



# UHI North, West and Hebrides

## **Internal Audit** **2023-24**

Overall Financial Controls  
June 2024

## **Overall Conclusion**

Substantial

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UHI North, West and Hebrides  
Overall Financial Controls

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The matters raised in this report came to our attention during the course of our audit and are not necessarily a comprehensive statement of all weaknesses that exist or all improvements that might be made.

This report has been prepared solely for UHI North, West and Hebrides's individual use and should not be quoted in whole or in part without prior written consent. No responsibility to any third party is accepted as the report has not been prepared, and is not intended, for any third party.

We emphasise that the responsibility for a sound system of internal control rests with management and work performed by internal audit should not be relied upon to identify all system weaknesses that may exist. Neither should internal audit be relied upon to identify all circumstances of fraud or irregularity should there be any although our audit procedures are designed so that any material irregularity has a reasonable probability of discovery. Every sound system of control may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas that are considered to be of greatest risk and significance.

# 1 Executive Summary

UHI North, West and Hebrides  
Overall Financial Controls

## Overview

### Purpose of review

The purpose of this assignment was to perform a high-level review of the key financial controls in place at the College, to provide assurance that key financial controls are suitably designed and are operating effectively. The review included a review of the processes relating to purchasing, income, cash and banking, payroll and fixed assets.

This review formed part of our 2023/24 Internal Audit Annual Plan.

### Scope of review

Our objectives for this review were to ensure that:

- | Efficient and effective procedures and controls are in place for key finance processes.
- | Adequate segregation of duties is in place.
- | There is adequate management oversight of finance processes.
- | There is adequate and timely reporting to Committee with appropriate scrutiny taking place.

Our approach to this assignment took the form of discussion with relevant staff, review of documentation and where appropriate sample testing.

### Limitation of scope

There was no limitation of scope.

## Background

### Financial Regulations

The College has a robust set of Financial Regulations in place. The Regulations were developed following the Chartered Institute of Public Finance and Accountancy (CIPFA) best practice model. The College is currently using an interim version of their 2023/24 Financial Regulations. **Please see section 4: Observations for more details.** The purpose of these Financial Regulations is to provide control over the totality of the College's resources and provide management with assurances that the resources are being properly applied for the achievement of the College's strategic plan and business objectives, which includes:

- Financial viability;
- Achieving value for money;
- Fulfilling its responsibility for the provision of effective financial controls over the use of public funds;
- Ensuring that the College complies with all relevant legislation; and
- Safeguarding the assets of the College.

### Financial Systems

The College uses a number of financial systems for different areas of its finance processes:

- Account Systems – SUN.
- Payroll System – Chris.
- Procurement system – PECOS.
- Fees Invoicing - SITS.

# 1 Executive Summary

## Monitoring and Reporting

The Director of Finance uses an excel spreadsheet to monitor the expenditure and income for individual cost centres, on a monthly basis. This data is generated into a report which the Director of Finance uses to present to the Finance and General Purposes Committee on a quarterly basis.

## Purchases

Staff are required to raise a Purchase Order through the PECOS system, which must be approved by the Budget Holder. Suppliers are presented with the Purchase Order, and invoices are sent to the Finance Team, who reconcile the invoice details to the PO details on PECOS. Necessary adjustments are carried out where necessary and approval is sought from the Budget Holder. Once approved, the information feeds through to SUN, which then gets picked up for payment through the supplier payment run. Please refer to **Section 3: Detailed Recommendations** for further information.

## Income

The College has two sources of income - Funding Income and Non-SFC Income. Funding income is received from the University of Highlands and Islands based on an annual agreement the College has with UHI. We have covered other income sources within our Non-SFC Income audit which was undertaken alongside this review.

