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Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Internal Audit Plan, 2012/13	
Author:	PricewaterhouseCoopers	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee reviews and approves the Internal Audit Plan 2012/13 in the context of the Strategic Plan for 2010/13.	
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 Strategic and Operational Plan 2010-2013 was approved by the Audit Committee and Board of Governors in November 2010. The original Internal Audit Plan for 2012/13 was for 99 days in total based on the previously agreed strategic risk/audit needs assessment and the rolling 3 year audit plan.

The detailed plan for 12/13 has been reviewed by the Executive and the recommendation is to increase the total audit days to 114 with a further 10 days held as contingency to cover work on compliance with UK Border Agency documentation requirements for international students if required. In the first instance this work is being covered by peer group review.

The proposed changes to the original plan are as follows:

Review	Focus	Original days	Revised days
Financial forecasting	Process review to provide assurance on delivery against forecasts as requested by Policy & Resources Committee	0	10
Enterprise	Review of new structures, governance arrangements and control processes for SBUEL	0	10
Capital programme	Process review covering investment appraisal and authorisation	10	8
Fraud risk	To review potential fraud risks	7	5
Risk management	Annual review of risk management arrangements	10	9
Contingency	To cover review of UKBA compliance if required	0	10
Total		27	52

The committee is requested to approve the plan.

Attachment:

- Internal Audit Plan 2012/13

Risk Assessment and Internal Audit Plan 2012/13

London South Bank
University

June 2012 - Final

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Distribution List

For action	Audit Committee Members, Richard Flatman – Executive Director of Finance
For information	James Stevenson – University Secretary and Clerk to the Board of Governors

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.

