

	PAPER NO: AC.42(12)	
Board/Committee:	Audit Committee	
Date:	27 September 2012	
Paper title:	Continuous Auditing Quarter 3 report 2011/12	
Author:	PricewaterhouseCoopers, Internal Auditors	
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?	<ul style="list-style-type: none"> <li>• Creating an environment in which excellence can thrive.</li> <li>• Financial sustainability</li> </ul>	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

### **Executive summary**

The attached Continuous Audit report for Quarter 3 2011/12 was undertaken as part of the continuous internal audit programme and is the third report in the continuous auditing cycle for 2011/12. There have been changes in the ratings compared to Q2 for Payroll (Green to Red) and Accounts Receivable (Green to Amber).

The Executive recommends that the Audit Committee note the attached report.

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**London South Bank  
University**

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

*Continuous Auditing  
Report 2011-2012  
Quarter 3 - Final*

August 2012



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# *Table of Contents*

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Introduction.....	3
Overall summary .....	4
System summaries.....	7
Control design improvements .....	13
Appendix 1: Assessment criteria.....	14

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# *Introduction*

## *Purpose of this report*

This report summarises the work that Internal Audit has undertaken on continuous auditing for quarter 3 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 review, 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.

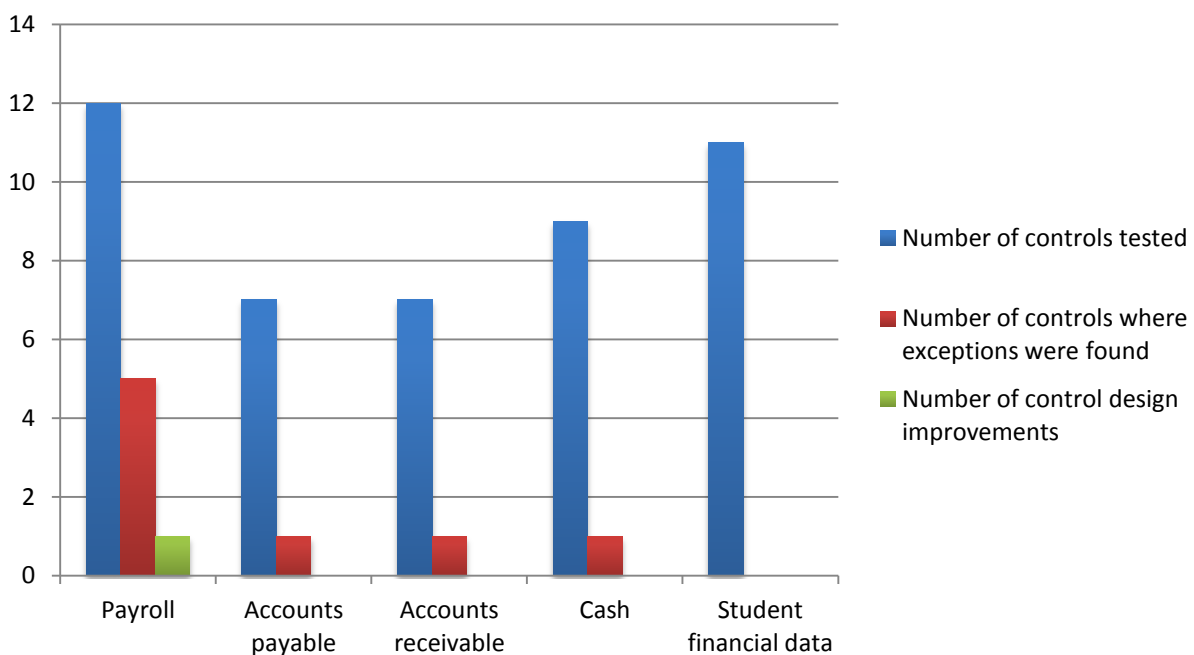
# Overall summary

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 Q3 2011/12 ● Red, ● Amber, ● Green	Rating Q2 2011/12 ● Red, ● Amber, ● Green	Rating Q1 2011/12 ● Red, ● Amber, ● Green	Direction of Travel Q2-Q3 ↓ ← → ↑
Payroll	● Red	● Green	● Green	↓
Accounts payable	● Amber	● Amber	● Amber	↔
Accounts receivable	● Amber	● Green	● Green	↓
Cash	● Green	● Green	● Green	↔
Student financial data	● Green	● Green	● Green	↔

## Quarter 3 testing

We have undertaken testing on the controls operating during the third quarter of 2011/12 (1<sup>st</sup> February – 30<sup>th</sup> April 2012) in May/June 2012. The results are summarised below and given in more detail in the following sections.



