

	PAPER NO: AC.06(12)
Committee:	Audit Committee
Date:	09 February 2012
Subject:	Continuous Auditing Quarter 1 report 2011/12
Author:	Darrell Pariag, Corporate & Business Planning Manager
Executive sponsor:	Richard Flatman, Executive Director of Finance
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.

Executive summary

The attached Continuous Audit report for Quarter 1 2011/12 has been undertaken as part of the continuous internal audit programme and is the first report in the continuous auditing cycle for 2011/12. There has been no change in the ratings compared to Q4 2010/11.

Attachment:

1. Continuous Auditing report Quarter 1 for 2011/12

	Board/Committee	Date
Matter previously considered by:	n/a	
Further approval required?	n/a	

Communications – who should be made aware of the decision?	n/a
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London South Bank University Internal Audit

*Continuous Auditing
Report 2011-2012
Quarter 1 - Final*

January 2012



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Introduction

Purpose of this report

This report summarises the work that Internal Audit has undertaken on continuous auditing for quarter 1 in 2011/12. This work has been undertaken as part of the 2011/12 Internal Audit programme agreed by the Audit Committee on 21 September 2011.

Background to continuous auditing and monitoring

Continuous auditing is the process of ongoing testing of key controls to assess whether they are operating effectively, and to flag areas and report transactions that appear to circumvent control parameters. We use a combination of manual testing and data mining tools to extract data from the IT system, using pre-determined parameters to check that controls are operating as designed. Continuous auditing has been adopted for five of the University's financial systems this year. The systems are:

- Payroll;
- Accounts payable;
- Accounts receivable;
- Cash; and
- Student financial data.

Continuous auditing provides regular and timely assurance over the University's financial systems and informs our opinion of the adequacy and effectiveness of these systems at year end. Our testing under continuous auditing is undertaken on a quarterly basis and provides the following key benefits:

- It provides management with assurance over the operation of key controls on a regular basis throughout the year;
- Control weaknesses can be addressed during the year rather than after the year end; and
- The administrative burden on management is reduced when compared with a full system reviews, in areas where there is sufficient evidence that key controls are operating effectively.

The controls we have tested have been identified through discussion with relevant staff from each system. All controls have been identified using a risk based approach.

During the rest of this report we have set out the results of the work performed as follows:

- **Overall summary** – of findings and key messages from our work over all five systems; and
- **System summaries** – providing an overview of the findings for each system.
- **Control design improvements** - areas where the design of controls may be improved, identified during our work.

