

	PAPER NO: AC.26(12)	
Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Internal Audit – Management of Representative Partners for International Students	
Author:	PricewaterhouseCoopers	
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?		
Matter previously considered by:	N/A	On:
Further approval required?	N/A	On:
Communications – who should be made aware of the decision?	N/A	

Executive summary

The internal audit report on the Management of Representative Partners for International Students is attached. The overall report was given a 'Medium Risk' rating.

The committee is requested to note the report.

Attachment:

- Management of Representative Partners for International Students report

1. Executive Summary

<p>Department: International Office Audit Sponsor: Bev Jullien Distribution List: Jennifer Parsons, Richard Flatman</p>	<p>Overall report classification</p> <p>Medium risk </p> <p>See section 3B for overall report classification criteria</p>	<p>Direction of Travel</p> <p>N/a this is the first year of review</p>	<p>Control Design findings identified</p> <p>0 Critical risk 1 High risk 0 Medium risk 0 Low risk 0 Advisory</p>	<p>Control Effectiveness findings identified</p> <p>0 Critical risk 0 High risk 0 Medium risk 1 Low risk 0 Advisory</p>
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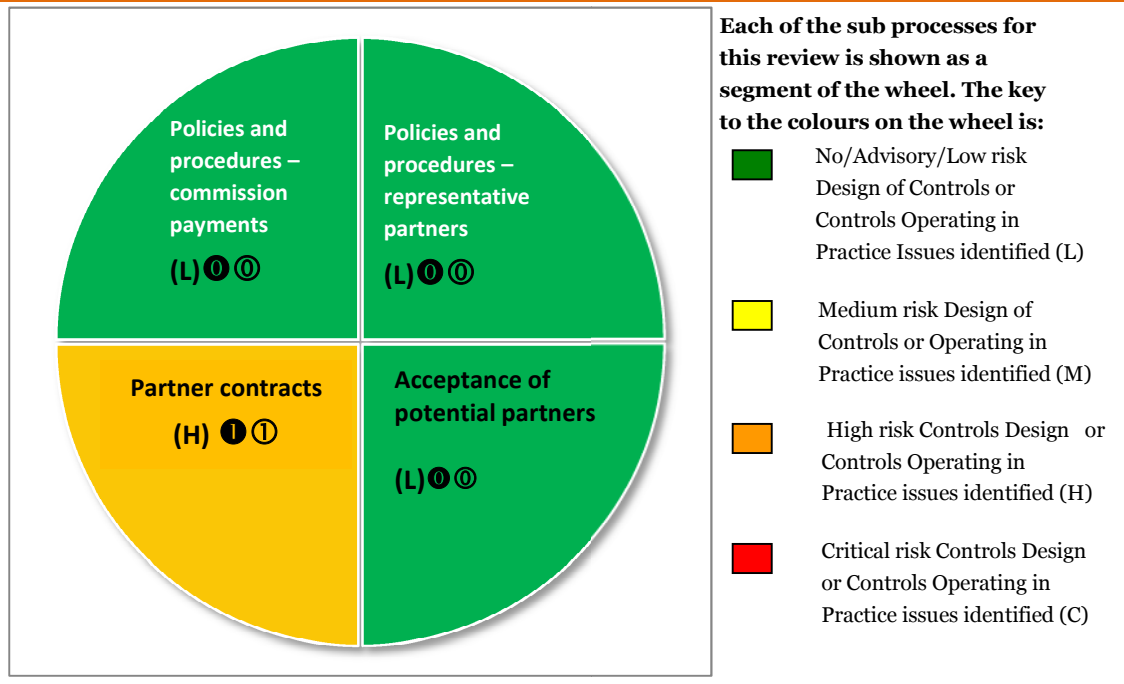
<p>Scope of the Review: Limitation of scope:</p>	<p>Review of the design and operating effectiveness of key controls in place relating to the management of representative partners during the 2011/12 academic year. The review will not cover agreements with other institutions in relation to recruitment of international students, but focus only on the use of representative partners.</p>
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Summary of findings (See section 3A for individual finding ratings criteria):



Meetings were held with Nuria Prades (Senior International Officer) and Gloria Linton (International Admissions Team Leader) from the international office to understand the process for recruiting new representatives, reviewing contracts and making commission payments to representatives.

A sample of contracts and payments were tested to ensure they were in line with the University policies and procedures.

There was one high risk finding, relating to there being a number of contracts dated 2010, indicating that they have not been reviewed on an annual basis as required by University policy.



