

THE UNIVERSITY OF SHEFFIELD
ANNUAL REPORT OF THE AUDIT COMMITTEE
2016-17

1. Introduction

The Audit Committee is required by the Higher Education Funding Council to report annually on its activities to Council and to the Vice-Chancellor as the University's accountable officer. This Annual Report, for the 2016-17 session, has been prepared in accordance with the requirements of the HEFCE Memorandum of Assurance and Accountability and the Committee of University Chairs' Handbook for Members of Audit Committees' model format.

The report is presented to Council for consideration and approval.

A copy of the Annual Report has then to be included in the University's annual accountability return to HEFCE.

2. Membership

Membership of the Committee during the year was as follows:

Mr Adrian Belton* 2014-

Professor Shelagh Brumfitt 2015-

Mr Kevin Cunningham 2013-

Ms Claire Davis 2016-

Mrs Margaret Ferris 2013-

Mrs Sarah Harkness* 2009- 2017 (chair from August 2011)

Mrs Alison Hope* 2012-

Mr Richard Mayson* 2012-

*denotes members of the University Council during the period.

One new member, Ms Claire Davis, joined the Committee at the beginning of the year. At the end of the year, the Committee Chair, Mrs Sarah Harkness, resigned from the Committee, and the University Council, and the Committee would like to acknowledge and thank her for her commitment and distinguished leadership. Mrs Alison Hope, a member since 2012, member of Council and a Pro-Chancellor, has taken over as Committee Chair. There is currently one vacancy for a lay member of Council.

3. Committee Meetings

The Committee met five times during the session. All the Committee's meetings were attended by representatives of the University's Internal Auditors, PricewaterhouseCoopers (PwC) and its External Auditors, KPMG.

The Deputy Vice-Chancellor, Professor Shearer West, the University Secretary, Dr Andrew West, the Chief Financial Officer, Mr Bob Rabone, and the Director of Finance, Mrs Helen Dingle, regularly attended meetings of the Committee as observers, as did other members of Professional Service Departments as required. The Committee is grateful for their input. Mr David Swinn has acted as Secretary to the Committee and we would like to thank him for his help.

On 23 November 2016 Audit Committee met jointly with Finance Committee, to consider the draft Financial Statements for 2015-16 and KPMG's Audit Highlight Memorandum and Management Letter.

The Audit Committee continues regularly to meet in private, without University staff present. In appropriate cases the external and/or internal auditors attend, in particular on completion of the audit of the financial statements

4. Terms of Reference and Procedures

There were no changes to the Committee's terms of reference during the year. The Committee continues to work to HEFCE's guidance, as set out in the MAA and as elaborated in the CUC's Handbook for Members of Audit Committees in HEIs, and the CUC Higher Education Code of Governance.

In considering internal audit reports the Committee focuses on the most serious findings. In PwC's model, these are overall report classifications of critical, high, medium or low risk, together with individual finding ratings of critical, high, medium, low or advisory, applied as appropriate to impact on operational performance, monetary or financial statement impact, breaches in laws and regulations potentially resulting in material fines or consequences, and impact on institutional reputation or brand. Departmental heads are routinely invited to attend where opinions or findings at critical or high levels are offered in respect of their departments. This allows joint exploration of the issues raised, the management response and the action plan, which will normally have been formulated by the time the audit report reaches the Committee. Recommendations of medium or low priority are taken on a 'by exception' basis.

The formal process of following-up and reporting outstanding audit recommendations has continued, with our internal auditors continuing to report to the committee on follow-up work twice a year.

5. Internal Audit

5.1 Internal Audit Service

The 2016-17 session was the eighth in which the internal audit service was provided by PricewaterhouseCoopers, the third under the current three year contract with the option to renew for two further one year periods. On the Committee's recommendation, Council has approved a further one-year appointment to 31 July 2018. The University's Head of Internal Audit remains Mr Ian Looker, partner in PwC.

The Committee has a responsibility to monitor the effectiveness of Internal Audit. Together with management, it has agreed with PwC a number of Key Performance Indicators for the internal auditors' work, and it reviews these regularly. Process indicators, for example for meeting set timescales for delivery of reports, have generally been met during the year. The Finance Department has canvassed departments involved in audits, by way of questionnaire, throughout the session. Response rates have been good and feedback mostly positive, and the Committee has been pleased to note that PwC has taken steps to address some of the more negative feedback received last year.

