
Background

Executives and audit committees normally have limited time to ask fundamental questions about internal audit and perhaps there are often more pressing things to do. Internal auditors, too, focus industriously on preparing annual plans; programme delivery and then annual opinions based on a tried and tested annual cycle. Now that normal business is disrupted so significantly, rather than contemplate a return to doing what we have always done, let's think about how internal auditors, and their clients, should do things differently in a rapidly and radically changing higher education sector which needs to use its resources wisely.

In this paper, we argue that to protect themselves adequately in the new regulatory environment each higher education provider must:

1. develop a board assurance framework that (i) defines the management and independent assurances needed and (ii) explores how to obtain these assurances most effectively and efficiently - whether via internal audit or other means. Adherence to each of the Office for Students registration conditions should be a primary consideration for assurance needs. Compliance with legal obligations and the management of wider risks and opportunities will also be relevant;
2. build internal audit coverage around identified assurance needs. The *skills, experience and ability* of the *individual* internal audit staff who deliver *each* audit and the *depth* of their work need to inform any assessment of whether the assurance they provide is reliable and meaningful;
3. treat precedents from the rest of the sector with caution. Any higher education provider that finds itself in dialogue with the Office for Students is likely to find that it is a one to one exchange. There will be no sectoral protection and each higher education provider will be accountable for its own decisions.

In the rest of this note we explore these points in more detail and argue for changes in the way audit committees and internal auditors approach their work.

We've always done it this way

Career internal auditors will be familiar with 'we've always done it this way' as a familiar explanation of the otherwise inexplicable. But, when it comes to internal audit itself, are internal auditors, audit committees and those who support them, complicit in resorting to this formula rather than challenging and testing approaches to internal audit in UK higher education? We think this question deserves examination: particularly if higher education providers want to ensure value from their investment in internal audit and other assurance activities.

For higher education providers in England, the HEFCE Audit Code of Practice was temporarily adopted by the Office for Students, but has now been abandoned. The sector seems largely

nonplussed by the resultant vacuum and looks to the forthcoming update of the CUC Audit Committee Handbook for guidance. The Audit Code of Practice largely dated back to the early 1990s and many of its principles live on in the latest draft of the CUC Audit Committee Handbook – despite the sector and its regulatory and external environment having changed beyond recognition over the last thirty years.

The new CUC Audit Committee Handbook remains wedded to annual audit committee and internal audit opinions about internal control, governance, risk management and value for money. While these assurances remain important to the governing body, do they provide sufficient coverage? Are these opinions, above all others, still the most relevant?

A breach of the Office for Students conditions of registration potentially poses an existential threat for any registered higher education provider, and those registration conditions are much more wide ranging than the topics highlighted by the CUC. Audit committees, executive teams and internal auditors that are too narrowly focused on the traditional range of annual opinions are potentially wasting time and money while unwittingly leaving their organisations exposed.

In the current environment, board assurance frameworks are the only game in town. A framework that reflects the organisation's own particular risk environment should inform the assurances and opinions that boards require from audit committees and that audit committees in turn require from executives, internal auditors and other advisors.

Send three and fourpence, we're going to a dance

More youthful readers might need to resort to Google, but many will know that the heading here refers to the peril of a vital message being rendered nonsensical as it is relayed up the chain of command. Could higher education internal audit possibly offer a neat illustration of this process in reverse?

Accounts abound across the sector of audits being conducted (a) by inexperienced, and therefore inexpensive, staff and (b) under tight time budgets. This possibly reflects the sector's most prominent internal audit measures, courtesy of the annual British Universities' Finance Directors Group (BUFDG) survey: the cost per day of internal audit and the number of days taken.

Potentially, the results of weak audits are being gilded and polished to deliver apparently reliable messages to 'headquarters'. Presumably, instead of the quality of cheap and 'efficient' audits ringing alarm bells, the assurances progressively acquire gravitas and credibility as they are reported upwards. This can mean that by the time the assurances reach audit committees and governing bodies any potential doubts about the depth of the audit and the expertise of the auditor have been lost. Instead everyone is content that they have the documented assurances needed to show that they have done their bit. This is likely to provide only a "performative" internal audit function, rather than one that really tests and challenges the approaches or assumptions relied upon by management.

Audit committees and executives have a duty to ask themselves whether audit reports can realistically be relied upon, rather than taking the auditor's word for it, or relying upon a brand name or the auditor's professional indemnity insurance. How was the auditor who performed the audit skilled and equipped? What was their scope? How much time did they have and does this seem sufficient to reach an appropriate depth and form a reliable opinion? These are all vital questions



and need to be asked at every stage from agreement of an overall audit programme through to delivery of the final audit report.

Consider your personal health. Acquaintances might offer you a free appraisal (you're looking well). It's the cheaper option, but how seriously would you rely on it?