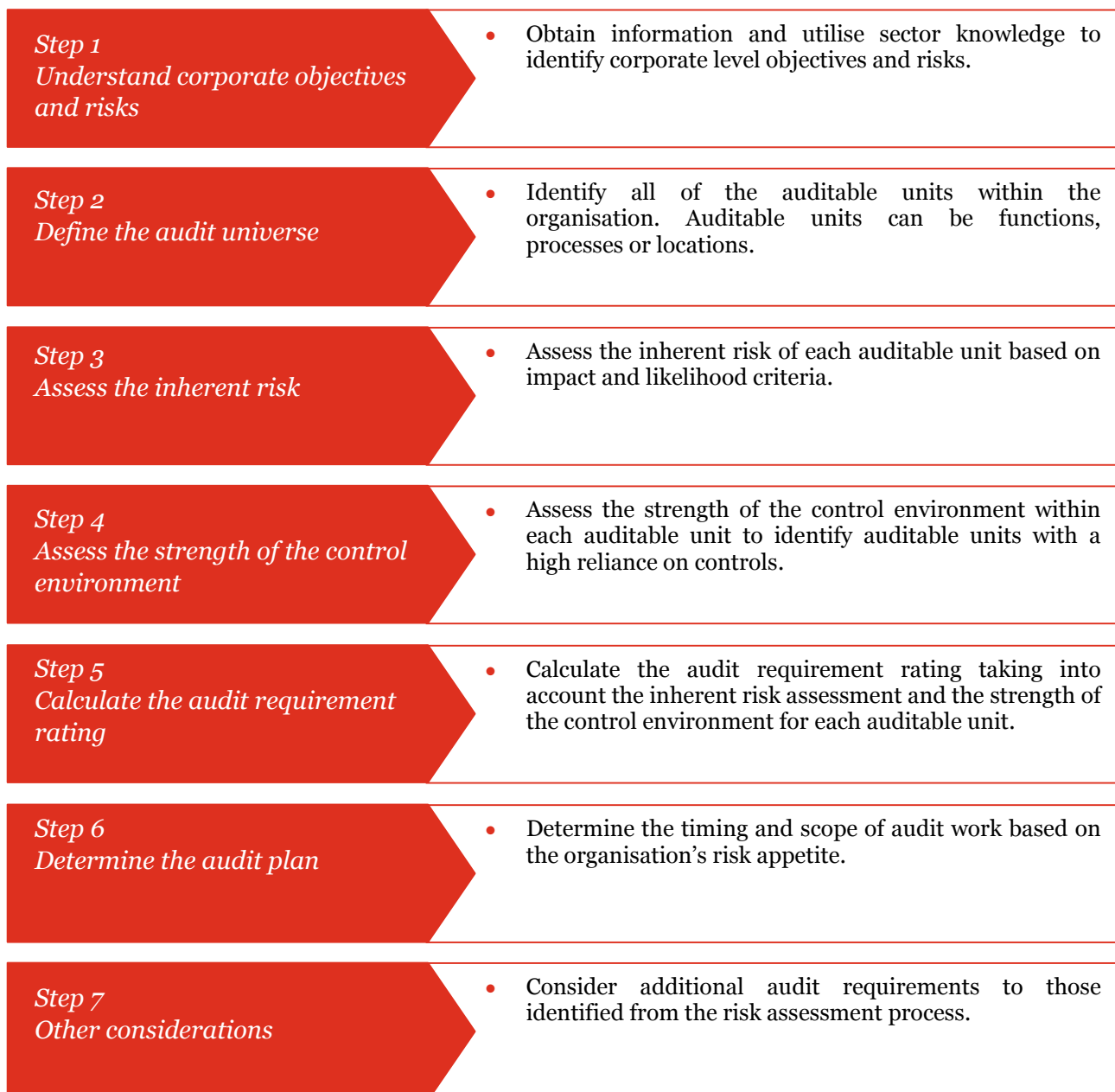
1. Introduction and approach

Introduction

This document sets out the risk assessment and our internal audit plan for London South Bank University.

Approach

A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. A more detailed description can be found in Appendix 1 and 2.



Basis of our annual internal audit conclusion

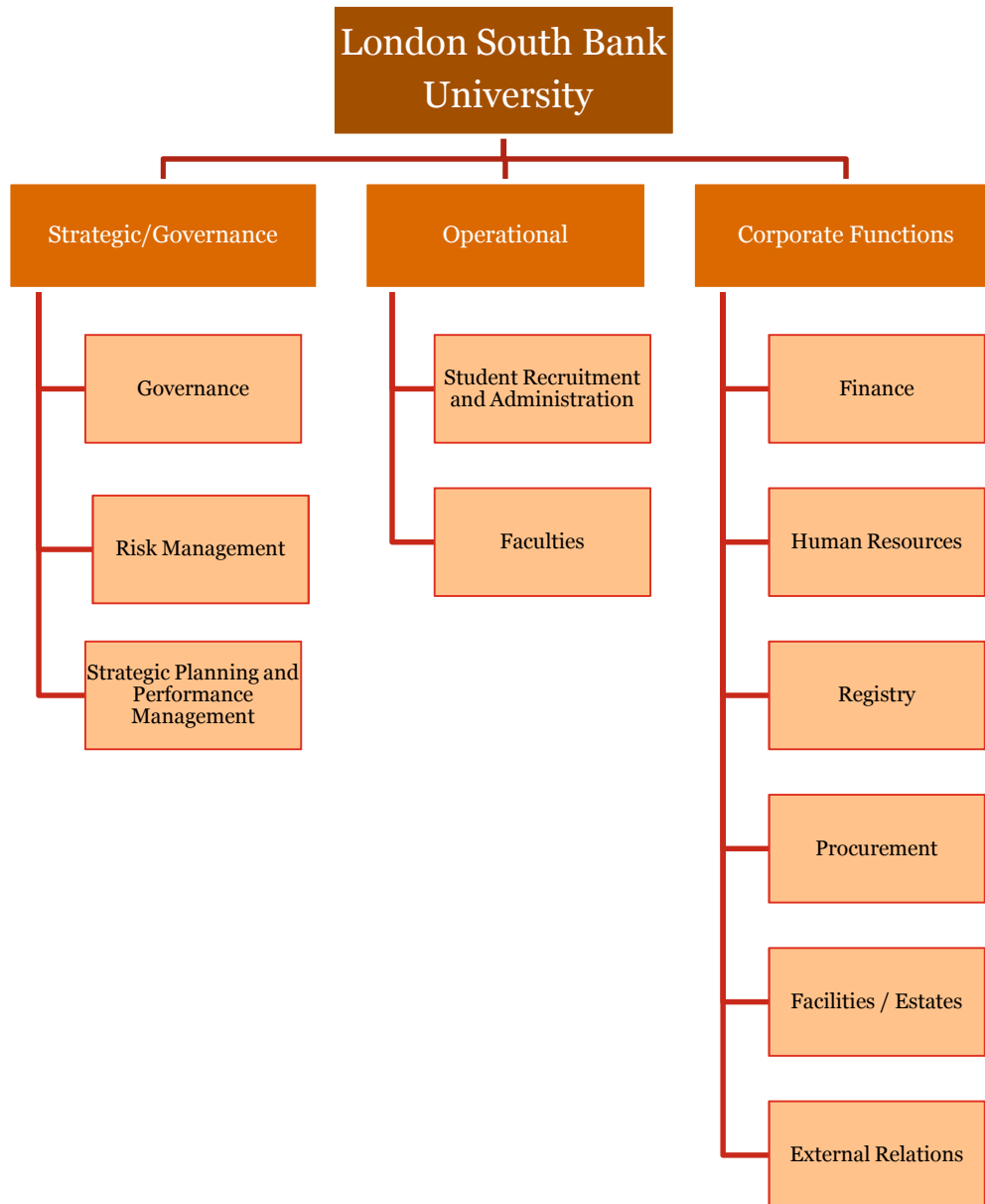
Internal audit will be performed in accordance with HEFCE's Financial Memorandum. HEFCE's Financial Memorandum is not designed or intended to conform to the International Standards on Assurance Engagements issued by the International Auditing and Assurance Standards Board. As a consequence our work was not designed to comply with the International Standards on Assurance Engagements. Our work was designed to comply with HEFCE's Financial Memorandum which must be followed for Higher Education Institutions.

Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our Annual Internal Audit Report.

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of London South Bank University. These units form the basis of the internal audit plan.



Corporate objectives and risks

Corporate level objectives and risks have been determined by London South Bank University. These are recorded within Appendix 3 and have been considered when preparing the internal audit plan.

3. Internal Audit Plan and Indicative Timeline

HEFCE Requirements

The Code does not include guidance on the practice of internal audit, but does endorse the approach set out in the Code of Ethics and International Standards (January 2009) of the Institute of Internal Auditors (IIA).

Paragraph 43 of the Code requires Internal Audit to provide the governing body, the designated officer and other managers within the University with assurance on the adequacy and effectiveness of risk management, control and governance arrangements. This supports the requirement of HEIs to have effective arrangements in place over these three key areas.

We are also required to include in our annual report an opinion over your arrangements for securing economy, efficiency and effectiveness (i.e. value for money).

Further to these requirements of internal audit, the Audit Committee is required to include in its annual report a conclusion on the arrangements in place around data quality. Whilst this is not mandated for internal audit coverage in the Code, management of HEIs typically ask us to cover this area to support the assurances underpinning the Audit Committee's annual report.

Based on this we see five minimum requirements for internal audit work in order to meet the minimum HEFCE compliance requirements within the Code as shown in this diagram. We have mapped our audit plan to these requirements later on in this section.



Purpose of Audit Strategy

This strategy summarises the results of our recent planning work.

It sets out:

- The function, scope and standards of our Internal Audit Service provision;
- A three year programme of work required to meet that need (the Strategic Plan);
- Work necessary in 2012/13 as part of that programme (the Operational Plan).
- How the audit programme maps to the University's risks; and
- How the audit programme maps to the Audit Committee's reporting responsibilities.

Basis of the Strategy

The plan is based around a structured assessment of system risks within the Institution's operations. Resources are directed according to the risk assessment. The plan has been drafted in consultation with management and in accordance with the HEFCE Accountability and Audit Code of Practice ("the Code") within the Financial Memorandum (HEFCE 2010/19).

The Institution's corporate risk assessment has been significant in drafting our audit strategy and as a result we have mapped our three year internal audit strategy of reviews against the Institution's corporate risk register, as shown in appendix 3.

It is important that the work of Internal Audit links to the Institution's Strategic Plan 2010/2013 and corporate risk assessment. This mapping process has been completed to demonstrate that Internal Audit coverage is focused on the key risk areas of the Institution.

Key Priorities

In line with the HEFCE Audit Code of Practice, Internal Audit plans should be reviewed on a regular basis to ensure that the Internal Audit services provided continue to reflect the changing needs and priorities of the Institution. With our knowledge of the Institution and the way it operates we have identified the following current priorities and have produced a three year strategic plan to reflect these priorities.