<b>System</b>	<b>Number of controls tested</b>	<b>Number of controls where exceptions were found</b>	<b>Number of control design improvements</b>
Payroll	12	5	1
Accounts payable	7	1	0
Accounts receivable	7	1	0
Cash	9	1	0
Student financial data	11	0	0
<b>Total</b>	<b>46</b>	<b>10</b>	<b>1</b>

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

### **Payroll**

The employment start date for one of the three individuals tested from Oracle to HR paper records was noted as an exception. The date per Oracle was a year earlier than the date per the employee's contract. This was discussed with Tony Page who explained that this was likely to be the result of a typo when migrating data from the old to the new HR system.

For one of the five leavers tested payroll could not provide a leaver form showing authorisation from HR. The change was however processed on the payroll system. For one of the five starters tested payroll could not provide a new starter form. This employee was not entered onto the payroll system.

Payroll were unable to provide a copy of the March 2012 reconciliation between the payroll system and Agresso.

Payroll were also unable to provide authorised timesheets as evidence of overtime payments for two of the six employees tested.

We have raised a control design improvement point based on observations during testing around the use of shared passwords and locking computer screens.

### **Accounts payable**

Two of the seven A4/P8 invoices (uncommitted and utility invoices) were noted as exceptions. In each case, the department failed to raise a PO as was required given the nature of the transaction. The values of these transactions were £10,160 and £3,350.

### **Accounts receivable**

Of the seven invoices tested for evidence of appropriate authorisation two invoices were authorised by individuals who did not have sufficient authorisation thresholds.

### **Cash**

The February 2012 bank reconciliation had reconciling items over six months old, with items dating back to February 2010 that should be investigated and resolved.

