

Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Internal Audit – Delegated Authority Arrangements	
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 Delegated Authority Arrangements is attached. The overall report was given a ‘Medium Risk’ rating.

The Board/committee is requested to note the report.

Attachment:

- Delegated Authority Arrangements report

1. Executive Summary

<p>Department: Finance Audit Sponsor: Richard Flatman Distribution List: Natalie Ferer and Cherie Chin-A-Fo</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 0 High risk 2 Medium risk 0 Low risk 0 Advisory</p>	<p>Control Effectiveness findings identified</p> <p>0 Critical risk 0 High risk 0 Medium risk 6 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 use of delegated authority during the 2011/12 academic year. The review was limited to a sample of Faculties and Departments.</p>
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Summary of findings (See section 3A for individual finding ratings criteria):

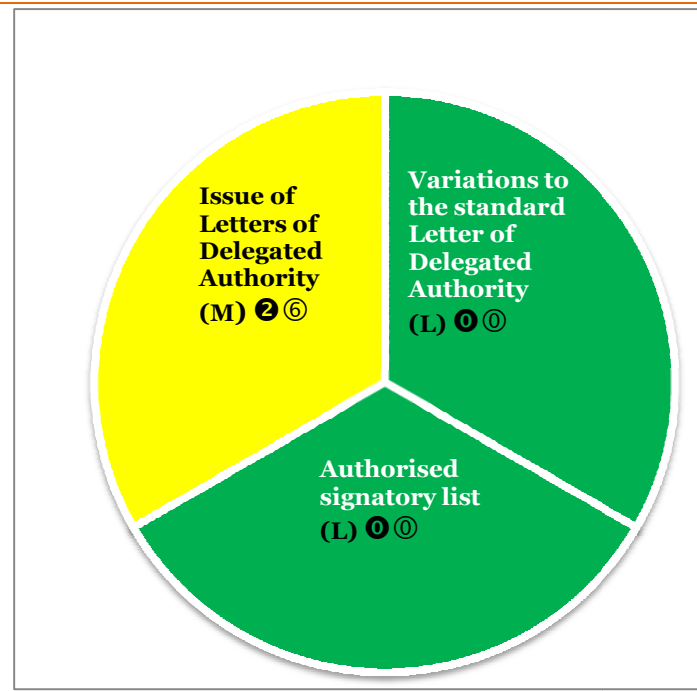
Meetings were held with seven Department/Faculty Heads of Departments (Hof D) to ensure understanding of and compliance with the responsibilities set out in the Letter of Delegated Authority. These include responsibility around:

- Budget
- Risk, governance and control
- HR matters
- External Income generating activities
- Procurement
- Unusual or contentious issues.

There were no high or critical risk findings. Two medium risk findings were noted.

There was a differing opinion of the role of the various support officers used by the Faculty and Department heads interviewed. There were issues noted in the consistency of the support being offered, some Hof D indicated they had a very good level of support whereas other did not feel fully supported.



There is no consistency in the removal of leavers from the authorised signatory listing. We noted that the Academy of Sport only remove a leaver once a replacement for that post is recruited. For the Academy of Arts and Human Sciences one leaver had not been appropriately removed from the authorised signatory listing.







Each of the sub processes for this review is shown as a segment of the wheel. The key to the colours on the wheel is:

- No/Advisory/Low risk Design of Controls or Controls Operating in Practice Issues identified (L)
- Medium risk Design of Controls or Operating in Practice issues identified (M)
- High risk Controls Design or Controls Operating in Practice issues identified (H)
- Critical risk Controls Design or Controls Operating in Practice issues identified (C)