2. Detailed Findings Recommendations and Action Plan

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
Contracts held with agents – control design					
1	<p>Five contracts, of the twenty reviewed, were dated in 2010, yet commission was being incurred for the 2011/12 academic year.</p> <p>The 2011/12 contracts are not yet finalised and are still with the legal team being updated to include responsibilities around the Bribery Act legislation.</p>	<p>Parties are unaware of their responsibilities under the contract and risk being in breach of contract.</p> <p>University policy of an annual review of contracts is not being followed.</p>	<p>Review contracts periodically and ensure that new contracts are prepared in advance so that they can be sent to representatives before the current one year period of validity has expired.</p>	 High risk	<p>Agreed: Yes</p> <p>Action to be taken: The 2011/12 contract has been revised to include responsibilities in respect of the Bribery Act 2010 and will be sent to all representative partners by 25 May 2012. The next periodic review of contracts is scheduled for February 2013.</p> <p>Responsibility for action: Jenni Parsons, Director of Internationalisation and Richard Thomson, Solicitor</p> <p>Target Date: 25 May 2012</p>
Contract held with agents – control effectiveness					
2	<p>Of the twenty representative partner contracts reviewed during testing, one contract was missing for a representative that had been recruiting students. None of these students successfully enrolled however, so commission was not due.</p> <p>Noted through discussion with the Director of Internationalisation that no payment would be made to this representative partner until the signed contract was in place regardless of whether students were recruited through them.</p>	<p>There is no legal relationship between LSBU and the representative partner.</p>	<p>The contract should be obtained from the representative partner and re-iterated to them that no payments will be made until this is received.</p>	 Low risk	<p>Agreed: Yes</p> <p>Action to be taken: All representative partners have been told that they will not be paid unless there is a signed contract.</p> <p>Responsibility for action: Jenni Parsons, Director of Internationalisation</p> <p>Target Date: Already actioned</p>

3. Basis of our report classification and finding ratings





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

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 shall 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, unless we are requested to carry out a special investigation for such activities in a particular area. Our internal audit work has been performed in accordance with CIPFA's Audit Code of Practice. 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.

Limitations inherent to the internal auditor's work We have undertaken this review, subject to the limitations outlined below. Internal control, no matter how well designed and operated, can provide only reasonable and not absolute assurance regarding achievement of an organisation's objectives. The likelihood of a achievement is affected by limitations inherent in all internal control systems. 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. The assessment of controls relating to this review is for the period 1 October 2011 to 31 January 2012. 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.

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4. Terms of reference

London South Bank University

Terms of reference – Management of Representative Partners for International Students- final

To: *Bev Jullien*
From: *Justin Martin*

This review is being undertaken as part of the 2011/2012 internal audit plan approved by the Audit Committee.

Background

The University has a centralised International Students department which is responsible for recruiting international students to study at London Southbank University. One method used in the recruitment of students is through Representative Partners. The Representative Partners are contracted persons who are paid on a standard commission basis depending on the number of students they successfully recruit to LSBU.

Scope

We will review the design and operating effectiveness of key controls in place relating to the management of representative partners during the 2011/12 academic year. The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
Detailed procedures and policy guidance are in place around the use and management of representative partners.	<ul style="list-style-type: none">• Policies and procedures are fully documented.• Staff are aware of their roles and responsibilities and the procedures are carried out in practice.
Potential representative partners are appropriately reviewed before the University accepts them as partners.	<ul style="list-style-type: none">• Reliable and efficient representative partners are used by the University.
A formal contract is in place between the University and each representative partner.	<ul style="list-style-type: none">• A clear expectation is set for both parties.
Detailed procedures and policy guidance are in place around the payment of commission to representative partners.	<ul style="list-style-type: none">• Policies and procedures are fully documented.• Staff are aware of their roles and responsibilities and the procedures are carried out in practice to ensure that payments made to partners are accurate.

Limitations of scope

The review will not cover agreements with other institutions in relation to recruitment of international students, but focus only on the use of representative partners.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the management of representative partners through discussions with key personnel, review of systems documentation and tests.
 - Identify the key risks of using representative partners.
 - Evaluate the design of the controls in place to address the key risks.
 - Test the operating effectiveness of the key controls.
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Internal audit team

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Key contacts – London South Bank University

Bev Jullien	Pro Vice Chancellor (External)	Audit Sponsor	jullienb@lsbu.ac.uk
Jennifer Parsons	Director of Internationalisation	Audit Owner	parsonj4@lsbu.ac.uk

Timetable

Fieldwork start	19 March 2012
Fieldwork completed	23 March 2012
Draft report to client	10 April 2012
Response from client	1 May 2012
Final report to client	9 May 2012

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 1, Information request

- Process documentation.
- A listing of all representative partners used and the number of students recruited in the 2011/12 academic year.
- Access to student records to confirm enrolment and fees status.
- Access to contracts with representative partners, application form and relevant documentation of in year management.