

Meeting of the Audit Committee

4pm* on Thursday, 7 February 2013
in 1B33, Technopark, London Road, London SE1

* Pre meeting with the Internal Auditors at 3.45pm in 1B33, Technopark

Agenda

<i>No.</i>	<i>Item</i>	<i>Paper No.</i>	<i>Presenter</i>
1.	Welcome and apologies		Chair
2.	Declarations of Interest		Chair
3.	Minutes of the last meeting (for publication)	AC.01(13)	Chair
4.	Matters arising		
4.1	Update on student data quality (for discussion)	AC.02(13)	PVC(A)
5.	TRAC Return		
5.1	Return submitted to HEFCE (to ratify)	AC.03(13)	EDF
6.	Risk and Control		
6.1	Halls of residence debtors (to consider)	AC.04(13)	DRC
6.2	Quarterly Risk Report (to consider)	AC.05(13)	EDF
7.	Internal Audit		
7.1	Progress Report (for monitoring)	AC.06(13)	PwC
7.2	Quarter 4 (2011/12) Continuous Auditing Report (for monitoring)	AC.07(13)	PwC
7.3	Quarter 1 (2012/13) Continuous Auditing Report (for monitoring)	AC.08(13)	PwC
7.4	Review of capital programs (for monitoring)	AC.09(13)	PwC
7.5	Management of fraud risk (for monitoring)	AC.10(13)	PwC
8.	Finance Department Organisational Structure		
8.1	Finance Department structure/succession planning (to	AC.11(13)	EDF

review)

9. **Other Matters**

- | | | | |
|-----|---|-----------|-------|
| 9.1 | Anti-fraud, bribery and corruption report (to consider) | AC.12(13) | EDF |
| 9.2 | Speak up arrangements and report (to review) | AC.13(13) | Sec |
| 10. | Matters to report to the Board following this meeting | | Chair |
| 11. | Any other business | | Chair |
| 12. | Date of next meeting: 13 June 2013 | | Chair |

Members: Andrew Owen (Chair), Steve Balmont, Douglas Denham St Pinnock, Shachi Patel

Internal Auditors: Justin Martin and David Wildey (PwC).

External Auditors: David Barnes (Grant Thornton)

With: Vice Chancellor, Pro Vice Chancellor (Academic), Executive Director of Finance, University Secretary, Financial Controller, Academic Registrar (for item 4.1), Director of Residence and Catering (for item 6.1) and Governance Officer.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 7 February 2013
In Room 1B33, Technopark, London Road, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	
Shachi Patel	(Independent co-opted member)

External Auditors

David Barnes	Grant Thornton
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Internal Auditors

Justin Martin	PricewaterhouseCoopers
David Wildey	PricewaterhouseCoopers

In attendance

Prof Martin Earwicker	Vice Chancellor
Dr Phil Cardew	Pro Vice Chancellor (Academic) (<i>for minutes 1-10 and 18-25</i>)
Natalie Ferer	Financial Controller (<i>for minutes 1-19 and 21-25</i>)
Dr Andrew Fisher	Academic Registrar (<i>for minutes 1-6</i>)
Richard Flatman	Executive Director of Finance
Stephen Kay	Head of Residential and Catering Services (<i>for minute 11</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Officer

Welcome and apologies

1. No apologies had been received.

Declarations of Interest

2. Steve Balmont declared an interest in the item on speak up arrangements as a director of the company which owned one of the prospective providers of a whistleblowing advice line service. The committee noted the declared interest.

Minutes of the last meeting

3. The minutes of the meeting held on 30 October 2012 were approved (paper **AC.01(13)**). The minutes were approved for publication subject to the proposed redactions, with the exception that the figure in minute 8 should not be redacted.

Matters Arising

4. There were no matters arising from the previous minutes which were not picked up elsewhere on the agenda.

HESA Improvement Project

5. The committee noted an update on the HESA Improvement project from the Pro Vice Chancellor (Academic) and Academic Registrar (paper **AC.02(13)**). It was noted that the HESA submission had been made for 2012 and that it had met HEFCE requirements. Management required further improvements to data quality to help improve internal decision making. The committee noted that progress was being made.
6. The committee requested the update to the Board to include a project plan with key steps.

Dr Andrew Fisher left the meeting.

TRAC Return – Internal Audit report

7. The committee discussed the internal audit report on the TRAC return process (paper **AC.14(13)**), which was given a classification of medium risk. It was noted that the audit did not check the accuracy of the underlying data but the management process to ensure accuracy.

TRAC Return

8. The committee discussed the annual TRAC return which, following review by the Chairman, had been submitted to HEFCE (paper **AC.03(13)**) on time. The committee requested management to ensure timely preparation of future TRAC returns so that the approval process can be completed on time. The committee noted that the data had met all the validations tests. The committee ratified the return and its submission.

Halls of residence debtors

9. The committee discussed a report on halls of residence debtors (paper **AC.04(13)**), which had been produced following concerns raised in the key issues memorandum by Grant Thornton as part of the year end audit (minute 9 of 30 October 2012 refers).
10. The committee expressed concern that the system had not been working for five years and that the Audit Committee had not been made aware of the issue. The committee requested that they receive an annual report on the level of unpaid halls fees.

Stephen Kay entered the meeting. Dr Phil Cardew left the meeting.

11. The committee approved the write off of £643k of cumulative halls of residence bad debt. The committee requested assurance that the problem had now been solved via a report at the next meeting demonstrating that the system was now working well. The committee noted that independent assurance would be provided by the continuous auditing programme.

Stephen Kay left the meeting

Quarterly Risk Report

12. The committee discussed the corporate risk register (paper **AC.05(13)**), which had been updated by the Executive. The register would be reported to the board meeting in March 2013.

Internal Audit Progress Report

13. The committee noted the Internal Audit progress report (paper **AC.06(13)**). The committee noted that all follow up actions had been implemented and that work on risk appetite was still in progress.
14. The committee requested that April be included in quarter 3 audit work.

Quarter 4 (2011/12) Continuous auditing report

15. The committee noted the quarter 4 (2011/12) continuous auditing report (paper **AC.07(13)**), a draft of which had been considered at the previous meeting.

Quarter 1 (2012/13) Continuous auditing report

16. The committee discussed the quarter 1 (2012/13) report (paper **AC.08(13)**). The committee expressed concern at the exception report in payroll, following the incident in the payroll department in 2012. It was noted that since quarter 1 a new payroll manager and team leader had been appointed and that an action plan had been agreed to resolve the problems.
17. The committee noted that a new payroll system was being implemented and requested the internal auditors to undertake a pre-implementation review.

Dr Phil Cardew entered the meeting

Capital Projects – Internal audit report

18. The committee noted the internal audit report on capital projects (paper **AC.09(13)**), which had been given a low risk rating. The committee emphasised the importance of post-expenditure reviews.

Counter Fraud – Internal audit report

19. The committee noted the internal audit report on counter fraud (paper **AC.10(13)**), which had been given a medium risk rating.

Natalie Ferer left the meeting

Finance Department Structure

20. The committee noted the update on the finance department structure and succession planning (paper **AC.11(13)**). It was noted that the key change in year had been the appointment of a new Financial Planning Manager.

Natalie Ferer entered the meeting

Anti-fraud, bribery and corruption report

21. The committee noted that no instances of fraud, bribery or corruption had been detected since the last committee meeting (paper **AC.12(13)**).

Speak up report

22. The committee noted that no issues had been raised through the speak up procedure since the last committee meeting (paper **AC.13(13)**).

23. As required under the speak up policy the committee undertook an annual review. The committee discussed the independent reporting route via the Chairman. After consideration, the committee agreed that an external advice line service was not required. The committee requested the policy to be amended to emphasise the existing independent reporting route to the Chair of the Audit Committee.

Matters to report to the Board

24. The committee noted that the matters to report to the Board were the approval of the TRAC return and the approved write off of halls of residence debts.

Date of next meeting

25. It was noted that the next meeting would be at 4pm on Thursday, 13 June 2013.

There being no further business, the meeting concluded.

Confirmed as a true record:

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Chairman

	PAPER NO: AC.01(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Minutes of the meeting of 30 October 2012	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee approves the minutes of its last meeting and approves publication subject to the proposed redactions.	
Matter previously considered by:	N/A	N/A
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	Published on the University's website	

Executive Summary

The Committee is asked to approve the minutes of its meeting of 30 October 2012 and the suggested redactions (in grey) for publication.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Tuesday, 30 October 2012
In Room 1B33, Technopark, London Road, SE1

Present

Mr A Owen	Chairman
Mr S Balmont	
Mr D Denham St Pinnock	
Ms S Patel	(Independent co-opted member)

External Auditors

Mr D Barnes	Grant Thornton
Ms C Hersey	Grant Thornton

Internal Auditors

Mr D Wildey	PricewaterhouseCoopers
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In attendance

Prof M Earwicker	Vice Chancellor
Dr P Cardew	Pro Vice Chancellor (Academic)
Ms N Ferer	Financial Controller
Mr R Flatman	Executive Director of Finance
Mr J Stevenson	University Secretary and Clerk to the Board of Governors
Mr M Broadway	Governance Officer

Welcome and apologies

1. Apologies had been received from Justin Martin of PricewaterhouseCoopers (PwC).

Declarations of Interest

2. No interests were declared in any items on the agenda.

Minutes of the last meeting

3. The minutes of the meeting held on 27 September 2012 were approved. The minutes were approved for publication subject to the proposed redactions.

Matters Arising

4. It was noted that the level of bad debt write off for the committee to approve would be revised when the financial regulations were next reviewed.

HESA Improvement Project

5. The committee noted an update on the HESA Improvement project from the Pro Vice Chancellor (Academic). It was noted that the HESA submission had been made for this year and that it had met HEFCE requirements.

Key Issues Memorandum

6. The committee discussed in detail the key issues memorandum (paper **AC.54(12)**), relating to the year end audit. The external auditors had largely completed the audit process and did not anticipate anything of concern to arise as the audit was completed. There were no issues with the going concern status of LSBU.
7. It was noted that the £2.9m impairment of the terraces had been included in the depreciation charge and not as an exceptional item and that details were disclosed separately in the notes.
8. The committee requested that the control issues identified during the course of the audit relating to hall debtors and control account reconciliations should be tackled as actions and reports on progress submitted to future meetings of the committee.
9. The committee expressed concern at the level of fee income for accommodation which was not collected from students. The committee requested a report at its next meeting and agreed that it would be helpful for the Head of Residences and Catering to attend for this item.

Pension Assumptions

10. The committee approved the pension assumptions which had been reviewed by the committee at its last meeting (paper **AC.57(12)**).

Draft Report and Accounts for the year to 31 July 2012

11. The committee reviewed the draft report and accounts for the year to 31 July 2012 (paper **AC.56(12)**). It was noted that the audit was almost complete.

The committee noted that the accounts were well ahead of budget and demonstrated a strong financial performance.

12. The committee recommended the accounts to the Policy and Resources Committee subject to some minor amendments raised in the meeting.

Internal Audit Annual Report

13. The committee noted the internal audit annual report from PwC (paper **AC.57(12)**). The paragraph on risk management had been revised following discussion at the last meeting.

Letter of Representation

14. The committee discussed the draft letter of representation by the Board of Governors to the external auditors (**AC.58(12)**). The external auditors requested to add a paragraph on data quality. A revised draft letter would be circulated to the committee prior to approval and signature by the Chairman of the Board at the Board meeting of 22 November 2012.

Students' Union Accounts

15. The committee noted draft Students' Union (SU) accounts (paper **AC.59(12)**), which had been consolidated into the University's group accounts.
16. The committee noted that the SU would become an independent charity during the year. The Audit Committee would continue to receive a copy of their future accounts to review.

External Audit Performance

17. The committee noted the performance of the external auditors against agreed key performance indicators (paper **AC.60(12)**). It was noted that the audit went well with no material issues arising.

Review of non-audit services

18. The committee noted that Grant Thornton provided corporate tax advisory services to the University for £3,286 (paper **AC.61(12)**). The work was carried out by an engagement team completely separate from the audit team.

Review of Internal Controls

19. The committee noted the review of internal controls (paper **AC.62(12)**), which had been reviewed by the committee at its last meeting and since updated following the discussion at the Board on the risk register and receipt of HEFCE's conclusions on the risk rating of the University.

Quarter 4 Continuous Auditing

20. The committee noted the quarter 4 continuous auditing report (paper **AC.63(12)**). It was noted the report was still draft and a final version would be circulated to the committee. The summary was positive and there had been improvements in all areas since the last quarter.
21. The committee questioned the accounts receivable rating following the committee's earlier discussion on collection of accommodation fees from students and requested the internal auditors to review this.
22. The committee requested that they receive final reports in a timely manner. The committee requested the internal auditors to review whether a management response could be included in the continuous auditing reports.

Internal Audit Progress Report

23. The committee noted the progress report (paper **AC.64(12)**) and noted that work had begun on the capital projects and the anti-fraud audit.

Audit Committee Annual Report

24. The committee reviewed the audit committee's annual report (paper **AC.65(12)**) to the Board of Governors and the Vice Chancellor as Accountable Officer which would be submitted to HEFCE. The committee noted that the chair of the committee had requested that a concern of the committee on payroll control failures be added to the report. An amended version of the report was tabled. The committee approved the amended version of the report subject to minor changes.
25. In response to a query from the external auditors the committee considered whether the opinion in the committee's annual report of "limited assurance" on data quality should be reflected in the statement of internal control in the accounts. The committee did not feel that this was appropriate as considerable progress had been made with regard to data quality during the year.

Annual Value for Money Report

26. The committee noted the annual value for money report (paper **AC.66(12)**), which would be submitted to HEFCE. It was noted that value for money continued to be embedded across the University and targets were set as part of the budget planning process.
27. The committee questioned whether future reports could include benchmarking against grouped data from other Universities but agreed that this might be difficult given the optional nature of value for money reporting.

HEFCE Assessment of Institutional Risk

28. The committee noted HEFCE's assessment of institutional risk (paper **AC.67(12)**), which concluded that the University was "not at higher risk", the highest rating available.

Anti-fraud, bribery and corruption report

29. The committee noted that no instances of fraud, bribery or corruption had been discovered since the last meeting (paper **AC.68(12)**).

Speak up report

30. The committee noted that no speak up matters had been raised since the last meeting (paper **AC.69(12)**). The committee requested that the method of contact for the chair of the committee (as the independent contact in the policy) be reviewed.

Matters to report to the Board

31. The committee noted that the key matters to report to the Board were contained in their annual report.

Date of next meeting

32. It was noted that the next meeting would be at 4pm on Thursday, 7 February 2013.

There being no further business, the meeting concluded.

London South Bank
University

Confirmed as a true record:

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Chairman

	PAPER NO: AC.02(12)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Progress on External Reporting	
Author:	Andrew Fisher, Academic Registrar	
Executive sponsor:	Phil Cardew, Pro Vice Chancellor (Academic)	
Recommendation by the Executive:	That the committee notes the report	
Aspect of the Corporate Plan to which this will help deliver?		
Matter previously considered by:	Audit Committee	On: Each meeting
Further approval required?	Report to Board	On: 21 March 2013
Communications – who should be made aware of the decision?	N/A	

Executive Summary

This paper updates progress in our External Returns work generally, and provides contextual information on two recent HEFCE letters relating to data audit.

Progress on External Reporting

1. This briefing note updates the progress we have made in improving our external reporting since progress was last reported to Audit Committee in September 2012. The main milestone reached in this period was submission of the 2011/12 HESA Student Record in October 2012. We have also submitted the 2012/13 HESES file in December 2012, and this has now been signed off by HEFCE.
2. The 2011/12 Student Record was submitted on 20 September 2012 and passed COMMIT (with some data issues outstanding) on 27 September 2012, in both cases about a week late. Following the first COMMIT, data quality checking continued through October. Our final COMMIT was made on 26 October. HESA set the status of the Return to 'credible' on 2 November. The return was therefore completed on time.
3. Whilst the return met HEFCE and HESA's quality standards, it did not fully meet all our own data quality improvement targets. In particular:
 - HEFCE algorithms identified 519 potential Equivalent Level Qualification (ELQ) students returned as fundable. Although on review most of these were not genuine ELQ we did identify 69 students returned as fundable who were ELQ.
 - Submission of a complete set of HESA Module entities, rather than dummy modules as presently, was deferred to the HESA 2012/13 file.
 - Because of lack of time the fields DHREGREF and NHSEMP (which are NHS funding-related funding data) were returned with very high proportions of not known values. These fields were not queried by HESA and therefore do not appear to be a matter of great concern for them.
 - The process documentation recommended by our recent internal audit is still in the form of notes on the 2011-12 submission that will need to be consolidated into a procedural document from January 2013.
4. The ELQ issue was the most serious of these. Of the 519, 69 were cases where internal exemptions from the ELQ fee had been incorrectly applied as exemptions from HEFCE's ELQ rules, and therefore funding had been claimed incorrectly. In another 34 instances, incorrect qualifications on entry had been returned (some in a previous year). These were not ELQ and we were right to claim funding. The remaining 416 were not ELQ and had been incorrectly identified as such by HEFCE's algorithm.
5. Given the timing it was not possible to re-submit the return, and it was signed off. We have already taken steps to improve the quality of our qualifications-on-entry data, which delivered improvement in the 2011/12 file and will deliver

further improvement in 2012/13. We will ensure that process documentation is updated to prevent a recurrence of the internal-exemption ELQ issue. Given our position in the contract range, 69 records are not enough to be material to our funding in 2011/12, especially as the great majority were postgraduate. We understand that HEFCE have an audit process available to give comfort where there are discrepancies between an institution's ELQ assessments and the algorithm outputs, but they have not chosen to use it in our case suggesting that the apparently large discrepancy of 416 records is not unusual.

6. Although there is substantial scope for further improvement, the submission of a file which meets HEFCE and HESA's quality standards within the normal submission window represents a very marked improvement on our performance in relation to the 2010/11 data.
7. The HESES file was submitted on 11 December 2012, which was the deadline day. We have now completed the normal HEFCE quality processes associated with this file and have no reason to think that there is any issue with the data.
8. Work is well in hand to complete the process documentation and to prepare for the HESA 2012/13 submission.

HEFCE letter 13.12.12 - Reconciliation audit of provisional allocation for National Scholarship Programme 2013-14

This was a routine desk-based audit of new entrant numbers triggered by the large difference between our reported new entrant numbers in 10/11 and 11/12. The change had implications for the number of National Scholarship Programme places HEFCE allocate to us.

The difference in reported new entrants between these two years was, as you know, primarily driven by real changes in recruitment. However there were also some issues caused by failures in our reporting practice. These were exacerbated by HEFCE using our initial 10/11 HESA data for the audit, not the corrected data we provided through the Fixed Database.

HEFCE did not treat the audit as a high priority. There has been no audit visit. Once we provided credible explanations of the issues identified by email, HEFCE were happy to accept these without further investigation.

HEFCE require us to consider the issues identified in this audit work and address them prior to submission of HESES12. We have done so, as detailed below.

Issue	Action Taken
<p>The enrolment status of some students changed after HESES10 was submitted meaning these students were not included in HESES10 but were subsequently included in HESA 2010-11.</p>	<p>Late enrolment and re-enrolment of students has been a major issue up to now. This year we have:</p> <ul style="list-style-type: none"> • Implemented mop-up Boards to finalise student status well in advance of HESES deadlines; • Clarified re-enrolment deadlines and the process for managing late re-enrolment; and • Since mid-November, all late re-enrolments have been authorised by me personally (and only in exceptional cases, or where the University is at fault for the lateness of the re-enrolment). <p>in order to ensure that students are not enrolled or re-enrolled after 1 December (the HESES census date) with effect from before 1 December. This issue has therefore been substantially addressed, but I am afraid not</p>

	<p>eliminated.</p> <p>We have authorised 91 re-enrolments since the HESES12 deadline. Although 44 of these are in HSC and are not HEFCE fundable, this will result in small discrepancies between HESES12 and the corresponding HESA13 data. As many of the non-HSC re-enrolments are for PhD or assessment-only students, this discrepancy is not likely to be material to funding.</p>
<p>Some students on the 1st year of a standard year were treated as non-standard and thereby excluded from HESES10. However, their TYPRYR was correct in HESA 2010-11 and they were treated as first year on a standard year of instance</p>	<p>We have completely revised our approach to coding TYPEYR and associated COMDATEs and this issue will not reoccur.</p>
<p>A single course had been incorrectly coded as non-fundable resulting in 45 students not being included in HESES10. These students were subsequently correctly included in HESA 2010-11 as HEFCE-funded.</p>	<p>We have reviewed the fundability status of all programmes, and corrected the static curriculum coding on QL used for both HESES and HESA, so this problem will not reoccur. Unfortunately our previous process required Faculties to assign fundability status to programmes, which they typically lacked the specialised knowledge to do. We now ensure that this is kept under review by appropriately trained staff in Registry.</p>

13 December 2012

Professor Martin Earwicker
Vice-Chancellor
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Dear Professor Earwicker

Reconciliation audit of provisional allocation for National Scholarship Programme 2013-14

I am writing regarding Paul Ashton's e-mail of 08 October in response to my queries in this area. I apologise for the delay in doing this.

I am content that the University has provided an adequate explanation of the reasons for the discrepancies in the new entrant data as reported in HESES10 and HESA 2010-11, and that there is an acknowledgement of the errors made in the HESES return. We understand the discrepancies to be due to three main reasons:

- The enrolment status of some students changed after HESES10 was submitted meaning these students were not included in HESES10 but were subsequently included in HESA 2010-11;
- Some students on the first year of a standard year of instance were treated as non-standard and thereby excluded from HESES10. However, their TYPEYR was correct in HESA 2010-11 and they were treated as first year on a standard year of instance;
- A single course had been incorrectly coded as non-fundable resulting in 45 students not being included in HESES10. These students were subsequently correctly included in HESA 2010-11 as HEFCE-funded.

Although the University has provided these explanations of the discrepancies in the new entrant data as reported in HESES10, it has not provided assurances that processes have been amended with the aim that such differences between HESES and HESA data will not recur. It is essential that this is done.

We understand from explanations provided that the large decrease in new entrant numbers between HESES10 and HESES11 are the result of a sharp decrease in recruitment in 2011-12. The University exceeded their SNC in 2010-11 and needed to correct for that in 2011-12. In addition, recruitment of PT students was disappointing. I am content with these explanations.

As the University is currently finalising the HESES12 data, it is essential that it considers the issues identified in this work, and ensures confidence in the HESES12 figures before final sign-off in January.

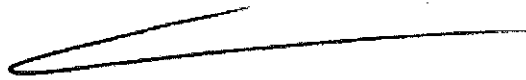
I confirm I require no further action from the University with regard to this work and that this reconciliation audit is now closed.

I request that a copy of this letter is presented to the Audit Committee for information.

Finally, may I take this opportunity to thank all your staff involved in undertaking this reconciliation audit and for the prompt response.

Yours sincerely

Anthea C. Beresford



Anthea Beresford
Data Assurance Consultant

Cc	By e-mail	Paul Ashton	Assistant Registrar (External Reporting)
		Rachael Tooth	HE Policy Adviser Student Opportunity

Audit of 2010-11 FT UG HEFCE-funded outturn data

This audit was initiated in December 2011. As a result of miscommunication within HEFCE, we were asked both to resubmit our 2010-11 HESA Return, and to undergo audit on some of the data we were about to resubmit.

Following discussion with the relevant parties at HEFCE, we agreed that it made sense to resubmit the data and hold the audit in abeyance until such time as that had been completed. On resubmission of our 2010-11 the data that had been at issue in the audit (primarily the field FUNDCOMP which is used to report whether students have 'completed' their year for HEFCE funding purposes) were found to have been resolved.

No actual audit work has been carried out in relation to this planned audit.

20 December 2012

Professor Martin Earwicker
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RECEIVED VC/EXECUTIVE OFFICE
REFERENCE: 01 01
- 2 JAN 2013
ACTION: Richard + Phil

Dear Professor Earwicker

Audit of 2010-11 FT UG HEFCE-funded outturn data

I am writing further to my letter of 06 December 2011 concerning this planned work. As I am sure you are aware from the Academic Registrar, we delayed this work due to the need to get the HESA 2010-11 data in a reasonable state for funding purposes following the difficulties encountered by the University in that area.

In September 2012 you signed off the HESA 2010-11 data. We reviewed the data and found that the FT UG HEFCE-funded student non-completion rate is in line with the previous audit rate of 20.0%. We therefore concluded the University was better concentrating resource on ensuring the HESA 2011-12 was submitted on time and fit for purpose. We are not therefore going to carry out this piece of audit work.