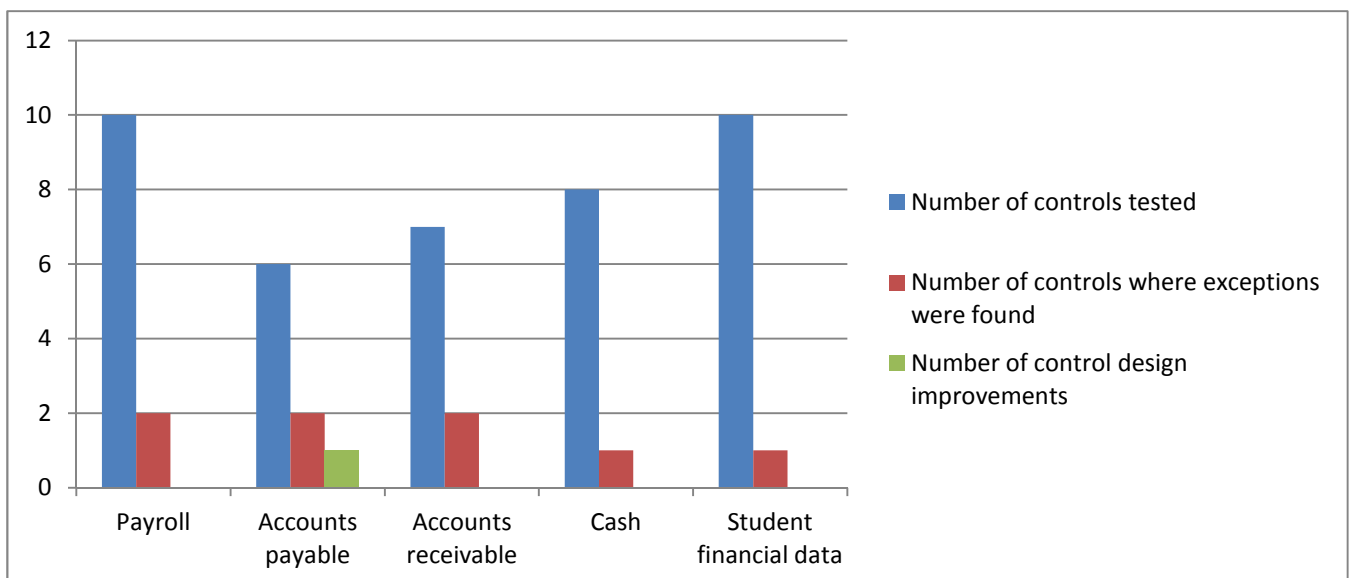
Overall summary

Set out below is the summary per system, taking into account the number and extent of exceptions we found during testing and the number and severity of control design improvements identified.

System	Rating Q1 11/12	Rating Q4 10/11	Rating Q3 10/11	Rating Q2 10/11	Direction of Travel Q4-Q1
	● Red, ● Amber, ● Green	● Red, ● Amber, ● Green	● Red, ● Amber, ● Green	● Red, ● Amber, ● Green	↓ ← → ↑
Payroll	● Green	● Green	● Green	● Red	↔
Accounts payable	● Amber	● Amber	● Green	● Green	↔
Accounts receivable	● Green	● Green	● Green	● Green	↔
Cash	● Green	● Green	● Green	● Green	↔
Student financial data	● Green	● Green	● Green	● Amber	↔

Quarter 1 testing

We have undertaken testing on the controls operating during the first quarter of 2011/12 (1 August 2011 – 31 October 2011) in November 2011. The results are summarised below and given in more detail in the following sections.



System	Number of controls tested	Number of controls where exceptions were found	Number of control design improvements
Payroll	10	2	0
Accounts payable	6	2	1
Accounts receivable	7	2	0
Cash	8	1	0
Student financial data	10	1	0
Total	41	8	1

The key issues arising from our work on each system are given below.

Payroll

One out of five leavers selected from the HR Oracle reports could not be identified as a leaver on the Payroll reports.

The new starter joining date for one out five new joiners tested did not match between the HR Oracle report and the Payroll reports.

Accounts payable

For the week commencing 01/08/2011 payments over £20,000 were not authorised by an Executive Member.

Seven invoices raised between 1 August 2011 and 31 October 2011 did not have a PO dated within the last 27 months (i.e. between 1 August 2009 and 31 October 2011). 16 invoices had a value of more than 130% of the PO.

Additional testing was performed on non-committed invoices for Quarter 1 as management had indicated a desire to identify invoices which should have had a PO raised against them. From this testing we noted that two out of the sample of six invoices reviewed should reasonably have had a PO, one was for advertising and the other consultancy fees. The testing also noted that for two out of the six sampled the invoices were incorrectly classified as utility invoices.

Accounts receivable

As part of the debt collection procedures testing it was noted that a credit note was not raised on a timely basis.

Outstanding debt has not been written off in line with LSBU policy. It is the policy that outstanding debt older than 6 years should be written off. However, there was debt of £10,467 older than 6 years at the end of the 2010/11 financial year that had not been written off.

Cash

The September 2011 bank reconciliation had reconciling items over six months old dating back to February 2010 that should be investigated and resolved.

Student financial data

For one out of five course change details tested, the course change authorisation form could not be located.