You could visit an eminent medical consultant, but without a reasonably thorough examination, or a sense that your concerns had been carefully weighed up, how assured might you feel? Translate this into a business assurance environment and apply the same principles.

What gets measured gets managed?

To BUFDG's credit, in addition to the annual quantitative survey, they conducted some more qualitative research in 2016 – and we understand that a follow-up is in the pipeline. The 2016 survey showed that outsourced internal audit had a satisfaction rating of 59%, substantially behind in-house or consortium models which respectively achieved 86% and 91% satisfaction ratings. Yet, curiously, despite having a markedly lower satisfaction rating, the 2019 BUFDG annual survey showed that outsourced internal audit had increased its market share to 71%. This is an as yet unexplained dichotomy, though undoubtedly the accounting firms, grappling with their own troubled times, are grateful for the sector's continued faith.

Beyond cost, the CUC Audit Committee Handbook suggests progress against the annual programme as a good performance measure, and in fairness internal auditors themselves often like this measure too. Less easy to measure, but surely infinitely more relevant, is whether internal audit is focused on the right things and whether the quality of its work is reliable.

None of this is to argue that internal audit deserves a free pass. Internal audit professional standards require that internal audit functions should undergo an independent external review every five years. This is a longstanding obligation and the HEFCE (and then Office for Students) Audit Code required that internal audit in the sector be delivered in accordance with these same professional standards. The CUC Audit Committee Handbook acknowledges that '*Expectations of auditors are set out in various international, national and professional standards, Codes and guidelines.*' Yet, across the sector, how many audit committees have ever seen evidence that their internal auditor has undergone the required five-yearly independent review?

Audit committees need to be satisfied that their internal auditors adhere to relevant professional standards. They should ask their internal auditors how the requirement for an independent five-yearly quality assessment is fulfilled. Audit committees should consider any implications for their reliance on internal audit that arise from the most recent quality assessment report (or indeed the absence of a report) and should understand both the timescales for the next review and any opportunities to participate in that review.

Do things right or do the right thing?

For time-pressed executives and non-executives, and for those who crave certainty, the HEFCE Audit Code gave, and the CUC Audit Committee Handbook continues to offer, ready-made easy to follow recipes. Annual plans, progress reports, annual opinions, periodic self-assessments and reviews of internal and external audit and tender exercises all combine to ensure that an audit committee meeting, say, four times each year feels busy. Internal auditors too have their own cherished customs and traditions: lovingly prepared files of working papers and cyclical audits which



help keep them busy but are of questionable value to the wider organisation. But in a sector that has limited resources, and is required to deliver value for money in its activities, is this good enough?

Moreover, during the HEFCE years the sector operated in a much less risky and more predictable environment. Then, things still occasionally went wrong for individual institutions. Evidence that they had followed the letter of the Audit Code generally allowed affected governing bodies to mount an adequate defence. Things are different now. The Office for Students focuses relentlessly on the need for ongoing adherence to its conditions of registration, but (reflecting the diversity and complexity of the sector) they don't prescribe *how* this might be achieved.

Following a standard recipe doesn't cut it any more. Higher education providers who come under scrutiny from the Office for Students must prove their own compliance with the registration conditions. Nothing else will matter and nothing else will provide a defence. There is no herd immunity any more. Audit committees, executives and internal auditors need to avoid extraneous distractions and think their priorities through from first principles.

A board assurance framework developed from first principles is a vital first step to ensure the right assurances are being obtained. Secondly, boards and audit committees need to ensure that the assurances they receive can be relied upon: those delivering assurances need to be equipped to do so and these assurances need to be underpinned by depth of coverage.

Procurement of Internal Audit

Notwithstanding a significantly changed sector and regulatory requirements, many institutions in the sector procure internal audit as though they were buying photocopier paper. All too often, a set procurement cycle and audit committee deadline dates define everything. Consequently, audit service specifications don't demonstrate that organisations have thought through their assurance requirements. Instead these specifications are all too often clearly borrowed from other institutions or recycled across decades, with references to long-dead regulations and standards. Usually there are no opportunities to discuss requirements and how these might best be met in the current environment. Moreover, those involved in supplier selection can frequently only draw on past experience of internal audit, rather than current and emergent professional knowledge. Unsurprisingly history repeats itself. People do what they have always done and are then disappointed by depressingly familiar outcomes.

Finally, rather than price being a second order decision, it can represent up to 40% of the total up front score. Given the importance of robust assurance in today's higher education sector is this wise? Would you allow such a lax approach to specification and high weighting for price if, say, you were procuring parachutes? Logically, you would very carefully determine the baseline functional performance and quality of the parachute you need first, and then secure the best price as a second step.