5.2 Audit Strategy 2016-17

The Internal Audit strategy and plan for the session was formulated following discussions between PwC and senior University managers, and subsequently with the Committee. The budgeted internal audit input for the year was 215 audit days, comprising 18 planned reviews, including two follow-up reviews. In the event 190 days were provided (2015-16: 235) with several days being used for additional review at the end of 2015/16 and one review being deferred to 2017-18 at the request of management.

5.3 Internal Audit Reports 2015-16

Two reports by PwC for the 2015-16 academic year, and one follow-up review, were submitted to the Committee at its meeting in October 2016. These were reports which had not been completed and cleared during the previous session and were considered in the Committee's previous annual report.

5.4 Internal Audit Reports 2016-17

Fifteen reports have been completed by PwC under the 2016-17 audit plan, as well as two follow-up reviews. Fourteen were presented during the session and a further one in respect of the session at the meeting in October 2017. A full list of reports is set out in the Internal Auditors' Annual Report.

Five audits received a low risk classification, which is satisfactory and ten reports were classified as medium risk. The Committee is pleased that there were no high risk reports this year, compared to three last year and two in 2014-15. Again, there were no Critical findings. It is pleasing to note that medium priority findings have decreased from a peak of 44 in 2015-16 to 22 in 2016-17, a level more consistent with the numbers seen in 2014-15 and 2013-14. Low level findings have decreased slightly to 33 from 34 the previous year.

Reports which contained two or more medium risk findings included:

- HR – Recruitment and Selection
- CICS- IT Strategy and Project Governance
- Expenses and Purchasing Cards
- Departmental Health Checks
- Prevent Duty
- Finance Continuing Auditing Phase 1
- Crisis Management
- Finance – Continuous auditing phase 2

In each of these reports, satisfactory management action plans have been agreed and are being implemented. The Committee regularly monitors progress against these plans.

PwC's annual report for 2016-17 (attached) was received by the Committee in final form on 27 November 2017, a draft having been seen in October. Based on the work completed, except for those areas described above, PwC is able to offer reasonable assurance that the University has adequate and effective arrangements covering:

- Governance, risk management and control;
- Economy, efficiency and effectiveness (Value for money) arrangements;

5.5 Follow-Up of Internal Audit Recommendations

Significant progress has been made in the last five years on the implementation of Internal Audit recommendations, with the formalisation of a follow-up and reporting process led by Finance, and with testing and verification performed by PwC. By October 2017, the verified assessment is that 96% made in 2012/13, 98% made in 2013/14, 75% made in 2014/15 and 76% made in 2015/16 have been fully implemented or closed. 49% of recommendations made during 2016/17 at the point of follow up have already been fully implemented.

During the year, the internal auditors verified 96 recommendations in total and in only a minority of cases did their assessment of progress differ from that of management. Of the 63 recommendations not implemented at the latest follow up, 27 were past the original implementation date. Of these four are high risk recommendations, two from 2014/15, relating to the Identity and Access Management review; and two from 2015/16, relating to Ethical Governance and CTI Ltd. In all cases actions were planned that were expected to move the status from partially to fully implemented. On the whole, the Committee is pleased with the progress made this year, but will continue to insist on rigorous follow-up of previous recommendations. We continue to encourage the University to help managers understand that internal audit is a management tool that should be used positively.

5.6 Audit Strategy 2017-18

The Audit Committee has considered and approved the draft audit strategy for 2017-18 prepared by the Internal Auditors in consultation with University management. The Internal Auditors have proposed, and the Committee has endorsed, the provision of 252 days in 2017-18 (2016-17: 190).

5.7 Additional Activity by PwC

In addition to their work under the Internal Audit Plan 2016-17, PwC were also engaged to carry out a strategic review of the University's Identity and Access Management governance and systems, to carry out assurance work on the Student Lifecycle Project and to undertake an accounting assignment relating to the supply of information to loan funding providers. The fees for these additional assignments totalled £93,210. PwC were also been appointed to advise on tax matters in relation to members of staff working in Tanzania, Australia and USA, during 2016/17 but these matters were not charged until 2017/18.

6. External Audit

6.1 External Audit Service

KPMG continue to provide the University's external audit service, having been appointed by competitive tender in July 2002, March 2007, June 2011 and again with effect from 1 January 2017 for three years with the option to extend the contract for a further two years, subject to satisfactory annual review of performance.