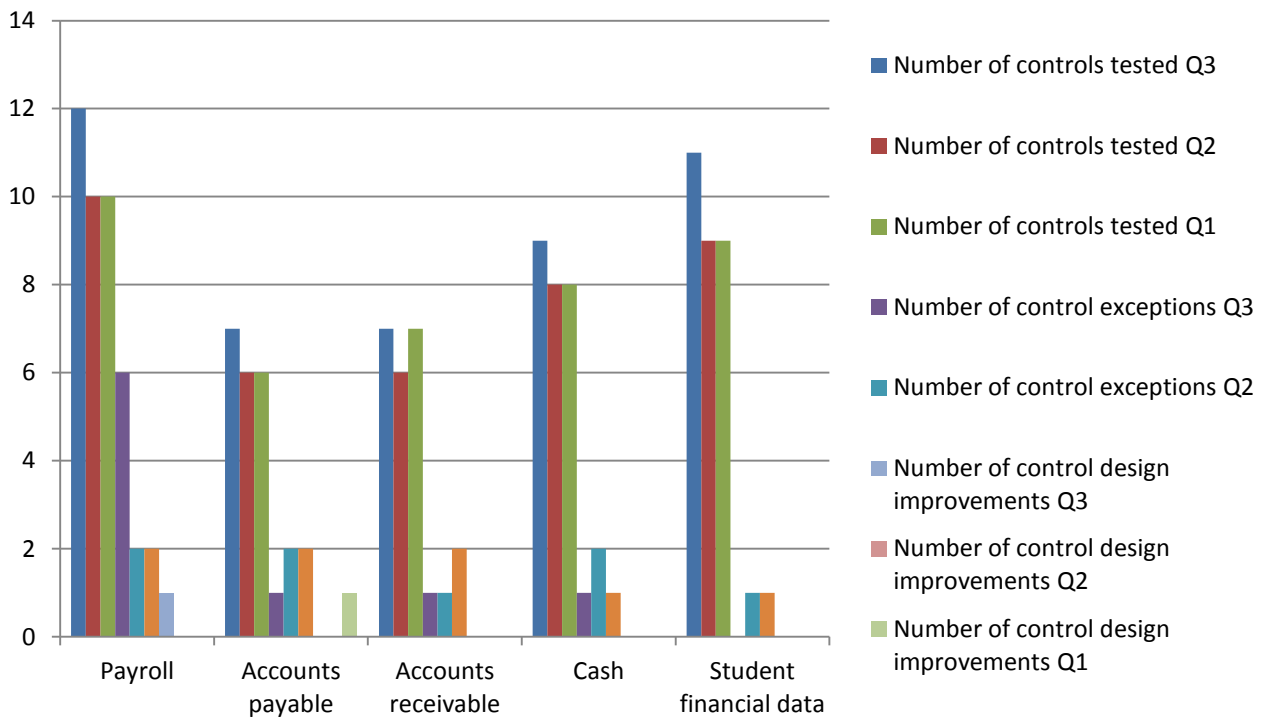
### **Student financial data**

No exceptions noted.

### Comparison of quarter 3 results with quarters 2 and 1

The chart and table below show the results for quarter 3, quarters 2 and 1 for comparison.

System	Number of controls tested			Number of controls where exceptions were found			Number of control design improvements		
	Q3	Q2	Q1	Q3	Q2	Q1	Q3	Q2	Q1
Payroll	12	10	10	5	2	2	1	0	0
Accounts payable	7	6	6	1	2	2	0	0	1
Accounts receivable	7	6	7	1	1	2	0	0	0
Cash	9	8	8	1	2	1	0	0	0
Student financial data	11	9	9	0	1	1	0	0	0
<b>Total</b>	<b>46</b>	<b>39</b>	<b>40</b>	<b>9</b>	<b>8</b>	<b>8</b>	<b>1</b>	<b>0</b>	<b>1</b>



# System summaries

## Payroll

Ref	Control	Exceptions Q3	Notes on Exceptions in Q3	Exceptions Q2 2011/12	Exceptions Q1 2011/12
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 5 employees tested, payroll were unable to provide a leaver form ( employee number 300561, leave date 31/03/2012). The leave date per the HR leavers listing could however be agreed to the payroll system. <b>Responsibility for action: Perlina Payne, Interim Payroll Manager</b>	1	1
P2	New starters can only be set up on the payroll and HR system after an authorised new starter form has been received.	1	Of the 5 employees tested, payroll were unable to provide a starter form for one employee (D. Egoh). An individual of this name could not be found on the payroll system with the start date of 1/4/12 stated on the HR listing of starters. <b>Responsibility for action: Perlina Payne, Interim Payroll Manager</b>	0	1
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.	0		2	0
P5	Timesheets are received from departments and faculties. Timesheets must be authorised.	2	For two of the six overtime payments tested (employee numbers 139787 and 151340), payroll were unable to provide supporting timesheets. <b>Responsibility for action: Perlina Payne, Interim Payroll Manager</b>	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).	1	As per discussion with Perlina Payne on 8/6/12, she was unaware of such a reconciliation being performed in March 2012. <b>Responsibility for action: Perlina Payne, Interim Payroll Manager</b>	0	0
P7	Only payroll staff should have access to the payroll system and staff are unable to change their own records.	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.	0		N/A	N/A
P11	Review of payroll exception reports.	0	New control tested in Quarter Three.	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.	1	The contract start date on Oracle was incorrect for one of the three individuals tested(N.Prades) from Oracle to HR paper files. <b>Responsibility for action: Tony Page, HR</b>	0	0
<b>Total</b>		<b>5</b>		<b>3</b>	<b>2</b>



**Accounts Payable**

Ref	Control	Exceptions Q3	Notes on Exceptions in Q3	Exceptions Q2 2011/12	Exceptions Q1 2011/12
AP1	Invoices are authorised for payment and matched to the paper/web requisition.	2	Of the seven invoices P8/A4 invoices tested, 2 exceptions noted where departments failed to raise a PO as was required given the nature of the invoice (transaction numbers 1552890 for £10,160 and 1409634 for £3,350).  <b>Responsibility for action: Natalie Ferer (Financial Controller)</b>	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.	0		2	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. A new PO must be raised if the invoice value is over this limit.	0		38	23
AP6	Policies and procedures are in place for staff to follow.	0		N/A	N/A
AP7	Requisitions must be approved electronically in the P2P system from 1 August 2011.	0		0	0
<b>Total</b>		<b>2</b>		<b>40</b>	<b>24</b>

