |          |                |
| Annual Internal Audit Report                 | ✓               | ✓               |          |                |

\*Internal Audit reports are distributed to the relevant Executive Committee members only.

# APPENDIX III - WORKING PROTOCOLS AND PERFORMANCE

## Internal Audit Performance Measures and Indicators

Internal Audit's performance is assessed in two ways. Firstly, there is the ability for us to self-assess our performance on a regular basis and report back to the AC on certain measures around inputs and satisfaction from those members of management who have been subject to a review.

Secondly, the view of the AC as to the value being received from its internal audit provider has to be taken into account. Much of this can be drawn from our attendance at AC, in camera meetings and by the views of management. For our part, we look to report to the AC regularly on the internal audit inputs as detailed below.

The tables contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of Internal Audit.

Tables three and four contain performance measures and indicators that we consider to have the most value in assessing the efficiency and effectiveness of internal audit. We recommend that the AC approves the following measures which we will report to each meeting and/or annually as appropriate.

Table Three - Performance reporting to AC

| MEASURE / INDICATOR                                 |
|---|
| <b>Audit coverage</b>                               |
| ▶ Audits completed against the Annual Audit Plan    |
| ▶ Actual days input compared with Annual Audit Plan |
| <b>Audit planning and reporting</b>                 |
| ▶ Days to issue draft report after end of fieldwork |

Table Four: Annual Performance Reporting

| MEASURE / INDICATOR                                   |
|---|
| <b>Relationships and customer satisfaction</b>        |
| ▶ Customer satisfaction reports                       |
| <b>Staffing</b>                                       |
| ▶ Colleague mix compared with budget                  |
| ▶ Percentage of Director and Manager time             |
| ▶ Continuity of staffing                              |
| ▶ Use of specialist staff (e.g. IT Risk and Advisory) |

## Management performance measures and indicators

Management's ability to respond efficiently to internal audit findings and recommendations helps the AC to form its own view of the internal control framework.

Importantly, management's consideration of internal audit findings plays a contributory factor in our ability to deliver timely reports to the AC. Therefore, the following measures are also reported to the AC.

| MEASURE/INDICATOR                          |
|--|
| <b>Audit reporting</b>                     |
| ▶ Days for receipt of management responses |

## Other performance measures

In addition to the above mentioned measures we will also provide the AC with the results of other reviews of our internal audit service as and when they become available, including:

- ▶ Independent quality assurance reviews as required by the Chartered Institute of Internal Auditors (IIA)
- ▶ BDO internal quality assurance reviews.



## APPENDIX IV - DEFINITIONS

| LEVEL OF ASSURANCE | DESIGN OF INTERNAL CONTROL FRAMEWORK   |  | OPERATIONAL EFFECTIVENESS OF CONTROLS   |  |
|--------------------|--|--|---|--|
|                    | FINDINGS FROM REVIEW   | DESIGN OPINION   | FINDINGS FROM REVIEW  | EFFECTIVENESS OPINION  |
| <b>SUBSTANTIAL</b> | Appropriate procedures and controls in place to mitigate the key risks.  | There is a sound system of internal control designed to achieve system objectives.                       | No, or only minor, exceptions found in testing of the procedures and controls.  | The controls that are in place are being consistently applied.                                     |
| <b>MODERATE</b>    | In the main there are appropriate procedures and controls in place to mitigate the key risks reviewed albeit with some that are not fully effective.                                   | Generally a sound system of internal control designed to achieve system objectives with some exceptions. | A small number of exceptions found in testing of the procedures and controls.   | Evidence of non compliance with some controls, that may put some of the system objectives at risk. |
| <b>LIMITED</b>     | A number of significant gaps identified in the procedures and controls in key areas. Where practical, efforts should be made to address in-year.                                       | System of internal controls is weakened with system objectives at risk of not being achieved.            | A number of reoccurring exceptions found in testing of the procedures and controls. Where practical, efforts should be made to address in-year.   | Non-compliance with key procedures and controls places the system objectives at risk.              |
| <b>NO</b>          | For all risk areas there are significant gaps in the procedures and controls. Failure to address in-year affects the quality of the organisation's overall internal control framework. | Poor system of internal control.   | Due to absence of effective controls and procedures, no reliance can be placed on their operation. Failure to address in-year affects the quality of the organisation's overall internal control framework. | Non compliance and/or compliance with inadequate controls.   |

### RECOMMENDATION SIGNIFICANCE

|               |  |
|---------------|--|
| <b>HIGH</b>   | A weakness where there is substantial risk of loss, fraud, impropriety, poor value for money, or failure to achieve organisational objectives. Such risk could lead to an adverse impact on the business. Remedial action must be taken urgently.  |
| <b>MEDIUM</b> | A weakness in control which, although not fundamental, relates to shortcomings which expose individual business systems to a less immediate level of threatening risk or poor value for money. Such a risk could impact on operational objectives and should be of concern to senior management and requires prompt specific action. |
| <b>LOW</b>    | Areas that individually have no significant impact, but where management would benefit from improved controls and/or have the opportunity to achieve greater effectiveness and/or efficiency.  |

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