

10. SOME FUTURE DEVELOPMENTS IN AUDIT

- 10.1 Finally, just a few thoughts on some future general developments in audit that you might look out for as a governor. We are not concerned here with technical changes to undertaking audit (which will generally only involve the auditors and audit committee) but issues which will reach board level.
- 10.2 The basic work of audit will continue to be focused on the essentials of management, control and governance, but it will evolve, especially as IT systems become even more fundamental to the daily operations of institutions. The IT capacity of an audit team should be one of the key criteria in assessing their fitness to undertake an audit appointment. The days of 'tick and bash' may be gone, but the fundamental requirement to check that the records fairly reflect reality remains. Without understanding how an institution's computer systems work, it is impossible to form an opinion on that point.
- 10.3 This volume has made several references to auditors 'raising their game' by shifting some of their work away from routine checking towards consideration of strategy implementation and management quality. Risk based auditing is another aspect of this gradual movement towards a holistic and broad view of audit, which starts with the strategic plan and works down. Of course, attention must still be paid to what goes on at the point of delivery to students and other customers, but there needs to be a sensible balance between the two.
- 10.4 Under government pressure to lighten the regulatory burden, the English funding council has made some moves towards reducing the accountability burden on its HEIs. Audit visits to institutions are planned (in normal circumstances) to be shorter and less frequent. The development of reliable and sophisticated KPIs may permit more to be done away from the institution. However, some will see this trend as undesirable - most auditors would argue that there is no substitute for on site work. This enables an experienced auditor to get a feel for the quality of institutional management, attitudes towards compliance, risk taking and similar issues. Tensions are likely to remain here.
- 10.5 Wider institutional audit has grown (albeit slowly) to the point where it now forms a structured review system in some institutions. Integrating this activity with internal audit seems an obvious development, but not without its challenges in finding the right mix of staff, especially at senior level.
- 10.6 Recent events in the banking and finance world seem likely to bring fresh demands for improvements in corporate governance. This will eventually impact on HEIs and lead to added emphasis on the strength of internal controls and risk management. The annual statement on internal control in the accounts will come under the auditor's spotlight more and more.

- 10.7 Those current events will also lead to calls for closer examination by auditors of any financial transaction or arrangement which is less than straightforward eg PFI and off balance sheet structures. Auditors will spend more time making sure they understand (and the institution understands) the precise nature of the risks and potential liabilities such arrangements entail, and that they are properly recognised and quantified in the accounts.
- 10.8 Added focus will be given to statistical returns, since they often form the basis of funding. Reference has been made earlier to the need for accuracy in student statistics, which have been the subject of concern in several institutions. There are others (staff, research activity, enterprise, pensions) which may also be the subject of closer scrutiny. Extending audit work to these is a sensible precaution to consider. It is surprising to find that the finance return (to Hesa) is not usually audited. Doing it at the same time as the annual accounts would not increase costs significantly (it is mainly restating the same figures) and would be a worthwhile safeguard.
- 10.9 The higher level internal audit work referred to above is not always a strength of the major accounting firms, whose expertise lies more in the external audit field. There are specialist internal audit firms and there may be a growth in this activity. This is worth consideration when the time comes to examine internal audit arrangements.
- 10.10 Similarly, there are a few internal audit consortiums in existence in higher education and the government's promotion of shared services in public services might be the prompt for others to come into existence. This arrangement offers a good combination of independence, specialism and sustainability of service which should be worth considering.