The annual external audit fee for 2016-17 is a lump sum fee in accordance with the original contract. It is subject to increases in line with the Retail Price Index and for any additional work carried out that was not included within the contract.

In January 2017 the Committee considered a review to evaluate the performance and effectiveness of the University's external auditors. Questionnaires were completed by members of Audit Committee, Finance Committee and the Finance Department. This concluded that, overall, KPMG were meeting expectations and delivering external audit to a high standard. Written and verbal feedback was provided to KPMG on a number of issues, including discussion about the reporting process for the audit of University subsidiary companies, as in 2015-16, and the timeliness of some other reporting.

6.2 Additional Activity by KPMG

In 2016-17 KPMG provided additional services for the University totalling £90,615. These included £62,160 in respect of grant and loan audits, £17,573 relating to short-term cash-flow forecasting at CTI Ltd, a wholly owned University subsidiary company and £10,882 for an immigration compliance audit.

6.3 External Audit Highlights Memorandum and Management Letter

On 23 November 2016 the Audit and Finance Committees met jointly to consider the Financial Statements for 2015-16 and the External Auditor's Audit Highlights Memorandum and Management Letter. Audit Committee then discussed the audit aspects of the Statements, Finance Committee having already signed them off, and agreed to recommend the Statements to Council. Audit Committee also approved the Statement of Corporate Responsibility for inclusion in the University's Annual Report.

The Committee considered the External Audit Strategy Memorandum for the year ending 31 July 2017. The main areas of risk were identified as fraud from revenue recognition and management override of controls. The Committee was content with the overall strategy.

On 27 November 2017 the Committee received the External Audit Highlights Memorandum and Management Letter relating to 2016-17, which stated that the audit was now substantially complete and KPMG anticipated being able to report in their opinion that the financial statements:

- Give a true and fair view of the state of the affairs of the Group and University as at 31 July 2017 and of the Group's income and expenditure, recognised gains and losses and cash flows for the year then ended;
- Have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education.

7. Other Activities

7.1 Impact

In respect of its own performance the Committee considers that it has directed the internal audit function towards areas relevant to the risks facing the University. It has constructively challenged senior management and the internal audit function and has welcomed the level of cooperation and support received. Responses to audit recommendations are generally positive and timely in terms of both strict compliance matters and business enhancement – the added value that the Committee aims to deliver in discharging its responsibilities. The Committee also received an update on the activities of the Governance Sub-Group of the AMI Board, established in 2015 in response to the Committee's discussions of an internal audit report on AMRC governance. The AMI Board and sub-group arrangement has now been replaced with an executive board model and the Committee has undertaken to review progress during 2017-18 against the issues identified in 2015.

7.2 External Audit

In June the Committee received a report from the Finance Department on progress made against recommendations arising from the External Auditors' audit highlights memorandum. It was noted that good progress was being made in a number of areas. In particular, work first noted in 2015-16 to continue to improve the performance of the subsidiary CTI Ltd is ongoing. The Committee continues to take an active interest in this area, as well as IT and data and cyber security.

7.3 Corporate Risk

The Committee has continued to review the University's Corporate Risk Register at regular intervals and in line with usual practice a number of audit reports performed in this academic year required testing of risk management issues. In June 2017 the Committee also considered a revised approach to ethical governance, which was subsequently approved by Council, building on the findings of a high risk internal audit report and follow-up discussions in 2015-16. An appraisal of the operation of new arrangements is proposed to take place at the end of 2017-18. The Committee has again received a report from the University's Animal Welfare and Ethical Review Body, which was also the subject of a specific internal audit review focusing on data quality, which received a low risk classification, and has received for information a positive stand-alone audit report regarding AMRC Training Centre compliance with Skills Funding Agency contract conditions.

7.4 Briefings

Throughout the year the Committee has received regular briefings and updates on the developments in the sector and their implications, including through the Vice-Chancellor's periodic reports to Council being made available to Members, in particular the implications of the Higher Education and Research Bill and the EU Referendum and the University's response.