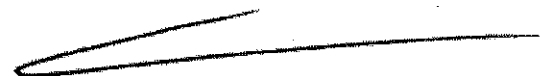
We will continue to monitor the FT UG HEFCE-funded non-completion rate in future HESES returns and HESA data, and, assuming no significant changes in student activity and profile, we would expect to find rates similar to those found during our previous audit, currently FT UG HEFCE-funded 20.0%. We will carry out further audit work to gain assurance over any significant changes to this. We note that the forecast rate in HESES11 for FT UG students was lower than the audit rate at 16.5%. We will be monitoring the 2011-12 outturn position to see if it is in line with current audit findings.

I request that a copy of this letter is presented to the Audit Committee for information.

If you have any queries, please do not hesitate to contact me by e-mail at
a.beresford@hefce.ac.uk.

Yours sincerely

Anthea C. Beresford

A long, thin, slightly curved horizontal line, likely representing a signature or a separator.

Anthea Beresford
Data Assurance Consultant

Cc By e-mail Paul Ashton Assistant Registrar (External Reporting)
Andrew Fisher Academic Registrar

London South Bank University

	PAPER NO: AC.03(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Transparent Approach to Costing – TRAC sign off	
Author:	David Kotula, Reporting Analyst (Special Projects)	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	That the Committee retrospectively approves the attached return, made to HEFCE on 31 January 2013 based on the assurances provided.	
Matter previously considered by:	N/A	N/A
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive summary

The Transparent Approach to Costing return (TRAC) is a mandatory return made annually in January.

The key benefit is to provide an analysis of the costs and income allocated by Teaching, Research and Other.

The key risk is incorrect data analysis leading to erroneous results.

HEFCE guidance requires that the return is approved by a Committee of the Board of Governors. The purpose of this report is to provide such assurance and request approval of the return for 2011/12. To provide the necessary assurance that the process to complete TRAC is in accordance with HEFCE's Statement of Requirements; Andrew Owen has been briefed in this regard. A meeting on 30/01/2013 with Andrew and David Kotula discussed the TRAC process, the Key Check List document, the completed return and the draft report from the PwC Internal Audit.

Assurances regarding process

The following assurances are provided to Committee with regard to process:

1. Reconciliation to accounts

- The TRAC return is an annual return completed every January. The basis for the 2012 return was the financial accounts for year ending 31/07/2012. The return has been checked and reconciles to the published financial accounts for the said year end.
- This information includes costs down to individual staff level for teaching staff and to cost centre level for faculty support staff. The individual staff costs are extracted from payroll data used in the Management Accounts and the staff cost data in Agresso. All figures are reconcilable back to the published accounts.

2. Compliance with guidelines/regulations

- The return has been prepared by the University's reporting Analyst (Special Projects) in accordance with the regulations set down by HEFCE for the preparation of the TRAC return. This includes any updated regulations or issues raised at the TRAC self help groups organised by the TRAC Development Group and BUFDG.
- The regulations state that support and guidance should be gathered from faculty managers and that a TRAC steering committee be set-up that includes participants from each faculty and Research. This group has met in the past and will re-convene after the completion of TRAC to review the process.
- Additional cost adjustments are made to published accounts to reflect Return on Finance and Investment (RFI) and infrastructure costs. These are calculated based on the TRAC regulations and are designed to reflect the true cost of running an establishment.
- The core costing information is based on the amount of time spent teaching for each academic member of staff. This is derived from a Time Allocation Survey (TAS) that is completed four times a year. The regulations state that the results should be reviewed and verified by faculty managers to allow for any adjustments to be made prior to using the data in the TRAC return. Appropriate review has been undertaken by faculty representatives.
- Additional cost drivers are based on student FTE derived from the HESES11 dataset, staff FTE's derived from Payroll and HR data, space allocation from the EAF Tribal K2 System, and library usage data from LLR.

- All cost data is derived from the Agresso finance system at a cost centre and source code level. This data is reconciled against the source files used by the Financial Accountant to produce the published accounts.
- The robustness and accuracy of the data was verified during a review process by Ralph Sanders – Financial Planning Manager.

Annual TRAC return reporting for AY 2011-12

IN CONFIDENCE

To be returned no later than 31st January 2013. Earlier submissions welcome.

This worksheet has passed all validation checks

Institutional results

Institution: London South Bank University

Code: H-0076

UKPRN: 10004078

TRAC Peer Group: E

Data collected for use by the Funding Councils

	£000	As a % of expenditure
Actual Operating Surplus		
Total income* (per audited financial statements for 2011-12)	138,268	
Total expenditure* (per audited financial statements for 2011-12)	131,753	
Operating surplus/(deficit) per audited financial statements	6,515	4.9%
Target Operating Surplus		
Infrastructure adjustment	3,179	2.4%
Return for financing and investment adjustment	7,784	5.9%
Target surplus for sustainable operations (infrastructure adjustment + RFI adjustment)	10,963	8.3%
Sustainability gap (difference between target surplus for sustainable operations and operating surplus/(deficit))	4,448	3.4%
Full economic cost (total expenditure + target surplus for sustainable operations)	142,716	108.3%

* The income and expenditure lines as reported in the financial statements should be adjusted, where appropriate, in line with section B.1.7 of the Statement of Requirements (version 4.1 September 2011) in respect of joint ventures, minority interests and endowments.

Notes:

1. Exceptional items (as defined by FRS 3 - i.e. those items appearing after the operating surplus/(deficit)) should not be included in the total income or full economic cost lines above.
2. Please ensure that the net RFI adjustment on expenditure is calculated in accordance with the guidance provided at section B.2.6 of the Statement of Requirements (version 4.1 September 2011) and Update 6 (<http://www.icpsg.ac.uk/guidance/revisions/>)

Is your institution eligible for and applying dispensation from 1 April 2013? Please select Yes/No from the drop-down box

No

(Eligibility is defined as institutions with less than £500,000 annual research income from public sources. A rolling average of Research income (over five years) is used to assess whether £500,000 has been reached or not. More information on dispensation can be found in section A.4 of the Statement of Requirements: <http://www.icpsg.ac.uk/guidance/require/>.)

Analysis of TRAC results

(A) TRAC income and full economic costs by activity

Institution: London South Bank University

Code: H-0076

UKPRN: 10004078

TRAC Peer Group: E

Data collected for use by the Funding Councils

	Teaching				Research	Other	Total
	Publicly funded - regulated provision £000	Publicly funded - non regulated provision £000	Total publicly funded £000	Non-publicly funded £000			
Income	52,474	52,605	105,079	9,990	6,492	16,706	138,268
TRAC full economic costs	52,300	52,430	104,731	9,801	15,204	12,981	142,716
Recovery of full economic costs (income as a % of full economic costs)	100.3%	100.3%	100.3%	101.9%	42.7%	128.7%	96.9%

Note: Income allocation guidance is contained in Annex 16 of the TRAC guidance and can be found here: <http://www.icpsg.ac.uk/guidance/annexes.htm>

(B) Teaching and Research income by source

Institution: London South Bank University

Code: H-0076

UKPRN: 10004078

TRAC Peer Group: E

Data collected for use by the Funding Councils

	Total publicly funded Teaching (NPFR+PFR) £000	Total Research £000
Public sources	96,206	5,016
Non-public sources	8,873	1,476
Total income	105,079	6,492

Note: Total Research covers both NPFR and PFR

Annual TRAC return reporting for AY 2011-12

(C) Research income and full economic costs by research sponsor type
Institution: London South Bank University
Code: H-0076
UKPRN: 10004078
TRAC Peer Group: E

Data collected for use by the Funding Councils and RCUK

	Recurrent research funding from the funding councils £000	Institution-own funded £000	Postgraduate research £000	Research Councils £000	Other govt departments £000	European Union* £000	UK-based Charities £000	Industry** £000	Total Research £000
Income	1,939	102	420	532	2,024	119	231	1,126	6,492
TRAC full economic costs		5,316	3,485	1,762	2,367	749	781	744	15,203
Recovery of full economic costs (income as a % of full economic costs)		1.9%	12.0%	30.2%	85.5%	16.0%	29.5%	151.3%	42.7%

Is your allocation of academic staff time to research sponsor types robust? Please select Yes/No from the drop-down box.

(Whilst it is not a TRAC requirement for 2011-12 to hold robust data at this level [see Section B.4 of the Statement of Requirements version 4.1 September 2011], some institutions do have robust data at this level already. A lack of robustness may arise whilst you are amending your processes in readiness for the compliance deadline of 2013-14, because the sampling process was not designed for robustness at that level, or proxies are being used to allocate costs between research sponsor types, or for other reasons.)

* European Union covers EU government bodies including the Commission. This is the same as that defined under 3(e) in Table 6b of the HESA Finance Statistics Return.
 ** Industry should include all other organisations such as UK industry, commerce and public corporations, EU non-government organisations (i.e. EU-based charities, EU industry and EU other), Overseas charities, Overseas industry and Other sources.

For further details of definitions please see B.1.5 and B.7.2a of the Statement of Requirements (version 4.1 September 2011).

Declaration by head of institution

I confirm that the costs, income and charge-out rate information reported in the attached return have been prepared in accordance with the TRAC requirements as set out in the Statement of Requirements (version 4.1 September 2011). (<http://www.icpsg.ac.uk/guidance/require/>)

I confirm that a full self-assessment of compliance against each point listed in the Statement of Requirements (version 4.1 September 2011) has been carried out in the last three years. I also confirm that a Board Committee has specifically reviewed the results of the tests for reasonableness and has either confirmed compliance or has drawn up an action plan for any areas where the institution is not fully compliant. I confirm that the Board Committee has lay membership as per Update 6 (paragraph 2.13).

Name of Board committee which confirmed compliance with the TRAC requirements.	Date of meeting at which compliance was confirmed (Please enter in the format of dd/mm/yyyy)
Audit Committee	07/02/2013

If the Board Committee is meeting after the date of this return, please also state in the box below who provided the confirmation for this return, and the date (e.g. Chairman's Action, or management committee). Please note that responsibility still lies with the Board Committee for this confirmation.

Name of person/committee who provided confirmation for this return.	Date of confirmation (Please enter in the format of dd/mm/yyyy)
Richard Flatman	31/01/2013

Signed: (Head of institution) _____

Name: Professor Martin Earwicker

Title: Vice Chancellor and Chief Executive

Date: 31/01/2013

To be returned no later than 31st January 2013

Please scan the signed hard copy and upload electronically to the funding councils via the secure area of the HEFCE website. The funding councils no longer require a paper copy.

This worksheet has passed all validation checks

(D) Calculation of indirect and estates cost charge-out rates for Research

Institution: London South Bank University

Code: H-0076

UKPRN: 10004078

TRAC Peer Group: E

Data collected for use by the RCUK and for benchmarking

Please select box (shown on the right) if you do not calculate an estates laboratory rate or an estates non-laboratory rate

			Indirect	Estates non-laboratory	Estates laboratory
	Cost per TRAC allocated to research		7,413	722	783
Academic staff	FTEs	(i)	741.7	355.6	386.1
% research time of academic staff (Please enter as a % out of 100)		(ii)	9.7	9.7	9.7
Resulting in direct time of academic staff		(i) * (ii)	71.6	34.3	37.3
Research assistants and fellows	FTEs		36.7	17.6	19.1
PGRs	FTEs		255.0	122.3	132.7
	weighted by		0.2	0.5	0.8
	weighted FTEs		51.0	61.1	106.2
Total FTEs			159.4	113.1	162.6
Rate (£)			46,516	6,381	4,818
Indexation (two years) %			4.1	4.1	4.1
Indexed year 1 rate (£)			48,423	6,643	5,016

Note:

The lab estates should exclude all costs of laboratory technicians and major or small research facilities (which are reported under E.1 below). The non-laboratory estates costs should include relevant elements of these costs, unless you are charging them separately (when again they would then be reported under E.1)

Do you calculate and apply different indirect rates for each department? Please select Yes/No from the drop-down box
If Yes please list the departments and the rates in table D(a) in the worksheet "RCUK_Departmental_rates"

Do you calculate and apply different estates rates for each department? Please select Yes/No from the drop-down box
If Yes please list the departments and the rates in table D(a) in the worksheet "RCUK_Departmental_rates"

(E) Calculation of laboratory technician and research facility charge-out rates for Research

Institution: London South Bank University

Code: H-0076

UKPRN: 10004078

TRAC Peer Group: E

Data collected for use by the RCUK and for benchmarking

In section E, it is not a TRAC requirement to identify laboratory technician costs in non-laboratory departments separately from estates costs. If you do identify laboratory technician costs separately, please respond using the drop-down box (this will provide you with cells to enter data in the tables below).

Please choose an option from the drop-down box to inform us if you have no lab technicians and/or no research facilities

	Research		Total £000
	Non-laboratory £000	Laboratory £000	
E.1 Total costs allocated to Research			
1. Major research facilities and small research facilities ²			
2. Laboratory technicians			
a. DI ³		0	0
b. Pool		0	0
c. Infrastructure		60	60
Total		60	60
Total costs	0	60	60

Note:

¹ Many institutions will not have identified these costs separately from estates costs in non-laboratory research disciplines. It is not a TRAC requirement.

² Major research facilities and small research facilities should include all costs included in the calculations of the charge-out rates for MRFs and SRFs, whether charged as DI or DA.

³ Please enter the costs of all DI technicians allocated to research irrespective of whether their salary was allocated wholly to DI, or partly to Support and partly to DI.

Please describe the rates that you calculate and apply on small research facilities and major research facilities on table E(a) in the worksheet Departmental rates

Annual TRAC return reporting for AY 2011-12

E.2 Analysis of total estates costs allocated to Research

(this table will automatically be completed with information from sections D and E.1.)

	Non-laboratory ¹ £000	Laboratory £000	Total £000
1. Estates costs included in the estates cost rate calculation	722	783	1,505
2. Gross estates costs (i.e. estates plus all technicians and all research facilities.)	722	843	1,565
3. % of gross estates costs			
a. Major research facilities and small research facilities			
b. Laboratory technicians			
i. DI		0.0	0.0
ii. Pool		0.0	0.0
iii. Infrastructure		7.1	3.8
Total		7.1	3.8
Total	0.0	7.1	3.8

Note - It is assumed here, for benchmarking purposes only, that all research facility and laboratory technician costs were originally part of a gross estates cost (even though in practice some of these costs would have been DI and not in the estates cost total at all and some of these costs may have been in indirect costs). The gross estates cost is calculated for you on row E.2.2. No research facility or laboratory technician cost (whether DI or DA) are in the estates cost total that is used for the estates cost rate calculation - row E.2.1.

E.3 Calculation of laboratory technician infrastructure rate

	Non-laboratory ¹	Laboratory	Total
Total laboratory technician infrastructure costs (£000)		60	60
Academic/researcher/PGR FTEs		162.6	162.6
Laboratory technician infrastructure rate per FTE (£)		369	369
Indexation (Two years) %		4.1	4.1
Indexed year 1 rate (£)		384	384

Do you calculate and apply laboratory technician infrastructure rates separately for each department?

If Yes please list the departments and the rates in table D(a) in the worksheet "RCUK_Departmental_rates"

No

(F) Analysis

Institution: London South Bank University

Code: H-0076

UKPRN: 10004078

TRAC Peer Group: E

Data collected for use by the RCUK

F.1 Analysis of Support costs

Estates costs and indirect costs

	Teaching £000	Research £000	Other - academic department activities £000	Other - standalone enterprise activities such as residences, catering and (most) trading companies ¹ £000	Total £000
Estates costs ² (excluding research facilities and lab technicians)	20,659	1,505	3,112	0	25,276
Indirect costs					
Support time of academic staff	10,543	1,156	262	0	11,961
Central services	39,388	4,459	1,207	0	45,054
Support staff in academic departments	5,323	1,397	106	0	6,826
Non-staff costs in academic departments	0	0	0	0	0
Return for Financing and Investment	2,987	402	310	0	3,699
Total indirect costs	58,242	7,413	1,886	0	67,540
Total Estates and Indirect costs	78,901	8,918	4,997	0	92,815

¹ Please refer to TRAC Update 6 September 2011.

² Estates costs should include the net RFI adjustment on assets.

F.2 Analysis of staff time

Number of academic and research staff in the year (FTEs)

Academic staff covered by Time Allocation Survey ³	741.7
Research assistants & fellows (wholly charged to R)	36.7
Other academic staff (wholly charged to T or O)	214.0
Total academic and research staff FTEs	992.4

³ Academic staff covered by the time allocation survey reported in the table above should be the total number of academic staff who are covered by the current AST percentages, irrespective of whether they provided time estimates this year or in either of the two prior years, or whether they were actually part of the sample selected to provide data or not.

Academic staff covered by TAS surveys for the whole institution

	Teaching	Research	Other	Support	Total
% time unweighted for salaries ⁴	32.2	6.4	0.6	60.8	100.0
% time weighted for salaries	30.1	7.8	0.6	61.5	100.0
Academic staff costs (£000s)	12,221	3,182	248	11,961	27,612

⁴ See section 2.7 of the TRAC Update 6 September 2011 for further detail.

This table shows the institutional total of the department percentages that have been used to allocate academic staff costs.

Support for Teaching, Support for Research, Support for Other should all be shown under Support.

Annual TRAC return reporting for AY 2011-12

The 2009-10 and 2010-11 data columns are prefilled using data from the annual TRAC returns submitted in January 2011 and January 2012 respectively. The 2011-12 column will be automatically completed as the data in the other sheets of this workbook are completed. Please review the summary analysis after completion of the workbook and prior to submission as part of your reasonableness checks.

In addition to the data in this summary sheet, you are reminded that benchmarking analysis comparing your 2009-10 and 2010-11 data to that of other TRAC peer groups and the UK sector is available to download from the HEFCE extranet. Benchmarking of 2011-12 data will be made available by April 2013.

Institutional section

	2009-10	2010-11	2011-12	Percentage difference between 2009-10 and 2010-11	Percentage difference between 2010-11 and 2011-12
Total expenditure	137,022	135,025	131,753	-1.5	-2.4
Infrastructure adjustment	2,583	3,327	3,179	28.8	-4.4
RFI adjustment*	7,724	7,549	7,784	-2.3	3.1
Target surplus for sustainable operations (infrastructure adjustment + RFI adjustment)	10,307	10,876	10,963	5.5	0.8
As a % of total expenditure					
Infrastructure adjustment	1.9	2.5	2.4		
RFI adjustment	5.6	5.6	5.9		
Target surplus for sustainable operations (infrastructure adjustment + RFI adjustment)	7.5	8.1	8.3		

* New guidance regarding the RFI adjustment has been introduced in 2010-11. Please see section B2.6 of the Statement of Requirements (v 4.1 September 2011) and Update 6 (<http://www.jcpsg.ac.uk/guidance/revisions/>)

TRAC income and full economic costs by activity

Source: Section A

	2009-10	2010-11	2011-12
Recovery of full economic costs (income as a % of costs)			
Publicly funded Teaching (regulated) provision	103.7	104.9	100.3
Publicly funded Teaching (non-regulated) provision	103.7	104.9	100.3
Total publicly funded Teaching	103.7	104.9	100.3
Non-publicly funded Teaching	99.4	104.3	101.9
Research	54.1	58.7	42.7
Other	98.9	96.0	128.7
Total	97.3	99.3	96.9

Research income and full economic costs by research sponsor type

Source: Section C

	2009-10	2010-11	2011-12
Recovery of full economic costs (income as a % of costs)			
Recurrent research funding from the funding councils			
Institution-own funded research	11.7	3.8	1.9
Postgraduate research	33.2	29.8	12.0
Research councils	46.5	59.6	30.2
Other government departments	72.0	94.8	85.5
European union *	43.5	52.9	16.0
UK charities	37.0	94.0	29.5
Industry **	83.6	97.8	151.3
Total research	54.1	58.7	42.7

* European Union covers EU government bodies including the Commission. This is the same as that defined under 3(e) in Table 6b of the HESA Finance Statistics Return.

** Industry should include all other organisations such as UK industry, commerce and public corporations, EU non-government organisations (i.e. EU-based charities, EU industry and EU other), Overseas charities, Overseas industry and Other sources.

For further details of definitions please see B.1.5 and B.7.2a of the Statement of Requirements (v 4.1 September 2011).

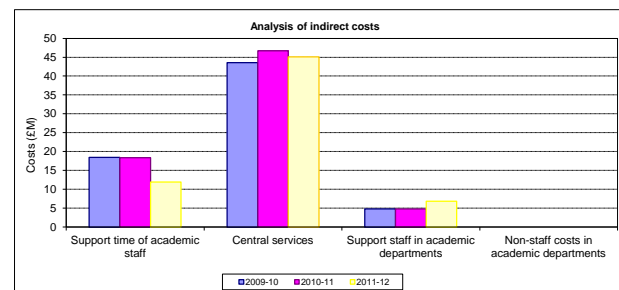
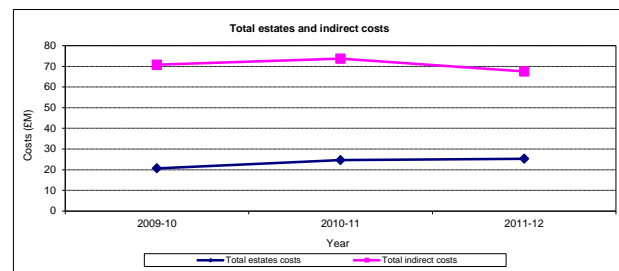
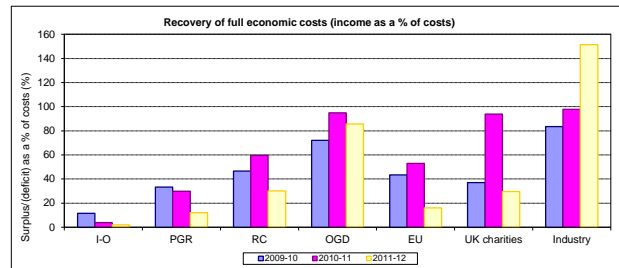
Analysis of support costs, indirect costs and estates costs

Source: Section F

	2009-10	2010-11	2011-12	Percentage difference between 2009-10 and 2010-11	Percentage difference between 2010-11 and 2011-12
Total estates costs	20,654	24,594	25,276	19.1	2.8
% of estates costs allocated to research	7.5	7.9	6.0		
Total indirect costs	70,789	73,714	67,540	4.1	-8.4
% of indirect costs allocated to research	9.8	6.9	11.0		
Total indirect costs excl RFI adjustment	66,884	69,866	63,841	4.5	-8.6
% of indirect costs (excl RFI adjustment) allocated to research	9.8	6.7	11.0		

	2009-10	2010-11	2011-12	Percentage difference between 2009-10 and 2010-11	Percentage difference between 2010-11 and 2011-12
Analysis of indirect costs					
Support time of academic staff	18,453	18,367	11,961	-0.5	-34.9
Central services	43,576	46,691	45,054	7.1	-3.5
Support staff in academic departments	4,855	4,808	6,826	-1.0	42.0
Non-staff costs in academic departments	0	0	0	0.0	0.0
Return for Financing and Investment*	3,905	3,848	3,699	-1.5	-3.9
Total indirect costs	70,789	73,714	67,540	4.1	-8.4

* New guidance regarding the RFI adjustment was introduced in 2010-11. Please see section B2.6 of the Statement of Requirements (v 4.1 September 2011) and Update 6 (<http://www.jcpsg.ac.uk/guidance/revisions/>)



Your workbook has passed all validation checks

Checklist

Validation passed

Please ensure all aspects of the TRAC return have been completed in accordance with this checklist

Select Yes, No or N/A from the drop-down boxes

1. Do academic and research assistant/fellow staff numbers reconcile with those used as cost drivers?	Yes
2. Do PGR numbers reconcile with those included in student number cost drivers?	Yes
3. Have research facility and laboratory technician costs been allocated to Teaching and Other activities where appropriate and excluded from the research facility or laboratory technician rates?	Yes
4. Have PGR scholarships, bursaries etc been excluded from the indirect costs for Research?	Yes
5. Have Teaching costs been taken into the TRAC (T) model (select N/A if you are an institution in Wales)?	Yes
6. Are total income and total expenditure (institutional results section) consistent with the data reported in the financial statements*?	Yes
7. Have figures been compared to those of prior years and significant differences understood and explained (see commentary section and 'Summary' worksheet)?	Yes
8. Has a Board Committee confirmed the results have been prepared in accordance with the TRAC requirements based on a full self assessment of compliance (Statement of Requirements section A.5.3)?	Yes
9. Has your TRAC Steering Group considered how they can use TRAC data internally or how it might be used in the future (See TRAC Update 6 paragraph 3.2)?	Yes
10. Do you currently use TRAC data for internal management purposes?	No
11. Is your institution going to implement the new workload planning/management approach to time allocation data (if relevant) (See TRAC Update 6 paragraph 3.3)?	No
12. Do you consider that your time allocation data and TRAC cost data (once any new methods, if applicable, have been fully implemented) will be both robust and provide utility to your institution (See TRAC Update 6 paragraph 3.5)?	Yes
13. Has the RFI adjustment been calculated in accordance with the guidance provided at section B.2.6 of the September 2012 Statement of Requirements (v 4.2) and Update 6?	Yes

* The income and expenditure lines as reported in the financial statements should be adjusted, where appropriate, in line with section B.1.7 of the Statement of Requirements (version 4.1 September 2011) in respect of joint ventures, minority interests and endowments.