Data Quality

Robust reporting is essential to the activity of all HE Institutions, with the need to report externally as well as making appropriate internal management decisions. The HEFCE Accountability and Audit Code of Practice introduced new guidance on assurances sought from designated officers and Audit Committees around the management and quality assurance arrangements for data submitted to the Higher Education Statistics Agency (HESA), HEFCE, and other funding bodies.

In particular the Audit Committee's annual report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of these data submissions. The Institution has undertaken a lot of work on data quality of student numbers. We will include the student financial data system within our review of the financial key controls each year and a rolling programme of data quality reviews over the returns the Institution sees as key risk areas. In 2012/13 we will undertake work on the preparation of the Key Information Set and the TRAC return.

Risk Management and Governance

The Audit Committee needs assurance that the risks facing the Institution are being managed properly. We conducted a review of the risk management arrangements in place, how risks are being reported and monitored and the link with corporate planning in 2011/12 and will conduct a further review of this in 2012/13. We will also review the anti – fraud arrangements in 2012/13.

Financial Systems

The financial memorandum clarifies the responsibilities around financial systems and internal audit coverage in this area. We will undertake our work on the financial systems key controls through our continuous auditing programme. Continuous auditing is the process of ongoing testing of key controls on a regular basis throughout the year, 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 key financial IT systems to check that controls are operating as designed. We will apply this approach to payroll, accounts receivable, accounts payable, cash and student financial data.

In 2012/13 we will also review the process for producing and monitoring the five year financial forecast.

Operational Systems

We have included a 10 day review of the capital programme. This review will cover the processes in place for assessing which capital projects are approved, focusing on the smaller projects (£1m and below) to include:

- the system used documenting and authorising projects
- the approval process
- financial assessment of project, including use of net present value calculations and robustness of business cases.

Our review of Enterprise will consider the governance and internal financial control arrangements in place in respect of South Bank University Enterprise Ltd.

Value for Money

The HEFCE Accountability and Audit Code of Practice makes reference to the fact that in the HE sector there is an underlying duty of care to ensure that public funds are spent on the purposes for which they are intended, and that good value for money (VfM) is sought. This duty is included as a condition of grant in the financial memorandum between the DfES and HEFCE. Value for money may be considered in two ways;

- Considering VfM in each of the systems examined; or

- Conducting specific, more detailed, reviews of key areas where there is seen to be an opportunity for significant improvement.

We are required to include an opinion on the adequacy and effectiveness of the institution's VfM arrangements (not results, outputs or achievement) in our annual report to the audit committee, governing body and designated officer. A review of VfM arrangements was completed in the summer of 2011. In 2012/13 we will consider VfM in each of the systems examined.

Follow Up Reviews

The purpose of follow up of internal audit recommendations is to reinforce the importance of controls within the Institution, and provides updated information about whether important risks have been properly dealt with through remedial control actions.

4. Risk assessment

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. The results are summarised in the table below.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments
A	Strategic/governance						
A.1	Governance	6	3	5	●	Every year	Data quality arrangements will be covered every year. DQ is an important issue in HEIs and inaccuracies in data returns can result in large fines from HEFCE therefore DQ will be looked at each year.
A.2	Risk Management	5	4	3	●	Every year	Risk management arrangements will be covered every year. HEFCE requires internal auditors to cover risk management arrangements each year.
A.3	Strategic Planning and performance Management	6	6	4	●	Every year	Aspects of the University's strategic planning decisions will be reviewed each year. In 2012/13, processes for vfm and management of fraud risk will be reviewed.
B	Operational						
B.1	Student recruitment and administration	6	3	5	●	Every year	The student data system will be covered by continuous auditing each year. DQ is an important issue in HEIs and inaccuracies in data returns can result in large fines from HEFCE therefore DQ will be looked at each year.
B.2	Faculties	5	3	4	●	Every year	Certain reviews will cover a sample of faculties each year. For example, risk management in 2012/13.
C	Corporate Functions						
C.1	Finance	5	3	4	●	Every year	Continuous auditing on key financial systems each year (payroll, accounts