8. Audit Committee Opinions

8.1 Overview

The Committee is required to offer its opinion on the adequacy and effectiveness of the University's systems for risk management, control and governance, on economy, efficiency and effectiveness (value for money) and on the management and quality assurance of data submitted to HESA, HEFCE and SLC on the basis of all the information that has been placed before it, including management responses to audit reports. On this basis the Committee has considered what opinions it is able to offer Council. We are satisfied that the internal audit work carried out by PwC meets the required standards and provides an appropriate basis for the Committee's own assurances to Council.

8.2 Risk Management, control and governance

The University's internal audit strategy continues to be based on risk assessment, drawing on the University's Corporate Risk Register. . The Committee notes the opinion of the internal auditor, PwC, that, based on the work PwC has completed, subject to specific weaknesses identified in audit reviews and PwC's annual report, the University has adequate and effective arrangements in place to support the achievement of management's objectives over:

- Risk management, internal control and governance; and
- Economy, efficiency and effectiveness/Value for money processes.

The Audit Committee and Council continue to receive and consider regular reports on major corporate risks. The Committee has seen and accepts the statements on internal control and governance, and on public benefit, included in the Financial Statements for 2016-17.

The Committee is of the opinion that the University's arrangements for risk management and internal control and governance (subject to the matters described in the 'Summary of Findings' section of PwC's annual report, attached) are adequate (i.e. suitably designed) and effective (i.e. the controls are operating as designed).

8.3 Economy, Efficiency and Effectiveness (Value for Money)

The Audit Committee exercises a monitoring role in relation to value for money, to ensure the University maintains adequate and effective arrangements. The Internal Auditors take account of value for money issues as part of their routine system-based auditing, with any relevant issues being examined and reported. Internal audit reports explicitly address, and report on, VfM. In the 2016-17 session one audit specifically targeted VfM in the area of purchasing, while other reviews were designed to include VfM themes within the audit objectives, such as departmental financial health checks and subsidiary companies (CTI Ltd).

The University's Financial Operating Strategy identifies the adoption of a VfM Strategy as a financial objective for the University, and in 2010-11 the University adopted a Value for Money Strategy. This strategy contains 7 VfM objectives and a series of actions identified as a mechanism for achieving these objectives. In October 2017 the Committee received an annual report on VfM activities during 2016/17, which was circulated to members of Finance Committee and Council for information. The VfM report no longer forms a compulsory element of the annual accountability return to HEFCE but HEFCE-funded HEIs must submit an annual efficiency return – a more targeted collection of data– by 31 January 2018 and Audit Committee will consider this prior to submission to HEFCE, having received updates on the development of the new return at its earlier meetings. Institutions are expected to continue to report internally on their achievement of VfM). The reporting on VfM also complements the reporting on Procurement activity and savings provided to both Audit Committee and Finance Committee. The Committee again welcomed the reports as a positive piece of work which facilitate continuous improvements in delivering value for money in all areas of the University. In 2016-17 the Committee has continued to contribute

directly to this area by making a VfM award, the recipient of which will be publicised on the University's staff web pages when the winner has been decided by the Committee.

In 2016-17 the twice yearly reports on procurement, included an update on progress made towards achieving the objectives set in the Procurement Strategy and a summary of planned activity for 2017/18, including the use of category management, contract awards and management, reviewing the supplier catalogue, and sustainable and efficient procurement, including the use of collaborative purchasing consortia.

The Committee also now receives the University's annual commercial report, which is reviewed in detail by the Finance Committee.

The Committee is of the opinion that the University's arrangements for economy, efficiency and effectiveness (VfM) are adequate (i.e. suitably designed) and effective (i.e. the controls are operating as designed).

8.4 Management and quality assurance of data

The Committee is also responsible for offering its opinion on the management and quality assurance of data submitted to HEFCE, HESA, SLC and other funding bodies by the University. The Committee has considered this carefully. The Committee notes that TRAC and TRAC (Teaching) Returns have been prepared in accordance with the principles of the Transparency Approach to Costing and has again received an annual report from the Data Assurance Group, providing high level oversight of the University's data assurance processes and its response to the changing data landscape. In January 2017 the Committee invited the Chair of this Group to attend for a fuller discussion of how data was managed and its quality assured, as well as known and potential external changes that will impact the University.

The Committee is of the opinion that the University's arrangements for the management and quality assurance of data is adequate (i.e. suitably designed) and effective (i.e. the controls are operating as designed).

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Internal audit annual report 2016/17

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November 2017

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Distribution list

For action: Chair and Members of the Audit Committee

For information: University Executive Board

Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31st July 2017.