Commentary Section

Please upload an electronic commentary document along with your completed return to explain any of the following (if highlighted in purple):

Commentary documents should be submitted as a Word or PDF document via the secure area of the HEFCE website.

1. Recovery of full economic costs on PFT is more than 105%.
2. Recovery of full economic costs on NPFT is less than 100%.
3. Recovery of full economic costs on industry** activity is less than 75%.
4. Recovery of full economic costs on Research Councils activity is less than 30% or more than 80%.
5. Recovery of full economic costs on Research Council activity is less than the recovery of full economic costs on charities activity.
6. Recovery of full economic costs on Research Council activity is less than the recovery of full economic costs on European Union activity.
7. Recovery of full economic costs on Other Government Department activity is less than recovery of full economic costs on Research Council activity.
8. Recovery of full economic costs on Research Council activity, Charities activity, European Union activity and/or Other Government Department activity is more than 100%.
9. Indirect cost rate is more than £45,000 or less than £30,000.
10. Estates laboratory rate is less than estates non-laboratory rate.
11. Estates laboratory rate is more than £15,000 or less than £5,000.
12. Estates non-laboratory rate is more than £9,000 or less than £4,000.
13. Total income and/or Total expenditure reported on the TRAC return is not consistent with data in the Financial statements and the difference is not due to the surplus/deficit on joint ventures, minority interest or endowments.

In addition:

14. Please comment on any material unusual movements in your TRAC return when comparing the data with your 2010-11 TRAC return. See 'Summary' worksheet for examples of year on year comparisons

The request for an explanation does not mean that your figures are wrong, simply that they may require further review and explanation. Please also note that figures for the rates quoted here are not the lower quartile and upper quartile figures, which would show a much narrower range.

** Industry should include all other organisations such as UK industry, commerce and public corporations, EU non-government organisations (i.e. EU-based charities, EU industry and EU other), Overseas charities, Overseas industry and Other sources.

Workbook validation checks

If, for any reason, you get any validation failures/warnings, you should review your figures to ensure they have been completed correctly before submitting your return to HEFCE. If you have a genuine reason for a validation failure/warning, please submit a commentary document with an explanation of this. Commentary documents should be submitted as a Word or PDF document via the secure area of the HEFCE website.

1. The name of a Board Committee and a date of the meeting at which compliance with the TRAC requirements was confirmed should be entered in the "Annual_TRAC" worksheet.

Validation passed

Institutional Results

2. Only those institutions who have selected that they are not eligible for or applying dispensation should complete section D, E and F.

Validation passed

3. The RFI and the infrastructure adjustments would usually be greater than zero.

Validation passed

Section A

4. Total income recorded in section A should equal total income recorded in the institutional results section.

Validation passed

5. Total full economic costs recorded in section A should equal the full economic cost recorded in the institutional results section.

Validation passed

Section B

6. Total publicly funded teaching income recorded in section B should equal the total publicly funded teaching income recorded in section A.

Validation passed

7. Total research income recorded in section B should equal the total research income recorded in section A.

Validation passed

Section C

8. Recurrent research funding from the funding council should be recorded in the income line of the first column in section C.

Validation passed

9. Total research income recorded in section C should equal total research income recorded in section A.

Validation passed

10. Total research costs recorded in section C should equal total research costs recorded in section A.

Validation passed

Annual TRAC return reporting for AY 2011-12

11. The question on robustness of the allocation of academic staff time to research sponsor types should be completed.

Validation passed

Section D

12. If you have identified that you do not calculate an estates laboratory rate or an estates non-laboratory rate in the drop-down box in section D, then the relevant columns should be left blank.

Validation passed

13. Academic staff numbers allocated to estates should be equal to or within 10% of those allocated to indirect costs.

Validation passed

14. The % research time of academic staff (any column in row ii) would usually be less than 50%.

Validation passed

15. The % research time of academic staff in the indirect column should not be greater than both of the % research time returned in the two estates columns or less than both of the % research time returned in the two estates columns.

Validation passed

16. Direct time of academic staff in estates should be equal to or within 10% of those allocated to indirect costs.

Validation passed

17. If academic staff numbers (estates) equals indirect staff numbers (row (i)), then the direct time of academic staff (indirect) should equal the direct time of academic staff in the estates columns (row (iii)).

Validation passed

18. Research assistant/fellows numbers allocated to estates should be equal to or within 10% of those allocated to indirect costs.

Validation passed

19. PGR student numbers allocated to estates should be equal to or within 10% of those allocated to indirect costs.

Validation passed

20. Indexation should not be negative or 0 and would usually be less than 10%.

Validation passed

Section E

21. If you do not identify laboratory technician costs in non-laboratory departments, (i.e. you have left the first drop-down box at the top of section E blank) then the relevant column in all of section E should be left blank.

Validation passed

22. Please ensure you have recorded whether you have lab technicians and/or research facilities consistently in table E.1. and the second drop-down box at the top of section E.

Validation passed

23. Institutions recording laboratory estates costs in section D should identify some laboratory costs in table E.1.

Validation passed

24. Laboratory technician infrastructure rate per FTE (£) in table E.3 should be completed and would usually be less than £8,000.

Validation passed

25. Academic/researcher/PGR FTEs in table E.3 should be equal to the total FTEs in section D (for both laboratory and non-laboratory columns).

Validation passed

26. Research intensive institutions (those in TRAC peer groups A or B) would usually report laboratory technician infrastructure rates in table E.3.

Validation passed

27. Research intensive institutions (those in TRAC peer groups A or B) would usually report research facilities in table E.1.

Validation passed

28. If you calculate a laboratory technician infrastructure rate, please enter an indexed rate i.e. indexation should not be negative or 0 and would usually be less than 10%.

Validation passed

Section F

29. Research Indirect costs in table F.1 should equal those recorded in the first line of section D

Validation passed

30. Research estates costs in table F.1 should equal those recorded in the first line of section D.

Validation passed

31. The indirect costs element of the RFI adjustment in table F.1 should not be more than the total RFI adjustment in the Institutional section.

Validation passed

32. Total support time for academic staff from table F.1 should be equal to the academic staff costs for support reported in table F.2.

Validation passed

33. Academic staff FTEs allocated to indirect costs in section D should be within 10% of Academic staff covered by Time Allocation Survey in table F.2

Validation passed

34. Research assistants and fellows in table F.2 should equal those in section D.

Validation passed

35. Percentage time unweighted for salaries for research in table F.2 should be equal to the percentage research time for academic staff recorded in section D.

Validation passed

36. Percentage time weighted for salaries should be completed in table F.2.

Validation passed

37. The total % time of academic staff (both weighted and unweighted for salaries) in table F.2 should equal 100%

Validation passed

38. Please check that costs in table F.1 have been correctly split between 'Other - academic department activities' and 'Other - standalone enterprise activities such as residences, catering and (most) trading companies'.

Validation passed

Confirm

Post submission Validation Section (England and Northern Ireland only)

Data will be subject to some additional validation checks on submitting the data to HEFCE. The results of these will appear below in the results package.

If, for any reason, you get any validation failures/warnings, you should review your figures and/or the response in checklist question 7, to ensure they have been completed correctly. If this is a data error then please correct your figures in the annual TRAC return and resubmit your workbook to HEFCE.

39. Total income reported in the Annual TRAC return (institutional results section) should be consistent with data in table 1 of the Financial Tables returned in December 2012*.

40. Total expenditure reported in the Annual TRAC return (institutional results section) should be consistent with data in table 1 of the Financial Tables returned in December 2012*.

* The income and expenditure lines as reported in the financial statements should be adjusted, where appropriate, in line with section B.1.7 of the Statement of Requirements (version 4.1 September 2011) in respect of joint ventures, minority interests and endowments. For further information on how the post validation checks are calculated, please see the "Instructions" document included in the package you have downloaded from the HEFCE extranet.

	PAPER NO: AC.04(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Halls of Residence Debtors	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that committee note the report and the current level of debt relating to halls of residence and approves the write off of historical halls debtors held in the accounts.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive. Financial control.	
Matter previously considered by:	Audit Committee	30 th October 2012
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive summary

Grant Thornton highlighted in their Key Issues Memorandum (KIM) the level of Halls debtors shown in the accounts, which was £1.8m at 31/7/12. As discussed at the last Committee meeting, it was suggested that this may be indicative of a debt collection problem and that a review of policies and procedures was recommended. However, the KIM also noted in the section on control account reconciliations that there has been a long standing problem with the transfer of data from the KX accommodation system to the Agresso financial system. The 2 issues are

interrelated and, as noted in the KIM, a great deal of work has already been done to resolve the issue and process the correcting entries. It was agreed that system changes would be made as required and correcting entries processed during 2012/13 so that this matter does not continue.

The KX system at 31/7/12 showed debtors of £313,000 which is a more accurate reflection of the amount owed by students.

The difference between the KX system and the accounting balance in Agresso resulted from incomplete data being extracted and posted to the Agresso financial accounting system. This problem has now been resolved by amending the file that is extracted from KX for accounting purposes.

As of 25/1/13 the total amount of unpaid hall fees were £2,257,000. The total debt is aged as follows:

2008/9 debt	£115,000	
2009/10 debt	£124,000	
2010/11 debt	£40,000	
2011/12 debt	£33,000	
2012/13 debt	£238,000	(overdue for payment)
2012/13 debt Academic year)	£2,085,000	(payment due later in the

Debt relating to 2012/13 includes money due from students in January and April. This reflects the normal pattern of collection and the level of debt at the end of this year is not expected to be significantly different to that shown in previous years on the KX system. A provision for bad debt will as usual be made at the end of the financial year equivalent to 90% of outstanding debt at that date.

The Halls lettings and credit control procedure is attached in appendix 1. Given the fact that the problems have been caused more by systems issues than collection problems, we do not currently propose a change to this procedure. The position is however constantly monitored and a change will be suggested if considered necessary.

Recommendation to write off historical balances

As planned, the new file went live in December 2012 and the reconciliation of postings to these accounts since the new file went live is now complete. It is proposed that correcting entries are now made. These entries will clear the cash control accounts and suspense accounts and clean up the bank reconciliation by posting previously unposted transactions. The balance on Agresso will then be written down to bring it into line with the debtor position on KX, with the difference charged to the income and expenditure account. Because a high level of bad debt provision is always carried against outstanding year end debtors in Agresso, the correcting entries will not result in a charge to the I&E in the current year.

Details of these accounting entries are shown in appendix 2

1. Introduction

All accommodation applications, offers and payments are administered through software specifically purchased for this purpose. The software is managed by the Accommodation Service and interfaces with the university's main accounting software, although as noted above there have been significant problems in the operation of the interface

Students are able to apply on-line for a place in an LSBU student residence provided they have accepted an unconditional place on a full time LSBU course (and meet the University's accommodation allocation criteria). Students are made an on-line offer of accommodation and are required to sign a comprehensive accommodation agreement. At this point a 'booking fee' of £300 is required as a form of security. The majority of students are offered a 39/40 week tenancy which consists of three instalments due in September (upon arrival), January and April. Instalment dates are reviewed each year to align with the student loan payment dates. Students are able to pay residence fees on-line (24/7) or pay locally (during office hours) at their allocated residence

Before arrival, students are sent a reminder email advising that residence fees are due upon arrival and the amount required. Some students are reliant on the receipt of their loans/grants before they have sufficient funds to pay. If a student arrives without the required payment, residence staff will agree a minimum payment of one month's residence fees with the understanding that the remaining balance be paid upon receipt of their student loan. Thereafter students are expected to pay at the beginning of each payment instalment. Should students experience difficulty in paying then by exception arrangements can be made to place them on a monthly payment agreement.

2. In the event of non-payment (assuming occupancy from mid-September).

- A general reminder letter is sent via email and hard copy to all students with outstanding balances as at the last week of September.
- Should payment not be received, Debt Letter 1 is sent via email and hard copy to all students with outstanding balances as at the end of the first week of October. Students are also advised of the financial assistance that may be available to them.

- Should payment not be received, Debt Letter 2 is sent via email and hard copy to all students with outstanding balances as at the end of October. Accommodation service and residence staff are available to discuss outstanding fees with students. Students are able to request a payment agreement which is subject to certain criteria eg. if a student provides confirmation that they have a job that pays monthly and upon which they are reliant.
- If after the issue of Debt Letter 2 payment is seen as highly unlikely (after exhausting reminder letters and other attempts to contact those students with debt) a 'Notice to Quit' is issued effectively terminating the tenancy given 4 weeks' notice.
- In the event of a student not settling their outstanding account and failing to vacate the residence, their details are sent to the university's solicitor for consideration of court action and eviction. It can take up to 2 months to obtain a court hearing date.
- The above steps are repeated (where appropriate) during the second and third instalment periods.

3. Student Leaving Residence with Residence Fee Arrears

- The pre-paid booking fee is off-set against any arrears
- The Accommodation Service sends a reminder letter to the student's registered home address within a week of leaving residence.
- Residence fee arrears are flagged on the student's record held on the university's main student record system (QLS).
- Details of those students leaving with arrears (greater than £50) are sent to the university's nominated debt recovery agency on a monthly basis.
- A list of students who have left LSBU residences with arrears is maintained throughout the financial year. In September once all of the student's from the preceding year have vacated and tenancy agreements expired a debtors list for the year is compiled and finalised.

Resolution of the problem:

1. A number of changes to the files and processes involved when posting from KX and Agresso have been modified and as a result the transactions from KX are now being accounted for accurately and posted to Agresso with references that make the reconciliation process easier. Specifically:
 - a) Transactions posted to the cash control accounts 7121, 7122 and 7123 can now be matched
 - b) Posting of bank transactions on Agresso can now be matched against the bank statement
 - c) The halls debtor position on Agresso can now be reconciled to the KX debtor balance

Recommendation to write off historical balances

It is recommended that correcting entries be made on Agresso. :

1. Dr 7121/2/3 (cash control)	862,254	
Cr 6907 (Halls debtors)		862,254

Being the transfer of balances from the cash control accounts to the Halls debtor control account. This relates to cash, cheque and credit card receipts.

2. Dr 7160 (cash at bank)	375,411	
Dr 8003 (Suspense)	49,700	
Cr 6907 (Halls debtors)		425,111

Being the posting of historical income and expenditure on the bank reconciliation but not posted. This relates to money received by bank transfer.

These entries will clear the cash control accounts and suspense accounts and clean up the bank reconciliation by posting previously unposted transactions. To bring the Agresso balance into line with KX the following entries are proposed:

3. Dr I&E account	643,374	
Cr 6907 (hall debtors)		643,374

Being the write down of debtors on Agresso to bring it in line with the KX balance. It should be noted that some of this debt is more than 5 years old and this write off includes the write off of old debt that is now unlikely to be collected.

A provision for bad debt equivalent to 90% of debt held on Agresso has previously been made and this can now be released

4. Dr 6705 (provision for bad debts) 1,009,389
 Cr I&E 1,009,389

Extract summary of balances

	Cash control (balance sheet)	Unposted Bank (balance sheet)	Suspense (balance sheet)	Halls debtors (balance sheet)	Provision for bad debt (balance sheet)	Income and expenditure
Balance 1/8/12	(837,103)		(49,700)	1,793,679	1,505,536	-
Movement 1/8/12-25/1/13	(24,224)	-	-	2,394,242		-
Adjustments	862,254	375,411	49,700	(1,930,740)	1,009,389	(1,009,389) 643,374
Balance 25/1/13	927	-	-	2,257,180	(496,147)	(366,015)

Changes in procedures going forward

The following activities will take place in the Financial Control Team to ensure postings from KX to Agresso remain accurate and that appropriate action is taken when debts remain unpaid.

1. Ensuring transactions on the cash control accounts can be matched and that balances at the end of each month can be explained and are corrected in the following month

2. The bank account on Agresso to be reconciled to the bank statement, with any unreconciled balances investigated and corrected in the following month
3. The balance on the Halls debt account on Agresso to be agreed with the debtor balance on KX with any differences investigated and corrected in the following month.
4. A monthly report of the debt position on KX be reviewed by the Financial Controller each month and activities to recover the debt discussed between the Financial Controller and Head of Residences and Catering.
5. Internal Audit to continue their testing of transactions during the continuous audit program and exceptions reported and responded to.

	PAPER NO: AC.05(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Corporate Risk Register	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

The Executive continues to monitor risk closely during this time of unprecedented change in higher education. It is a standing item on the agenda for monthly Executive meetings. As part of the roll out of greater delegated authority, risk is also a key item for consideration at meetings of all Faculties and Support Departments. Particular attention is also given not only to the changing risk definitions but to updating the detail regarding cause and effect, mitigating controls and actions; to ensure that these are continually up to date.

Following the last Audit Committee meeting, the Corporate Risk Register has been updated to reflect the following:

- A downgrade in the risk '**CO-10-06 Potential loss of NHS contract income**'. This risk has had its "residual risk" rating reduced from Critical to High. This reflects current recruitment and satisfactory income forecast for 2012/13.
- Risks '**CO-08-01 Ineffective management information to support delivery of the corporate plan**' and '**CO-08-02 Failure to comply with requirements from external agencies with regard to the reporting of student numbers**' have been merged and are now consolidated in risk '**CO-08-01 Ineffective data systems leading to failure to supply meaningful and reliable management information (internally) and to comply with the requirements of external agencies**'. The risk also includes revised 'Existing Controls' and 'Actions required' that have been identified to help manage the risk.
- The risk '**CO-01-02 Failure to meet recruitment targets**' has been revised to show the importance of meeting **revenue** targets and not just student **recruitment** targets. The risk also includes revised 'Existing Controls' and 'Actions required' that have been identified to help manage the risk.
- A downgrade in the risk '**CO-10-05 Staff cost grow at a greater rate than income**'. This risk now resides in the Finance department operational risk register following review at the Executive meeting in September 2012. The risk had previously been retained as it included actions related to income generation. These actions have not been lost and are now included in the updated risk '**CO-01-02 Failure to meet revenue targets**'.
- A downgrade in the risk '**CP-03 The impact of change on organisation effectiveness and student experience**'. This risk now resides in the HR department operational risk register following review at the Executive meeting in September 2012.
- The risk '**CO-10-09 Poor staff engagement**' has been added to the risk register.

The Executive recommends that the Audit Committee note the attached report.

Corporate Level - Risk Register

Date	25/01/2013
Risk Status	Open
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
1	CP-01 Failure to position the university to effectively respond to changes in government policy and the competitive landscape Risk Owner: Martin Earwicker Last Updated: 11/01/2013	<p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees and funding models - Increased competition, supported by Government policy - Failure to anticipate change - Failure to position (politically) - Failure to position (capacity/structure) - Failure to improve League Table position <p>Effects:</p> <ul style="list-style-type: none"> - Further loss of public funding - Loss of HEFCE contract numbers - Failure to recruit students - Business model becomes unsustainable 	4 3 Critical	<p>Financial controls (inc. forecasting/modelling, restructure) to enable achievement of operating surplus target</p> <hr/> <p>Maintain relationships with key politicians/influencers, boroughs and local FE</p> <hr/> <p>Annual review of corporate strategy by Executive and Board of Governors</p> <hr/> <p>OFFA agreement for 12/13 and 13/14</p> <hr/> <p>Recent work/modelling to establish a fee position net of fee waivers less than £7500. Monitoring of guidance and continual modelling/update as required in response to changing position.</p>	4 1 High	<p>Identifying and building on our academic strengths (Portfolio Review).</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Improve contacts with national and regional press</p> <p>Person Responsible: Lynn Grimes</p> <p>To be implemented by: 31/07/2013</p>
2	CO-01-02 Failure to meet revenue targets Risk Owner: Beverley Jullien Last Updated: 11/01/2013	<p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees mechanisms for UGFT - Increased competition - Failure to develop and communicate brand - Lack of accurate real-time reporting mechanisms - LSBU late entrant to international student market and fails to catch-up - Poor league table position - Portfolio or modes of delivery do not reflect market need - Failure to engage with non-enterprise activities <p>Effects:</p>	4 3 Critical	<p>Report on student recruitment presented to every monthly Executive meeting and also reviewed by Board of Governors</p> <hr/> <p>International Action Plan, including International Fees & Discounting policy, simplified fee structure and discount/scholarship programme for targeted countries, enhanced in-market and partner activity</p> <hr/> <p>Sustainable internationalisation strategy</p> <hr/> <p>League Table action plan</p>	4 2 Critical	<p>Postgraduate action plan developed.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Step-change in Internationalisation Plan to be incorporated.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Enterprise Business Plan to be submitted to SBUEL Board for review and regular updates provided.</p> <p>Person Responsible: Tim Gebbels</p> <p>To be implemented by: 31/07/2013</p>

- Under recruitment
- Loss of HEFCE contract numbers
- Over recruitment leading to penalties on HEFCE numbers
- Failure to meet income targets for non-HEFCE students

Modelling of student recruitment numbers, including worse case scenarios which aid the planning process.

SBUEL with Governor Chair in place to oversee the Enterprise strategy

Differentiated campaigns started for postgraduate and part-time students

Identifying and building on our academic strengths (Portfolio Review).

Person Responsible: Beverley Jullien

To be implemented by: 31/07/2013

3	CO-10-01 Increasing pensions deficit	<p>Causes:</p> <ul style="list-style-type: none"> - Increased life expectancies - Reductions to long term bond yields, which drive the discount rate - Poor stock market performance - Poor performance of the LPFA fund manager relative to the market - TPS/USS schemes may also become subject to FRS17 accounting <p>Effects:</p> <ul style="list-style-type: none"> - Increased I&E pension cost means other resources are restricted further if a surplus is to be maintained - Balance sheet is weakened and may move to a net liabilities position, though pension liability is disregarded by HEFCE - Significant cash injections into schemes may be required in the long term 	<p>3 3 High</p>	<p>Switch of inflator from RPI to CPI (expected to be lower in the long term)</p>	<p>3 3 High</p>	<p>Create alternative, defined contribution pension option linked to creation of new enterprise subsidiary.</p> <p>Person Responsible: Richard Flatman</p> <p>To be implemented by: 30/06/2013</p>
	Risk Owner: Richard Flatman			<p>Regular monitoring of national/sector pension developments and attendance at relevant conferences and briefing seminars</p>		
	Last Updated: 11/01/2013			<p>Regular valuation of pension scheme (actuarial and FRS 17). Most recent FRS valuation shows significant reduction in LPFA deficit and reduced I&E cost moving forward following switch to CPI.</p>		
				<p>Reporting to HR committee on progress.</p>		
				<p>Tight control of staff costs in all areas (and reported to committee and Board via agreed KPIs)</p>		
				<p>Proposal for new LPFA scheme, effective April 2014</p>		
				<p>Strict control on early access to pension at redundancy/restructure</p>		

Active monitoring in year of trends in discount rate, life expectancy assumptions etc to ensure year-end adjustments are minimised

6	<p>CO-08-01 Ineffective data systems leading to failure to supply meaningful and reliable management information (internally) and to comply with the requirements of external agencies</p>	<p>Causes:</p> <ul style="list-style-type: none"> - Data in systems is inaccurate - Data systems are insufficient to support effective delivery of management information - Financial constraints limit ability to improve systems - Insufficient capacity to deliver improved systems - Failure to manage data through the clearing period - Internal management information reporting insufficient to verify external reporting - Lack of data quality control and assurance mechanisms 	<p>3 3 High</p>	<p>Engagement with internal auditors to systematically check data in key systems (and processes around key systems):</p> <ul style="list-style-type: none"> - Finance (including student fees) - Student data - HR systems - Space management systems 	<p>3 2 High</p>	<p>Annual education of all staff engaged with international students, to update on UKBA requirements; annual independent review by UKBA specialist to highlight areas for improvement.</p> <p>Person Responsible: Jennifer Parsons</p> <p>To be implemented by: 30/04/2013</p>
		<p>Effects:</p> <ul style="list-style-type: none"> - Insufficient evidence to support effective decision-making at all levels - Inability to track trends or benchmark performance - Internal management information reporting insufficient to verify external reporting - Failure to manage recruitment levels through the clearing period resulting in over-recruitment - Failure to submit credible HESA/HESES return - Failure to satisfy requirements of UKBA leading to potential revocation of licence and loss of £8m+ in revenue in the short term, with reputational damage causing 		<p>Systematic data quality checks of staff returns by HR in conjunction with faculties.</p>		<p>Data management project</p>
				<p>Engagement between International Office, Registry and Faculties to ensure compliance with UKBA requirements, specifically with regards to:</p> <ul style="list-style-type: none"> - Visa applications and issue of Certificate of Acceptance to Study - English language requirements - Reporting of absence or withdrawal 		<p>Project has three stages. Project completion dates: Stage 1 - May 2013 Stage 2 - September 2013 Stage 3 - September 2013</p> <p>Person Responsible: David Swayne</p> <p>To be implemented by: 30/09/2014</p>
				<p>Internal Audit system in place and conducted by PwC to provide assurances on data quality.</p>		<p>HESA improvement project</p>
				<p>Internal Audit system in place and conducted by PwC to provide assurance on UKBA compliance</p>		<p>Project has two stages Project completion dates: Stage 1 - October 2012 Stage 2 - October 2013</p> <p>Person Responsible: Andrew Fisher</p> <p>To be implemented by: 31/10/2013</p>
						<p>To improve admissions processes</p> <p>Person Responsible: Andrew Fisher</p> <p>To be implemented by: 28/02/2013</p>

significant longer term revenue loss
 - Failure to satisfy requirements of Professional, Statutory and Regulatory bodies (NHS, course accreditation etc)

Data warehousing, to construct a 'master data view' and reports therefrom, including:
 - Cleansing core systems to ensure all data as accurate and complete as possible
 - Ensuring reports use core data without manipulating results
 - Provision of standard reports on key aspects of data:
 *Progression analysis
 *Student engagement
 *Admissions (especially during clearing)
 *Enrolment

Systematic data quality checks of student returns by Registry in conjunction with faculties.