2. Detailed Findings Recommendations and Action Plan

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
Support Services - Control design - Issue of Letters of Delegated Authority					
1	<p>A number of departments noted that the consistency of support offered by the Business Support Managers (BSMs) and HR support partners assigned to them can vary considerably.</p> <p>For example, in one Faculty it has resulted in an inaccurate reflection the budget split across departments.</p> <p>Another department has noted that insufficient support has been offered by their HR partner, notably in dealing with performance and absence management.</p>	<p>Issues are not picked up and rectified promptly. Confusion around roles and responsibilities could result in inefficiencies.</p>	<p>Roles and responsibilities should be clearly documented for BSM 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>	 Medium risk	<p>Agreed: Partly</p> <p>Action to be taken:</p> <p>Specific issue with support for ESBE has been resolved. It was an isolated matter caused by an individual's capability and inadequate level of resource locally. Where necessary, development plans are in place for individual staff.</p> <p>Action to be taken:</p> <ol style="list-style-type: none"> 1. Quarterly meetings with the Vice Chancellor, Director of Finance and the Financial Planning Manager where Heads of Department discuss any concerns regarding the BSM and HRBP support. HR partners also attend at Faculty meetings. 2. The BSM and HR Business Partner roles will be set out on the respective departments' updated websites and the role is discussed with the teams at development events. 3. Drop in sessions to be held for HoDs to seek clarification and additional support for Finance matters and additional training for managers on HR processes to be held <p>Responsibility for action: Cherie Chin-A-Fo, Financial Planning Manager and Katie Boyce, Director of HR</p> <p>Target Date: 31/07/2012</p>
Updates for starters and leavers- Control effectiveness - Issue of Letters of Delegated Authority					
2	<p>Through discussions with Hof D around how signatory listings are updated for starters and leavers it was found that most would review listings and update Finance accordingly with changes noted. It was noted however that signatory listings are only updated for leavers by one department when a replacement member of staff has been appointed. The new joiner replaces the leaver on the list but the scenario where a member of staff is not replaced is not currently covered.</p> <p>Further to this we found through testing of starters and leavers that a leaver from one of the Faculties reviewed was classified as a leaver on the listing from HR but was not removed from the authorised signatory listing.</p>	<p>Authorised signatory listings are not in line with the operational responsibilities. This may lead to inappropriate expenditure.</p>	<p>Leavers should be removed from the authorised signatory listings promptly to avoid inappropriate transactions arising.</p> <p>Finance should send a memo to all Hof D to remind them of their responsibilities to update finance as soon as there is a change to the authorised signatory listing.</p>	 Medium risk	<p>Agreed: Yes</p> <p>Action to be taken:</p> <p>To communicate with all HOD's regarding updating of authorised signatory forms and to include instructions in the 2012/13 letter of delegated authority.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller and Cherie Chin-A-Fo, Financial Planning Manager</p> <p>Target Date: 30/04/2012</p>

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
Issue of letters of delegated authority- Control effectiveness - Issue of Letters of Delegated Authority					
3	<p>Letters of delegated authority are issued annually in October, for each financial year. This has left a number of staff unclear on the authority they hold between the start of the new financial year (1 August) and October, when the letter is issued.</p> <p>For most Departments this does not have a significant impact, and budget monitoring will help to mitigate the risk of inappropriate expenditure during the period. However, departments such as IT and Estates and Facilities could incur large amounts of expenditure within this period.</p>	<p>Expenditure incurred between August and October may not be correctly authorised and therefore not be appropriate.</p>	<p>Finance should issue the letter of delegated authority at the beginning of the financial year or clarify with Hof D what the procedure should be during this interim period.</p> <p>Hof D have indicated that they would have the resources available to implement the letters of delegated authority earlier if the Finance team brought forward the deadline for sending out the letters.</p>	 Low risk	<p>Agreed: Partly. Expenditure can only take place within existing authorisation structures which reduces the risk of inappropriate expenditure taking place.</p> <p>Action to be taken: Letters of delegated authority will be issued during July so they are in place for the start of the Financial Year. In exceptional circumstances where not all the required information is available, interim letters will still be issued before the start of the year.</p> <p>Wording of letters to be amended to make it clear that responsibilities and procedures contained in the letters are effective until a new letter has been issued</p> <p>Responsibility for action: Natalie Ferer, Financial Controller.</p> <p>Target Date: 01/08/2012</p>
Copies of the letter of delegated authority - Control effectiveness- Issue of Letters of Delegated Authority					
4	<p>Three of the seven Hof D had not kept a copy of the letter of delegated authority for their own reference.</p> <p>Finance only file the signed declarations received from each Department/Faculty. Copies of the individual letters sent are not filed by the Finance department for reference.</p>	<p>Staff may not be complying with all responsibilities listed in the letter and do not have a record for reference if issues arise.</p>	<p>HofD should keep a copy of the letter for reference. Copies of the letters of authority, including authorised signatory listings, should be held electronically on a shared drive so that the relevant persons can access them.</p>	 Low risk	<p>Agreed: Yes</p> <p>Action to be taken: HofD to be instructed to keep a copy of the letter for their own reference. Complete letters of delegated authority to be held in Finance along with the signed staff declaration</p> <p>Responsibility for action: Natalie Ferer, Financial Controller.</p> <p>Target Date: 31/08/2012</p>
Training - Control effectiveness- Issue of Letters of Delegated Authority					
5	<p>The training provided to staff to help them understand the delegated authority arrangements was discussed with the Hof D's interviewed and also with the Deputy Director of Staff and Organisational Development.</p> <p>One Hof D noted that they had not reviewed the letter before signing the declaration as they considered it simply a tick-box exercise, suggesting a lack of awareness around the importance of the letters issued.</p> <p>Some felt that the training around</p>	<p>Staff do not fully understand their responsibilities in the letter so are not carrying out the required actions.</p>	<p>Liaise with Hof D's to understand what training is required and which grades this needs to be targeted at. Consider whether certain training should be made mandatory.</p> <p>Web-based training should be offered to address the roles and responsibilities covered by the letter of delegated authority to ensure there is a thorough understanding of its purpose.</p>	 Low risk	<p>Agreed: Yes</p> <p>Action to be taken: Special business lunch sessions around year end for holders of letters of delegated authority</p> <p>-existing HR guidance and E Learning materials to be packaged in one section of the Learning and Development website</p> <p>-To include in staff declaration section of letter of delegated authority a question asking if staff have undertaken recommended training with Finance and HR following up with staff who have not completed the training</p> <p>Responsibility for action: Katie Boyce, Director of HR</p>

