

	PAPER NO: AC.22(12)	
Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Quarter 2 Continuous Auditing Reports	
Author:	PricewaterhouseCoopers	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
<b>Recommendation by the Executive:</b>	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 attached Continuous Audit report for Quarter 2 2011/12 was undertaken as part of the continuous internal audit programme and is the second report in the continuous auditing cycle for 2011/12. There has been no change in the ratings compared to Q1 2011/12.

The Board/committee is requested to note the report.

### **Attachment:**

1. Continuous Auditing report Quarter 2 for 2011/12

## **Heading 1**

1. Paragraph 1
2. Paragraph 2

## **Heading 2**

*Sub heading*

3. Paragraph 3

*Sub heading*

4. etc

---

**London South Bank  
University**

# ***London South Bank University*** **Internal Audit**

*Continuous Auditing  
Report 2011-2012  
Quarter 2 -Final*

May 2012



---

# *Table of Contents*

---

Introduction.....	3
Overall summary .....	4
System summaries.....	7
Appendix 1: Assessment criteria.....	14

---

# *Introduction*

## *Purpose of this report*

This report summarises the work that Internal Audit has undertaken on continuous auditing for quarter 2 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;
- **System summaries** – providing an overview of the findings for each system; and
- **Control design improvements** - areas where the design of controls may be improved, identified during our work.

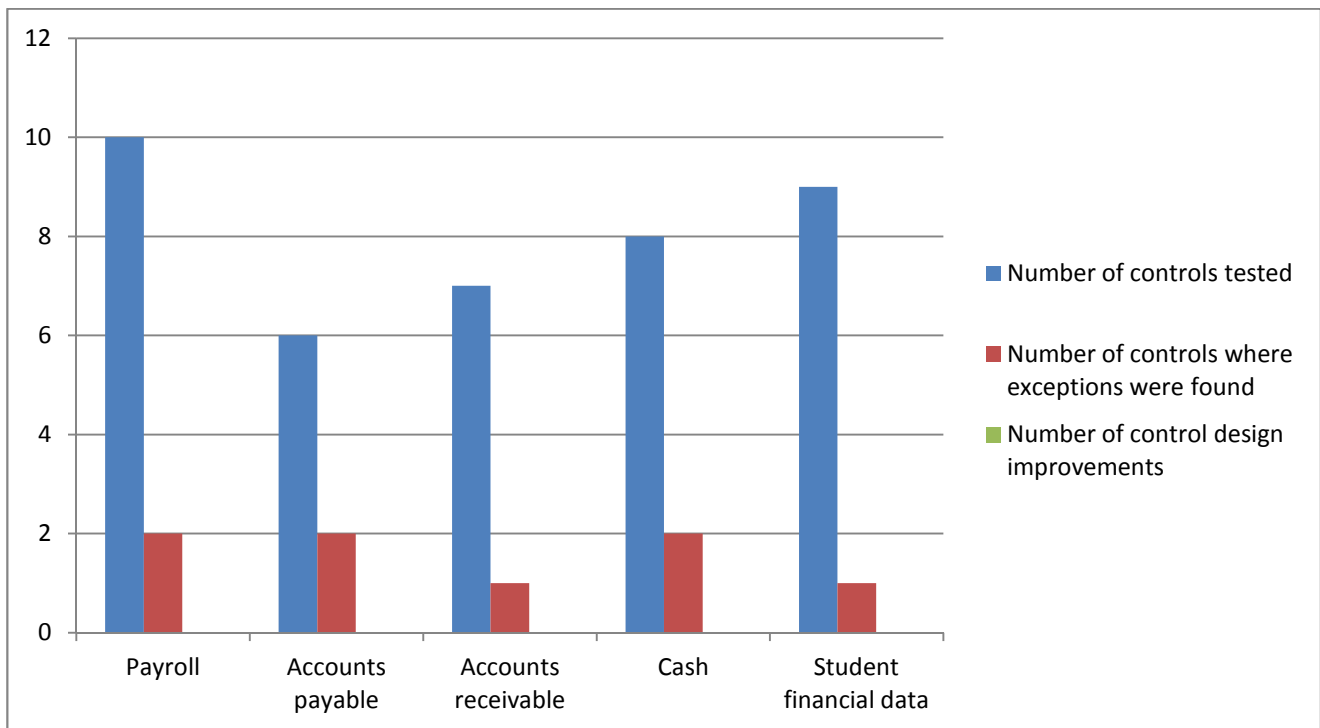
# Overall summary

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 Q2 2011/12	Rating Q1 2011/12	Rating Q4 2010/11	Direction of Travel Q1-Q2
	Red,  Amber, Green	Red,  Amber, Green	Red,  Amber, Green	
Payroll	Green	Green	Green	
Accounts payable	Amber	Amber	Amber	
Accounts receivable	Green	Green	Green	
Cash	Green	Green	Green	
Student financial data	Green	Green	Green	