14	CO-10-06 Potential loss of NHS contract income	<p>Cause: Reduction in expected overall contract numbers due to ongoing NHS financial challenges/ structural change. Failure to maintain student numbers on the contract resulting in clawback</p> <p>Effect: Reduction in income Reduced staff numbers Negative impact on reputation</p>	<p>3 2 High</p>	<p>Named Customer Manager roles with NHS Trusts/PCTs</p> <hr/> <p>Monitor quality of courses (CPM and NMC) annually in autumn (CPM) and winter (NMC)</p> <hr/> <p>Regular contact with commissioning contract managers</p> <hr/> <p>Regular contact with commissioners in NHS Trusts/CCGs/AHSNs/ LETB's</p>	<p>3 2 High</p>	<p>Initiate contract discussions with newly formed LETB's</p> <hr/> <p>Person Responsible: Judith Ellis To be implemented by: 30/04/2013</p> <hr/> <p>Submit a strong return to next REF exercise. Improvement in NSS results</p> <hr/> <p>Person Responsible: Judith Ellis To be implemented by: 31/01/2013</p> <hr/> <p>Explore opportunities for further International 'in-country' activity.</p> <hr/> <p>Person Responsible: Dr Michelle Spruce To be implemented by: 31/01/2013</p> <hr/> <p>Publicise band 1-4 activity Support Trusts in seeking external (non NHS) funding</p>
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Person Responsible: Sheelagh Mealing

To be implemented by: 01/09/2013

Consider need for 2 campus delivery - balance needs of LETB requirements with the needs of LSBU for economies of scale.

Person Responsible: Warren Turner

To be implemented by: 01/09/2013

37	CO-10-08 Potential impact of estates strategy delivery on financial position	<p>Causes:</p> <ul style="list-style-type: none"> - Poor project controls - Lack of capacity to manage/deliver projects - Reduction in agreed/assumed capital funding - Reduction in other government funding 	<p>3 3 High</p>	<p>Full Business Case including clarity on cost and funding prepared for each element of Estates Strategy and approved by Board of Governors</p>	<p>3 1 Medium</p>	<p>Deliver the renovation of the Terraces in accordance with agreed budget.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p>
		<p>Effects:</p> <ul style="list-style-type: none"> - Adverse financial impact - Reputational damage - Reduced surplus - Planned improvement to student experience not delivered - Inability to attract new students 		<p>Clear requirement (including authority levels) for all major (>£1m) capital expenditure to have Board approval</p>		
				<p>Property Committee is a sub-committee of the Board of Governors and has a remit to review all property related capital decisions.</p>		
				<p>Automated process developed for business cases including all capital spend. Guidance developed as part of new process.</p>		
				<p>Financial forecasts regularly updated to take account of changing assumptions about future capital funding.</p>		
				<p>Clear project governance established for both the renovation of the Terraces and the Student Centre</p>		

Estates & Facilities Dept project controls

Strategic direction as set out in the new corporate plan 2011/14 is that the focus will be on improving student success and experience. Capital spend on improvements/maintenance will be inevitable but major new buildings will be unlikely once the Student centre and renovation of the Terraces are completed.

362	CO-10-09 Poor staff engagement	<p>Causes:</p> <ul style="list-style-type: none"> •Bureaucracy involved in decision making at the University •No teamwork amongst departments at the University •Staff feeling that they do not receive relevant information directly linked to them and their jobs •Poor pay and reward packages •Poor diversity and inclusion practises 	<p>3 3 High</p>	<p>Departmental Business Planning process</p> <hr/> <p>Feedback page for staff to leave comments on staff Gateway</p> <hr/> <p>Scheduled Team meetings</p> <hr/> <p>Corporate Roadshows</p> <hr/> <p>Staff engagement survey</p> <hr/> <p>Quarterly review meetings</p>	<p>3 2 High</p>	<p>The development of a Corporate employee engagement action plan developed by the Employee Engagement project team to address issues surrounding staff engagement.</p> <p>Person Responsible: Mrs Vongai Nyahunzvi</p> <p>To be implemented by: 31/01/2013</p> <hr/> <p>Co-ordination of the 2013 employee engagement survey</p> <p>Person Responsible: Mrs Vongai Nyahunzvi</p> <p>To be implemented by: 31/05/2013</p>
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	PAPER NO: AC.06(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Internal Audit Progress Report	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

1. PwC have provided a high level summary of their work thus far for 2012/13. The internal audit programme is on target and proceeding to agreed schedule and copies of the reports for audit work completed to date are presented to the Audit Committee for review.
2. The progress report includes follow up work on recommendations reviewed since the last progress report was presented to the Audit Committee in October 2012. Good progress is being made. All recommendations scheduled for follow up have been implemented.
3. The report also includes appendix 3, which is a follow up on the Risk Management report and recommendations presented to the June 2012 Audit Committee. Although good progress is being made in a number of areas, this

continues to show that more work is still required to ensure risk registers are regularly kept up to date at local level. The importance of this will again be emphasised and regular checks made to monitor progress.

4. Appendix 4 shows an update of the Key Performance Indicators (KPI) agreed on by PwC, management and the Audit Committee.
5. The Executive recommends that the Audit Committee note the report.

London South Bank
University
Internal Audit Progress
Report 2012/2013

**Progress Report to
Audit Committee**

February 2013



Overview

Progress Summary

This report presents a high level summary of the audit activity that has taken place in 2012/13 since our last progress report to the October Audit Committee. A detailed timeline of audit activity for the year is set out at Appendix 1.

Reports presented at the February 2013 Audit Committee

Continuous Auditing (Q4 2011/12; May - July)

A draft of this report was presented to the Committee at the last meeting. We have included a final copy of the report in these papers as the management responses had not all been agreed in the draft report. There are no significant changes to the report compared to the draft previously presented. The management responses in payroll control P8 have now been confirmed along with details of the subsequent work performed by management in response to each of our findings.

Continuous Auditing (Q1 2012/13; August – October)

The majority of controls tested have been operating as expected during this quarter. However, there has been an increase in the number of controls which have not been operating effectively and these are noted in our testing. The key issues arising from our work relate to the payroll and accounts receivable cycles.

We would note that there are a number of controls that we have reviewed in this quarter for the first time, in particular with regard to supplier set up controls within accounts payable and credit checks on new customers within accounts receivable. This may have contributed to the finding of 'increased number of controls which have not been operating effectively'

Capital projects

Over the past eighteen months the University has developed a new pro-forma and a web based system which partially automates the process for the submission and approval of capital project business cases. Our work focussed on smaller capital projects and we found that the University's processes in place for the review and approval of capital projects appear to be largely sound. Our work did identify a number of opportunities to further improve this process framework and ensure that those responsible for preparing business cases have appropriate training and guidance to properly undertake this role.

Counter Fraud

We found that the University's counter fraud policies and procedures were robust and have been applied successfully in the year. Our work did identify a number of opportunities to further improve the counter fraud environment as well as the University's policies and awareness of these policies and procedures.

Findings of our follow up work

- We have undertaken follow up work on the recommendations on the 4Action system with a target date for action of 7 February 2013 or sooner. We have discussed with management the progress made in implementing recommendations falling due in this period. Where the recommendations had a priority of low, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.
- Of the 4 recommendations followed up this quarter, all have been fully implemented. Our detailed findings in respect of each recommendation considered this quarter are included in Appendix 2.
- We have performed a specific additional follow up review of the findings noted as part of our 2011/12 audit of Risk Management. The results of fieldwork are included in Appendix 3 to this report. There is 1 recommendation that remains open as when we tested an additional sample of risk registers, a number of these still remain incomplete.

Other matters

- Work is well underway in respect of our 2012/13 programme. The only outstanding reviews in relation to Quarters 1 and 2 are the Enterprise and TRAC reviews. The Enterprise review is complete and currently being discussed with management, and we expect to bring this report to the next Audit Committee. Our TRAC review is complete but we are awaiting management responses so it is not included in the audit committee papers. We found that there were procedure notes in place outlining the timeline for compilation of the TRAC return and there is an established review process to confirm the accuracy and completeness of data. We expect to include within the report a number of recommendations in relation to the reliance on key individuals, retention of documentation evidencing the self assessment and review process and the timeliness of receipt of information to ensure that the submission is returned before the deadline.
- In February we will be agreeing with management the terms of reference for the Quarter 3 reviews to be performed in relation to Key Information Sets, IT Security and Financial Forecasting and expect to bring the final reports for these reviews to the June Audit Committee.
- We have also reviewed the timetable for our Continuous Auditing work and as a result expect to bring Q2 (November-January) and Q3 (February – March) to the next Committee meeting. The Q3 review will cover the 2 months to March as this allows the Committee to receive more timely information on the operation of the key financial cycles. Q4 (April- July) will then be brought to the September Audit Committee meeting.
- Attached as Appendix 4 is an assessment of our performance against the pre-defined key performance indicators in relation to the 2012/13 audit programme.

Recommendations

- That the Committee **notes** the progress made against our 2012/13 Internal Audit Operational Plan.
- The Committee **comments** upon the Q1 continuous auditing report presented.
- The Committee **comments** upon the other reports presented.

Appendix 1 - Progress against the 2012/13 operational plan

Included below is a summary of the current progress against the reviews in our 2012/13 operational plan. For each review, the days per the plan are shown, together with the actual days spent to date (shown in brackets). *Note that our operational plan for the year includes fifteen contingency days, 8 of which to date have been assigned to the IT Security review as reflected in the table below (along with 7 that were reallocated from risk management).*

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 1; August 2012 – October 2012											
Continuous Auditing of Key Financial Systems (May to July 2012)											
11 (11)	24/08/2012	27/08/2012	15/10/2012	23/10/2012	N/A	0	0	0	0	1	0
Capital Projects											
8 (8)	12/10/2012	15/10/2012	21/11/2012	20/12/2012	Low	4	0	0	0	4	0
Counter Fraud											
5 (5)	24/10/2012	30/10/2012	21/11/2012	20/12/2102	Medium	5	0	0	2	1	2
Quarter 2; November 2012 – January 2013											
TRAC Review											
3 (3)	21/12/2012	7/01/2013	17/01/2013	-	N/A	4	0	0	3	1	0
Continuous Auditing of Key Financial Systems (August to October 2012)											
11 (11)	24/08/2012	12/11/2012	26/11/2012	14/12/2012	N/A	0	0	0	1	0	0
Risk Management Follow up											
2 (2)	N/A	21/01/2013	23/01/2013	25/01/2013	N/A	-	-	-	-	-	-
Enterprise											
10 (7)	20/12/2012	14/01/2013	-	-	N/A	-	-	-	-	-	-
Quarter 3; February 2013 – April 2013											
Continuous Auditing of Key Financial Systems (November 2012 – January 2013)											
10	-	-	-	-	N/A	-	-	-	-	-	-
Key Information Sets											
10	-	-	-	-	N/A	-	-	-	-	-	-
Financial Forecasting											
5	-	-	-	-	N/A	-	-	-	-	-	-
IT Security											
15	-	-	-	-	N/A	-	-	-	-	-	-
Quarter 4; May 2013 – July 2013											
Continuous Auditing of Key Financial Systems (February – April 2013)											
11	-	-	-	-	N/A	-	-	-	-	-	-
Other											
16 (8)	Planning, contract management, reporting, value for money and Follow up										
Total	117 (55)										

Appendix 2 - Results of Follow Up of Recommendations

Recommendation	Progress to date	Priority	Status	Further recommendation
1. Gifts and Hospitality Register– Bribery Act 2010				
<p>Prior to approval, edit access should be restricted to administrators and the individual making the declaration. The 'Version History' option should be made available so that any changes can be checked.</p> <p>Approvers should review the entry on the register and ensure they have appropriate levels of authority. Procurement should also review authorisation quarterly to check for appropriate sign-off.</p>	<p>A new ICT specialist has been employed by the University and 'Version History' has now been implemented.</p> <p>The University are considering an upgrade to the system which will allow further control over the 'create' and 'edit' functions. This will form part of a wider business assessment.</p>	High	Implemented	N/A
2. Support Services – Issue of letters of delegated authority				
<p>Roles and responsibilities should be clearly documented for Business Support Managers (BSMs) and HR support partners. This would also then give BSMs and HR support partners the opportunity to flag areas they are not comfortable with and require training in.</p>	<p>Quarterly meetings are held and HR business partners attend Faculty Executive meetings at least once a quarter.</p> <p>Training courses have been held on HR matters and on Finance to meet training needs. This included a session on employment law on 28th of June 2012.</p>	Medium	Implemented	N/A
3. Use of HMRS outside of HR – Oracle System				
<p>Once the system is used outside of the existing department, a clear audit trail recording all security information should be enabled and monitored to detect any unusual events.</p>	<p>Oracle access is restricted to the HR function. Security information has been bought and enabled by ICT as part of Phase 1.</p> <p>The University will be implementing a new payroll system, i-Trent, and will implement relevant security access as part of this.</p>	Medium	Implemented	N/A
4. KPIs – Student Union				
<p>The Union should decide on key performance indicators and milestones to facilitate the measurement of progress against the strategic plan. These indicators should be reported on at Council and Executive meetings, and a record of progress should be maintained to pass on to new sabbatical officers the following year.</p> <p>The Council should update the Union's constitution with accurate</p>	<p>The Students' Union has undergone a re-structuring which has brought in a new management structure (both in terms of a Chief Executive and a re-structuring of sabbatical posts) and an aligned committee structure. This is brought together within a self-governing Trust (registered with the Charities Commission), with a new committee structure and constitution. This received final approval from the LSBU Board</p>	Medium	Implemented	N/A

details of the Committees which are currently operating. If Committees listed in the Constitution are not actually meeting, the Union should ensure that their stated duties are adequately covered elsewhere and should then either remove mention of the committees from the Constitution, or if this is not permitted by the University, amend the details to suit the current situation.

The Union should take necessary steps to update the strategic plan at the beginning of the year to reflect the current priorities. The strategic plan should be made available to the officers and staff of the Union promptly so that they can put in place plans to ensure the objectives of the Union are achieved.

of Governors at its July meeting.

Within the new structure, the Students' Union has established a new Strategic Plan, with associated KPIs, which will inform future budget-setting processes (within which the SU will make strategic funding bids to the University on an annual basis). This process will commence when a new Chief Executive is appointed.

Appendix 3 - Results of Risk Management follow Up of Recommendations

Original Recommendation	Status update	Risk Rating	Agreed action
<p>Inclusion of appropriate risks – Control Design</p> <p>We noted from a review of the corporate risk register that it included risks which were not owned directly, and could not be actively managed by the relevant Faculty or Department.</p> <p>Management should review their existing risks and look to focus on addressing the risks that are within their control.</p> <p>To assist with this and to ensure consistency of the risk registers, the quarterly meetings should continue to include review of a sample of Faculty/Department risk registers and consider whether they include risks which mitigate against achieving the Corporate Objectives of the University.</p>	<p>We reviewed the corporate risk register and identified that the risk register still contains broad risk, however it is acknowledged that this reflects the University's approach to risk management and is part of their overall effort to make risk management processes more manageable by consolidating risks.</p> <p>Our review identified that the risk register identifies a specific risk owner and each risk is linked to the corporate plan. Each risk has been disaggregated into multiple root causes with identified controls to mitigate against each event occurring. This is deemed to provide a sufficient layer of analysis to ensure the risk is monitored and managed effectively.</p> <p>The risk rating has not moved but this is deemed to be reasonable: good risk management practice suggests that not all risks should be moving ; some risks need to remain static to ensure they remain on risk owners agendas and drive continuous performance.</p>	Medium	N/a – finding closed.
<p>Risk appetite – Control Design</p> <p>Management should define the University's risk appetite within the Risk Strategy.</p> <p>In addition, it is suggested that by defining a risk appetite there may be opportunity in the risk register to determine whether risk can be tolerated by the University.</p> <p>The TARA model may be adopted to outline whether risks should be Transferred, Accepted, Retained or Avoided. This will clarify whether risks need to be mitigated and are controllable.</p>	<p>Management have developed a paper outlining their risk appetite, this was due to be presented to the Board of Governors for their review at the next meeting.</p> <p><i>This update was reported to Audit Committee as part of our October 2012 update report.</i></p>	Medium	N/a – finding closed.
<p>Deficiencies in risk strategy – Control Design</p> <p>Management should include greater detail of procedures and roles and responsibilities in the Risk Management Strategy document, or a separate document to ensure that HEFCE guidelines are met. The strategy should be communicated effectively by ensuring that training created by finance is delivered to all new risk owners and refreshed where changes to the strategy</p>	<p>Management has reviewed their risk management strategy document against HEFCE guidelines and are satisfied that the current document outlines roles and responsibilities appropriately in line with this guidance. An email has been circulated to Heads of Department reminding them of their responsibilities.</p> <p><i>This update was reported to Audit Committee as part of our October 2012 update report.</i></p>	Medium	N/a – finding closed.

**Incomplete risk registers –
Operating Effectiveness**

It was noted that there was fields missing from all of the five departmental risk registers tested. For example, the National School of Bakery had empty fields for all of the risks within the 'Cause and Effect', 'Existing Controls' and 'Action Required' columns.

Three out of five departmental risk registers tested had not been updated on a timely basis. For example, the HR risk register had a risk which had not been updated since June 2011.

There were examples acknowledged from interviews of risks on the risk register which were completed and risks closed, yet still included on the risk register. Thus reflecting that the registers were not up-to-date.

Risk registers should be updated after every monthly meeting with Executive members to reflect changes and actions made.

Monitoring of all risks at monthly meetings should be completed and updates added to the risk registers subsequently to reflect actions and changes of circumstance.

Notes should be used on the risk system to indicate why changes have not been updated if applicable, or to show the closure of risk.

We tested an additional sample of 5 risk registers, different to those previously tested to confirm if recommendations had been implemented.

Our testing identified the following issues:

Incomplete fields on risk registers

Three of the five risk registers tested had incomplete fields within the 'action required' column (ICT, HR and Student Services). This meant that it was not possible to comment on whether any of these actions had been implemented. All other areas have been completed.

Untimely update of risk registers

Two of the five risk registers tested (HR and Student Services) had not been updated since September 2012.

Overdue recommendations

One of the five risk registers tested (ICT) had an overdue action. The action was due to be implemented by April 2012. This is still outstanding on the register. There is no explanation for the delay or revised date for implementation.

Medium Original action remains valid (included below :)

Action to be taken:

The Executive team and all Heads of Department will be reminded of the importance of keeping registers up to date

Responsibility for action:

Corporate and Business planning Manager

Target Date:

28 February 2013

Appendix 4: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

Audit Stage	2012/13 Audit Plan – Delivery	Progress as at February 2013
<u>Production of Annual Internal Audit Plan</u>	The annual internal audit plan will be produced for the June Audit Committee. The plan will be risk based and linked to the University's Risk Register. Once the plan is approved by the Audit Committee any further material changes must be approved by the Committee.	Achieved for the 2012/13 plan. Minor revisions to the audit plan presented and approved by the Audit Committee at the October meeting.
<u>Terms of Reference</u>	All internal audit ToRs will be agreed with the audit sponsor at least 1 week before the fieldwork start date.	The Capital projects final ToR was agreed prior to the fieldwork starting but within a week. However, the content of the ToR had been agreed with management well in advance of this.
<u>Fieldwork</u>	All audit fieldwork will be recorded on our electronic working paper system.	Achieved.
<u>Exit meeting</u>	An exit meeting will be held at the end of each audit to discuss the audit findings and recommendations with the audit sponsor.	Achieved.
<u>Draft report</u>	The draft report will be issued to the audit sponsor and Executive Director of Finance within 10 working days of the completion of fieldwork.	Achieved.
<u>Management response</u>	The audit sponsor will provide the engagement manager with a complete written response to the internal audit report within 10 days of receipt of the draft report.	Achieved except for receipt of management responses in relation to Q1 Continuous Auditing.
<u>Final report</u>	The final report will be issued to the audit sponsor and Executive Director of Finance within 5 working days of receiving the management response. The final report will include a schedule identifying responsibility and a timescale for implementation of the recommendations.	Achieved.
<u>Audit Committee</u>	The engagement manager or Head of Internal Audit will provide an internal audit update report to each Audit Committee (unless requested not to) and an internal audit annual report to the Audit Committee each year.	Achieved. Update reports provided at June, September, October and February Committees. Our internal audit annual report 2011/12 was presented at the September Committee.
<u>Pre Audit Committee meetings</u>	The engagement manager will meet with the Executive Director of Finance a minimum of 3 weeks before each Audit Committee to discuss progress and reports to be presented to the Audit Committee.	Achieved.
<u>100% of audits delivered against the audit plan</u>	Progress against plan detailed in the Annual Internal Audit report. Any changes to the Internal Audit plan will be agreed with Executive Director of Finance (and the Audit Committee, where material) prior to action.	Ongoing.
<u>Management feedback > 7 or above.</u>	A client satisfaction survey will be issued annually. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	To be issued
<u>Audit Committee feedback > 7 or above</u>	A client satisfaction survey will be issued annually to the Chair of the Audit Committee. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	To be issued

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	PAPER NO: AC.07(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Continuous Auditing Quarter 4 report 2011/12	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

1. The attached Continuous Audit report for Quarter 4 2011/12 was undertaken as part of the continuous internal audit programme and is the final report in the continuous auditing cycle for 2011/12. This report was presented to the Audit Committee meeting in draft at the October 2012 meeting and the committee requested that PwC review again the accounts receivable rating in light of the committee discussion regarding collection of accommodation fees from students. No adjustment was considered necessary although the accounts receivable rating has been revised downward in Q1 2012/13 to reflect other control issues.

2. The Executive recommends that the Audit Committee note the attached report which is fundamentally unchanged from the draft to last meeting.

London South Bank
University

October 2012

FINAL

***Internal Audit
Report 2012/2013***
Continuous Auditing
Quarter Four (April – July 2012)



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Distribution List

For action:	Natalie Ferer (Financial Controller)
For information:	Richard Flatman (Executive Director of Finance) Chair and Members of the Audit Committee

Our internal audit work has been performed in accordance with HEFCE's Financial Memorandum. 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.

1. Executive summary

Background and approach:

Effective financial controls are essential for providing assurance over both the efficient and effective use of funds, and the reporting and forecasting of complete and accurate management information. In recognition of this, our internal audit programme makes provision for a rolling programme of audit work which focuses upon the design and operation of the organisations core financial controls. The systems included within the scope of our work in 2012/13 are:

- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- General Ledger; and
- Student Financial Data.






















In developing our work programme for 2012/13, we met with management to refresh our understanding of the University's controls and ensure that our work remains targeted to the key risks facing the institution. The controls included within the scope of our work are set out within our Terms of Reference included at Appendix Two.

Our work programme for 2012/13 includes a number of new risk areas. In the course of this first phase of work we have invested time in liaising with management to obtain a detailed understanding of these processes, some of which were under review by management as at the date of our audit work. We will report on the operating effectiveness of these controls from the following quarter onwards, covering the full 2012/13 financial year.

Our detailed findings are set out in Section Two of this report; a summary of our findings and the matters arising in the course of our work this quarter is set out below.