## Credit Cards

The Royal Bank of Scotland provides the College with credit cards. These are limited to travel and accommodation bookings by the executive team, online payment of goods and services, and for use in emergency. The Finance Team set up card holders on Sharepoint, where they can update the excel spreadsheet with details of their expenses and its corresponding receipts. The Finance Team at the end of the month, receive the monthly bank statement and perform the reconciliations and subsequent approval for direct debit payment. The total limit for the credit cards held by the College is £37,500, which is to be divided among 6 members of staff, where each member of staff holds a card with a limit of £6,250. Please refer to **Section 3: Detailed Recommendations** for further information.

# 1 Executive Summary

## Fixed Assets

Purchases of fixed assets follow the same procedures as those outlined in the purchases section. The Head of Finance maintains a Fixed Asset Register, and this is updated yearly.

## Payroll

Payroll officers ensure that all timesheets are completed appropriately. The Finance Team Leader reviews the accuracy of the data before approval. When approved payroll officers will generate the monthly payroll, following these BACS payments are made, the payroll is authorised by either the Director of Finance or Finance Manager. A monthly reconciliation is prepared by one of the payroll officers and is approved by the Finance Team Leader to ensure that payroll accounts agree between the CHRIS payroll system and the SUN financial system (the finance system used by the Finance Department).

## Bank Reconciliation

The College has three bank accounts, the General payments bank account, which is the main account, an HE Hardship account which is used only for students' support, HE hardship payments and income, and a Euro account which is used for income and expenditure in Euros. At the end of each month, the bank reconciliations are carried out by the Finance Officer, Bank, General Ledger & Projects and reviewed by the Finance Team Leader.

# 1 Executive Summary

## Work Undertaken

Our work undertaken for this review included the following:

### Objective 1: Efficient and effective procedures and controls are in place for key finance processes.

- | We obtained and reviewed the Financial Regulations and supporting policies and procedures.
- | We held discussions with relevant staff regarding the finance systems in place to ensure that IT systems are appropriately integrated.
- | We completed walkthrough testing of the following areas to confirm that activities were being processed in line with the College's procedures:
  - Bank Reconciliations;
  - Funding Income;
  - Payroll;
  - Purchases;
  - Credit Card Transactions;
  - Petty Cash; and
  - Fixed Assets.
- | We completed transaction testing surrounding the following areas:
  - Payroll: We reviewed the Payroll Submissions for February, March and April 2024 to ensure that the appropriate checks were completed as part of the month end process, BACs were approved appropriately and that payments were made timely.
  - Bank Reconciliations: We reviewed the February, March and April 2024 bank reconciliations to ensure that balances matched bank statements and the College's finance system, that unreconciled items were appropriately accounted for and that reconciliations were approved in line with the College's procedures.
  - Purchases: We reviewed a sample of 5 purchases from the period from October 2023 to May 2024 to ensure that transactions were properly approved prior to being raised, were recorded correctly within the finance system and BACS were appropriately authorised.

# 1 Executive Summary

- Fixed Assets: We reviewed a sample of 5 fixed asset additions for the financial year 2023/24 to ensure that assets were appropriately approved prior to purchase and that the purchase and payment of the asset was processed in line with the College's procedures.
- Income: We reviewed the remittance advice of the funding income received in February, March and April 2024 and compared this with the corresponding bank statement.
- Credit Cards: We reviewed a sample of 5 credit card transactions from the period October 2023 to May 2024 to confirm that credit card statements were appropriately checked and authorised, credit card purchases were completed in line with the College's procedures, and that purchases could be traced to the corresponding receipts.
- Petty Cash: We reviewed a sample of 7 petty cash transactions between October 2023 and May 2024 at Stornoway, Ullapool and Barra locations to ascertain if these transactions were carried out in line with the Financial Regulations.

## **Objective 2: Adequate segregation of duties are in place.**

- | We confirmed that there is adequate segregation of duties within the Finance Team.
- | We confirmed that there is a Schedule of Financial Delegation in place.
- | Through our sample testing, we confirmed that segregation of duties is embedded within the finance systems, and that appropriate authorisation procedures are being followed.