Comparison of quarter 1 results with previous quarters

System	Number of controls tested				Number of controls where exceptions were found				Number of control design improvements			
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Payroll	10	9	9	9	2	0	1	1	0	0	0	1
Accounts payable	6	5	5	5	2	2	1	1	1	0	0	0
Accounts receivable	7	6	6	6	2	1	2	1	0	0	0	0
Cash	8	8	8	8	1	1	1	1	0	0	0	0
Student financial data	10	10	10	10	1	0	3	4	0	0	0	0
Total	41	38	38	38	8	4	8	8	1	0	0	1

System summaries

Payroll

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
P1	HR input leaving date to the HR system and inform the payroll team so that the payroll system can be updated.	1	<p>One of five leavers selected from the Oracle HR system could not be traced to leavers on the payroll system. On further investigation, it was found that the employee concerned was an Hourly Paid Lecturer (HPL) and had not received any payment since the leaving date.</p> <p>Prior to the implementation of the Oracle HR system, when an HPL started at the University, a starter form was sent from HR to payroll which gave the start and end date of the contract. The end date of the contract was not entered on the payroll system by the payroll team when the starter form was initially sent.</p> <p><i>Management comment: When a faculty informs HR that the Lecturer is to continue employment within a very short space of time of the leaving date, a leaver's form may not be issued thereby saving time issuing a P45 etc. The leaving date is not entered onto the payroll system as there is a separate control on HPLs. HPLs may have more than one contract ongoing with different start and end dates and the payroll software can only have one contract registered at a time. It has been agreed that payroll will only treat an employee as a leaver on receipt of a leaver's form from HR.</i></p> <p>Responsibility for action: Sue Archer, Payroll Manager</p>	0	0	0
P2	New starters can only be set up on the payroll and HR system after an authorised payroll starters report has been received.	1	<p>One out of five new starters selected from the Oracle HR system had a different start date on the payroll system. Employee number 221060 had a start date per the Oracle HR system of 18/08/2011 and per the payroll system 01/08/2011. This was due to a data input error on the payroll system. The employee is a HPL and there has been no overpayment of salary as HPLs are paid based on the hours they work. Responsibility for action: Sue Archer, Payroll Manager</p>	0	0	0

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
P3	Changes to standing data are only made to the payroll system after a variation form has been completed and approved by the HR team.	0		0	0	0
P4	For payment of expenses an employee must submit an appropriately authorised form.	0		0	0	0
P5	Timesheets are received from departments and faculties. Timesheets must be authorised.	0		0	0	0
P6	Monthly payroll reconciliations are prepared and reviewed and reconciling items are addressed. Staff costs in the general ledger are reconciled to the two payrolls (Monthly and Part time/hourly paid staff).	0		0	1	0
P7	Only payroll staff should have access to the payroll system.	0		0	0	0
P8	The BACS release form sent to Logica authorising BACS payments to be made is signed by a member of the Payroll department. The Financial Controller, Executive Director of Finance or the Financial Planning Manager signs the payment release form for monthly payment to HMRC. This is evidenced on a paper form.	0		0	0	1
P9	Checks are carried out to ensure duplicate employees are not on the payroll.	0		0	0	0
P10	Policies and procedures are in place for staff to follow.	N/a	Tested in 2011/12 quarter 3 only.	N/a	N/a	N/a
HR1	The data held on the Oracle HR system in respect of employee information accurate and is kept up to date.	0		N/a	N/a	N/a
Total		2		0	1	1