**Accounts Receivable**

Ref	Control	Exceptions Q3	Notes on Exceptions in Q3	Exceptions Q2 2011/12	Exceptions Q1 2011/12
AR1	Invoices are raised and authorised separately.	2	Of the seven items tested, two exceptions were noted. Invoice number 1024315 for £60,000 exceeded the authoriser's limit for authorisation of £50,000 and invoice number 1024083 for £20,000 was above the authorisation limit of £10,000. <b>Responsibility for action: Natalie Ferer, Financial Controller</b>	1	0
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		0	1
AR7	Bad debt write offs must be approved in line with the authorised signatory list.	N/A	Tested in quarter 4 only.	N/A	1
AR8	Policies and procedures are in place for staff to follow.	0		N/A	N/A
<b>Total</b>		<b>2</b>		<b>1</b>	<b>2</b>

Cash

Ref	Control	Exceptions Q3	Notes on Exceptions in Q3	Exceptions Q2 2011/12	Exceptions Q1 2011/12
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.	0		5	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	The February 2012 bank reconciliation was tested. It was noted that there were un-reconciled items that were 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.	0		N/A	N/A
<b>Total</b>		<b>1</b>		<b>6</b>	<b>1</b>

**Student financial data**

Ref	Control	Exceptions Q3	Notes on Exceptions in Q3	Exceptions Q2 2011/12	Exceptions Q1 2011/12
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> <p>Awaiting automated testing of unique IDs</p>	0		N/A	N/A
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		0	1
SD6	Each month the aged debt report is reviewed and reminders are sent for amounts that are overdue.	0		0	0

Ref	Control	Exceptions Q3	Notes on Exceptions in Q3	Exceptions Q2 2011/12	Exceptions Q1 2011/12
	<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>				
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.	0		1	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.	0		N/A	N/A
<b>Total</b>				<b>1</b>	<b>1</b>

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# 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.

## Payroll

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### 1. Data Security– ref n/a

### Control Design

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#### Finding

#### Risks

It was noted during testing that not all PCs are lock screened when the owner is absent. Information may be inappropriately accessed.

It was noted that some staff in payroll share their log in details with other staff.

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#### Action plan

#### Finding rating

#### Agreed action

**Responsible Officer: Paulina Payne**




High ●

All staff will have an individual log in for their systems. All staff will lock screen their PC when absent.





**Target date: 01/10/2012**

# 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.

## Ratings used for control design improvements

Finding rating	Assessment rationale
<b>Critical</b> 	A finding that could have a: <b>Critical</b> impact on operational performance resulting in inability to continue core activities for more than two days; or <b>Critical</b> monetary or financial statement impact of £5m; or <b>Critical</b> breach in laws and regulations that could result in material fines or consequences over £500k; or <b>Critical</b> 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.
<b>High</b> 	A finding that could have a: <b>Significant</b> impact on operational performance resulting in significant disruption to core activities; or <b>Significant</b> monetary or financial statement impact of £2m; or <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences over £250k; or <b>Significant</b> impact on the reputation or brand of the organisation, resulting in unfavorable national media coverage.
<b>Medium</b> 	A finding that could have a: <b>Moderate</b> impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or <b>Moderate</b> monetary or financial statement impact of £1m; or <b>Moderate</b> breach in laws and regulations resulting in fines and consequences over £100k; or <b>Moderate</b> impact on the reputation or brand of the organisation, resulting in limited unfavorable media coverage.
<b>Low</b> 	A finding that could have a: <b>Minor</b> impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or <b>Minor</b> monetary or financial statement impact £500k; or <b>Minor</b> breach in laws and regulations with limited consequences over £50k; or <b>Minor</b> impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.
Advisory	<b>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</b>

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*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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