## Quarter 2 testing

We have undertaken testing on the controls operating during the second quarter of 2011/12 (1<sup>st</sup> November 2011 – 31<sup>st</sup> January 2012) in February 2012. 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	0
Accounts receivable	6	1	0
Cash	8	2	0
Student financial data	9	1	0
<b>Total</b>	<b>39</b>	<b>8</b>	<b>0</b>

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

### Payroll

One leavers form was completed by HR (dated 14/11/2011 and signed by two members of HR) but the Payroll department did not receive this notification and hence this employee was not actioned as a leaver on the payroll system. The worker was a weekly paid employee and therefore there was no financial loss as no hours were recorded on timesheets for the individual.

Two expense claims, one of £57.97 and the other for £455.40, were authorised by staff that do not have the authority to authorise such claims; Andy Tilbrook (Built Environment/FESBE) and Margaret Hollins (Faculty of Arts and Human Sciences) respectively.

### Accounts payable

Two of the four BACS runs and remittance confirmations tested had only been signed by the Financial Controller, Natalie Ferer. These should also be signed by Ravi Mistry or a member of the payroll team.

11 invoices raised between 1 November 2011 and 31 January 2012 did not have a PO dated within the last 30 months (i.e. between 1 August 2009 and 31 January 2012. 27 invoices had a value of more than 130% of the PO.

Additional testing was performed on non-committed invoices for Quarter 2 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.

**Management comment:** *The Accounts payable team now return to the supplier any invoices which do not quote a valid PO number – except invoices for purchases that do not require one because they are on the list of exemptions in the financial regulations. We ask that suppliers contact the person who ordered the goods or service to get a PO number, then re issue the invoice with the PO number quoted.*

### Accounts receivable

Of the six invoices tested for evidence of appropriate authorisation, invoice number 1023692 for £10,000 was noted as having been authorised by an individual whose limit for authorisation was only £5,000.

### Cash

The amounts per the cash up sheets at a sample of cash receiving sites did not agree to the amounts collected by Loomis and posted to Agresso for five out of the 17 amounts tested.

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

### Student financial data

The November 2011 reconciliation between Agresso and QLX was tested this quarter but it was noted that incorrect supporting evidence was attached to the reconciliation on the shared drive. The supporting evidence for the QLX balance actually related to October 2011, rather than November 2011.

### Comparison of quarter 2 results with quarters 1 and 4

The chart and table below show the results for quarter 2 and quarters 1 and 4 for comparison.

System	Number of controls tested			Number of controls where exceptions were found			Number of control design improvements		
	Q2	Q1	Q4	Q2	Q1	Q4	Q2	Q1	Q4
Payroll	10	10	9	2	2	0	0	0	0
Accounts payable	6	6	5	2	2	2	0	1	0
Accounts receivable	6	7	6	1	2	1	0	0	0
Cash	8	8	8	2	1	1	0	0	0
Student financial data	9	10	10	1	1	0	0	0	0
<b>Total</b>	<b>39</b>	<b>41</b>	<b>38</b>	<b>8</b>	<b>8</b>	<b>4</b>	<b>0</b>	<b>1</b>	<b>0</b>