The Memorandum of Assurance and Accountability between the Higher Education Funding Council for England (HEFCE 2016/12) and institutions requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Audit Committee. As such, the purpose of this report is to present our view on the adequacy and effectiveness of:

- Governance, risk management and control; and
- Economy, efficiency and effectiveness (value for money) arrangements.

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix one of this report. The opinion does not imply that Internal Audit has reviewed all risks relating to the University.

The Audit Committee agreed to a level of internal audit input which was fully delivered. Whilst this report is a key element of the framework designed to inform the University's Annual Governance Statement, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee's responsibility for forming their own view on governance, risk management, control and value for money arrangements.

Head of internal audit opinion

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control, and economy, efficiency and effectiveness arrangements (value for money). To assist the Audit Committee in understanding how our work corresponds to their reporting responsibilities, we have mapped our work against these areas in Appendix four of this report.

In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

Executive summary

Opinion

Our opinion is as follows:

Satisfactory

Generally satisfactory with some improvements required

Governance, risk management and control, and value for money arrangements in relation to business critical areas are generally satisfactory. However, there are some areas of weakness and non-compliance in the framework of governance, risk management and control and value for money arrangements which potentially put the achievement of objectives at risk. Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control and value for money arrangements. Please see our summary of findings in section two of this report.

Major improvement required

Unsatisfactory

Executive summary

An explanation of the types of opinion that may be given can be found in Appendix two of this report.

Basis of opinion

Our opinion is based on:

- All audits undertaken during the year;
- Any follow up action taken in respect of audits from previous periods; and
- Any limitations which may have been placed on the scope or resources of internal audit.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

Commentary

The key factors that contributed to our opinion are summarised as follows:

- We raised no high risk findings during the 2016/17 year (2015/16: six high risk findings) and none of the individual assignment reports have an overall classification of high risk or critical risk (2015/16: no critical, three high risk).
- Our broader follow up work showed that the institution has an effective process in place however management should continue to work to ensure progress on due findings especially findings that have been rated high risk.
- There are a number of medium risk findings and overall assignment reports which have contributed to our view that in forming our opinion, some improvements are required. These are set out in the next section of this report.

Acknowledgement

We would like to take this opportunity to thank the University's management and staff, for their co-operation and assistance provided during the course of our work across this year.

Summary of findings

Our annual internal audit report is timed to inform the organisation’s Annual Governance Statement. We completed 15 internal audit reviews. This resulted in the identification of 22 medium and 33 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness. There were also two reviews that were follow-up in nature.

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description	Detail
<p>Internal control issues</p> <p>During the course of our work we report any significant weaknesses that we consider should be reported in your Annual Governance Statement.</p>	<p>No issues were identified in our view that we believe would require inclusion in your Statement of Corporate Governance</p>
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation’s governance, risk management and control processes. A summary of the main high and medium risk findings has been detailed opposite.</p>	<p>We have raised a total of 22 medium risk recommendations during 2016/17 as outlined in the next section of this report. These include the following findings amongst others, as examples of some of the main issues within those recommendations:</p> <p>CICS – IT Strategy and Project Governance</p> <ul style="list-style-type: none"> • Capacity management – at the time of our work the CiCS team was under-capacity and overly-reliant on individual members of staff. • Supplier management – many of the University's IT contracts with parties did not have sufficiently robust service level agreements in place, or was there sufficient expertise in the team to hold third party suppliers to account. <p>Expenses & Purchasing Cards:</p> <ul style="list-style-type: none"> • Expense claim policy – we recommended the University reviewed its policies in certain areas • Approvals – we noted instances whereby approvals were not made on a timely basis and also approvals being made by those who were not appropriate, for example 42 instances of a receptionist approving a Director’s expenses. <p>Crisis Management</p> <ul style="list-style-type: none"> • Procedure training and awareness – reports from crisis simulation exercises have highlighted concerns over procedural awareness amongst the designated Incident Managers in following the major incident plan. This indicated potential gaps in the level of experience within the team in dealing with real incidents. • Implementation of agreed actions - Some actions agreed as part of simulation exercises to address known weaknesses or to enhance the University’s Incident response capability had not been fully implemented in line with the agreed timescales and remain outstanding for significant periods (up to four years).