System summaries

Our system summary below is determined with reference to the extent or monetary impact of the exceptions we identified in the course of our work (our rating criteria are set out at Appendix One);

System / Rating	Q4 2011/12	Q3 2011/12	Q2 2011/12	Trend
Payroll	 Amber	 Red	 Green	
Accounts payable	 Green	 Amber	 Amber	
Accounts receivable	 Green	 Amber	 Green	
Cash	 Green	 Green	 Green	
Student financial data	 Green	 Green	 Green	
General Ledger	 Green	N/A	N/A	N/A

Findings and recommendations

Whilst acknowledging that a significant number of controls tested as part of this quarters audit are operating as designed and there has been a general improvement observed in respect of each of the systems under review, there remain areas where improvements could be made. The key issues arising from our work in respect of each system are summarised below

Payroll

The following exceptions were identified in this area:

- In respect of one of 25 new starters sampled, the new starter had not been enrolled on a timely basis following their enrolment on the HR system. As a result, this hourly paid employee was not paid in their first month of employment upon submission of a completed claim form. We note however that this matter has since been rectified by management.
- In respect of one employee (from a sample of twenty five) no supporting documentation could be provided to evidence that a change to their bank details had been made following a request from the individual concerned.
- No reconciliation between the payroll system and the general ledger had been prepared in May 2012. Furthermore, in respect of the reconciliations prepared in June and July, no reconciliation was prepared in respect of the net pay account; the single largest item of payroll expenditure.

Accounts receivable

We are pleased to note that our testing identified no exceptions in relation to this area.

Accounts payable

We are pleased to note that our testing identified no exceptions in relation to this area.

Cash

We noted the following exception:

- In the course of our work, we identified that a user access profile to the QLX system existed in respect of an employee who had left the organisation during the quarter. Where user access profiles are not removed on a timely basis, there is a risk that such profiles might be used inappropriately to access and modify system records.

General Ledger

This is a new system area defined in the 2012/13 Terms of Reference and therefore the first time that we have looked at the design of a number of the controls in this area. In the course of our work we identified one control design improvement. This was in relation to the retention of evidence where access to the general ledger had been granted following the receipt of an appropriately authorised request. No other exceptions were identified in the course of our work in this area.

Student Systems

We are pleased to note that our testing identified no exceptions in relation to this area.

2. Detailed findings

Payroll

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q2 2011/12)
P1	Authorised new starter forms are received prior to an individual being entered on to the payroll system	1	From our sample of 25 new employees, we identified one individual who had not been added to payroll on a timely basis. As a result the hourly paid individual was not able to be paid in their first month of employment upon submission of a completed claim form. This matter has since been rectified by management.	1	0
P2	Exception reports are reviewed on a monthly basis.	0		0	N/A
P3	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	0		1	1
P4	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	0		0	0
P5	Variation forms are received prior to any changes being made to standing data.	1	In respect of one employee, no supporting documentation could be provided in respect of a change in bank details (Employee no. 152595) Responsibility for action: Perlina Payne; Payroll Manager	0	0
P6	Access to the payroll system is restricted	N/A	To be performed for Quarter One 2012/13 onwards	N/A	N/A
P7	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	0		2	0

P8	Monthly reconciliations are performed between Agresso and the Payroll System	2	<i>The following exceptions were identified in relation to payroll reconciliations</i>	1	0
			<i>1. No reconciliation had been prepared in May 2012 (though reconciliations have been subsequently prepared which show no significant reconciling balances).</i> <i>2. No reconciliation was performed in respect of the 'net pay' account in the quarter.</i>		
			Responsibility for action: Natalie Ferer, Financial Controller		
P9	Only expenses supported by appropriately authorised claim forms are reimbursed.	0		0	2

Accounts Payable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
AP1	Authorised documentation must be received prior to creating a new or amending a supplier record.	0	New control tested in 2012/13	N/A	N/A
AP2	Listings of changes to supplier standing data are reviewed monthly.	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
AP3	All invoices are approved for payment by an appropriately authorised individual	0		0	0
AP4	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	0		0	38
AP5	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation	0		0	2
AP6	Monthly reconciliations are performed between the General Ledger and the creditors control accounts	0		0	0

Accounts Receivable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
AR1	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
AR2	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	0		2	1
AR3	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	0		0	0
AR4	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis	0		0	0
AR5	Debts are written off only following review and authorisation	N/A	<i>This had not taken place as at the date of our fieldwork and will be considered in the following quarter</i>	N/A	N/A
AR6	On a monthly basis the debtors balance per the general ledger is reconciled to QLX	0		0	0
AR7	On a monthly basis the invoiced balance per QLX is reconciled to QLS.	0		0	0
AR8	Monthly reconciliations are performed between the General Ledger and the Agresso sales ledger	0		0	0


Cash

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
C1	Cash takings in respect of tuition fees as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	0		0	0
C2	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	0		0	5
C3	Cash receipts per Agresso are reconciled to QLX on a monthly basis	0		0	0
C4	Cash receipting responsibility within the QLX system is restricted	1	We identified one individual who had left the organisation on 22 June but whose access to the system spanned the entire quarter. Access has subsequently been removed and it was confirmed that his access had not been used following departure.	0	0
C5	Monthly reconciliations are performed between the General Ledger and the Bank Statement	0		1	1

General Ledger

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
GL1	Journals must be authorised prior to being posted on the system <i>Key contact: Ephraim Maimbo</i>	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
GL2	On a monthly basis management accounts are prepared and significant variances against budget are investigated	0	New control tested in 2012/13	N/A	N/A
GL3	Suspense accounts and balance sheet control accounts are cleared on a quarterly basis	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
GL4	Access to the general ledger is restricted	<i>Note this is a new area for 2012/13 Refer to control design improvement proposed; see below</i>		N/A	N/A
GL5	No single individual has access to make changes to both the QLX and QLS systems	0		0	0

Retention of system access requests – Control design improvement

<i>Finding</i>		
We understand that currently, no records are retained to evidence that where staff are granted access to the University's general ledger system, that this access was approved by an appropriately senior member of staff.		
<i>Risks</i>		
Access to the general ledger is not appropriately restricted.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low Risk	Records will be retained in order to validate that access to the general ledger has been granted based upon receipt of an appropriately authorised request.	<i>Target date:</i>




Student Financial Data

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
S1	Enrolment forms are completed in respect of each new learner prior to the creation of records within QLS	0		0	0
D2	Course changes are only actioned on QLS upon receipt of an authorised form or email from a member of academic staff	0		0	0
S3	Faculty Managers review QLS records made available to them on a monthly basis	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
S4	Learning outcomes are inaccurately recorded	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
S5	Access rights within QLX are restricted	0		0	0

Appendix 1. Assessment Criteria




System summary ratings

The finding ratings in respect of each financial sub-process area are determined with reference to the following criteria;

Rating	Assessment rationale
 Red	<p>A high proportion of exceptions identified across a number of the control activities included within the scope of our work; or</p> <p>Control failures which, individually or in aggregate, have resulted in the significant misstatement of the University's financial records.</p>
 Amber	<p>Some exceptions identified in the course of our work, but these are limited to either a single control or a small number of controls; or</p> <p>Control failures which, individually or in aggregate, have resulted in the misstatement of the organisations financial records, but this misstatement is not significant to the University</p>
 Green	<p>Limited exceptions identified in the course of our work</p> <p>Control failures which, individually or in aggregate, do not appear to have resulted in the misstatement of the organisations financial records.</p>

Control design improvement classifications

The finding ratings in respect of any control design improvements identified in the course of our work are determined with reference to the following criteria;

Rating	Assessment rationale
 Critical	<p>Critical impact on operational performance resulting in inability to continue core activities for more than two days; or</p> <p>Critical monetary or financial statement impact of £5m; or</p> <p>Critical breach in laws and regulations that could result in material fines or consequences over £500k; or</p> <p>Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.</p>
 High	<p>Significant impact on operational performance resulting in significant disruption to core activities; or</p> <p>Significant monetary or financial statement impact of £2m; or</p> <p>Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or</p> <p>Significant impact on the reputation or brand of the organisation, resulting in unfavorable national media coverage.</p>
 Medium	<p>Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or</p> <p>Moderate monetary or financial statement impact of £1m; or</p> <p>Moderate breach in laws and regulations resulting in fines and consequences over £100k; or</p> <p>Moderate impact on the reputation or brand of the organisation, resulting in limited unfavorable media coverage.</p>

Low

Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or

● **Minor** monetary or financial statement impact £500k; or

Minor breach in laws and regulations with limited consequences over £50k; or

Minor impact on the reputation of the organisation, resulting in limited unfavorable media coverage restricted to the local press.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Appendix 2. Terms of Reference

To: Richard Flatman (Director of Finance)

From: Justin Martin (Head of Internal Audit)

This review is being undertaken as part of the 2012/2013 Internal Audit plan approved by the Audit Committee.

Background

During 2011/12, the Internal Audit programme included quarterly reviews of the key controls over five of the University's core financial sub-processes, including:

- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- Student Data

As part of our audit planning for 2012/13, we held meetings with management to update our understanding of the control framework in place and refresh our testing programme to ensure it continues to focus upon the key risks facing the Institution.

Testing undertaken in 2011/12 identified that the controls in place appeared to be largely operating effectively, but that opportunities remained to improve levels of compliance.

Whilst the core controls included in our testing programme (set out in detail at Appendix One) remain unchanged, a number of amendments have been agreed. These relate to:

- The creation of a 'General Ledger' process area; within which we will consider the review and authorisation of journal postings, timely clearance of suspense accounts, and maintenance of segregation of duties within the system.
- Additional testing in respect of student data to ensure that completion and achievement data, a core driver of HEFCE funding, is properly reviewed and scrutinised by management.
- Additional testing to ensure that creditor and payroll exception reports are prepared and reviewed on a timely basis to detect any anomalous standing data changes.

We will continue to report upon the operating effectiveness of controls on a quarterly basis to provide regular and timely insight to management and Audit Committee members.

Scope

During 2012/13, we will continue to review the operating effectiveness of key controls in place during the period 1 May 2012 to 30 April 2013 as detailed in our 'Approach' section below.

At Appendix One, we have set out the specific controls and key contacts for each transaction cycle; where the control environment changes in the financial year or we agree with management to revise our approach to reflect revised processes or previous recommendations, we will update this Appendix and re-issue our Terms of Reference to reflect that.

The financial processes, related key control objectives and key risks within the scope of our work are detailed below.

Process	Key control objectives	Key risks
Payroll and staff expenses	Accurate payments are made to valid employees of the organisation	New employees are not set up on the payroll system accurately Payments to those leaving employment are not ceased promptly and/or

<p>Payroll and staff expenses (Cont.)</p>	<p>Accurate payments are made in respect of valid expenses claims</p>	<p>overpayments are not identified and recovered promptly</p> <p>Overtime or other timesheet based records are inaccurate.</p> <p>Invalid changes are made to employee salary and bank details</p> <p>Discrepancies between the ledger and the payroll system are not identified and investigated.</p> <p>Invalid expenses claims are reimbursed.</p>
<p>Accounts payable</p>	<p>Expenditure commitments are made with prior budgetary approval</p> <p>Payments are made only following the satisfactory receipt of goods or services</p> <p>Payments are made only to valid suppliers</p>	<p>Goods and services are procured without appropriate budgetary authorisation prior to commitments being made</p> <p>Invoices and purchase card statements are not appropriately reviewed and authorised prior to payment</p> <p>Invalid suppliers or supplier standing data is maintained.</p> <p>Discrepancies between the ledger and the creditors control account are not identified and investigated.</p>
<p>Accounts receivable</p>	<p>Fee income is collected on a timely basis</p> <p>Goods or services are delivered only to credit worthy customers</p> <p>Debts due are collected promptly</p>	<p>Accurate records of student debts are not maintained and income is not collected on a timely basis.</p> <p>Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded.</p> <p>Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts</p> <p>Discrepancies between the ledger and the debtors control account are not identified and investigated.</p>
<p>Cash</p>	<p>Cash ledger balances are accurate and complete</p> <p>Cash is lost or misappropriated</p>	<p>Reconciling amounts are not promptly identified and investigated</p> <p>Discrepancies between the ledger and till or float records are not promptly identified and investigated</p>
<p>General Ledger</p>	<p>Ledger balances are valid and accurate</p>	<p>Invalid, incomplete or inaccurate journals are posted</p> <p>Suspense accounts and balance sheet control accounts are not cleared on a timely basis</p> <p>Segregation of duties is not maintained</p>
<p>Student Systems</p>	<p>Accurate records of students and their activity are maintained</p>	<p>Student details and fees payable as recorded upon enrolment are inaccurate or incomplete</p> <p>Invalid changes are made to student records</p> <p>Course changes or withdrawals are not identified on a timely basis</p> <p>Learning outcomes are inaccurately recorded</p>

Limitations of scope

The following limitations of scope are in place:

- Our work is not intended to provide assurance over the effectiveness of all the controls operated by management over these financial systems; the focus of our work will be limited to those controls which are deemed by management to be most significant to the system under consideration; and
- Our work will not consider the organisations IT security framework and associated controls in place.

Audit approach

To provide LSBU with regular and timely insight into the operating effectiveness of their controls, we will undertake our testing on a quarterly basis, covering the following periods during 2012/13.

- Quarter Four 2011/12
- Quarter One 2012/13
- Quarter Two 2012/13
- Quarter Three 2012/13

The controls which will be considered in the course of our testing, mapped to the key risks identified above, have been set out overleaf

Sub-process; Payroll

Key contact; Perlina Payne

Key risk	Key control	Reference
New employees are not set up on the payroll system accurately (i.e. at the correct start date and salary rate)	Authorised new starter forms are received prior to an individual being entered on to the payroll system	P1
	Exception reports are reviewed on a monthly basis.	P2
Payments to those leaving employment are not ceased promptly and/or overpayments are not identified and recovered promptly	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	P3
	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	P4
Invalid changes are made to salary and employee bank details	Variation forms are received prior to any changes being made to standing data.	P5
	Access to the payroll system is restricted	P6
Overtime or other timesheet based records are inaccurate.	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	P7
Discrepancies between the ledger and the payroll system are not identified and investigated.	Monthly reconciliations are performed between Agresso and the Payroll System	P8
Invalid expenses claims are reimbursed.	Only expenses supported by appropriately authorised claim forms are reimbursed.	P9

Sub-process; Accounts Payable

Key contact; Penny Green (AP1-AP2) Maureen Stanislays (AP3 –AP6)

Key risk	Key control	Reference
Invalid suppliers or supplier standing data is maintained.	Authorised documentation must be received prior to the creating a new or amending a supplier record.	AP1
	Listings of changes to supplier standing data are reviewed monthly.	AP2
Invoices payments are not appropriately reviewed and authorised prior to payment	All invoices are approved for payment by an appropriately authorised individual	AP3
	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	AP4
	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to	AP5

Key risk	Key control	Reference
	supporting documentation	
Discrepancies between the ledger and the creditors control account are not identified and investigated.	Monthly reconciliations are performed between the General Ledger and the creditors control accounts	AP6

Sub-process; Accounts receivable

Key contact; Natalie Ferer/Julian Rigby

Key risk	Key control	Reference
Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded.	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices. <i>To be performed for Quarter One 2012/13 onwards</i>	AR1
Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	AR2
	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	AR3
	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis	AR4
	Debts are written off only following review and authorisation	AR5
Outstanding student debts are not identified and collected on a timely basis.	On a monthly basis the debtors balance per the general ledger is reconciled to QLX	AR6
	On a monthly basis the invoiced balance per QLX is reconciled to QLS.	AR7
Discrepancies between the ledger and the debtors control account are not identified and investigated.	Monthly reconciliations are performed between the General Ledger and the Agresso sales ledger	AR8

Sub-process; Cash

Key contact; Nicholas Waring (C1-4), Brian Wiltshire (C5)

Key risk	Key control	Reference
Reconciling amounts are not promptly identified and investigated	Cash takings in respect of tuition fees as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	C1
Cash is lost or misappropriated	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	C2
	Cash receipts per Agresso are reconciled to QLX on a monthly basis	C3
	Cash receipting responsibility within the QLX system is restricted	C4
	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are reviewed by the Head Cashier.	C5

Sub-process; General Ledger

Key contacts; *Detailed below*

Key risk	Key control	Reference
Invalid, incomplete or inaccurate journals are posted	Journals must be authorised prior to being posted on the system <i>Key contact: Ephraim Maimbo</i>	GL1
	On a monthly basis management accounts are prepared and significant variances against budget are investigated <i>Key contact: Cherie Chin- A-Fo</i>	GL2
Suspense accounts and balance sheet control accounts are not cleared on a timely basis	[TBC; To be tested from Q1 2012/13] <i>Key contact: Ephraim Maimbo</i>	GL3
Segregation of duties is not maintained	Access to the general ledger is restricted <i>Key contact: Ravi Mistry</i>	GL4
	No single individual has access to make changes to both the QLX and QLS systems	GL5

Sub-process; Student Systems

Key contact; Andrew Ratajczak

Key risk	Key control	Reference
Student details and fees payable as recorded upon enrolment are inaccurate or incomplete	Enrolment forms are completed in respect of each new learner prior to the creation of records within QLS	S1
Course changes or withdrawals are not identified on a timely basis	Course changes are only auctioned on QLS upon receipt of an authorised form or email from a member of academic staff	S2
	Faculty Managers review QLS records made available to them on a monthly basis	S3
Learning outcomes are inaccurately recorded	[TBC; To be tested from Q1 2012/13]	S4
Invalid changes are made to student records	Access rights within QLX are restricted	S5

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the first of four planned phases of continuous auditing work this year, subject to the limitations outlined below.

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 the operating effectiveness of the controls 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.

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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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

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	PAPER NO: AC.08(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Continuous Auditing Quarter 1 report 2012/13	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

1. The attached Continuous Audit report for Quarter 1 2012/13 was undertaken as part of the continuous internal audit programme and is the first report in the continuous auditing cycle for 2012/13. There have been changes in the ratings compared to Q4 for Accounts Receivable (Green to Amber) and Cash (Green to Amber).
2. The Executive recommends that the Audit Committee note the attached report.

London South Bank
University

December 2012

FINAL

***Internal Audit
Report 2012/2013***
Continuous Auditing
Quarter One (August – October 2012)



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Distribution List

For action:	Natalie Ferer (Financial Controller)
For information:	Richard Flatman (Executive Director of Finance) Chair and Members of the Audit Committee

Our internal audit work has been performed in accordance with HEFCE's Financial Memorandum. 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.

1. Executive summary

Background and approach:

Effective financial controls are essential for providing assurance over both the efficient and effective use of funds, and the reporting and forecasting of complete and accurate management information. In recognition of this, our internal audit programme makes provision for a rolling programme of audit work which focuses upon the design and operation of the organisations core financial controls. The systems included within the scope of our work in 2012/13 are:
























- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- General Ledger; and
- Student Financial Data.

In developing our work programme for 2012/13, we met with management to refresh our understanding of the University's controls to ensure that our work remained targeted to the key risks facing the institution. The controls included within the scope of our work are set out within our Terms of Reference included at Appendix Two.

Our detailed findings are set out in Section Two of this report; a summary of our findings and the matters arising in the course of our work this quarter is set out below.

System summaries

Our system summary below is determined with reference to the extent or monetary impact of the exceptions we identified in the course of our work (our rating criteria are set out at Appendix One);

System / Rating	Q1 2012/13	Q4 2011/12	Q3 2011/12	Trend
Payroll	 Amber	 Amber	 Red	
Accounts payable	 Green	 Green	 Amber	
Accounts receivable	 Amber	 Green	 Amber	
Cash	 Amber	 Green	 Green	
General Ledger	 Green	 Green	N/A	
Student financial data	 Green	 Green	 Green	

Findings and recommendations

The majority of controls tested have been operating as expected during this quarter. However, there has been an increase in the number of controls which have not been operating effectively and these are noted in our testing. The key issues arising from our work have been summarised below but in particular relate to the payroll and accounts receivable cycles:

Payroll

We have noted the following exceptions in this area:

- One individual who left employment in September 2012 had been overpaid in October due to the leaver's form having not been received by the Payroll department. The November payment run has been recalled as a result of our audit finding to ensure that this leaver is not overpaid for the month of November as well. Although, our testing of control 4 with regard to the BACS run review, found that there was evidence of review – this exception was not picked up through that management review cycle. Management will need to seek repayment from the member of staff in question in relation to the payment received for October 2012.
- One of the four payroll exception reports selected for testing could not be provided by management as evidence that the monthly report review had taken place in a timely manner.
- The August exception report had not been signed and dated to evidence that the review has taken place prior to payment release.

Accounts payable

We are pleased to note that no exceptions have been identified during our testing in this area. However, we have highlighted a couple of observations following the work that we thought warranted attention.

Accounts receivable

The following exceptions have been noted during our testing in this area:

- For 10 out of 20 customer accounts tested we found that a credit limit had not been set up within the Agresso system to reflect that the expenditure of these customers is anticipated to be less than £1,000 – as required by the University's procedures.
- For 1 out of 20 customer accounts tested a credit check had not been performed prior to the customer account being set up as required by the University's procedures.
- Customer requisition forms could not be matched to invoices in 4 of the 20 invoices tested, due to VAT not being included on the customer requisition form.
- One purchase order raised was authorised by a member of staff who did not have the appropriate authority.
- For 9 out of 20 debts tested, these had not been chased in a timely manner in accordance with the University's procedures. 2 of the 20 outstanding debts sampled had not been chased after the first two reminders were sent out.

In performing the audit work we have observed that there seem to be teething issues with the new system and as such found it difficult to trace an invoice back to the order requisition. The following specific issues have been noted as a result:

- Invoice numbers are not linked to order requisition numbers;
- The ordering system only shows the VAT exclusive amounts;
- It is difficult to distinguish between orders of exactly the same amount; and
- No dates or invoice numbers are included.

Cash

We did not identify any specific exceptions during our testing of the controls in this area.

However, the interface between the KX system and Agresso is still not operating effectively which has resulted in large reconciling balances when the bank reconciliation is performed. As this issue remains open and the balances at a gross level are significant and aged – we have revised our rating from green to amber, as this requires immediate action.

The QLX system failed during the quarter for two days, and as a result manual receipts were issued and entered onto the system on 3 August in relation to the first two days of the month and these monies were not deposited until 6 August as management were waiting for the relevant paperwork to arrive before banking.

Student Systems

We are pleased to note that our testing identified no exceptions in relation to this area.

General Ledger

One of the five key controls will be tested from Quarter two onwards. We have performed testing on the remaining four key controls in this area and are pleased to note that no exceptions were identified.

2. Detailed findings

Payroll

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q4 2011/12)	Exceptions (Q3 2011/12)
P1	Authorised new starter forms are received prior to an individual being entered on to the payroll system.	0		1	1
P2	Exception reports are reviewed on a monthly basis.	2	<p>Management could not provide the August (U) exception report so there was no evidence that this had been reviewed prior to payroll being released.</p> <p>The August (W) exception report had not been signed and dated to evidence that the review had taken place prior to payment release.</p> <p>Responsibility for action:</p> <p><i>Denise Sullivan, Payroll Manager</i></p> <p>Management response:</p> <p><i>Exception reports are checked by the Payroll Manager and Financial Controller before the payroll is transmitted and they should sign the report as evidence that this check has taken place. The payroll team have been instructed to take care when filing supporting documents once the payroll has been processed so they can easily be retrieved during audit testing.</i></p>	0	0
P3	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	1	<p>For one of the 20 leavers tested, a leavers form had not been received by payroll, despite the member of staff leaving employment on 14 September. As a result, the employee was overpaid as was in receipt of a salary payment in the October BACS run, A November overpayment was avoided as a result of the payment being recalled from the BACS run when this exception was raised during our audit.</p>	0	1

Responsibility for action:

Denise Sullivan, Payroll Manager

Management response:

We will investigate whether HR can provide a monthly summary of starters and leavers to verify that all leavers have been processed before the payroll is finalised. We will also review the process of receiving and processing documents from HR and continue to maintain a log of errors and adjustments to reduce the risk of leaver forms not being processed.

