

	PAPER NO: AC.15(12)
Committee:	Audit Committee
Date:	9 February 2012
Subject:	Research Councils Funding Assurance (Desk Based Review) Report 2011
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 and consider the attached report.

Executive summary

The attached Funding Assurance Programme – Desk Based Review was carried out by the Research Councils through examination of LSBU’s system of internal control relating to the research grant administration process.

The outcome was - satisfactory assurance.

Possible outcomes were:

Assurance rating	Definition
Substantial	
Satisfactory	
Partial	
Unsatisfactory	

Two issues were raised by the auditors relating to

- Procurement staff involvement for the purchase of equipment and services more than £25,000, and
- Internal audit review of research grant award administration.

We have responded as follows to the Research Councils and await further comment/ finalisation of the report.

Procurement of equipment and services

Regarding major equipment and services procurement, the following additional wording will be added to the LSBU financial regulations “*When services or supplies need to be bought as part of a research agreement or grant, procurement support must be requested if this is required in the research agreement terms and conditions*”.

Internal audit review

Regarding Internal Audit of research grants award administration, LSBU has a Research and Enterprise audit planned for Quarter 4 (May 2012-July 2012) for 10 days as part of the rolling internal audit conducted by PwC. We will ensure administration of research grants is covered within scope of this audit.

Attachment:

Funding Assurance Programme – Desk Based Review Report 2011

	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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Funding Assurance Programme – Desk Based Review (DBR) Report
London Southbank University – November 2011

Background

London South Bank University received £5m income for research grants and contracts in the year ended 31 July 2010. £1.7m of this income was from the Research Councils. This accounted for 34% of their total research income

The cash payments made by the Research Councils between 1st April and 31st March for the last two periods are show in the table below.

Research Council	Research Grant Funding 2010/11 £000	Research Grant Funding 2009/10 £000	DTG Funding 2010/11 £000	DTG Funding 2009/10 £000
AHRC	-	70	15	-
BBSRC	-	-		-
EPSRC	263	279	-	32
ESRC	100	227	-	-
MRC	-	-		-
NERC	-	-		-
STFC	-	-	-	-
TOTAL	363	576	15	32

Organisational Summary

The PVC is responsible for Research and Enterprise and this includes research grants. The Executive Director of Finance is responsible for ensuring financial compliance. Pre award administrative matters are dealt with by a small team in the Research and Business Development Office (RDBO). Day to day management of the research award itself is the responsibility of the Principal Investigator (PI).

The offer letter is received by the Head of RBDO who will set up partner agreements as necessary and allocate a unique research grant number for finance departmental use. Faculties are headed by Executive Deans who have overall management for all activities within their faculty including research projects. This includes responsibility for devolved budgets. The Pi has responsibility for delivery of project outcomes and for expenditure against budget, including staff recruitment, purchasing of consumables and equipment as necessary.

MI Reporting & Budget Management / Control over expenditure

Expenditure monitoring is a multi faceted process conducted by the BSM, the appropriate PI, the RST, the HOD and the Executive Dean. The finance system has also been rolled out to the faculties so this process now includes faculty officers.

PI have access to web-based reports. Summary reports are prepared and customised to the specific needs of the user group and these are now also available on agresso. PI also have option of requesting transaction reports but they also have drill down facility on agresso web (see attachment).

A monthly period end transaction review is carried out by the BSM to identify ineligible costs and PI are asked to review the monthly statements to detect and/or prevent the inclusion or capture of ineligible/inadmissible costs and to allow early corrective action to be taken.

PIs wishing to make virements between budget heads are required to discuss this with the RST team and to complete a variation of agreement form and which requires the approval of the Executive Dean. Minor virements not requiring approval may be implemented by the BSM who will review the changes to ensure that budgeted losses are eliminated. The independence of the BSMs from the PI prevents unauthorised virements.

PI together with the RST will seek approval from the Research Councils and instruction will filter down to the BSM via a variation of agreement form. Changes are recorded on the RBDO's research contracts database and within the Finance Department's agresso system.

Reconciliation of income and expenditure are carried out monthly and income and expenditure accrued and deferred as appropriate.

Income will always be matched with the income to which it relates and any excess deferred or accrued as appropriate. The period end accrual and deferral (income shortfall or income excess) mean that no further action is required unless the discrepancies is of a permanent nature.

Changes to an award are recorded on the RBDO's research contracts database and within the Finance department's agresso system. The BSM will alert PI of approved changes via emails or in writing. Variation of agreement are initiated by the PI and the forms are processed by the BSM as an incremental change to the whole life budget.

Expenditure information is available on-line to all budget holders, PI, HODS and various department/faculty staff through agresso web. Financial Commitment are an integral

part of the information distributed to PI and is a product of the Agresso accounting system.

The BSM have access to the RBDO database on the hawk drive. Additionally, we share database information through a shared drive and this information originates from central records and updated against variation of agreement.

Accounting / Computing System

RST sets up partner agreements where multi-institutions are involved. All payments to external institutions are invoiced to the LSBU and approved by the Executive Deans after review by the BSM against the grant announcement or contract agreement, thereby ensuring that payments falls within the budget category and is relevant to the activity undertaken. Invoices are then submitted to purchase ledger for payment.