Summary of findings

Description	Detail
<p>Other weaknesses</p> <p>Other weaknesses were identified within the organisation’s governance, risk management and control processes. A summary of the main medium risk findings has been detailed opposite.</p>	<p>In addition to the above, we raised a number of medium risk findings in the following reviews:</p> <ul style="list-style-type: none"> • As part of our Risk Management review we raised a recommendation around the importance of providing feedback to stakeholders on their Faculty and Departmental risk registers, ensuring the ‘top down’ information flows operate as effectively as the ‘bottom up’ processes. • As part of our Whistleblowing review we raised a recommendation in to the generally low levels of awareness of the University’s policy. • In our review around capital programme management (The Diamond) we recommended the University perform benefits realisation exercises for all significant projects and major new builds.
<p>Follow up</p> <p>During the year we have undertaken follow up work on previously agreed actions.</p>	<p>We carry out our follow up work in two phases. A mid-year follow up was carried out in February 2017, and the findings of this are set out below. Our final follow up work is reported to the October meeting of the Audit Committee.</p> <p>The results of management’s own follow-up tracker are summarised on page 12 of this report.</p> <p>In February 2017 and September 2017, we tested a sample of recommendations which have been assessed by management as fully implemented or no longer relevant.</p> <p>In Phase one, from our sample of 37 recommendations (27 deemed fully implemented and 10 partially), we agreed 35 had been correctly assessed by management. We deemed two recommendations to be partially implemented, rather than fully implemented.</p> <p>In Phase two, from our sample of 59 recommendations (52 deemed fully implemented, 6 partially and 1 as no longer relevant), we agreed that 56 had been correctly assessed by management. We deemed three recommendations to be not implemented rather than fully implemented.</p>

Summary of findings

Description

Good practice

We also identified a number of areas where few weaknesses were identified and / or areas of good practice.

Detail

- Around capital programme management, the University has a well-established governance structure, approach to business case development and approval, regular and robust reporting, and risk management arrangements at the project level.
- From our whistleblowing review we noted positive feedback from members of University staff around the culture of openness and this being actively promoted by management, as well as a confidence in how any potential concerns staff may have would be treated by management.
- From our review of IT strategy and project governance we identified a robust framework for the decision making process behind the University’s selection and prioritisation of projects.
- The Prevent duty review highlighted a strong ‘tone at the top’ in terms of embedding Prevent in to the University’s approach to pastoral care and student support, with strong governance frameworks and working groups to keep senior management sighted on emerging risk areas.
- University level risk management arrangements are well-established and there is strong commitment to effective risk management across the University Executive Board, Risk Review Group, and Faculty Executive Boards.
- We also reported overall low risk report ratings for the following reviews; Data Quality (animal testing data), Corporate Governance (Strategic Plan), Value for Money (Major Capital Programmes and Factory 2050), Whistleblowing, and Risk Management.

Internal audit work conducted

Introduction

The table below sets out the results of our internal audit work and implications for next year’s plan. The following page shows direction of control travel and a comparison of planned and actual internal audit activity.

Results of individual assignments

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
Data Quality – Animal Testing	Low Risk	-	-	-	2	-
Corporate Governance Strategic Plan	Low Risk	-	-	-	1	1
HR Recruitment & Selection	Medium Risk	-	-	2	2	-
CICS – IT Strategy and Project Governance	Medium Risk	-	-	3	-	-
Expenses & Purchasing Cards	Medium Risk	-	-	3	1	-
VfM – Major Capital Programmes and Factory 2050	Low Risk	-	-	-	2	1
Whistleblowing	Low Risk	-	-	1	1	-
Departmental Health Checks	Medium Risk	-	-	2	2	-
Prevent Duty	Medium Risk	-	-	2	4	1
Finance Continuous Auditing Phase 1	Medium Risk	-	-	2	5	-
epiGenesys and Farapack Polymers	Medium Risk	-	-	1	2	-
Follow Up Phase 1	N/A	-	-	-	-	-
Risk Management	Low Risk	-	-	1	2	-

Continued overleaf

Internal audit work conducted (continued)

Review	Report classification	Number of findings				
		Critical	High	Medium	Low	Advisory
<i>Capital Programme Management</i>	Medium Risk	-	-	1	4	-
<i>Crisis Management</i>	Medium Risk	-	-	2	1	-
<i>Finance Continuous Auditing Phase 2</i>	Medium Risk	-	-	2	4	-
<i>Follow Up Phase 2</i>	N/A	-	-	-	-	-
Total		-	-	22	33	3