P4	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	0		0	0
P5	Variation forms are received prior to any changes being made to standing data.	0		1	0
P6	Access to the payroll system is restricted	0	New control tested in 2012/13	N/A	N/A
P7	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	0	Note: we have confirmed authorisation but for a couple of weekly timesheets the date that they were authorised was omitted on the documentation.	0	2
P8	Monthly reconciliations are performed between Agresso and the Payroll System	0	Note: we have confirmed that these reconciliations have been performed. However, we would note that there are a number of small long standing reconciling items in a number of the accounts, which management should seek to resolve on a more timely basis.	1	1
P9	Only expenses supported by appropriately authorised claim forms are reimbursed.	0		0	0

Accounts Payable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q4 2011/12)	Exceptions (Q3 2011/12)
AP1	Authorised documentation must be received prior to creating a new or amending a supplier record.	0	New control tested in 2012/13. Note: there was a new supplier set up which was not in accordance with the required process. Management have authorised this due to exceptional circumstances.	N/A	N/A
AP2	Listings of changes to supplier standing data are reviewed monthly. <i>We found that changes to supplier data are not reviewed monthly. Therefore, we selected a sample of standing data changes and tested to ensure that appropriate documentation was received and the change was made by an appropriate person.</i>	0	New control tested in 2012/13. Note: documentation was not available to support all changes made, although we note that these changes were to non financial data, which is why we have not raised them as exceptions. However, 4 did relate to the change of bank details.	N/A	N/A
AP3	All invoices are approved for payment by an appropriately authorised individual	0		0	0
AP4	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	0		0	0
AP5	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation	0		0	0
AP6	Reconciliations are performed between the General Ledger and the creditors control accounts	0	Note – we confirmed that these had been performed. However, we note that a number of them have not been signed or dated to evidence timeliness.	0	0

Accounts Receivable

	Key control	Exceptions <i>(Current quarter)</i>	Details on exceptions <i>(Where applicable)</i>	Exceptions <i>(Q4 2011/12)</i>	Exceptions <i>(Q3 2011/12)</i>
AR1	<p>Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.</p> <p>Given the nature of some customers (e.g. some small sports) clubs, it is the University's policy that credit checks will not be performed for customer billings of less than £1,000 or for student customers. However, for these customers where one-off low value payments are expected, a credit limit of £1k is enforced via Agresso; which precludes further invoices being raised once this limit is exceeded</p>	2	<p>New control tested in 2012/13</p> <p>The following exceptions were noted in respect of our credit checks testing:</p> <ul style="list-style-type: none"> ➤ For 10 out of the 20 new customers tested, the credit limit for Agresso had not been set up where the conditions were present. However, the aggregate spend of these customers was confirmed as only £7,000. ➤ A credit check is required for a customer with anticipated expenditure exceeding £1,000. Our testing identified one exception where no credit check was performed prior to the customer account being set up as required. <p>Note - for four of the items tested, the value per the customer's requisition tested did not match with the invoices generated. However, this is due to VAT not being included in the requisition form.</p> <p>Responsibility for action:</p> <p><i>Julian Rigby, Income Manager</i></p> <p>Management response:</p> <p><i>All customer accounts should have a credit limit entered as part of the account set up process. This is a new procedure and the income manager will remind staff of this requirement when setting up new accounts.</i></p> <p><i>The exception was for an account where the anticipated spend before VAT was less</i></p>	N/A	N/A

than £1,000 but over £1,000 after the inclusion of VAT and therefore it was required that we do a credit check on that customer. The customer set up form will be amended to prompt users to include VAT in the anticipated spend. In addition, at any time if an invoice request is received that is for more than £1,000, a credit check can be performed before the invoice is raised.

AR2	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	2	We have identified the following exceptions:	0	2
			<ul style="list-style-type: none"> ➤ We identified one requisition order that was approved by a member of staff outside of their authority per the scheme of delegation. ➤ One of the 25 invoices tested could not be traced to a requisition order. 		
			We have noted some observations on page 2 with regard to the new accounts receivable system.		
			Responsibility for action:		
			<i>Natalie Ferer, Financial Controller</i>		
			Management response:		
			<i>The set up of approvers on Agresso is maintained by the Finance Systems Manager and should always be in line with the current authorised signatory form. The Financial Controller will review the process of updating authorised signatory forms and communication to the Finance Systems Manager, to ensure this process is robust.</i>		
AR3	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	1	Reminder letters have not been sent in a timely manner in nine out of 20 debts tested. Two out of 20 debts had not been chased after the first two reminders were issued.	2	0

Responsibility for action:

*Julian Rigby, Income
Manager*

Management response:

The exceptions related to Health contract income and these invoices are usually settled by the date due. If payment is not received as expected, the credit control team will chase the customer by phone.

AR4	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis	0		0	0
AR5	Debts are written off only following review and authorisation	N/A	N/A; write-offs not prepared at the date of testing. Testing is therefore to be performed in Q3	N/A	N/A
AR6	On a monthly basis the debtors balance per the general ledger is reconciled to QLX	0		0	0
AR7	On a monthly basis the invoiced balance per QLX is reconciled to QLS.	0		0	0
AR8	Monthly reconciliations are performed between the General Ledger and the Agresso sales ledger	0		0	0

Cash

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q4 2011/12)	Exceptions (Q3 2011/12)
C1	Cash takings in respect of tuition fees as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	0	The QLX system failed for two days, and as a result manual receipts were issued and entered onto the system. The deposit of monies had to be delayed as a result of this. This has not been raised as an audit exception, as management were aware of the issue and implemented a manual control. <i>A control design improvement has been raised – see below</i>	0	0
C2	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	0	No exceptions noted. However, we have noted two instances whereby the location of the cash collection was changed manually on the Loomis report. This was due to infrequent collection points having not been assigned specific codes on the system.	0	0
C3	Cash receipts per Agresso are reconciled to QLX on a monthly basis	0		0	0
C4	Cash receipting responsibility within the QLX system is restricted	0	We did note that the log-in details of a temporary worker was used by his replacement after he had left. This is not raised as an exception as the member of staff is an appropriate person. However, this is not good practice.	1	0
C5	Monthly reconciliations are performed between the General Ledger and the Bank Statement	1	The KX system interface with Agresso is not functioning, resulting in large reconciling balances when the bank reconciliation is performed. These reconciling differences are significant at a gross level	1	1

and aged.


Responsibility for action:

Brian Wiltshire, Treasury Manager

Management response:

The file transfer between KX and Agresso was amended in December 2012 and this will enable the team to reconcile all KX transactions going through the bank account.

QLX System failure– Control design improvement

<i>Finding</i>		
The QLX system failed during the quarter for two days, and as a result manual receipts were issued and entered onto the system. The deposit of monies had to be delayed as a result of this.		
<i>Risks</i>		
Cash receipts are not deposited into the bank on a timely manner which increases the risk of misappropriation.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low Risk	To ensure that there is a robust process in place to ensure the timely banking of cash in the event that the QLX system fails.	Nick Waring
		<i>Target date:</i> March 2013

General Ledger

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
GL1	Journals must be authorised prior to being posted on the system	N/A	<i>To be performed from Quarter Two 2012/13 onwards</i>	N/A	N/A
GL2	On a monthly basis management accounts are prepared and significant variances against budget are investigated	0		0	N/A
GL3	Suspense accounts and balance sheet control accounts are reconciled and cleared on a quarterly basis	0	Note - our testing found that although these accounts were reconciled on a quarterly basis, they were not completely cleared. However, this has not been raised as an exception as the balances are not significant.	N/A	N/A
GL4	Access to the general ledger is restricted	0	New control tested in 2012/13 Note - no supporting records are retained in relation to general ledger access. We would recommend as an advisory point that this is done.	N/A	N/A
GL5	No single individual has access to make changes to both the QLX and QLS systems	0		0	0




Student Financial Data

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
S1	Enrolment forms are completed in respect of each new learner prior to the creation of records within QLS	0		0	0
S2	Course changes are only actioned on QLS upon receipt of an authorised form or email from a member of academic staff	0		0	0
S3	Faculty Managers review QLS records made available to them on a monthly basis	0		N/A	N/A
S4	Learning outcomes are inaccurately recorded	N/A	<i>To be performed from Quarter Two 2012/13 onwards</i>	N/A	N/A
S5	Access rights within QLX are restricted	0		0	0

Appendix 1. Assessment Criteria




System summary ratings

The finding ratings in respect of each financial sub-process area are determined with reference to the following criteria;

Rating	Assessment rationale
 Red	A high proportion of exceptions identified across a number of the control activities included within the scope of our work; or Control failures which, individually or in aggregate, have resulted in the significant misstatement of the University's financial records.
 Amber	Some exceptions identified in the course of our work, but these are limited to either a single control or a small number of controls; or Control failures which, individually or in aggregate, have resulted in the misstatement of the organisations financial records, but this misstatement is not significant to the University
 Green	Limited exceptions identified in the course of our work Control failures which, individually or in aggregate, do not appear to have resulted in the misstatement of the organisations financial records.

Control design improvement classifications

The finding ratings in respect of any control design improvements identified in the course of our work are determined with reference to the following criteria;

Rating	Assessment rationale
 Critical	Critical impact on operational performance resulting in inability to continue core activities for more than two days; or Critical monetary or financial statement impact of £5m; or Critical breach in laws and regulations that could result in material fines or consequences over £500k; or Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.
 High	Significant impact on operational performance resulting in significant disruption to core activities; or Significant monetary or financial statement impact of £2m; or Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or Significant impact on the reputation or brand of the organisation, resulting in unfavorable national media coverage.
 Medium	Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or Moderate monetary or financial statement impact of £1m; or Moderate breach in laws and regulations resulting in fines and consequences over £100k; or Moderate impact on the reputation or brand of the organisation, resulting in limited unfavorable media coverage.

Low *Minor* impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or

- *Minor* monetary or financial statement impact £500k; or
- Minor* breach in laws and regulations with limited consequences over £50k; or
- Minor* impact on the reputation of the organisation, resulting in limited unfavorable media coverage restricted to the local press.

Advisory *A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.*

Appendix 2. Terms of Reference

To: Richard Flatman (Director of Finance)

From: Justin Martin (Head of Internal Audit)

This review is being undertaken as part of the 2012/2013 Internal Audit plan approved by the Audit Committee.

Background

During 2011/12, the Internal Audit programme included quarterly reviews of the key controls over five of the University's core financial sub-processes, including:

- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- Student Data

As part of our audit planning for 2012/13, we held meetings with management to update our understanding of the control framework in place and refresh our testing programme to ensure it continues to focus upon the key risks facing the Institution.

Testing undertaken in 2011/12 identified that the controls in place appeared to be largely operating effectively, but that opportunities remained to improve levels of compliance.

Whilst the core controls included in our testing programme (set out in detail at Appendix One) remain unchanged, a number of amendments have been agreed. These relate to:

- The creation of a 'General Ledger' process area; within which we will consider the review and authorisation of journal postings, timely clearance of suspense accounts, and maintenance of segregation of duties within the system.
- Additional testing in respect of student data to ensure that completion and achievement data, a core driver of HEFCE funding, is properly reviewed and scrutinised by management.
- Additional testing to ensure that creditor and payroll exception reports are prepared and reviewed on a timely basis to detect any anomalous standing data changes.

We will continue to report upon the operating effectiveness of controls on a quarterly basis to provide regular and timely insight to management and Audit Committee members.

Scope

During 2012/13, we will continue to review the operating effectiveness of key controls in place during the period 1 May 2012 to 30 April 2013 as detailed in our 'Approach' section below.

At Appendix One, we have set out the specific controls and key contacts for each transaction cycle; where the control environment changes in the financial year or we agree with management to revise our approach to reflect revised processes or previous recommendations, we will update this Appendix and re-issue our Terms of Reference to reflect that.

The financial processes, related key control objectives and key risks within the scope of our work are detailed below.

Process	Key control objectives	Key risks
Payroll and staff expenses	Accurate payments are made to valid employees of the organisation	New employees are not set up on the payroll system accurately Payments to those leaving employment are not ceased promptly and/or

Payroll and staff expenses (Cont.)	Accurate payments are made in respect of valid expenses claims	<p>overpayments are not identified and recovered promptly</p> <p>Overtime or other timesheet based records are inaccurate.</p> <p>Invalid changes are made to employee salary and bank details</p> <p>Discrepancies between the ledger and the payroll system are not identified and investigated.</p> <p>Invalid expenses claims are reimbursed.</p>
Accounts payable	<p>Expenditure commitments are made with prior budgetary approval</p> <p>Payments are made only following the satisfactory receipt of goods or services</p> <p>Payments are made only to valid suppliers</p>	<p>Goods and services are procured without appropriate budgetary authorisation prior to commitments being made</p> <p>Invoices and purchase card statements are not appropriately reviewed and authorised prior to payment</p> <p>Invalid suppliers or supplier standing data is maintained.</p> <p>Discrepancies between the ledger and the creditors control account are not identified and investigated.</p>
Accounts receivable	<p>Fee income is collected on a timely basis</p> <p>Goods or services are delivered only to credit worthy customers</p> <p>Debts due are collected promptly</p>	<p>Accurate records of student debts are not maintained and income is not collected on a timely basis.</p> <p>Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded.</p> <p>Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts</p> <p>Discrepancies between the ledger and the debtors control account are not identified and investigated.</p>
Cash	<p>Cash ledger balances are accurate and complete</p> <p>Cash is lost or misappropriated</p>	<p>Reconciling amounts are not promptly identified and investigated</p> <p>Discrepancies between the ledger and till or float records are not promptly identified and investigated</p>
General Ledger	Ledger balances are valid and accurate	<p>Invalid, incomplete or inaccurate journals are posted</p> <p>Suspense accounts and balance sheet control accounts are not cleared on a timely basis</p> <p>Segregation of duties is not maintained</p>
Student Systems	Accurate records of students and their activity are maintained	<p>Student details and fees payable as recorded upon enrolment are inaccurate or incomplete</p> <p>Invalid changes are made to student records</p> <p>Course changes or withdrawals are not identified on a timely basis</p> <p>Learning outcomes are inaccurately recorded</p>

Limitations of scope

The following limitations of scope are in place:

- Our work is not intended to provide assurance over the effectiveness of all the controls operated by management over these financial systems; the focus of our work will be limited to those controls which are deemed by management to be most significant to the system under consideration; and
- Our work will not consider the organisations IT security framework and associated controls in place.

Audit approach

To provide LSBU with regular and timely insight into the operating effectiveness of their controls, we will undertake our testing on a quarterly basis, covering the following periods during 2012/13.

- Quarter Four 2011/12
- Quarter One 2012/13
- Quarter Two 2012/13
- Quarter Three 2012/13

The controls which will be considered in the course of our testing, mapped to the key risks identified above, have been set out overleaf

Sub-process; Payroll

Key contact; Perlina Payne

Key risk	Key control	Reference
New employees are not set up on the payroll system accurately (i.e. at the correct start date and salary rate)	Authorised new starter forms are received prior to an individual being entered on to the payroll system	P1
	Exception reports are reviewed on a monthly basis.	P2
Payments to those leaving employment are not ceased promptly and/or overpayments are not identified and recovered promptly	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	P3
	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	P4
Invalid changes are made to salary and employee bank details	Variation forms are received prior to any changes being made to standing data.	P5
	Access to the payroll system is restricted	P6
Overtime or other timesheet based records are inaccurate.	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	P7
Discrepancies between the ledger and the payroll system are not identified and investigated.	Monthly reconciliations are performed between Agresso and the Payroll System	P8
Invalid expenses claims are reimbursed.	Only expenses supported by appropriately authorised claim forms are reimbursed.	P9

Sub-process; Accounts Payable

Key contact; Penny Green (AP1-AP2) Maureen Stanislays (AP3 –AP6)

Key risk	Key control	Reference
Invalid suppliers or supplier standing data is maintained.	Authorised documentation must be received prior to the creating a new or amending a supplier record.	AP1
	Listings of changes to supplier standing data are reviewed monthly.	AP2
Invoices payments are not appropriately reviewed and authorised prior to payment	All invoices are approved for payment by an appropriately authorised individual	AP3
	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	AP4
	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to	AP5

Key risk	Key control	Reference
	supporting documentation	
Discrepancies between the ledger and the creditors control account are not identified and investigated.	Monthly reconciliations are performed between the General Ledger and the creditors control accounts	AP6

Sub-process; Accounts receivable

Key contact; Natalie Ferer/Julian Rigby

Key risk	Key control	Reference
Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded.	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices. <i>To be performed for Quarter One 2012/13 onwards</i>	AR1
Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	AR2
	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	AR3
	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis	AR4
	Debts are written off only following review and authorisation	AR5
Outstanding student debts are not identified and collected on a timely basis.	On a monthly basis the debtors balance per the general ledger is reconciled to QLX	AR6
	On a monthly basis the invoiced balance per QLX is reconciled to QLS.	AR7
Discrepancies between the ledger and the debtors control account are not identified and investigated.	Monthly reconciliations are performed between the General Ledger and the Agresso sales ledger	AR8

Sub-process; Cash

Key contact; Nicholas Waring (C1-4), Brian Wiltshire (C5)

Key risk	Key control	Reference
Reconciling amounts are not promptly identified and investigated	Cash takings in respect of tuition fees as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	C1
Cash is lost or misappropriated	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	C2
	Cash receipts per Agresso are reconciled to QLX on a monthly basis	C3
	Cash receipting responsibility within the QLX system is restricted	C4
	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are reviewed by the Head Cashier.	C5

Sub-process; General LedgerKey contacts; *Detailed below*

Key risk	Key control	Reference
Invalid, incomplete or inaccurate journals are posted	Journals must be authorised prior to being posted on the system <i>Key contact: Ephraim Maimbo</i>	GL1
	On a monthly basis management accounts are prepared and significant variances against budget are investigated <i>Key contact: Cherie Chin- A-Fo</i>	GL2
Suspense accounts and balance sheet control accounts are not cleared on a timely basis	TBC; To be tested from Q2 2012/13 <i>Key contact: Ephraim Maimbo</i>	GL3
Segregation of duties is not maintained	Access to the general ledger is restricted <i>Key contact: Ravi Mistry</i>	GL4
	No single individual has access to make changes to both the QLX and QLS systems	GL5

Sub-process; Student Systems

Key contact; Andrew Ratajczak

Key risk	Key control	Reference
Student details and fees payable as recorded upon enrolment are inaccurate or incomplete	Enrolment forms are completed in respect of each new learner prior to the creation of records within QLS	S1
Course changes or withdrawals are not identified on a timely basis	Course changes are only auctioned on QLS upon receipt of an authorised form or email from a member of academic staff	S2
	Faculty Managers review QLS records made available to them on a monthly basis	S3
Learning outcomes are inaccurately recorded	To be tested from Q2 2012/13	S4
Invalid changes are made to student records	Access rights within QLX are restricted	S5

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the first of four planned phases of continuous auditing work this year, subject to the limitations outlined below.

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 the operating effectiveness of the controls 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.

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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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

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	PAPER NO: AC.09(13)	
Board/Committee:	Audit Committee	
Date:	07 February 2013	
Paper title:	Internal Audit Reports – Capital Projects	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

The internal audit report on Capital Projects is attached. The report on Capital Projects was given an overall classification of 'Low Risk'.

The Executive recommends that the Audit Committee note the attached report.

London South Bank University

Capital Projects

Final Report

Internal Audit Report

December 2012




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Distribution List

For action	Darrell Paraiaig
For information	Richard Flatman, Audit Committee

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Low Risk <i>See appendix 1 for details</i>	N/A; No comparable previous review performed						
		Control design	0	0	0	4	0
		Operating effectiveness	0	0	0	0	0
		Total	0	0	0	4	0

Scope of the review
See appendix 2 for details

The objective of this review was to assess the University’s processes in place in relation to the review and approval of capital projects; with a specific focus on how these processes apply with respect to smaller scale capital works.

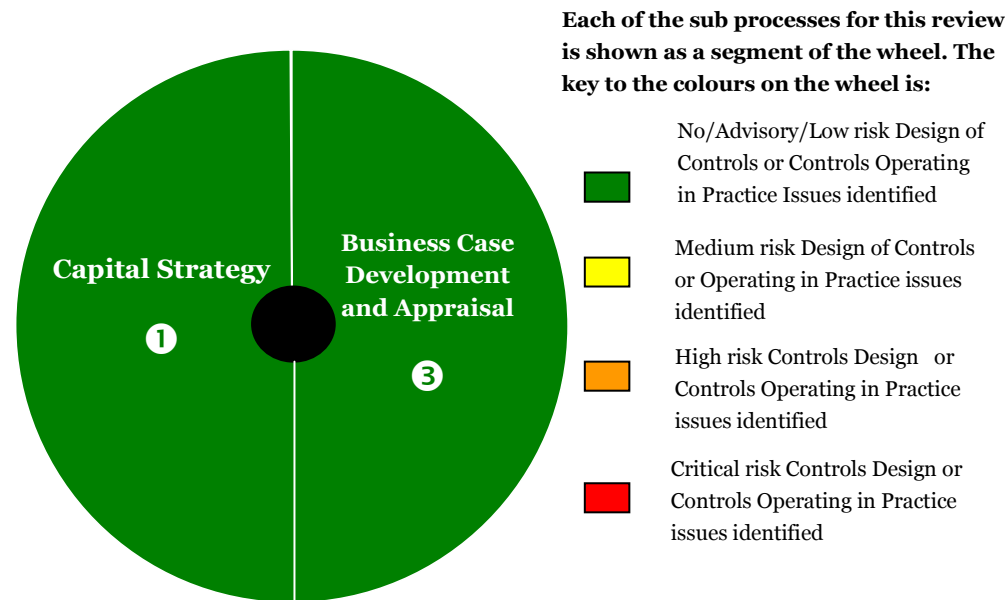
Background and approach

Whilst the success of major capital projects is essential to ensuring the long term sustainability of the University, continuing pressure on finances within the sector also makes it vital that access to discretionary reserves for smaller capital works is subject to proper control. Such projects, though individually smaller in value, must still be properly aligned with Faculty corporate plans and expected to deliver tangible long term benefits to the University. In 2012/13, the University ring-fenced approximately £3m for smaller capital projects of this nature; for which faculties can apply for funding following the successful submission of a business case.

Whilst consistent processes have been developed to review and appraise all proposed capital projects, in recognition of the above our work has specifically reviewed these processes with reference to the smaller capital projects proposed and financed from ring-fenced funds.

Summary of Findings

Over the past eighteen months the University has developed a new pro-forma business case and a web based system which partially automates the process



for the submission and approval of these business cases. In the course of our work we discussed this system with a number of members of University management, noting that these revisions to the project appraisal process were viewed as a positive development. Furthermore, these new processes help to ensure the consistency of business cases submitted and that proper approvals are sought in respect of such projects.

Whilst acknowledging that the University's processes in place for the review and approval of capital projects appear to be largely sound, our work did identify a number of opportunities to further improve this process framework and ensure that those responsible for preparing business cases have appropriate training and guidance to properly undertake this role.

Our detailed findings and the actions agreed with management in response to these are included within the following section of this report.

2. Detailed current year findings

Finding: Capital Strategy - alignment with sub-strategies – Control Design


A pro-forma business case must be completed in respect of all proposed new capital projects. This pro-forma currently requires the proposer to set out how this project is aligned with the University's Corporate Plan and associated objectives.

Whilst it would be expected that major capital works be aligned with the University's overarching corporate plan, smaller capital projects are likely to be by their nature more relevant to the plans and priorities of the individual Faculties from which they originate. Ensuring that proposed projects are clearly aligned to relevant plans is particularly important in the context of the evaluation of projects following implementation.

Risks

Requiring that all projects be aligned with the overarching Corporate Plan may lead to the development of Business Cases which do not accurately reflect management's objectives and/or cannot be adequately assessed following their completion

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low risk	The pro-forma business case and associated guidance will be reviewed. These will be amended to allow greater flexibility for staff when business cases are developed to allow them to select the most appropriate strategy (Corporate, Faculty or Department) against which to align their proposal.	Agreed. There is currently a team reviewing the Business Case process, which will address issues like the amendment of the BC template. Responsible: Darrell Pariag - Corporate & Business Planning Manager <i>Target date: 31/07/2013</i>


Finding: Business case development and appraisal - appropriateness of approval thresholds – Control Design

The existing process for review and approval of capital projects requires early involvement of both the Vice Chancellor and Executive Director of Finance; both are required to review and approve all proposed projects, including those of less than £50k in value. No prior review of the project is performed in advance of this to ensure that the business case template has been properly and accurately completed.

Risks

Executive management time may be wasted reviewing inaccurate or incomplete business cases and/or the focus of Executive management may be drawn away from strategically significant projects.

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low risk	<p>The current approval process and associated thresholds will be revised to ensure that Executive management time is properly focused upon only strategically significant or high value projects.</p> <p>Where Executive approval is required in respect of lower value projects, processes will be put in place to ensure that preliminary checks have been made in relation to the proper and accurate completion of the business case.</p>	<p>Agreed. This will also be covered in the Business Case process review team.</p> <p>Responsible: Darrell Pariag - Corporate & Business Planning Manager</p> <p><i>Target date: 31/07/2103</i></p>

Finding: Business case development and appraisal - providing guidance and feedback in respect of business cases compiled – Control Design


The revised process for capital project appraisals, including the development of a written business case, has only recently been introduced. Whilst feedback from management suggests the new processes in place are generally perceived to be a positive development, it was noted that staff felt that a lack of training and guidance had been provided in relation to the completion of the business case pro-forma; particularly in relation to the requirement to provide a present value calculation as part of this document.