Accounts Payable

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2																
AP1	Invoices are authorised for payment and matched to the paper/web requisition.	0	See control design improvement 1.	1	0	0																
AP2	The Financial Controller reviews the BACS and cheque reports and checks every invoice over £10,000 to supporting documentation. When satisfied with the BACS and cheque runs, the remittance confirmation is run and signed by the Financial Controller and Executive member.	1	For one out of four weekly BACS reports selected, the report for the week commencing 01/08/2011 included payments over £20,000 which were authorised by the Financial Planning Manager only and not by an Executive member as well. This was the period where the new P2P system was being implemented and there was some confusion over whether the payments needed to be signed by an Executive Member. Responsibility for action: Natalie Ferer, Financial Controller	1	0	0																
AP3	Access levels to Agresso for each staff member are appropriate for their role.	0		0	0	0																
AP4	Every day the AP module is reconciled to the GL and recorded on the "Daily Print" spreadsheet.	0		0	0	0																
AP5	Committed invoices are matched to the PO on Agresso. The invoice value must be no more than 30% over the PO value. A new PO must be raised if the invoice value is over this limit.	23	There were seven out of 1112 invoices raised between 1 August 2011 and 31 October 2011 that did not have a PO dated within the last 27 months (i.e. between 1 August 2009 and 31 October 2011). The invoice numbers and amounts are listed below: <table border="0"> <tr> <td>122776</td> <td>£17,176.80</td> </tr> <tr> <td>122777</td> <td>£8,588.40</td> </tr> <tr> <td>122824</td> <td>£50,456.85</td> </tr> <tr> <td>SAJ/1807/5241E</td> <td>£1632.07</td> </tr> <tr> <td>2602</td> <td>£8812.5</td> </tr> <tr> <td>1696</td> <td>£693</td> </tr> <tr> <td>1731</td> <td>£784.8</td> </tr> <tr> <td>Total</td> <td>£88,144.42</td> </tr> </table> <p>There were 16 out of 858 POs (listed below) that were matched to invoices with a value of more than 130% of the value of the PO.</p> Responsibility for action: Natalie Ferer, Financial	122776	£17,176.80	122777	£8,588.40	122824	£50,456.85	SAJ/1807/5241E	£1632.07	2602	£8812.5	1696	£693	1731	£784.8	Total	£88,144.42	7	6	1
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1696	£693																					
1731	£784.8																					
Total	£88,144.42																					

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
AP6	Policies and procedures are in place for staff to follow.	N/a	Tested in 2011/12 quarter 3 only.	N/a	N/a	N/a
AP7	Requisitions must be approved electronically in the P2P system from 1 August 2011.	0	Tested from 2011/12 quarter 1 onwards.	N/a	N/a	N/a
Total		24		9	6	11

Results of test AP5 – invoices that are more than 130% of the value of the PO

PO number	Amount £	Invoice £
1039412	247.46	2,731.32
1040272	100,778.40	195,763.85
1040587	34,748.40	53,012.70
1040718	192.00	277.82
1040985	31,899.22	60,616.57
1041066	11,976.00	19,772.74
1041258	2,618.40	4,212.60
1041274	62.40	124.80
1041339	450.00	827.28
1041364	7,720.17	15,180.00
1041383	7,270.80	13,969.92
1041496	180.00	359.70
1041580	7,603.20	10,969.20
1041601	198.00	216.00
1041602	660.00	974.28
1041829	710.56	1,477.93
Total	207,315.01	380,486.71

Accounts Receivable

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
AR1	Invoices are raised and authorised separately.	0		1	0	0
AR2	Health contract invoices are raised monthly in accordance with the contract and approved by the Faculty of Health.	0		0	0	0
AR3	Credit notes are matched to invoices and authorised.	0		0	1	0
AR4	Access levels to Agresso for each staff member are appropriate for their role.	0		0	0	0
AR5	Monthly reconciliations between the accounts receivable module and the general ledger are prepared and reviewed and reconciling items are addressed.	0		0	1	1
AR6	There are procedures in place to collect overdue debt.	1	<p>One of the seven overdue debts selected was in relation to an invoice for £1,380 dated 25/07/2011. Notification was received from the customer that this was a duplicate invoice. However, a credit note was not raised until 14/12/2011. Credit notes should be raised on a more timely basis.</p> <p>Responsibility for action: Julian Rigby, Income Manager</p>	0	0	0
AR7	Bad debt write offs must be approved in line with the authorised signatory list.	1	<p>It is LSBU policy to write off debts that are older than 6 years at year end. There was £10,476 of debt older than 6 years at the end of the 2010/11 financial year that had not been written off.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p>	N/A	N/A	N/A
AR8	Policies and procedures are in place for staff to follow.	N/a	Tested in 2011/12 quarter 3 only.	N/a	N/a	N/a
Total		2		1	2	1