## **Objective 3: There is adequate management oversight of finance processes.**

- | We reviewed the spreadsheet used to monitor the income and expenditure of the different cost centres in the College.

## **Objective 4: There is adequate and timely reporting to Committee and appropriate scrutiny taking place.**

- | We reviewed the minutes presented to the Board of Management through the Finance and General Purposes Committee in August, November 2023 and February 2024.
- | We reviewed the reports presented to the Board of Management through the Finance and General Purposes Committee in August, November 2023 and February 2024.



# 1 Executive Summary

## Conclusion

### Overall Conclusion: Substantial

Following our review, we can provide the College with a substantial level of assurance surrounding the arrangements and controls in place in respect of Overall Financial Controls. We have raised several good practice points as to the arrangements in place, detailed in the "**Areas of Good Practice**" section. We have also raised 2 recommendations for improvement. We have also included 1 observation. Please refer to **Section 3: Detailed Recommendations**, and **Section 4: Observations** for further information.

## Summary of recommendations

### Grading of recommendations

	High	Medium	Low	Total
Overall Financial Controls	0	1	1	2

As can be seen from the above table there were no recommendations made which we have given a grading of high.

# 1 Executive Summary

## Areas of good practice

The following is a list of areas where the College is operating effectively and following good practice.

1.	The Director of Finance monitors the financial activities of each cost centre, and detailed reports are presented to the Board of Management.
2.	We can confirm that the College has adequate segregation of duties in place for each of its financial operations.
3.	The College has a robust set of Financial Regulations which provide guidance on the overarching principles of the financial processes in place within the College, as well as outlining the responsibilities of staff.
4.	We were able to confirm that arrangements are effective for the following areas: <ul style="list-style-type: none"><li>Funding Income.</li><li>Credit Cards.</li><li>Purchases.</li><li>Bank Reconciliations.</li><li>Fixed Assets.</li><li>Petty Cash.</li><li>Payroll.</li></ul>
5.	Through our audit testing we were assured that the College's finance systems are appropriate and fit for purpose.
6.	We completed transaction testing of the College's key financial operations, and we were able to confirm that information included on the College's systems appropriately matched to backup information, transactions were approved in line with the College's procedures and that payments were made/received appropriately.

# 1 Executive Summary

UHI North, West and Hebrides  
Overall Financial Controls

The following is a list of areas where the College is operating effectively and following good practice.

- |    |  |
|----|--|
| 7. | The Director of Finance reports quarterly to the Finance and General Purposes Committee. The Committee then provides assurance to the Board. |
|----|--|

## 2 Benchmarking

### UHI North, West and Hebrides Overall Financial Controls

We include for your reference comparative benchmarking data of the number and ranking of recommendations made for audits of a similar nature in the most recently finished internal audit year.

### Overall Financial Controls

Benchmarking				
	High	Medium	Low	Total
Average number of recommendations in similar audits	0	0	1	1
Number of recommendations at UHI North, West and Hebrides	0	1	1	2

From the table above it can be seen that the College has a higher number of recommendations compared to those Colleges it has been benchmarked against.