We further note that the current process does not result in the provision of written feedback to users in respect of capital projects which have been rejected.

Risks

Staff may not be properly skilled to prepare a business case, resulting in wasted management time reviewing inaccurate or incomplete business cases.

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low risk	The following will be undertaken in order to help support staff in the production of business cases <ol style="list-style-type: none"> 1. Relevant staff will be identified and training provided on how to prepare a business case, incorporating examples of successful projects and where NPV calculations have added value to the process. 2. The Investment Appraisal Guidance document will be made available on the SharePoint system so that it is available to all staff involved in the preparation of business cases. 3. A pro-forma evaluation document will be produced, both to help structure the review process and allow for the provision of formal feedback to staff in respect of business cases which have been rejected on review. 	Agreed. This is also being looked at by the Business Case process review team. Training for staff is ongoing and at present, 2 such training sessions have already been completed. Responsible: Darrell Pariag - Corporate & Business Planning Manager <i>Target date: 31/07/2013</i>

Finding: Business case development and appraisal - assurances in respect of proper stakeholder engagement – Control Design


Effective and early stakeholder engagement is central to the success of any capital project regardless of value. In recognition of this, the University’s pro-forma business case requires that project stakeholders are clearly identified as part of the appraisal process. We note however that there is no further requirement for them to set out how these stakeholders have been engaged as part of the development of the business case, or how the needs of stakeholders will be considered over the duration of the project.

Whilst our review focused specifically on smaller capital projects, we note that this point is particularly important in relation to larger scale capital works which might disrupt the activities of University staff, students or the wider community.

Risks

The needs of key stakeholder may not be met if these are not identified and assessed as part of the development of the project business case

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low risk	The business case pro-forma will be amended to ensure that staff set out clearly how their proposed project is aligned with the expectations of key stakeholders, and (where relevant) how these stakeholders needs will be considered over the life of the project.	Agreed. This is also being looked at by the Business Case process review team. Responsible: Darrell Pariag - Corporate & Business Planning Manager <i>Target date: 31/07/2013</i>

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance resulting in inability to continue core activities for more than two days; or • Critical monetary or financial statement impact of £5m; or • Critical breach in laws and regulations that could result in material fines or consequences over £500k; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.
High	10 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance resulting in significant disruption to core activities; or • Significant monetary or financial statement impact of £2m; or • Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or • Significant impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.
Medium	3 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or • Moderate monetary or financial statement impact of £1m; or • Moderate breach in laws and regulations resulting in fines and consequences over £100k; or • Moderate impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.
Low	1 point per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or • Minor monetary or financial statement impact £500k; or • Minor breach in laws and regulations with limited consequences over £50k; or • Minor impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.
Advisory	0 points per finding	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Each individual finding is given points, based on the rating of the finding (Critical, High, Medium, Low or Advisory). The points from each finding are added together to give the overall report classification of Critical risk, High risk, Medium risk or Low risk, as shown in the table on the next page.

B. Overall report classification

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

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

Appendix 2. Terms of Reference

Background

The University's major capital projects are agreed as part of the annual budget setting round, however an additional fund is also ring-fenced to enable the Faculties to pursue any additional more minor capital projects; in 2012/13 the total value of this fund is approximately £3m. Access to the fund is contingent upon the successful submission of a business case setting out the rationale for the proposed spend.

Continuing pressure on University finances makes it vital that the use of discretionary funds is limited only to projects which are both aligned to the institutions strategic priorities and expected to deliver tangible long term benefits to the institution. Our review will therefore focus specifically upon the processes governing access to this fund.

Scope

We will review the design and operating effectiveness of key controls in place around the development of business cases and approval of capital project with reference to a sample of four capital projects which will be agreed with management in advance of the fieldwork.

The processes, related key control objectives and key risks within the scope of our work are detailed below.

Sub-process	Key control objectives	Key risks
Capital Strategy	The University's Capital Programme is clearly aligned with its Corporate priorities.	<p>There is no clear and shared understanding of how capital projects undertaken align with the University's corporate objectives</p> <p>The University undertakes capital projects which are not properly aligned with its corporate objectives</p>
Business case development and appraisal	A clear and transparent process is in place governing the development and approval of proposed capital projects, which facilitates the achievement of value for money.	<p>Consistent processes are not in place to develop and appraise proposed capital projects</p> <p>Capital projects are appraised without reference to the University's capital strategy.</p> <p>Those responsible for the development of business cases have not received appropriate training and guidance.</p> <p>Responsibility is not clearly or appropriately assigned for the review and approval of capital projects</p> <p>Delegated authority for the approval of capital projects is inconsistent with the University's Financial Regulations</p> <p>Key project stakeholders are not identified and consulted as part of the project appraisal process.</p>

Limitations of scope

Our review will focus only upon the processes governing the use of the capital fund referred to in the Background section above, and not the University's processes for agreeing its larger annual capital budget.

Audit approach

The review will be carried out using the following approach:

- Review of background documents including relevant policies and procedures, management directives, manuals and other relevant guidance;
- Interviews with relevant officers to document the processes and controls in place and to establish compliance with these controls;
- Assessing the adequacy of procedures and controls in operation to mitigate potential risks; and,

Internal audit team

Name	Title	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 Justin.f.martin@uk.pwc.com
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Daniel Franklin	Team Manager	07715 484696 daniel.franklin@uk.pwc.com
Philippa Hudson	Auditor	philippa.hudson@uk.pwc.com

Key contacts

Name	Title	Contact details
Richard Flatman	Executive Director of Finance (Audit Sponsor)	0207 815 6301 richard.flatman@lsbu.ac.uk
Darrell Paraig	Corporate and Business Planning Manager	0207 815 6908 pariagd2@lsbu.ac.uk

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's capital project appraisal processes (as set out in our terms of reference), subject to the limitations outlined below.

Our internal audit work has been performed in accordance with HEFCE's Financial Memorandum. 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.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). Historic evaluation of effectiveness is not 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.

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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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

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London South Bank University

	PAPER NO: AC.10(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Internal Audit Report – Counter Fraud	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

The internal audit report on Counter Fraud is attached. The report on Counter Fraud was given an overall classification of 'Medium Risk'.

The Executive recommends that the Audit Committee note the attached report.

London South Bank University
Counter Fraud
Final Report

Internal Audit Report

December 2012




Contents

<i>Executive summary</i>	2
<i>Detailed current year findings</i>	4
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Appendix 3. Limitations and responsibilities	13

Distribution List

For action	Darrell Paraiaig
For information	Richard Flatman, Audit Committee

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium Risk <i>See appendix 1 for details</i>	N/A; No comparable previous review performed						
		Control design	0	0	2	1	2
		Operating effectiveness	0	0	0	0	0
		Total	0	0	2	1	2

Scope of the review
See appendix 2 for details

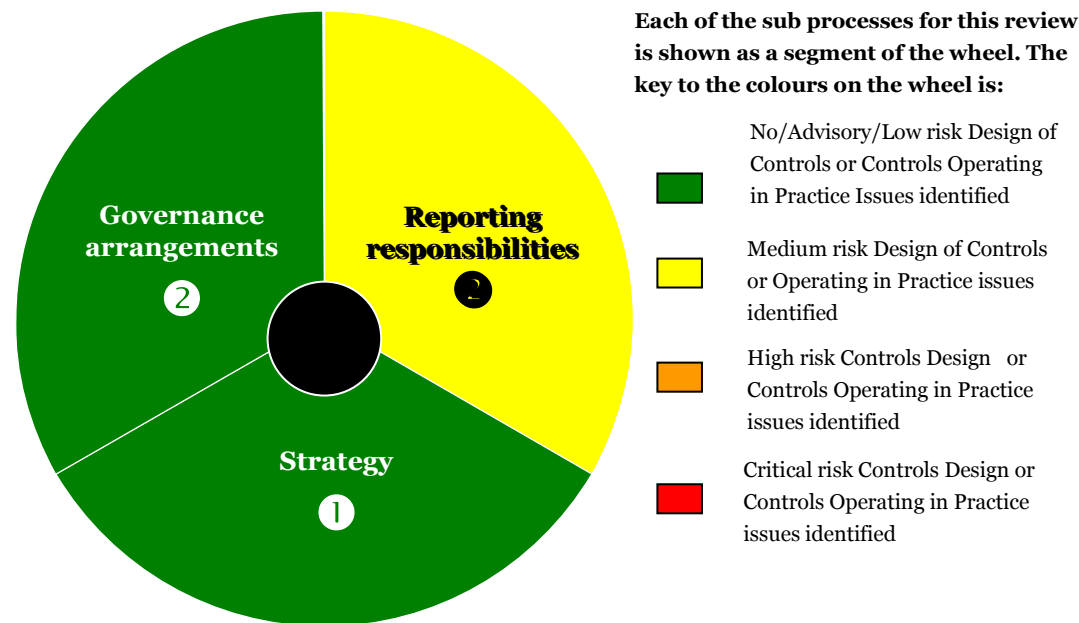
The objective of this review was to assess the University's counter fraud policies and procedures in place.

Background and approach

Whilst limited fraudulent activity has been identified within the University in recent years, continuing economic uncertainty is perceived to be driving an increasing level of fraudulent activity within the Higher Education sector. In recognition of this, the British Universities Finance Directors Group established a counter-fraud working group in March 2011 to assess existing responses to fraud within the sector and develop good practice guidance. Whilst this work has yet to be finalised as at the date of this report, a number of emerging themes from this group have been considered in the course of this review, which has focused upon the University's policies and procedures to both mitigate the risk of fraud, and ensure timely and appropriate responses to any matters brought to the attention of management.

Summary of Findings

The University has an anti-fraud policy, incorporating a fraud response plan as required by HEFCE. Furthermore, reports are provided to Audit Committee on a quarterly basis detailing any instances of fraud identified or currently under investigation. We note that the University effectively used this policy in response to a suspected instance of payroll fraud reported in the previous financial year.



Our work has however identified a number of potential improvements to the University's fraud response process and procedures including:

- Ensuring that mechanisms for reporting fraud are both appropriate and allow for the preservation of the anonymity of those reporting fraudulent activity. This could include developing an online tool to ensure that reporting mechanisms are accessible and sufficiently anonymous. It should also be ensured reports can be made directly and in confidence to a non-executive Board member.
- Mandating the formal involvement of the wider University Executive group, not just the Executive Director of Finance, in responding to suspected fraud or other irregularity.

Though no system of internal control can provide absolute assurances in relation to the prevention and detection of fraud, robust preventative measures are an essential part of any counter-fraud framework. We note that there remain a number of opportunities for the University to improve its approach in this area, including:

- Developing a programme of awareness raising to ensure that staff understand the University's Anti-Fraud policies and procedures and their responsibilities in relation to fraud. Particular emphasis should be placed on ensuring induction arrangements are appropriate in this regard.
- Assessing the University's exposure to the risks of fraud across the institution and engaging staff from across the University in this process to ensure that it is appropriately focused.

Our detailed findings and the actions agreed with management in response to these are included within the following section of this report. We do note that although the review is medium risk rated overall, it is on the border between low and medium based on the scoring applied.

2. Detailed current year findings

1. Finding: Improving reporting channels – Control Design

Communicating suspicions of fraudulent activity can be difficult for members of staff, particularly if their suspicions relate to a more senior member of staff. It is therefore important that proper mechanisms are in place to allow for the anonymity of those making such reports if they choose.

The University ‘Speak Up’ policy allows for reports to be made directly to the Chair of Audit Committee. However, such reports can only be made in writing and must be directed in the first instance to the University Secretary marked “Personal and Confidential”. The University’s ‘Speak Up’ policy acknowledges that anonymous reports can be made to senior officers of the University, however the University may want to review the reporting lines to ensure they are independent and allow for anonymity.

Risks

Individuals may be less inclined to report their suspicions of fraud if they do not believe that their anonymity can be preserved or such reports may not reach the intended recipient.

Action plan

Finding rating

Proposed action

Responsible person / title



Medium Risk

We will remind staff of the purpose of the Speak up policy in relation to fraud and the reporting lines available where they want to speak anonymously. We will review the independence of reporting lines within the speak up policy to ensure that these are appropriate.

Anonymous reporting could be provided via a web based intranet form; allowing for an individual to record and report on their suspicions without the need to disclose their identify either through email address or otherwise indirectly.

The Speak Up policy was not originally intended to encourage anonymous reporting. However, the Speak Up policy will be reviewed at the February 2013 Audit Committee and will take account of independent reporting within the policy.

Responsible: James Stevenson - University Secretary

Target date: 31/03/2013

2. Finding: Raising awareness of counter fraud policies and procedures – Control Design

An established first line of defence in relation to fraud involves raising awareness amongst staff both of the risks of fraud, and the associated policies and procedures in place to counter such activity. The anti-fraud and Speak Up policies are available to all staff via the "policy sharepoint", accessed from the LSBU website; and the Speak Up policy is also available on the Staff Gateway "Staff Matters" and anti-bribery pages.

Although the policies are available to staff, we would recommend through training and the induction process for new staff, that staff are specifically directed to these in order to raise awareness.

Risks

A lack of awareness may result in fraud not being identified or reported on a timely basis.

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Medium Risk	The University’s existing mechanisms for publicising and communicating the Anti-Fraud and Speak Up policies will be reviewed and we will ensure new staff are more explicitly directed to these policies as part of their induction.	We will remind the Staff Development team of the need to refer to both policies at the new staff induction sessions. Responsible: James Stevenson <i>Target date: 28/02/2013</i>

3. Finding: Fraud Risk Assessment – Control Design

Whilst the Anti-Fraud policy clearly establishes that responsibility for the detection and prevention of fraud lies with all members of management, we note that there is limited formalised activity with regards to the periodic assessment of the risk of fraud.

In line with good practice and to obtain a robust understanding of both where the risks of fraud lie and whether such risks have been adequately addressed, a 'bottom-up' assessment of the risks of fraud should be undertaken.

Common methods for undertaking such assessments can include specific consideration as part of the risk management process, or through the circulation of staff surveys asking them to feed back on where they perceive the risk of fraudulent activity to lie within the University and whether existing processes adequately address these risks. Such activity can also help to heighten awareness amongst staff in relation to the risk of fraud.

Risks

The University may not be adequately identifying and managing all areas where the risk of fraud exists.

Action plan

Finding rating



Low Risk

Proposed action

We will work with internal audit to undertake an assessment of the risks of fraud facing the University through the coordination of a staff survey in relation to this matter.

Responsible person / title

Agreed.

Responsible: Natalie Ferer - Financial Controller

Target date: 31/03/2013

4. Finding: Fraud Policy Improvements (Gap analysis) – Control Design (Advisory Only)

The University's Anti-Fraud policy, last reviewed in June 2012, defines fraud and sets out the University's Fraud Response plan (which is required by HEFCE under the Financial Memorandum). This policy is also included within the Appendices to the University Financial Regulations.

In the course of our work we identified a number of areas where the policy and fraud response plan could be further developed to align the University's processes with observed good practice. Specifically, we note that:

- The existing policy focuses exclusively on financial fraud. However, the Higher Education sector is complex and there are a number of avenues by which fraud might be perpetrated, including the manipulation of exam results or student attendance data. Furthermore, we note that the University includes theft and misappropriation as an example of fraudulent activity. Whilst such activity is illegal, it is not covered by the Fraud Act 2006 and would not be considered by the Courts as fraudulent.
- The policy does not clearly set out that the University is committed to recovering both the losses directly associated with fraud, and the costs associated with its investigation and any associated legal proceedings. Given that the former can often significantly outweigh the latter this point is of particular importance.
- The policy commits the University to the investigation of all suspected instances of fraud. Whilst such a statement helps establish an anti-fraud culture, it may also commit the University to a disproportionate response where allegations are unclear or might be quickly determined to be unfounded. Common practice in the first instance is for a working group (typically comprising members of the University Executive) to be set-up to evaluate the claim and determine the most appropriate course of action. We understand that in practice such an approach has been adopted in the past and this would therefore be an amendments to the policy only.
- The policy does not clearly set out timescales for review. As a minimum and in line with good practice, the policy should be reviewed and an assessment of its effectiveness made following each investigation. It is not clear from the reports made that such an assessment was made following the last fraud investigation; though we note that the policy was reviewed following this incident.

Advisory Recommendation

We recommend that the above matters be considered when the counter-fraud policy is next revised.

Management response: Agreed and we will reflect these issues in the next policy update

Responsible: Natalie Ferer - Financial Controller

Target date: 31/07/2013

5. Further developing Audit Committee reports – Control Design (Advisory Only)

On a quarterly basis the Executive Director of Finance reports to the Audit Committee with respect to any ongoing fraud investigations and to confirm whether any such activity has been reported in the previous quarter.

We note that there might be opportunities to provide Committee members with greater assurances over the University's ongoing response to the risks of fraud. Such assurances might be provided through setting out:

- Whether any awareness raising has been undertaken in the quarter and an evaluation of the need for any further activity or follow up on such matters;
- Any frauds reported to HEFCE by other HEIs, and action taken by management to review their controls in response to such reports.

Advisory Recommendation

We recommend that the above matters be considered for incorporation within the periodic reports to the Audit Committee in respect of Fraud.

Management response: Agreed. However information of this nature has been provided previously in reports to Audit Committee.

Responsible: Natalie Ferer - Financial Controller

Target date: Ongoing

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance resulting in inability to continue core activities for more than two days; or • Critical monetary or financial statement impact of £5m; or • Critical breach in laws and regulations that could result in material fines or consequences over £500k; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.
High	10 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance resulting in significant disruption to core activities; or • Significant monetary or financial statement impact of £2m; or • Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or • Significant impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.
Medium	3 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or • Moderate monetary or financial statement impact of £1m; or • Moderate breach in laws and regulations resulting in fines and consequences over £100k; or • Moderate impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.
Low	1 point per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or • Minor monetary or financial statement impact £500k; or • Minor breach in laws and regulations with limited consequences over £50k; or • Minor impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.
Advisory	0 points per finding	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Each individual finding is given points, based on the rating of the finding (Critical, High, Medium, Low or Advisory). The points from each finding are added together to give the overall report classification of Critical risk, High risk, Medium risk or Low risk, as shown in the table on the next page.

B. Overall report classification

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

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

Appendix 2. Terms of Reference

Background

Over the past eighteen months, continuing economic uncertainty has been perceived to be driving an increasing level of fraudulent activity within the public sector. Against this backdrop, effective counter-fraud processes assume an even greater significance. The 2006 Fraud Act defines three forms of fraudulent activity: false representation; failure to disclose information and; abuse of position. Management are responsible for developing systems of internal control which are proportionate to the assessed risk of such activity, and the investigation of reported or suspected instances of fraud.

Whilst no system of internal control can provide absolute assurances that fraudulent activity will be prevented or detected, robust and proper counter-fraud arrangements can significantly reduce the risk and impact of fraud.

Scope

We will review the design and operating effectiveness of key controls in place in the financial year to date. The processes, related key control objectives and key risks within the scope of our work are detailed below.

Sub-process	Key control objectives	Key risks
Governance Arrangements	A robust approach has been agreed to support the development of a counter-fraud culture	<p>There is a lack of clarity within the organisation as to where responsibilities lie in relation to the prevention and detection of fraud and corruption.</p> <p>Expectations with regards to the proper conduct of University business have not been communicated to line managers and staff.</p>
Strategy	Proper oversight over the University's exposure and response to fraudulent activity is exercised.	<p>The University's response to fraud and corruption has not been informed by a robust and appropriately granular risk assessment.</p> <p>The University's approach to monitoring and managing fraud risk is not adequately documented.</p> <p>Board and Audit Committee do not exercise proper oversight over the University's approach to managing fraud risk.</p>

Reporting and investigation	Mechanisms are in place to ensure that identified frauds are properly reported upon and investigated.	<p>Reporting lines and mechanisms (including whistle blowing arrangements) are not in place and suspected fraudulent activity is not reported.</p> <p>The requirement to report material instances of fraud to HEFCE is not adhered to.</p> <p>The Board and Audit Committee are not aware of levels of reported fraudulent activity and the University's response to suspected or actual fraud.</p> <p>Proper training and guidance has been provided to those charged with responsibility for the investigation of fraud.</p>
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Limitations of scope

The objective of this review is to provide assurance over the University's activity to prevent and detect fraud or other irregularity, in the course of our work we will not seek to investigate reported instances of fraud or identify such activity.

Audit approach

The review will be carried out using the following approach:

- Review of background documents including relevant policies and procedures, management directives, manuals and other relevant guidance;
- Interviews with relevant officers to document the processes and controls in place and to establish compliance with these controls; and
- Assessing the adequacy of procedures and controls in operation to mitigate potential risks.

Internal audit team

Name	Title	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 Justin.f.martin@uk.pwc.com
David Wildey	Senior Manager	0207 213 2949 / 07921 106 603 david.w.wildey@uk.pwc.com
Daniel Franklin	Team Manager	07715 484696 daniel.franklin@uk.pwc.com

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's counter fraud processes (as set out in our terms of reference), subject to the limitations outlined below.

Our internal audit work has been performed in accordance with HEFCE's Financial Memorandum. 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.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). Historic evaluation of effectiveness is not 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.

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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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

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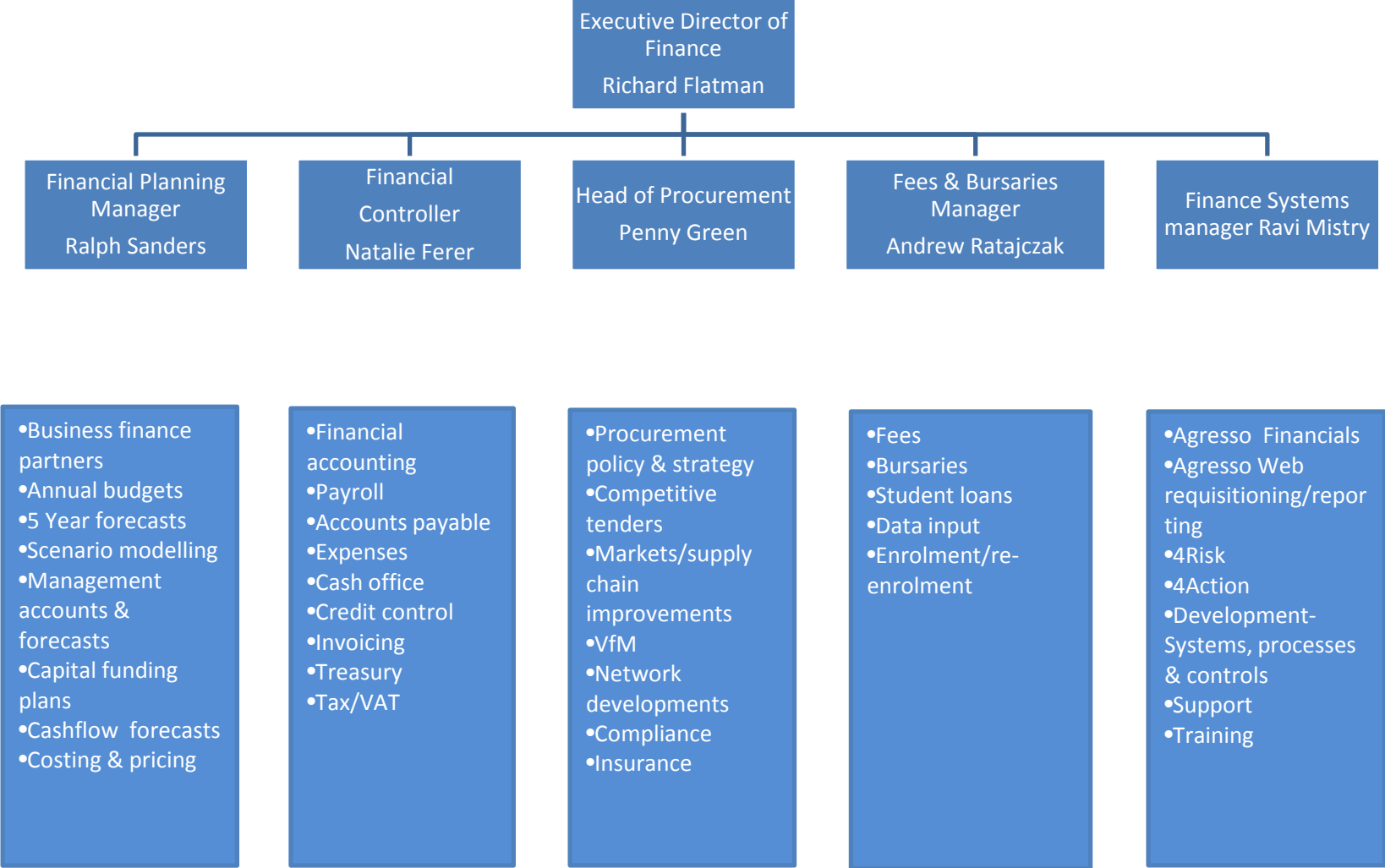
	PAPER NO: AC.11(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Finance Department Structure/succession planning	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	That Committee notes the report	
Aspect of the Corporate Plan to which this will help deliver?	Financial control/sustainability	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

1. Committee is asked to note the Finance Department structure as set out in the attached organisation chart.
2. The structure of the department and the responsibilities of key post holders are unchanged since the last report to Committee in February 2012. One change to senior personnel has taken place in year as a result of the resignation of Cherie Chin A Fo, our Financial Planning Manager. Cherie has been replaced by Ralph Sanders, who previously held the post of Strategic Planning Manager in the Finance Department at LSBU before leaving in 2006.