Cash

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
C1	Tuition fees from students are received by the cash office. Each of the 3 members of the cash office team keeps a paper record of the receipts they have taken each day, showing student number and amount received. This is input to QLX. The next day, the QLX figure (previously counted and confirmed against the paper record) is reconciled with the actual cash amount held by each staff member.	0		0	0	0
C2	Overnight, the amount received that day per QLX is automatically transferred to Agresso. On Agresso, the amount received is debited to holding accounts: total cash receipts are coded to account 7121, total cheques to 7122 and total card payments to 7123.	0		0	0	0
C3	Loomis collects cash daily from the cash office. Loomis send a daily print out of the cash they have received from LSBU. Each day, a report is run from QLX showing the total cash, cheques and card payments received by the cash office the previous day. This is reconciled to the amount per the daily print out from Loomis.	0		0	0	0
C4	Loomis collects cash daily/weekly from other cash receiving sites, e.g. catering. Loomis send a print out of the cash they have received from LSBU. Each site provides the Cash Office with a record of the cash they received and this is reconciled by the Cash Office to the report from Loomis.	0		0	0	0
C5	The holding accounts (7121, 7122 and 7123) are cleared down to zero by crediting them when the amounts have been received by the bank. The balancing entry is a debit to account 7160 (amounts from bank statement).	0		0	0	0
C6	At the end of each month, the Cash Office Manager checks that the value of cheques and credit/debit card payments received by the cash office on QLX agrees to the value of cheques and credit/debit card payments received by the bank.	0		0	0	0
C7	Access levels to QLX for each staff member are appropriate for their role. Only 5 people have access to the cash receipting element of QLX. These are the 3 members of the cash office team and 2 members of the Treasury Management team.	0		0	0	0
C8	Bank reconciliations are prepared and reviewed monthly and all reconciling items are resolved.	1	We tested the September 2011 bank reconciliation and noted that there were un-reconciled items	1	1	1

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
			that were over six months old, dating from February and March 2010. Responsibility for action: Brian Wiltshire, Treasury Manager			
C9	Policies and procedures are in place for staff to follow.	N/a	Tested in 2011/12 quarter 3 only.	N/a	N/a	N/a
Total		1		1	1	1

Student financial data

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
SD1	There is an online pre-registration record for students to complete. This feeds into the student record on QLS. There is a face to face enrolment meeting to check the student's ID and qualifications. This is signed off.	0		0	0	0
SD2	Students can re-enrol on line or on paper. This happens where students are repeating modules or progressing to the next year of study.	0		0	0	0
SD3	Reports from QLS of enrolled students are made available on the University's website for Faculty Managers to check against their own list of students who are attending lectures. Any discrepancies should be resolved by asking the student to enrol or removing them from QLS.	0		0	0	0
SD4	<p>The amount of fees due to be received by LSBU for each student is determined by a number of factors, e.g. home or overseas student, type of course. The student type for each student is input into the student record on QLS.</p> <p>Note: Throughout the year, there will always be records with no student type as students are enrolling and changing courses. Students are added to QLS as soon as they enrol so that they have access to University services and the student type is added to the record subsequently. In discussion with management, a tolerance level of 0.5% has been agreed for this test.</p>	0		0	1	0
		N/a	Tested in quarter 3 and 4 only for 2011/12.	26	51	873
SD5	Where a student changes or leaves a course, QLS will only be updated on receipt of a form or email from a member of the Academic staff.	1	<p>From a sample of 6 students, the course change authorisation form could not be located for the student with the ID 2619264.</p> <p>Responsibility for action: Tanya Perez, Faculty Administrative Officer ESBE</p>	0	0	0