### 3 Detailed Recommendations

Credit Card Limit																							
Ref.	Finding and Risk	Grade	Recommendation																				
1.	<p>Through discussions with the Finance Team, we ascertained that the total limit for the College's credit cards is £37,500. We were informed that 6 card holders each have a card with an individual limit of £6,250.</p> <p>During our review, in line with our conversation with the Finance Team, we discovered that the total limit held by all credit card holders in the College exceeded the limits we were told.</p> <table><tr><td></td><td>£</td></tr><tr><td>PA to Vice Principal (Operations)</td><td>10,000</td></tr><tr><td>Risk and Compliance Manager</td><td>6,250</td></tr><tr><td>Finance Manager</td><td>6,250</td></tr><tr><td>Finance Officer</td><td>6,250</td></tr><tr><td>PA to Principal</td><td>5,000</td></tr><tr><td>Finance Team Leader</td><td>6,250</td></tr><tr><td>PA to Vice Principal (Academic)</td><td>5,000</td></tr><tr><td>Marketing Team Leader</td><td><u>5,000</u></td></tr><tr><td>Total</td><td><u>50,000</u></td></tr></table> <p>Additionally, we reviewed the Financial</p>		£	PA to Vice Principal (Operations)	10,000	Risk and Compliance Manager	6,250	Finance Manager	6,250	Finance Officer	6,250	PA to Principal	5,000	Finance Team Leader	6,250	PA to Vice Principal (Academic)	5,000	Marketing Team Leader	<u>5,000</u>	Total	<u>50,000</u>	Medium	We recommend that the Finance Team updates the Financial Regulations to include a detailed section for the use of its credit card, also outlining the limit for each card holder, as well as the College's overall limit.
	£																						
PA to Vice Principal (Operations)	10,000																						
Risk and Compliance Manager	6,250																						
Finance Manager	6,250																						
Finance Officer	6,250																						
PA to Principal	5,000																						
Finance Team Leader	6,250																						
PA to Vice Principal (Academic)	5,000																						
Marketing Team Leader	<u>5,000</u>																						
Total	<u>50,000</u>																						

### 3 Detailed Recommendations

	<p>Regulations, and the Finance Procedure Manual and we confirmed that the total limit for the College's credit cards is not documented.</p> <p>There is a risk that the College is exceeding its authorised credit capacity, which could lead to financial overextension.</p>		
Management response			Responsibility and implementation date
<p>The Financial Regulations cover the broad principles and policies applied by the College in relation to financial control. It is thus proposed operational guidance be provided by the development of a separate credit card policy.</p> <p>For information, the College exercises financial control over the use of credit cards at the level of individual cards (with no individual card having a credit limit over £10k), not on the cumulative sum of individual card limits, which will vary from time to time for operational reasons due to the control exercised on individual cards.</p>			<p><i>Responsible Officer:</i></p> <p>Kevin Mallett, Head of Finance</p> <p><i>Implementation Date:</i></p> <p>30th September 2024</p>

### 3 Detailed Recommendations

Petty Cash Voucher			
Ref.	Finding and Risk	Grade	Recommendation
2.	<p>The Financial Regulations require that requisitions for reimbursements are sent to the Finance office, with appropriate receipts or vouchers.</p> <p>During our review, we discovered that the members of staff at Ullapool College Centre are not submitting petty cash vouchers, alongside the receipts.</p> <p>There is a risk that without proper documentation, it is challenging to verify the legitimacy of the expenses.</p>	<b>Low</b>	<p>We recommend that the College's regulations and procedures be clearly communicated to members of staff.</p> <p>We also recommend that the Finance team assure themselves that petty cash vouchers are being reconciled alongside receipts, prior to reimbursement.</p>

### 3 Detailed Recommendations

Management response	Responsibility and implementation date
Accepted.  Existing operational processes will be reviewed for all locations where petty cash is in use to ensure that standard procedures, including the use of vouchers, are in place.	<i>Responsible Officer:</i>  Kevin Mallett, Head of Finance  <i>Implementation Date:</i>  30th September 2024



## 4 Observations

The following is a list of observations from our review

- |    |  |
|----|--|
| 1. | The final draft of the Financial Regulations will be presented to the Finance and General Purposes Committee on the 19th of June 2024. |
|----|--|

## 5 Audit Arrangements

UHI North, West and Hebrides  
Overall Financial Controls

The table below details the actual dates for our fieldwork and the reporting on the audit area under review. The timescales set out below will enable us to present our final report at the next Audit and Risk Management Committee meeting.

Audit stage	Date
Fieldwork start	3 June 2024
Closing meeting	12 June 2024
Draft report issued	21 June 2024
Receipt of management responses	25 July 2024
Final report issued	30 July 2024
Audit and Risk Management Committee	14 August 2024
Number of audit days	8

## 6 Key Personnel

### UHI North, West and Hebrides Overall Financial Controls

We detail below our staff who undertook the review together with the College staff we spoke to during our review.