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
	<p>delegated authority needed to be offered to a wider target audience as the contents affected not just senior management.</p> <p>Training on the Bribery Act 2010 detailed in the letter of delegated authority had not been offered at the time of testing. An e-learning training session on the Bribery Act 2010 has since been made available to all, but is not compulsory.</p> <p>The training events that are offered are often poorly attended.</p>				Target Date: 31/10/2012
Staff appraisals - Control effectiveness - Issue of Letters of Delegated Authority					
6	<p>Discussions were held with Hof D's on the responsibility for staff performance and appraisal.</p> <p>Through these discussions it was noted that in some Departments appraisals have not been performed as a result of a dispute with the Universities and Colleges Union.</p> <p>The National Bakery School have not been carrying out staff appraisals as required by the letter of delegated authority. This is a separate issue to the Union dispute.</p>	University policy is not being followed.	Appraisals should be performed for all staff on at least an annual basis so that employees feel valued and any issues can be resolved.	 Low risk	<p>Agreed: Yes</p> <p>Action to be taken:</p> <p>Records of appraisals now held on HR system and a process for monitoring completion of appraisals now in place.</p> <p>Responsibility for action: Katie Boyce, Director of HR</p> <p>Target Date: 31/08/2012</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 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 – Delegated Authority Arrangements- final

To: Richard Flatman

From: Justin Martin

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

Background

LSBU is delegating more responsibility from the centre to Departments and Faculties. This is formalised through Letters of Delegated Authority which are sent out on an annual basis. These contain information on an individual's budget, authorisation limits and the responsibilities of the Executive and Management. The Letters of Delegated Authority should be updated whenever there is a change in structure or staff in the year.

The Letters should have been in place by 30 September 2011, however, there were delays in sending the letters this year due to the updating of signatory lists and implementation of P2P. There are 48 Letters of Delegated Authority issued.

Scope

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

Issue of Letters of Delegated Authority	<ul style="list-style-type: none">Staff are aware of, understand and comply with the signatory lists, authorisation limits and responsibilities as set out in the Letter.
Variations to the standard Letter of Delegated Authority	<ul style="list-style-type: none">Amendments to the Letters of Delegated Authority are appropriate.
Authorised signatory list	<ul style="list-style-type: none">The authorised signatory list matches the Letters of Delegated Authority and the P2P system.Changes for starters and leavers are updated promptly.

Limitations of scope

The review will be limited to a sample of Departments and Faculties.

Audit approach

Our audit approach is as follows:

- Interviews and testing of evidence with the following Department/ Faculty Heads of Department to ensure understanding of and compliance with the responsibilities and deliverables set out in the Letter of Delegated Authority. We will also discuss the level of support staff have received to help them to meet their responsibilities.
 - Jim Nottingham, Acting Director of ICT
 - Andrew Poweland, Director of Academy of Sport
 - Alex Mears, Head of Department
 - Steven Wells, Director of Estates and Facilities
 - David Tann, Head of Department
 - John Marchant, Head of Department
 - Dave Edward, Head of Department
 - An interview with Leonie Saywell, Deputy Director – Staff and Organisational Development to ascertain the training available and briefings provided to staff to develop their understanding of delegated authorities.
 - A desk top review of the process of issuing the Letters for 2011/12, including ownership of the process, central filing and monitoring.
 - Review of the authorised signatory listing, P2P system set up and Letter of Delegated Authority to ensure consistency.
 - Reivew of starters and leavers in the selected Department/Faculties from October 2011 to ensue the authorised signatory list and P2P system have been updated promptly.
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Internal audit team

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Key contacts – London South Bank University

Richard Flatman	Director of Finance	Audit Sponsor	flatmanr@lsbu.ac.uk
Cherie Chin-A-Fo	Financial Planning Manager	Audit Owner	chinafoc@lsbu.ac.uk
Natalie Ferer	Financial Controller	Audit Owner	ferern@lsbu.ac.uk

Timetable

Fieldwork start	27 February 2012
Fieldwork completed	09 March 2012
Draft report to client	23 March 2012
Response from client	10 April 2012
Final report to client	17 April 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.
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Appendix 1, Information request

Letters of Delegated Authority for:

- Jim Nottingham Acting Director of ICT
- Andrew Poweland Director of Academy of Sport
- Alex Mears Head of Department
- Steven Wells Director of Estates and Facilities
- David Tann Head of Department
- John Marchant Head of Department
- Dave Edward Head of Department

Interviews with the relevant staff as listed above

Access to view the P2P system

A listing of all starters and leavers since October 2011 in the above Departments / Faculties

Evidence of compliance with Letters of Delegated Authority to be discussed and reviewed at the interviews.