# System summaries

## Payroll

Ref	Control	Exceptions Q2	Notes on Exceptions in Q2	Exceptions Q1 2011/12	Exceptions Q4 2010/11
P1	HR input leaving date to the HR system and inform the payroll team so that the payroll system can be updated.	1	Of the five leavers tested, one exception was noted where leavers form had been completed by HR (dated 14/11/2011 and signed by 2 members of HR) but the Payroll department did not receive this notification and hence this employee was not actioned as a leaver on the payroll system. This was for employee number 220742. <b>Responsibility for action: Sue Archer, Assistant Payroll Manager</b>	1	0
P2	New starters can only be set up on the payroll and HR system after an authorised new starter form has been received.	0		1	0
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
P4	For payment of expenses an employee must submit an appropriately authorised form.	2	Of the 6 expense claims reviewed, two claims, one of £57.97 on 30/11/2011 and the other for £455.40 on 31/12/2011, were authorised by staff that do not have the authority to authorise such claims; Andy Tilbrook (Built Environment/FESBE) and Margaret Hollins (Faculty of Arts and Human Sciences) respectively. <b>Responsibility for action: Sue Archer, Assistant Payroll Manager</b>	0	0
P5	Timesheets are received from departments and faculties. Timesheets must be authorised.	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	0
P7	Only payroll staff should have access to the payroll system.	0		0	0
P8	The Financial Controller signs the statutory payment release forms to authorise payments to be made. This is evidenced on a paper form.	0		0	0
P9	Checks are carried out to ensure duplicate employees are not on the payroll.	0		0	0
P10	Policies and procedures are in place for staff to follow.	N/A	Testing performed in quarter 3 only.	N/A	N/A
HR1	The data held on the Oracle HR system in respect of employee information is accurate and kept up to date.	0		0	N/A
<b>Total</b>		<b>3</b>		<b>2</b>	<b>0</b>

Accounts Payable

Ref	Control	Exceptions Q2	Notes on Exceptions in Q2	Exceptions Q1 2011/12	Exceptions Q4 2010/11
AP1	Invoices are authorised for payment and matched to the paper/web requisition.	0		0	1
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. The remittance confirmation is also signed by Ravi Mistry or a member of the payroll team.	2	Payments over £20,000 were appropriately signed off by the Financial Controller and an Executive Member but the overall remittance confirmation was only signed by Natalie Ferer in two cases (weeks commencing 14/11/11 and 28/11/11). This should also be signed by Ravi Mistry or a member of the payroll team. <b>Responsibility for action: Natalie Ferer, Financial Controller</b>	1	1
AP3	Access levels to Agresso for each staff member are appropriate for their role.	0		0	0
AP4	Every day the AP module is reconciled to the GL and recorded on the "Daily Print" spreadsheet.	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. The invoice must be authorised if the invoice value is over this limit.	38	<p>There were 11 out of 2679 invoices raised between 1 November 2011 and 31 January 2012 that did not have a PO dated within the last 30 months (i.e. between 1 August 2009 and 31 January 2012). The invoice numbers and amounts are listed below:</p> <table border="1"> <tbody> <tr><td>75460</td><td>£1,557.60</td></tr> <tr><td>76439</td><td>£1,423.20</td></tr> <tr><td>Invoice</td><td>£1,209.14</td></tr> <tr><td>10567</td><td>£2,476.80</td></tr> <tr><td>CIB88406</td><td>£2,217.60</td></tr> <tr><td>SAJ/1815/5257C</td><td>£3,193.18</td></tr> <tr><td>514426</td><td>£10,485.49</td></tr> <tr><td>DPI10849</td><td>£7,833.11</td></tr> <tr><td>SL1NV/196996</td><td>£23.88</td></tr> <tr><td>812883</td><td>£11,880.00</td></tr> <tr><td>2307</td><td>£20.00</td></tr> <tr><td>Total</td><td>£42,320.00</td></tr> </tbody> </table>	75460	£1,557.60	76439	£1,423.20	Invoice	£1,209.14	10567	£2,476.80	CIB88406	£2,217.60	SAJ/1815/5257C	£3,193.18	514426	£10,485.49	DPI10849	£7,833.11	SL1NV/196996	£23.88	812883	£11,880.00	2307	£20.00	Total	£42,320.00	23	7
75460	£1,557.60																												
76439	£1,423.20																												
Invoice	£1,209.14																												
10567	£2,476.80																												
CIB88406	£2,217.60																												
SAJ/1815/5257C	£3,193.18																												
514426	£10,485.49																												
DPI10849	£7,833.11																												
SL1NV/196996	£23.88																												
812883	£11,880.00																												
2307	£20.00																												
Total	£42,320.00																												

There were 27 out of 940 POs (listed below) that were matched to invoices with a value of more than 130% of the value of the PO.