Wbg			
Partner	Graham Gillespie	Partner	gg@wbg.co.uk
Senior Manager	Sue Brook	Senior Internal Audit Manager	sb@wbg.co.uk
Senior	Titilayo Alaba	Internal Audit Senior	ta@wbg.co.uk
Auditor	Megan Clarke	Internal Auditor	mc@wbg.co.uk

UHI North, West and Hebrides			
Key Contacts:	Derek Bond	Finance Director	derek.bond@uhi.ac.uk
	Kevin Mallett	Head of Finance	kevin.mallett@uhi.ac.uk
	Roddy MacPhee	Risk and Compliance Manager	ex22rm@uhi.ac.uk
	Emma Munro	Finance Team Leader	emma.munro@uhi.ac.uk
Wbg appreciates the time provided by all the individuals involved in this review and would like to thank them for their assistance and co-operation.			



# A Grading Structure

UHI North, West and Hebrides  
Overall Financial Controls

For each area of review, we assign a level of assurance in accordance with the following classification:

Assurance Classification	
Strong	Controls satisfactory, no major weaknesses found, no or only minor recommendations identified.
Substantial	Controls largely satisfactory although some weaknesses identified, recommendations for improvement made.
Weak	Controls unsatisfactory and major systems weaknesses identified that require to be addressed immediately.
No	No or very limited controls in place leaving the system open to significant error or abuse, recommendations made require to be implemented immediately.

# A Grading Structure

For each recommendation, we assign a grading either as High, Medium or Low priority depending on the degree of risk assessed as outlined below:

Grading	Classification
High	Major weakness that we consider needs to be brought to the attention of the Audit and Risk Management Committee and addressed by Senior Management of the College as a matter of urgency.
Medium	Significant issue or weakness which should be addressed by the College as soon as possible.
Low	Minor issue or weakness reported where management may wish to consider our recommendation.

## Purpose of review

The purpose of this assignment is to perform a high-level review of the key financial controls in place at the College, to provide assurance that key financial controls are suitably designed and operating effectively. This review will include a review of the processes relating to purchasing, income, cash and banking, payroll and fixed assets.

This review forms part of our 2023/24 Internal Audit Annual Plan.

## Scope of review

Our objectives for this review are to ensure:

- | Efficient and effective procedures and controls are in place for key finance processes.
- | Adequate segregation of duties are in place.
- | There is adequate management oversight of finance processes.
- | There is adequate and timely reporting to Committee with appropriate scrutiny taking place.

## Limitation of scope

There is no limitation of scope.

## Audit approach

Our approach to the review will be:

- | Review the Financial Regulations in place within the College to confirm that these are complete, appropriately reviewed, and comply with regulatory requirements.

## B Assignment Plan

- | Review the financial procedures to ensure that they are appropriate and in line with good practice.
- | Review the financial procedures to ensure that they are appropriate and in line with good practice.
- | Conduct walk-through testing of key financial areas, these being: cash and bank; purchasing and payments; income; fixed assets; financial reporting.
- | Sample testing key controls in place for the financial areas above to verify the effectiveness of each control.
- | Review the level of integration of key systems to assess for level of efficiency.
- | Review the segregation of duties in place and confirm that these cover all finance processes.
- | Review the level of financial reporting in place and consider whether the reporting arrangements are robust.
- | Review the month end process to confirm that there is a clear process in place which is being adhered to.
- | Sample test month end reconciliations to ensure completeness and that these are appropriately reviewed.

### Potential key risks

The potential key risks associated with the area under review are:

- | Ineffective or inefficient procedures and controls may be in place for key finance processes.
- | Inadequate segregation of duties may compromise the control environment in relation to key finance processes.
- | Inadequate management oversight of financial processes compromises control effectiveness.
- | There is not adequate and timely reporting to Committee with appropriate scrutiny taking place.