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments
							payable, account receivable, student financial data and cash). Key financial systems must have robust controls and these should be checked each year, including IT aspects. One off reviews on specific areas will also be undertaken. For example, capital programme review in 2012/13.
C.2	Human Resources	4	4	2	●	Every three years	Review of payments to Hourly Paid Lecturers in year 2010/11.
C.3	Registry	4	4	2	●	Every year	This is covered by the continuous auditing work on student financial data carried out each year.
C.4	Procurement	4	4	2	●	Every three years	Contract management review in 2010/11.
C.5	Student Services	3	3	2	●	Every three years	Student residences review performed in 2011/12.
C.6	Facilities / Estates	4	4	2	●	Every three years	Student residences review performed in 2011/12. This is required once every 3 years by the UUK.
C.7	External Relations	4	4	2	●	Every three years	A review of the Bribery Act and representative partners for international students arrangements in 2011/12.

Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6, 5 and 4	●	Every year	A review of processing and monitoring control design and operating effectiveness
3	●	Every two years	A review of the design and operating effectiveness of monitoring controls
2	●	Every three years	A review of the adequacy of breadth of monitoring controls and analytical review of the output of monitoring controls.
1	●	No further work	N/A

5. Three year plan

Introduction

The full three-year audit plan is shown on page 11. This plan is based upon a risk assessment.

Summary of Strategic Plan

As already seen in the Executive Summary, the three year strategic plan for 2010/11 to 2012/13 summarises to the following:

Systems	Audit resource (days)		
	2010/11	2011/12	2012/13
Financial Systems	65	43	53
Operational Systems	20	42	36
Risk & Governance Reviews	2	13	9
Value for Money	10	2	2
Follow Up	5	5	5
Planning, Management & Reporting	9	9	9
Review of Financial Regulations	1	0	0
Student Data Quality – additional review	0	10	0
Contingency	0	0	10
Total	112	124	124

Operational Plan

The Operational Plan, which is on page 12, contains the audit work for the 2012/13 financial year.

The plan details:

- Resources to be allocated; and
- The timing of the review.

Prior to each review being carried out a detailed terms of reference will be produced in consultation with and distributed appropriately amongst relevant University management. This process will ensure that our reviews have management's support and achieve the desired outcomes.

These terms of reference will set out:

- Audit objective; and
- Key controls to be reviewed.

System	2010/11	2011/12	2012/13
	Actual Days	Actual Days	Planned Days
<i>Financial Systems Key Control Reviews including continuous auditing</i>	45	43	43
<i>Payments to Hourly Paid Lecturers</i>	10	0	0
<i>Funding arrangements for Confucius Institute</i>	10	0	0
<i>Financial Forecasting</i>	0	0	10
Financial Systems Sub Total	65	43	53
<i>Health and Safety</i>	10	0	0
<i>Student Residences</i>	0	7	0
<i>Research</i>	0	10	0
<i>Data Quality – rolling programme of reviews: 2011/12 – HESA Staff Return 2012/13 – Key Information Set Note: the HESA Finance Return will be reviewed as part of the 2013/14 Internal Audit plan</i>		5	10
<i>Management of Representative Partners for International Students</i>	0	5	0
<i>Bribery Act 2010</i>	0	5	0
<i>Review of Capital Programme</i>	0	0	8
<i>Delegated Authority arrangements</i>	0	10	0
<i>TRAC Review</i>	0	0	3
<i>Management of Fraud Risk</i>	0	0	5
<i>Contract Management</i>	10	0	0
<i>Enterprise</i>	0	0	10
Operational Systems Sub Total	20	42	36
Risk Management	2	13	9
Value for Money Arrangements	10	2	2
Other			
<i>Follow Up</i>	5	5	5
<i>Planning, Management and Reporting</i>	9	9	9
<i>Review of Financial Regulations</i>	1	0	0
<i>Student Data Quality – additional review to be delivered in June/July 2012</i>	0	10	0
<i>Contingency</i>	0	0	10
Total	112	124	124

Operational Plan 2012/13

Quarter 1: August 2012 – October 2012

System	Days
<i>Continuous Auditing of Key Financial Systems</i>	10
<i>Review of Capital Programme</i>	8
<i>Management of Fraud Risk</i>	5
Sub total	23