For institutions considering the procurement of internal audit, we have drafted a suggested specification that can (and indeed should) be tailored to meet specific local needs. Please [get in touch](#) with us to obtain a copy.



Board Assurance Frameworks – More Detail

Unavoidably, governing bodies, audit committees and executives need to go back to first principles. They need to determine the matters on which they need assurance (the Office for Students conditions of registration need to be central to this). Other regulatory areas such as UKVI, GDPR and IR35 compliance may require assurance too. Many areas of risk associated with financial sustainability; competitive position and student recruitment are swept up within the Office for Students registration conditions, but a well-functioning approach to risk management might also point universities towards consideration of HR, ethical, environmental and technological risks which our [analysis](#) has shown to be underplayed in higher education relative to other sectors. Some of these risks may need to be assessed with more rigour than ever before. Environmental considerations, for example, must reflect the fact that the Greta Thunberg generation, if they haven't already arrived, will be students soon.

Having identified the important areas where assurance is needed, governing bodies and audit committees need to determine the best and most efficient sources of that assurance. Often, but not always, this will be internal audit. Assurances need to be reliable and worthwhile: and this ought to be the primary consideration. The number of days taken, cost per day and adherence to annual plans (if these still exist) need to be seen for what they are: very much second-tier considerations. Instead, well-targeted and effective assurance efforts will deliver true value for money for higher education providers.

To make this happen, it might well be helpful for audit committees and executives to 'unlearn' or at least suspend their belief in, previous sector guidance and norms. These feel increasingly like distractions that are not fit for the current sector environment. While they might continue to inform approaches, they should not be considered as canon and adopted wholesale.

Internal audit elsewhere

We mentioned earlier that 71% of UK higher education providers have outsourced internal audit. In researching this paper, we were surprised to discover that this propensity to outsource internal audit makes UK higher education an international outlier.

Amongst larger universities, the Russell Group splits roughly three ways between in-house, outsourced and hybrid approaches to internal audit provision. A radically different picture emerges from the QS global top 50: 40 of the top 50 have (often extremely well-resourced) in-house audit provision, including co-sourced provision in a few cases. The other ten universities are either UK institutions or are based in mainland China. So, in its approach to internal audit, has UK higher education stolen a march on the rest of the world, or has it taken a wrong turning?

There is at least a prima facie case to answer that the rest of the world takes audit and assurance more seriously, and that English higher education providers may run the risk that their current approach is exposed by the new regulator.



Our Suggestions

We distil all of the above into three specific recommendations:

1. Work with the governing body and audit committee to define the management and independent assurances they need and where they can get these most effectively and efficiently. We suggest that adherence to the Office for Students registration conditions should be the central consideration, though compliance with legal obligations and the management of wider risks and opportunities will also be relevant.
2. Build internal audit coverage around identified assurance needs. The ability of internal auditors to provide reliable and meaningful assurance should be the overarching consideration. Value for money should focus on ensuring that assurance activity is well-targeted, effective and efficient as well as being economic.
3. Treat precedent from the rest of the sector with caution. Any dialogue you have with the Office for Students is likely to be on a one to one basis, there will be no sectoral protection and each higher education provider will be accountable for their own decisions.

Get in Touch

We hope that this paper caused you to think about internal audit and assurance. We would like to know what you thought, so please do let us know. We don't claim to have all the answers, but we certainly want to work with the sector to provide effective internal audit. If you are interested, or if we can help, please contact us.



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Uniac's own position on the themes raised in this paper

It would be foolish to raise these questions without holding up a mirror to our own performance. Here is our 'self-assessment' of our performance on the key issues:

Areas of focus

We are working with some of our universities to develop assurance frameworks that reflect the Office for Students registration conditions as well as the wider risk environment and we intend to roll this out more widely over the coming year. We have long-argued against cyclical audits of core systems without good reason and will continue to maintain this stance.

Suitable staff expertise to underpin audit assurances

The sector focus on cost per day gives us a challenge, but nonetheless whilst remaining competitive we still manage to maintain a strong team that brings senior-level sector specialist expertise and significant internal audit experience together. The fact that we don't have to make a profit and that our member universities can enjoy VAT advantages helps us rise to the challenge.

Sufficient time to deliver reliable audits

We would always like more time, but generally feel that we achieve a happy medium. We try to do fewer but deeper audits, and if an audit is (for good reason) a brief high level review we make this clear in order not to offer unwarranted assurances.

Our quality

Independent quality reviews are the norm for us and we seek to benchmark our performance against the very best internal audit practices across all sectors. Our board appointed our fourth independent reviewer in 2017. As with previous reviews, executives and audit committees across all of the universities we work with were given the opportunity to be involved, and the resultant report was shared with all of them. The review process offers useful insights to Uniac staff and valuable reassurance to our clients about the quality of our work.