Internal audit work conducted

Direction of control travel

Finding ratings	Trend between current and prior year	Number of findings		
		2016/17	2015/16	2014/15
Critical		0	0	0
High		0	6	2
Medium		22	44	24
Low		33	34	36
Total		55	84	62

Note: in 2016/17, 15 internal audit reviews were carried out in comparison with 18 in 2015/16 and 19 in 2014/15

* With agreement from the Audit Committee the budgets for 'Prevent Duty' and 'Finance Continuous Audit' were reduced by 5 days each to put towards the budget for the 2015/16 Ethical Governance audit.

** The Marketing and Student Recruitment review has been deferred to 2017/18 at the request of management.

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
Data Quality – Animal Testing	10	10
Corporate Governance Strategic Plan	10	10
HR Recruitment & Selection	10	10
CICS – IT Strategy and Project Governance	20	20
Expenses & Purchasing Cards	8	8
VfM – Major Capital Programmes and Factory 2050	12	12
Whistleblowing	5	5
Departmental Health Checks 100	25	25
Prevent Duty*	15	10
Finance Continuous Auditing Phase 1*	15	10
epiGenesys and Farapack Polymers	8	8
Follow Up Phase 1	6	6
Risk Management	10	10
Capital Programme Management	15	15
Crisis Management	10	10
Finance Continuous Auditing Phase 2	15	15
Follow Up Phase 2	6	6
Marketing & Student Recruitment**	15	0
Total	215	190

Follow up work conducted – February 2017 & September 2017

As part of our 2016/17 operational audit plan, we have undertaken two follow up reviews. The scope of the work was to review the status of outstanding internal audit recommendations reported to the Audit and Risk Committee meeting and, where the recommendations were assessed as implemented by management, to validate this status.

Management self-assessment

The University completed a self assessment in two phases: Phase 1: January 2017 and Phase 2: July 2017 to identify the status of all previously outstanding recommendations, i.e. those that were not classified as ‘A - implemented’ or ‘D - no longer relevant’ in previous updates. The table below summarises management’s most recent self-assessment. Audit owners were requested to categorise the recommendations as follows:

- A – Fully implemented
- B – Partially implemented
- C – Not implemented
- D – No longer relevant/ Not accepted by management

Phase 1 showed that of all due findings, 27 were deemed fully implemented, 25 partially implemented , 6 not implemented and 6 not validated.

Phase 2 showed that of all due findings, 52 were fully implemented, 24 partially implemented and 1 was no longer relevant.

Management Self-Assessment	Advisory	Low	Medium	High	Total
A - Fully implemented	-	98	78	5	181
B - Partially implemented	-	10	13	4	27
C - Not implemented	-	1	2	-	3
D - No longer relevant/not accepted	-	3	1	-	4
N/A	18	-	-	-	18
TBC	-	17	20	-	37
Total	18	129	114	9	270

Results of PwC validation

To provide comfort that the recommendations reported have been classified correctly, we tested all medium rated risks and a sample of low risk recommendations. Note there were no high risk recommendations. Our assessment is summarised below:

Phase 1: We tested all 27 fully implemented recommendations and a sample of 10 partially implemented ones. Our conclusion was that we agreed the 10 were partially implemented but only 25 out of the 27 were fully implemented – the remaining 2 were in fact partially implemented.

Phase 2: We tested all 52 fully implemented recommendations, 6 partially implemented ones and the 1 that was classified as no longer relevant. We agreed with management’s assessments of all recommendations except 3 that were recorded as fully implemented which we rated as not implemented. 2 of these were medium risk and the other low risk and related to the 2015/16 Department of Lifelong Learning and the 2015/16 IT Controls and Disaster Recovery reviews.



**Appendix 1: Limitations
and responsibilities**

Appendix 2: Opinion types

**Appendix 3: Basis of our
classifications**

**Appendix 4: Mapping of
internal audit work**

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor’s work

Our work has been performed subject to the limitations outlined below.

Opinion

The opinion is based solely on the work undertaken as part of the agreed internal audit plan. There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls relating to University of Sheffield is for the period 1 August 2016 to 31 July 2017. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- The degree of compliance with policies and procedures may deteriorate.