Quarter 2: November 2012 – January 2013

	Days
<i>TRAC Review</i>	3
<i>Risk Management</i>	9
<i>Continuous Auditing of Key Financial Systems</i>	10
<i>Enterprise</i>	10
Sub total	32

Quarter 3: February 2013 – April 2013

System	Days
<i>Continuous Auditing of Key Financial Systems</i>	10
<i>Key Information Set</i>	10
<i>Financial Forecasting</i>	10
Sub total	30

Quarter 4: May 2013 – July 2013

System	Days
<i>Continuous Auditing of Key Financial Systems</i>	13
<i>Value for Money Arrangements</i>	2
Sub total	15

Summary

System	Days
Total audit days	100
Planning, contract management and reporting	9
Follow up	5
Contingency	10
Total audit days for 2012/13	124

We summarise our intentions for the broad scope of these reviews in the executive summary section of this plan.

As mentioned previously, our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each internal audit. The agreed control objectives will be reported within our Annual Internal Audit Report.

From our work undertaken during 2011/12 and discussion with management, there are additional reviews that management and the Audit Committee could consider for inclusion in the 2012/13 plan. These are:

- Review of compliance with UK Border Agency documentation requirements for international students. The University is planning to obtain a peer review of its arrangements and depending on the results of this review, an internal audit review may be requested. We have included a contingency of 10 days in the 2012/13 plan for this.
- Review of Bribery Act 2010 arrangements to see how the new arrangements have bedded in and if they are being complied with, including review of new policy on checking the source of funds received by the University. This could also include providing awareness training for staff on the Bribery Act 2010.
- Review of the controls and procedures for the halls of residence system (KX).
- Review of compliance with new procurement/ordering system.

Appendix 1: Detailed methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the Higher Education Sector; and
- Met with a number senior management.

Step 2 - Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for London South Bank University made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 - Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and the Higher Education sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas of with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

<i>Impact rating</i>	<i>Assessment rationale</i>
6	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.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	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.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

<i>Likelihood rating</i>	<i>Assessment rationale</i>
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 3: Mapping of Risk Register to the Internal Audit Strategic Plan

Risk		Mapping to Internal Audit Strategic Plan
CP-01	Failure to position the University to effectively respond to changes in government policy and the competitive landscape.	In addition to the Institution's management response, we have included a review on Risk Management in 2012/13.
CO-01-02	Failure to meet recruitment targets.	In addition to the Institution's management response, internal audit will contribute towards the Institution's approach by including the key controls in the student financial data system within the financial key controls work each year and review of the arrangements for managing representative partners for international students in 2011/12.
CO-10-01	Increasing pension deficit.	We have not included any specific reviews of the pension deficit in the plan, but we have pension expertise within PwC that would enable us to assist management in this area if required.
CO-08-01	Ineffective management information to support delivery of the corporate plan.	In addition to the Institution's management response, internal audit will contribute towards the Institution's approach by including a review of financial key controls within the plan, each year.
CP-03	The impact of change on organisation effectiveness and student experience.	In addition to the Institution's management response, we have included a review on the Delegated Authority Arrangements for 2011/12.
CP-05	Major staff strike.	In addition to the Institution's management response, we have not included a specific review on this area in our strategic plan.
CO-10-05	Staff costs grow at a greater rate than income.	Our 2010/11 review of the arrangements for monitoring the payments to hourly paid lecturers contributed to management's assurance in this area.
CO-08-02	Failure to comply with requirements from external agencies with regard to the reporting of student numbers.	In addition to the Institution's management response, internal audit will contribute towards the Institution's approach by including the key controls in the student financial data system within the financial key controls work each year. We have included a rolling programme of data quality reviews over the returns the Institution sees as key risk areas and have reviewed the HESA Staff Return in 2011/12 and will review the arrangements for the Key Information Set in 2012/13.
CO-10-06	Potential loss of NHS contract income.	In addition to the Institution's management response, internal audit contributed towards the Institution's approach through a review of contract management arrangements in 2010/11.
CO-10-08	Potential impact of estates strategy delivery on financial position.	In addition to the Institution's management response, internal audit contributed towards the Institution's approach through a review of financial key controls for fixed assets within the plan for 2010/11 and a review of the capital programme in 2012/13.



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