The Agresso accounting system is used by the LSBU and recent changes affecting research grant management have been web-based reporting and various customised reports to meet the needs of the end users.

Research Council Income

Research grant income is deferred in the first instance and released monthly to match the related revenue expenditure in the period. The revenue expenditure will include estates and indirects (overheads). This is the responsibility of the BSM.

Indirect costs are charged to the project account monthly as a function of the staff cost. An element of this apportionment is credited to a central overhead account, the balance is credited to a faculty designated reserve account to support and invest in future research activities of the relevant faculty.

Staffing Control

The appointment of staff on research grants is initiated by the PI, reviewed by the BSM and approved by the Executive Dean. The role of the BSM is to confirm the sufficiency of funds, consistency with HERA, the duration of the contract of employment and the grade of staff being appointed.

Lengths of contracts are determined by the duration of the research activity and the availability of funding. No contract appointment can extend beyond the end date of the award.

Procurement

The LSBU is part of the London Universities Purchasing Consortium and has a procurement department attached to finance and consisting of 6 dedicated staff. The unit must be consulted for any spend over £50k, and procurement are now part of the business case approval work flow for capital projects. The procurement web pages provides guidance on buying equipment and they analyse spends to identify departments regularly procuring in category areas and there is an on-going initiative to raise awareness of the procurement expertise throughout the university.

Competitive tendering is required by Financial Regulations at a threshold of £50k (including VAT), with competitive quotes at £10k.

Condition 11 of the Research Councils' General Terms & Conditions for grants states "for all equipment and services where the contract value is more than £25,000, excluding VAT, professionally qualified procurement staff must be consulted before the procurement process begins, and, where appropriate, at the market research stage, and must approve the order/contract before it is placed with a supplier".

Four of the six staff in the procurement unit are fully MCIPS qualified and one is in the process of studying towards MCIPS.

Internal Audit

The LSBU's internal audit service is outsourced to PriceWaterhouseCoopers (PwC). The internal audit service operates in the same way as other internal audit systems. The PwC team works closely with the University Executive and in consultation with them has developed a 3 year internal audit strategic and operational plan which sets out which areas they will be looking at, during which period and how long they intend to spend on each area. This plan has been approved by audit committee.

The internal audit reports go to a committee of independent governors. The auditors provide the Board (via the audit committee) with assurance on a broad range of areas covering internal control, risk management, governance, data and value for money. Audit committee meets 4 times per annum where internal audit reports are presented with recommendations for relevant areas. PwC also follows up regarding implementation of previously agreed internal audit recommendations. In the event that it should be required, the Head of Internal Audit can report directly to the Chair of Audit committee.

Administrative processes supporting external research grants and contracts are usually covered within a broader audit of externally-funded research and enterprise activity. The last audit of this type was done by RSN Tenon (our internal auditors prior to 2010/11) last year but the focus was primarily on Enterprise activity rather than

research. The last audit specifically looking at research was entitled “strategy and systems to maintain the research base” This specifically included a look at research awards administration and was carried out in 2005. This same area was also reviewed in a 2001 audit.

As noted in 3 above, the last audit of this type was done by RSN Tenon last year but the focus was primarily on Enterprise activity rather than research.

The internal audit being conducted by PwC will look at TRAC during the 2012/13 period and is scheduled for 7 days.

Number of Awards

At the time of writing LSBU has the following grants with the Research Councils.

- 5 Arts and Humanities
- 4 Engineering
- 1 Research & Business Development Office

Travel and Subsistence

The LSBU has a dedicated staff member assigned to the processing of T&S claims and this ensures that the financial regulations are complied with.

T & S claims are approved by the appropriate line managers as part of the devolved budget system and who are subject to authorisation limits - before being passed to Finance for processing.

Findings

The listing of RC Grants held by LBSU and those held in the SSC system were compared for accuracy. There were initial queries on the volume held but these were resolved.

The Research Councils Terms and Conditions for grants for all equipment and services where the contract value is more than £25,000, excluding VAT, then professionally qualified procurement staff must be consulted before the procurement process begins. The University threshold is £50,000. The University is invited to comment on how it would deal with procurement on Research Council grants.

The last internal audit of research grants awards administration. The University is asked to provide an update of when the next internal audit is planned.

Outcome of DBR

2 Satisfactory Assurance

The gradings have been defined at annex 1.

Annex 1 – Grading scores and definition

Assurance rating	Definition
Substantial assurance	A sound system of internal control which offers the Research Councils assurance that the grant administration process operates effectively with high levels of compliance with terms and conditions. Evidence of “Best Practice” procedures encountered.
Satisfactory assurance	A basically sound system of internal control which offers the Research Councils assurance although there are a few weaknesses that have been indentified.
Partial assurance	A system of internal control that is satisfactory in part but which contains a number of weaknesses that are likely to undermine the overall level of assurance that can be recorded. This is usually where Councils encounter varying findings across the research organisation and are consequently unable to agree on an overall assurance rating.
Unsatisfactory	An unacceptable system of internal control containing fundamental weaknesses. Significant doubts that the research organisation has a clear and well understood environment under which Research Councils funds are administered.