Control Ref	Control	Exceptions Q1	Notes on Exceptions in Q1	Exceptions Q4	Exceptions Q3	Exceptions Q2
SD6	<p>Each month the aged debt report is reviewed and reminders are sent for amounts that are overdue.</p> <p>Self funded students pay in 3 instalments: 50% on enrolment, 25% on 30 November and 25% on 31 January. Reminder letters are sent in mid November and mid January and any amounts outstanding after 30 November and 31 January are chased.</p> <p>Sponsored students: Sponsors are sent an invoice and have 30 days payment terms. A reminder letter is sent after 31 days after date of invoice, then at 60 days, 90 days and 120 days. SLC (Student Loan Company) funded students. The SLC pay LSBU in February and May.</p>	0		0	0	0
SD7	The actual amount of tuition fees received per QLX is compared with the budget/forecast and significant differences investigated.	0		0	0	0
SD8	At the end of each month the aged debt in QLX is agreed to the aged debt in Agresso and any differences are investigated and resolved.	0		0	1	1
SD9	Only the Student Fees team have edit access to QLS and only the Income Team have edit access to QLX.	0		0	0	10
SD10	Data is transferred from QLS to QLX daily or weekly (depending on the volume of transactions and the time of year) in batches. Each batch is checked before posting to QLX to ensure the total in QLS agrees to the total in QLX.	0		0	10	57
SD11	Policies and procedures are in place for staff to follow.	N/a	Tested in 2011/12 quarter 3 only.	N/a	N/a	N/a
Total		1		26	63	941


Control design improvements

We have noted a number of instances where the design of controls could be improved to further enhance the control environment or to improve efficiency.

Accounts Payable

1. Types of invoices – control ref AP1	Control Design
Finding	Risks
<p>Whilst testing that invoices have been authorised for payment, from our sample of three A1 invoices (uncommitted invoices – invoices without an order number), we noted that two should reasonably have had a PO:</p> <ul style="list-style-type: none">• Invoice number SI-003639 for £1,468.80 for consultancy fees• Invoice number PQ 03-0002992 for £1080 for advertising.	<p>Expenditure is not appropriately authorised at the order stage and the University may be committed to expenditure that it does not need.</p>

Action plan


Finding rating	Agreed action	Responsible Officer: Natalie Ferer, Financial Controller
Low 	<p>Currently, uncommitted invoices received from suppliers are sent for electronic approval to a member of the University Executive or other senior member of staff. This is so they are aware that uncommitted expenditure is taking place in their areas and to get their support in ensuring official University orders are raised for all goods and services.</p> <p>From February, all uncommitted invoices (with the exception of certain exempt supplies such as utilities, which do not require an order to be raised), will be returned unpaid to the supplier, asking them to resubmit their invoices quoting a valid PO number.</p>	Target date: 29 February 2012


Appendix 1: Assessment criteria


Ratings used for the control design improvements.

Finding rating	Assessment rationale
Critical	A finding that could have a: Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
High	A finding that could have a: Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in significant fines and consequences; or Significant impact on the reputation or brand of the organisation.
Medium	A finding that could have a: Moderate impact on operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations resulting in fines and consequences; or Moderate impact on the reputation or brand of the organisation.
Low	A finding that could have a: Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
Advisory	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Ratings used for assessing each system.

 Red A high number of exceptions noted during testing.
High or critical control design improvements noted.

 Amber Some exceptions noted during testing, but limited to a small number of controls.
Some medium priority control design improvements noted.

 Green Limited or no exceptions identified during testing.
No or only low priority control design improvements noted.

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University in our agreed scope dated November 2010. 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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