PO number	Amount £	Invoice £
1042583	684.18	3,411.13
1040695	280.80	1,324.80
1041855	547	2,299.95
1041715	198	486
1042881	2,304	5,137.21
1042228	965.84	1,973.06
1040771	240	451.20
1042499	13,485	25,120
1042722	288	534.60
1041716	132	243

Ref	Control	Exceptions Q2	Notes on Exceptions in Q2		Exceptions Q1 2011/12	Exceptions Q4 2010/11
			1042290	3,000	5,463.90	
			1042240	757.92	1,347.35	
			1041714	276	482.40	
			1042645	79.44	126.48	
			1042407	888.10	1,394.42	
			1042444	2,647.44	4,072.98	
			1041655	400	611.57	
			1042445	4,888.48	7,427.99	
			1042252	415.03	620.83	
			1041912	2,012.4	2,894.88	
			1042895	180	252	
			1041935	500	695.76	
			1042214	6,890.4	9,468.32	
			1042350	1,866	2,525	
			1042253	120	162	
			1042524	5,189.18	6,978.96	
			1042335	6,000	7,788.40	
			Total	55,235.21	93,294.19	
<b>Responsibility for action: Natalie Ferer, Financial Controller</b>						
AP6	Policies and procedures are in place for staff to follow.	N/A	Tested in quarter 3 only.		N/A	N/A
AP7	Requisitions must be approved electronically in the P2P system from 1 August 2011.	<b>0</b>			<b>0</b>	Tested Q1 onwards
<b>Total</b>		<b>40</b>			<b>24</b>	<b>9</b>

**Accounts Receivable**

Ref	Control	Exceptions Q2	Notes on Exceptions in Q2	Exceptions Q1 2011/12	Exceptions Q4 2010/11
AR1	Invoices are raised and authorised separately.	1	Of the six items tested, one exception was noted for invoice number 1023692. This invoice for £10,000 exceeded the authoriser's limit of authorisation of £5,000. <b>Responsibility for action:</b> <b>Natalie Ferer, Financial Controller</b>	0	1
AR2	Health contract invoices are raised monthly in accordance with the contract and approved by the Faculty of Health.	0		0	0
AR3	Credit notes are matched to invoices and authorised.	0		0	0
AR4	Access levels to Agresso for each staff member are appropriate for their role.	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	0
AR6	There are procedures in place to collect overdue debt.	0		1	0
AR7	Bad debt write offs must be approved in line with the authorised signatory list.	N/A	There were no bad debt write offs in quarter 2. This will be tested in 2011/12 quarter 4 only.	1	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
<b>Total</b>		<b>1</b>		<b>2</b>	<b>1</b>

Cash

RefControl	Exceptions Q2	Notes on Exceptions in Q2	Exceptions Q1 2011/12	Exceptions Q4 2010/11
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
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
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
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.	5	In quarter 2, additional testing was carried out on checking the cash up sheets from cash receiving sites to the Loomis report. Five out of 17 cash amounts received across the cash receiving sites had differences to the amounts banked by Loomis and the cash up sheets. 21/11/2011 and 19/12 2011 – Perry Library. 19/12/2011 – Sports Department and Business School BCIM. 11/1/2012 – Harold Wood/Havering. In total the differences amounted to £27.12 out of a total of £45,544.50 cash collected during these three days. <b>Responsibility for action: Nick Waring, Cash Office Manager</b>	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
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
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
C8 Bank reconciliations are prepared and reviewed monthly and all reconciling items are resolved.	1	In the November 2011 bank reconciliation there are un-reconciled items over six months old, dating from February and March 2010. <b>Responsibility for action: Brian Wiltshire, Treasury Manager</b>	1	1
C9 Policies and procedures are in place for staff to follow.	N/A	Tested in quarter 3 only.	N/A	N/A
<b>Total</b>	<b>6</b>		<b>1</b>	<b>1</b>

## Student financial data

Control Ref	Control	Exceptions Q2	Notes on Exceptions in Q2	Exceptions Q1 2011/12	Exceptions Q4 2010/11
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
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
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
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>	N/A	Tested in quarters 3 and 4 only.	N/A	26
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.	0		1	0
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,</p>	0		0	0




Control Ref	Control	Exceptions Q2	Notes on Exceptions in Q2	Exceptions Q1 2011/12	Exceptions Q4 2010/11
	<p>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>				
SD7	The actual amount of tuition fees received per QLX is compared with the budget/forecast and significant differences investigated.	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.	1	The November 2011 reconciliation was completed, but incorrect documentation was attached to it: the backing for the October 2011 reconciliation had been attached. This has since been corrected by management. <b>Responsibility for action: Ephraim Maimbo, Financial Accountant</b>	0	0
SD9	Only the Student Fees team have edit access to QLS and only the Income Team have edit access to QLX.	0		0	0
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	0
SD11	Policies and procedures are in place for staff to follow.	N/A	Tested in quarter 3 only.	N/A	N/A
	<b>Total</b>	<b>1</b>		<b>1</b>	<b>26</b>

---

# *Appendix 1: Assessment criteria*

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 low or 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.*

*© 2012 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.*