3. Since 2006 Ralph has completed an Executive MBA at London Business School with a focus on management information, entrepreneurship and change management and has more recently worked at City University.
4. The Executive Director of Finance will give a verbal update at the meeting regarding the team and any succession planning issues.

**Finance Department
Structure at 7 February 2013**



	PAPER NO: AC.12(12)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Anti fraud, bribery and corruption report	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that Audit committee note the position as reported below.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

1. This paper is presented to each meeting of Audit Committee to alert members to any instances of fraud, bribery or corruption arising in the period since committee last met.
2. No instances of fraud, bribery or corruption have occurred since the last meeting in October.
3. A counter fraud review has been undertaken by our internal auditors in the period under review and this has been reported to Committee under separate cover. Counter fraud was rated as medium risk, reflecting potential improvements in terms of control design and particularly in the area of reporting.

	PAPER NO: AC.13(13)	
Board/Committee:	Audit Committee	
Date:	7 February 2013	
Paper title:	Review of speak up arrangements	
Author:	James Stevenson, University Secretary & Clerk to the Board	
Sponsor:	Andrew Owen, Chair of the Audit Committee	
Recommendation:	<p>The Audit Committee is requested to:</p> <ul style="list-style-type: none"> (i) consider whether it wishes the Executive to put in place an independent helpline for students and staff (ii) if so, approve the amendment to the current speak up policy at paragraph 4.1 below; and (iii) accept the executive's recommendation to continue with the rest of the current policy unchanged for another year. 	
Aspect of the Corporate Plan to which this will help deliver?	N/A – but speak up is one aspect of developing a climate of personal responsibility and ethical conduct by staff / stakeholders	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	Policy will be published to staff and students	

1. Speak up report

Under the speak up procedure, since the last meeting of the Audit Committee on 30 October 2012, there have been no new speak up matters raised with the University Secretary, Director of HR or Deputy Director of HR. There was one initial email enquiry about a potential speak up matter but the employee did not pursue it.

The committee is requested to note the speak up report.

2. Review of speak up arrangements

Under the committee's annual work plan, the committee considers the speak up arrangements annually at the February meeting. (note – the Internal Audit “anti-fraud” report of December 2012 refers also to a review of the speak up reporting line).

The fully revised “speak up” policy was approved by the Board of Governors on 15th July 2010. The policy was communicated to all staff in an e-mail from the Vice Chancellor. The policy is available on the staff and student gateways.

Since its complete revision in July 2010, there has been one matter raised under the speak up policy. This matter was reviewed by the previous Chair of the Audit Committee.

The current policy is attached in the appendix and is recommended to continue for the next year, subject to one matter, as follows.

At the previous meeting of the Audit Committee (minute 30 of 30 October 2012 refers), members queried the independent route for raising a speak up matter, which is currently via the Chairman of the Committee (see paragraph 4.1 below). Although this route is an independent route, there may be a “block” to using it because it there is no direct access to the Chairman.

In order to enhance the existing independent reporting route, it is possible to pay an external, independent organisation for an advice line service. The service would be advertised to students and staff so that they could seek advice about whether to raise a speak up matter and, if necessary, report concerns.

Organisations providing the service include: Public Concern at Work, Expolink and Safecall. A range of services are offered from a basic advice line to a bespoke service, including an annual audit. (A guideline to cost for , say, a 3 year contract is an annual retainer of c.£3,000 + c.25p per employee p.a. Precise information on costs would be considered if a supplier is to be selected by the Executive).

The advantage of an external helpline service is that it is perceived to be truly independent from management and may encourage students and employees to raise speak up concerns more readily. The disadvantage is that it may encourage more spurious or malicious allegations than currently.

The Audit Committee is requested to:

- (i) consider whether it wishes the Executive to put in place an independent helpline for students and staff
- (ii) if so, approve the amendment to the current speak up policy at paragraph 4.1 below; and
- (iii) accept the executive's recommendation to continue with the rest of the current policy unchanged for another year.

University Secretary & Clerk to the Board
1 February 2013

Appendix

Speak up policy

1. Introduction

LSBU is committed to the highest standards of business conduct. It seeks to conduct its affairs in a responsible manner taking into account the requirements of its funding bodies, and the values identified by the Committee on Standards in Public Life.

LSBU welcomes constructive criticism and encourages a climate in which problems can to a large extent be addressed informally. However, it recognises that this is not always possible, and that sometimes more formal means are needed.

The Public Interest Disclosure Act gives legal protection to workers against being dismissed or penalised by their employers as a result of publicly disclosing certain serious concerns. Where an individual discovers information which he or she believes shows malpractice or wrongdoing within the organisation then it should be disclosed without fear of reprisal, and this may be done independently of line management. Employees in other territories will be treated as if such legislation applied to them.

This policy is intended to assist both students and employees who believe they have discovered malpractice or impropriety. It is not to be used to question financial or business decisions taken by LSBU. Nor is it for matters which should be raised under grievance, complaint or disciplinary procedures, or to reopen matters which have already been considered under them. Students on placement should, in the first instance, follow the speak up policy of the institution in which they are placed.

2. Scope of the speak up policy

This speak up policy is intended to allow students, staff and others associated with LSBU by an employment or other business contract to raise concerns and disclose information about perceived malpractice.

The term 'malpractice' includes, but is not limited to:

- financial malpractice, impropriety or fraud

- breaches of financial controls, false accounting/reporting, financial and other reporting irregularities
- academic malpractice
- failure to comply with LSBU's legal or regulatory obligations – for example about the health and safety of students, employees or the public, anti-discrimination legislation, trading standards or environmental protection laws
- unethical business conduct, where colleagues receive or solicit anything of value from a third party or promise, offer or give anything of value to influence the decision of a third party in procurement or contract execution for LSBU
- any other criminal activity, such as assault
- bullying, harassment, discrimination or victimisation of others
- colleagues who are involved in the taking, buying, selling of drugs or other forms of substance abuse
- a miscarriage of justice
- actions intended to hide any of the above
- behaviour which might damage LSBU's reputation

3. Safeguards

3.1 Protection

This speak up policy is designed to offer protection to those identified in paragraph 2 who disclose such concerns, provided that the disclosure is made:

- (i) in good faith, and
- (ii) in the reasonable belief of the individual making the disclosure that it tends to show malpractice.

3.2 Confidentiality

Your identity when making the allegation will be kept confidential to those dealing with the case only, so long as this does not hinder or frustrate any investigation or LSBU's ability to meet its legal obligations. However, the investigation process may reveal the source of the information and the individual making the disclosure may need to provide a statement as part of the evidence required.

3.3 Anonymous Allegations

You are encouraged to put your name to any disclosures you make. Concerns expressed anonymously carry less weight, but may be considered at LSBU's discretion. Factors to be taken into account in exercising this discretion include:

- the seriousness of the issues raised;

- the credibility of the concern;
- any supporting evidence received; and
- the likelihood of confirming the allegation from alternative credible sources.

3.4 *Untrue Allegations*

If you make an allegation in good faith, but it is not confirmed by subsequent investigation, no action will be taken against you.

The making of malicious or vexatious allegations, however, is likely to result in disciplinary and/or legal action.

4. **Procedures for speaking up**

4.1 *Initial Step*

In the first instance disclosure should be made to your line manager or head of department, who should decide if it is appropriate to resolve the matter locally.

If you cannot raise the matter with your line manager or head of department (e.g. because they are the subject of the disclosure), or if you are dissatisfied with the outcome of your disclosure, you should refer the matter to any of:

- the University Secretary; or
- the Director of Human Resources; or
- the Deputy Director of Human Resources.

Alternatively, where you wish to raise the matter with someone who is outside the line management structure of LSBU, disclosure may be made to:

- the Chair of the Audit Committee, who is always an independent governor.

To follow this independent route, you should write to the Chair of the Audit Committee, c/o the University Secretary, marked "*Personal and Confidential: please forward*". The correspondence will be forwarded unopened.

- [*Alternative wording, if approved by the Audit Committee – the London South Bank University independent speak up advice line on {insert number}*]

4.2 *Students on placement*

If you are a student on placement you should, in the first instance, follow the speak up policy of the institution in which you are placed.

4.3 *Nurses, midwives and student nurses and midwives*

Your attention is drawn to the Nursing and Midwifery Council's guidance: *Raising and escalating concerns: Guidance for nurses and midwives (November 2010)*.

Further information is available on the NMC's website:

<http://www.nmc-uk.org/Nurses-and-midwives/Raising-and-escalating-concerns/>

4.4 *Next steps*

The person receiving the initial disclosure will consider the information made available and should determine whether there is a *prima facie* case to answer, whether an investigation should take place, and if so what form it should take. Investigations may involve:

- the application of a standard LSBU management procedure;
- an investigation by the internal auditors or some other person;
- an external investigation;
- referral to an external body (e.g. a funding body or the police), before or after an internal investigation has taken place.

Investigations will not be carried out by any person who will have to reach a decision on the matter. For this reason neither the Vice Chancellor nor the Chair of the Board should be asked to conduct an initial investigation.

4.5 *Feedback*

The person receiving the initial disclosure will inform you, in outline, of the action already taken in response to it and what further action, if any, is to be taken.

Where a disclosure is made the person or persons against whom the disclosure is made will be told of it, and the evidence supporting it, and will be allowed to respond before any investigation, or further action, is concluded.

However, the person against whom a disclosure is made will not be told if it is likely to compromise the outcome of the investigation.

There will be an equivalent feedback process following an appeal under 4.7 below.

4.6 Reporting of Outcomes

A brief written report of all disclosures, not identifying individuals, and any subsequent actions taken will be made to the LSBU Audit Committee.

4.7 Appeals

If you are dissatisfied with the outcome of your disclosure, you have a right of appeal to an independent governor.

To make an appeal you should write to the Chair of the Board, c/o the University Secretary, marking the envelope "*Personal and Confidential: please forward*".

5. Monitoring and Review

The University Secretary will report to the Board of Governors annually on the effectiveness of this policy and will ensure that periodic reviews are carried out.

Approved by the Board of Governors on 15th July 2010

Reviewed by the Audit Committee on • February 2013

	PAPER NO: AC.14(13)	
Board/Committee:	Audit Committee	
Date:	07 February 2013	
Paper title:	Internal Audit Reports – TRAC Return	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

The internal audit report on TRAC Return is attached. The report on TRAC return was given an overall classification of 'Medium Risk'.

The Executive recommends that the Audit Committee note the attached report.

London South Bank University
TRAC Return
Final Report

Internal Audit Report

February 2013




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Distribution List

For action	Darrell Paraiag
For information	Richard Flatman, Audit Committee

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium Risk See appendix 1 for details	N/A; No comparable previous review performed	Control design	0	0	2	1	0
		Operating effectiveness	0	0	1	0	0
		Total	0	0	3	1	0

Scope of the review The objective of this review was to assess London South Bank University’s (LSBU) controls over the review of the Transparent Approach to Costing (TRAC) return to ensure this was compliant with Joint Costing and Pricing Steering Group (‘JCPSG’) guidelines.
See appendix 2 for details

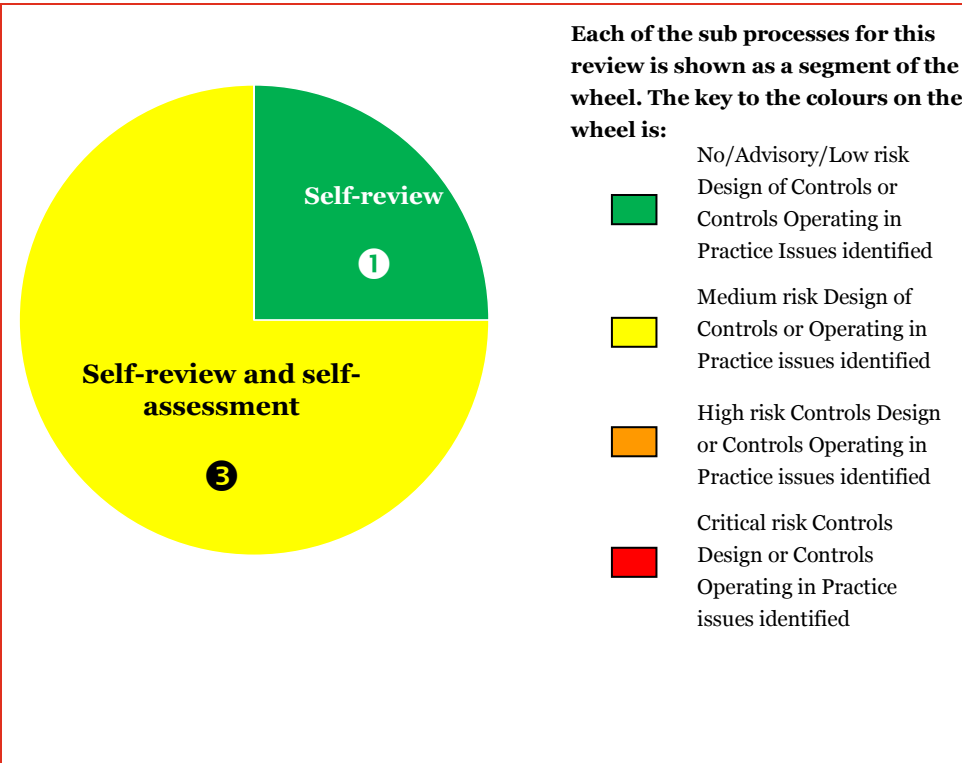
Background and approach

TRAC was introduced in 1999. It is an Activity-Based Costing system, adapted to academic culture in a way which also meets the needs of the main public funders of higher education. It is a process for taking financial information from published financial statements and applying cost drivers (such as academic time and space usage) to allocate costs to academic departments and activities. The University is required to report to the Higher Education Funding Council for England (HEFCE) in January each year based on accounts from the previous year – the TRAC return and forms part of the University’s Annual Accountability Return (AAR). The University is required to have systems and processes in place to ensure the data submitted is compliant with TRAC guidelines.

Summary of Findings

Procedure notes are in place outlining the timeline for compilation of the TRAC return and there is an established review process to confirm the accuracy and completeness of data.

Compilation and review of the return is restricted to a limited number of individuals. LSBU may wish to consider training additional staff or delegating some tasks to avoid knowledge gaps and for contingency planning purposes. LSBU needs to ensure that review processes are documented and retained to evidence the work performed. Review structures should also be reassessed to ensure they are compliant with JCPSG guidance. The University encountered delays in receipt of data which meant that the 2011/12 return was not authorised by the Vice Chancellor until 02/02/2012. This is after the formal submission date to HEFCE (31/01/2012). LSBU should continue to reiterate data submission timelines – and the impact of non-compliance - to departments to ensure data is received by required deadlines and that the return is submitted on time.



2. Detailed current year findings

Finding: Lack of contingency planning – Control Design


Knowledge surrounding the compilation of the TRAC return is restricted to a limited number of staff. The TRAC return is prepared by the Reporting Analyst - Special Projects. The completed return and self-assessment is subsequently reviewed by an independent member of staff and the Finance Director.

Although procedure notes outline how to compile the return, no-one else has been trained to perform these functions.

Risks

Lack of contingency planning could leave knowledge gaps. This could mean the return is completed inaccurately and/or inaccuracies are not identified by reviewers. The return may not be submitted on time if a key staff member is absent and unable to perform review responsibilities.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Low risk	Limited resource and changes in staffing has meant that knowledge surrounding the compilation of the return is restricted to a few key staff members. We will consider whether training can be given to other staff members to ensure there is a pool of knowledge and whether activities can be delegated to support the timely completion of the TRAC return. We have detailed procedure notes in place which are updated on an annual basis. These include links to relevant websites for technical guidance and are stored in a public location. This helps to mitigate against the risk of knowledge gaps.	David Kotula (Reporting Analyst – Special Projects) <i>Target date:</i> 30/11/2013

Finding: Lack of documented evidence for self-assessment – Control Design


The Statement of Requirements (section 4.5.2), issued by JCPSG states that the University should complete a full self-assessment of compliance on each point listed in the Statement of Requirements (and any updates not incorporated into the Statement).

During the audit, we saw several e-mails showing an element of review had occurred however there was no formal documentation recording the outputs of this exercise meaning we cannot prove if this exercise was performed fully.

Risks

Lack of audit trail means individuals cannot trace key decisions or assumptions made. It may be difficult to identify inaccuracies in compilation or their root cause. The self-assessment may not have been performed meaning the University is not compliant with JCPSG requirement.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	Historically we have always documented our self-assessment in full however although we did perform this process in the current year, we did not document this formally. We will ensure that a detailed checklist is retained for the return submitted in 2014.	David Kotula (Reporting Analyst – Special Projects) <u><i>Target date:</i></u> 31/01/2014

Finding: Late submission of the TRAC return – Operating Effectiveness

The TRAC return was submitted electronically on 31/01/2012; the hard-copy version was not signed until 02/02/2012.

This was caused by non-compliance with internal deadlines. LSBU has a detailed timeline of when datasets should be submitted by to complete the return. A summary of identified area of non-compliance with this timetable has been included as an appendix to this report (see appendix 1).

Lack of required information meant compilation of the return was delayed: the final draft return should have been completed by the second week of January per the internal timetable; this was not completed until 31/01/12.

This meant a number of review responsibilities were also delayed. For example:

- The self assessment should have been reviewed by the Financial Planning Manager, Audit Committee, Faculty Managers and Research Contacts in the third week of January. This was performed in fourth week of January. There was no evidence of this review (see issue #2 above); and
- The Vice-Chancellor was unable to sign the return until 02/02/2012.

Risks

Return data may inaccurate or incomplete due to untimely submission of data.

Late submission could mean the University does not benefit from benchmarking data compiled from the return.

The University cannot access indirect cost rates which are published on the 1st of February.

Action plan

Finding rating



Medium risk

Agreed action

Agreed - there were delays in receiving the data and the Vice-Chancellor did not authorise the return until 02/02/2012.

The compilation of the return is time pressured as we are reliant on the annual accounts being published before we compile the return. This is not completed until December and is complicated by the Christmas holidays during which a number of academic staff take annual leave meaning data cannot be collected in this period.

To avoid delays incurred in prior years, we have sent off data requests at an earlier stage for the 2012/13 return. We have agreed time with the Vice-Chancellor on 30/01/13, during which we will aim to have the return authorised.

Responsible person / title

David Kotula (Reporting Analyst – Special Projects)

Target date:

31/01/2013

Finding: Inadequate review arrangements – Control Design

The JCPSG Statement of Requirements states that reasonableness tests should be performed. These need to be reviewed by the TRAC Manager, Finance Director, TRAC Steering Group and an institutional Committee.


The return was reviewed by the TRAC Manager and the Chair of the Audit Committee. The following exceptions were noted:

- There is no TRAC Steering Group; and
- Due to personal commitments the return could not be reviewed by the Finance Director. In his absence the return was reviewed by the Financial Planning Manager.

Risks

Review arrangements may inadequate this could mean inaccuracies may not be identified.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	Historically there was a dedicated TRAC Steering Group; however this has not been in place in the last few years. The equivalent members of this group have been contacted as part of the review process but this needs to be formalised. We will put this in place in time for the next return in December 2013. We will formalise a scheme of delegation which outlines who can authorise returns should a member of staff be unavailable during the normal review period and ensure there is an appropriate chain of command.	David Kotula (Reporting Analyst – Special Projects) <i>Target date:</i> 30/11/2013

Appendix 1. Examples of non-compliance

During fieldwork, we identified a number of instances of non-compliance with internal deadlines. These are summarised below:

Data/Action Required	Deadline	Date received	Reason	Risk
Access Estates Dataset (Tribal/K2) for Space Usage	• December 2011	• 10/01/2012	• Departmental delay	• LSBU is unable to submit its return in line with deadlines due to incomplete data
Library Usage Data	• December 2011	• 03/07/2011	• The difference of submitting this information at the yearend was immaterial	• Data is inaccurate or incomplete because it shows the financial position ahead of the financial year-end
Estate Valuation figures for Insurance – RFI and Infrastructure Adjustments	• December 2011	• 30/01/12	• Departmental delay	• LSBU is unable to submit its return in line with deadlines due to incomplete data
Meet with Faculty managers to review TAS for individual staff	• 1st week of January 2012	<ul style="list-style-type: none"> • w/c 12/01/12 - emails sent to Faculty Managers • 20/01/2012 - meetings held with AHS Managers • 24/01/2012 - meetings held with other managers 	• Departmental delay	• LSBU is unable to submit its return in line with deadlines due to incomplete data
Meet with Research Department to discuss staff and PGR student FTE's	• 1st week of January 2012	• 30/01/12 - meeting with Research Department Manager	• Staff unavailability	• LSBU is unable to submit its return in line with deadlines due to incomplete data

Appendix 2. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance resulting in inability to continue core activities for more than two days; or • Critical monetary or financial statement impact of £5m; or • Critical breach in laws and regulations that could result in material fines or consequences over £500k; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.
High	10 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance resulting in significant disruption to core activities; or • Significant monetary or financial statement impact of £2m; or • Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or • Significant impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.
Medium	3 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or • Moderate monetary or financial statement impact of £1m; or • Moderate breach in laws and regulations resulting in fines and consequences over £100k; or • Moderate impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.
Low	1 point per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or • Minor monetary or financial statement impact £500k; or • Minor breach in laws and regulations with limited consequences over £50k; or • Minor impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.
Advisory	0 points per finding	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Each individual finding is given points, based on the rating of the finding (Critical, High, Medium, Low or Advisory). The points from each finding are added together to give the overall report classification of Critical risk, High risk, Medium risk or Low risk, as shown in the table on the next page.

B. Overall report classification

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

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

Appendix 3. Terms of Reference

Background

The Transparent Approach to Costing in Higher Education (TRAC) was introduced as an integral part of institutional costing systems eleven years ago. The preparation of annual TRAC data is required by HEFCE as part of the University's Annual Accountability Return (AAR) and therefore the institution is required to have systems and processes in place to ensure the data submitted is in compliance with TRAC guidelines.

Scope

We will perform a review of the design and operating effectiveness of key controls in place intended to ensure that the TRAC return is properly reviewed for compliance with JCPSG guidelines in advance of the submission deadline to HEFCE of 31 January 2012.

The processes, related key control objectives and key risks within the scope of our work are detailed below.

Sub-process	Key control objectives	Key risks
Self-assessment	The TRAC Return has been reviewed to ensure that it is compliant with the minimum requirements specified by the JCPSG.	The TRAC return does not reconcile to the audited financial statements No self assessment has been made with reference to the TRAC Statement of Requirements.
Secondary review	The TRAC Return has been reviewed to ensure that the outputs of the exercise are fair and reasonable.	Secondary review of the TRAC return and TRAC rates are not scheduled to be performed on a timely basis in advance of submission to HEFCE.

Limitations of scope

Our work will not seek to provide assurance over the accuracy of the TRAC return, or seek to verify the accuracy and completeness of the source data used to compile the TRAC return.

Audit approach

The review will be carried out using the following approach:

- Review of background documents including relevant policies and procedures, management directives, manuals and other relevant guidance;
- Interviews with relevant officers to document the processes and controls in place and to establish compliance with these controls; and
- Assessing the adequacy of procedures and controls in operation to mitigate potential risks.

Internal audit team

Name	Title	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 Justin.f.martin@uk.pwc.com
David Wildey	Senior Manager	0207 213 2949 / 07921 106 603 david.w.wildey@uk.pwc.com
Josephine Ip	Senior Associate	0207 213 2765 josephine.w.ip@uk.pwc.com

Key contacts

Name	Role	Contact details
Richard Flatman	Audit Sponsor	richard.flatman@lsbu.ac.uk
David Kotula	Key contact	kotulad@lsbu.ac.uk

Timetable

Fieldwork start	7 th January
Field work completed	11 th January
Draft report to client	18 th January
Response from client	25 th January
Final report to client	31 st January

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Appendix 4. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's capital project appraisal processes (as set out in our terms of reference), subject to the limitations outlined below.

Our internal audit work has been performed in accordance with HEFCE's Financial Memorandum. 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.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). Historic evaluation of effectiveness is not 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.

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.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



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

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