The specific time period for each individual internal audit is recorded within section 3 of this report.

Responsibilities of management and internal auditors

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.

Type of opinion	Indication of when this type of opinion may be given
Satisfactory	<ul style="list-style-type: none"> A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and None of the individual assignment reports have an overall report classification of either high or critical risk.
Generally satisfactory with some improvements required	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are not significant in aggregate to the system of internal control; and/or High risk rated weaknesses identified in individual assignments that are isolated to specific systems or processes; and None of the individual assignment reports have an overall classification of critical risk.
Major improvement required	<ul style="list-style-type: none"> Medium risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or High risk rated weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected; and/or Critical risk rated weaknesses identified in individual assignments that are not pervasive to the system of internal control; and A minority of the individual assignment reports may have an overall report classification of either high or critical risk.
Unsatisfactory	<ul style="list-style-type: none"> High risk rated weaknesses identified in individual assignments that in aggregate are pervasive to the system of internal control; and/or Critical risk rated weaknesses identified in individual assignments that are pervasive to the system of internal control; and/or More than a minority of the individual assignment reports have an overall report classification of either high or critical risk.
Disclaimer opinion	<ul style="list-style-type: none"> An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.

Appendix 3: Basis of our classifications

Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
 Critical	40 points per finding
 High	10 points per finding
 Medium	3 points per finding
 Low	1 point per finding

Report classification	Points
 Critical risk	40 points and over
 High risk	16–39 points
 Medium risk	7–15 points
 Low risk	6 points or less

Appendix 3: Basis of our classifications

Individual finding ratings

Engagement teams should tailor the ‘assessment rationale’ section below based previous discussions with management and the relevant committee e.g. Audit Committee.

Finding rating	Assessment rationale
 Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance ; or • Critical monetary or financial statement impact; or • Critical breach in laws and regulations that could result in material fines or consequences ; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability .
 High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance ; or • Significant monetary or financial statement impact ; or • Significant breach in laws and regulations resulting in significant fines and consequences ; or • Significant impact on the reputation or brand of the organisation .
 Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance ; or • Moderate monetary or financial statement impact ; or • Moderate breach in laws and regulations resulting in fines and consequences ; or • Moderate impact on the reputation or brand of the organisation .
 Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation’s operational performance; or • Minor monetary or financial statement impact ; or • Minor breach in laws and regulations with limited consequences ; or • Minor impact on the reputation of the organisation .
 Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 4: Mapping of internal audit work

Reporting responsibilities

The table below maps our internal audit work against the Audit Committee’s reporting responsibilities.

Audit work	Governance	Risk management	Control	Value for money	Data submission
Data Quality – Animal Testing	✓	✗	✓	✗	✓
Corporate Governance Strategic Plan	✓	✓	✓	✓	✗
HR Recruitment & Selection	✓	✗	✓	✓	✗
CICS – IT Strategy and Project Governance	✓	✓	✓	✓	✗
Expenses & Purchasing Cards	✗	✗	✓	✓	✗
VfM – Major Capital Programmes and Factory 2050	✓	✗	✓	✓	✗
Whistleblowing	✗	✗	✓	✗	✗
Departmental Health Checks	✗	✗	✓	✓	✗
Prevent Duty	✓	✓	✓	✗	✓
Finance Continuous Auditing	✗	✗	✓	✓	✗
epiGenesys and Farapack Polymers	✓	✗	✓	✓	✗
Follow Up Phase 1	✓	✓	✓	✓	✓
Risk Management	✗	✓	✗	✗	✗
Capital Programme Management	✓	✗	✓	✓	✗
Crisis Management	✓	✓	✓	✗	✗

Key

✓ Testing focused on this area

✗ Not tested

Data submission

It is of particular note that the Audit Committee’s Annual Report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of data submissions to the Higher Education Statistics Agency, HEFCE and other funding bodies.

To assist the Audit Committee prepare its Annual Report, we have outlined above where our work assessed the arrangements for the management and quality assurance of data submissions (see the table on this page).

We provide no conclusions or opinion on data quality beyond the risk ratings and recommendations in our individual assignment reports on data quality.

This document has been prepared only for University of Sheffield and solely for the purpose and on the terms agreed with University of Sheffield in our agreement. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Public Sector Internal Audit Standards. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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