London South Bank University

	PAPER NO: AC.40(12)
Board/Committee:	Audit Committee
Date:	27 September 2012
Paper title:	Internal Audit – Research
Author:	PricewaterhouseCoopers, Internal Auditors
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?	- Creating an environment in which excellence can thrive. - Financial sustainability
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 internal audit report on Research is attached. The overall report classification was found as 'Medium Risk'.

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

London South Bank University

1. Executive Summary

Department:	Overall report classification	Direction of Travel	Control Design findings identified		Control Effectiveness findings identified	
Central Research Support		N/a this is the first year of review.	❶	Critical risk	Ⓞ	Critical risk
Audit Sponsors:	**Medium risk** 🟡		❶	High risk	Ⓞ	High risk
Bev Jullien and Phil Cardew			❶	Medium risk	Ⓞ	Medium risk
Distribution List:	See section 3B for overall report classification criteria.		❷	Low risk	⑤	Low risk
Ed Tinley			❶	Advisory	Ⓞ	Advisory

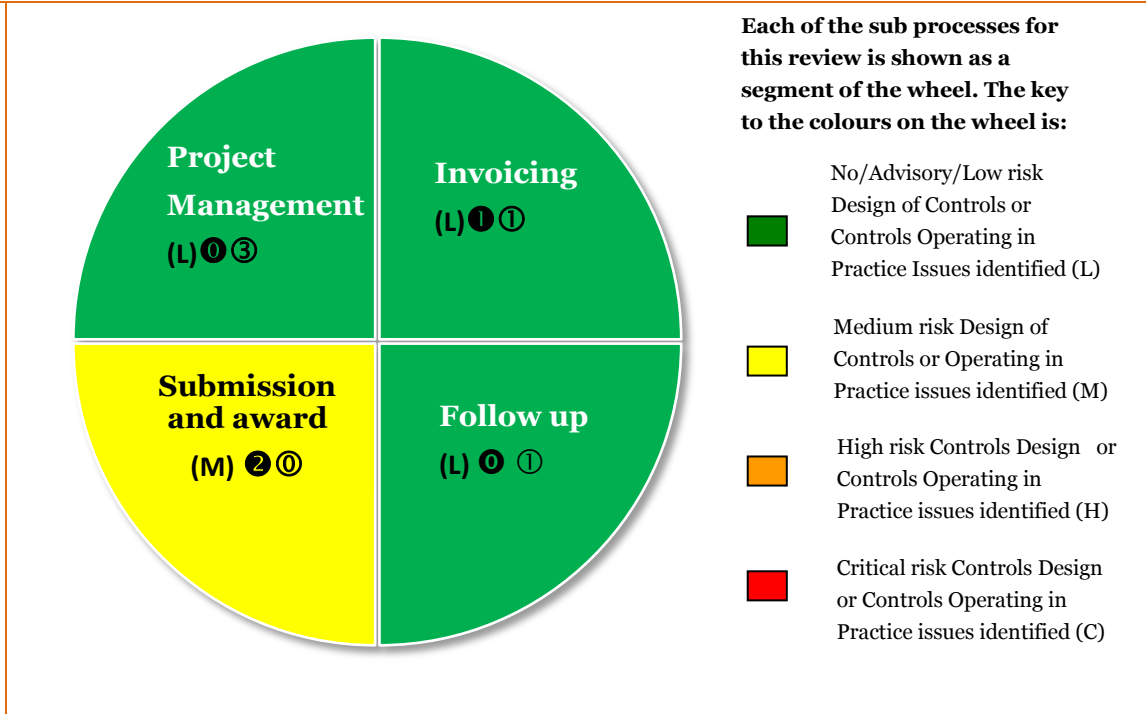| Scope of the Review:	The review will look at the design and operating effectiveness of key controls in place relating to research projects during the 2011/12 academic year.
Limitation of scope:	The review will look at a sample of research projects only.
	The full scope of our work is attached at Appendix One

Summary of findings
(Refer to section 3A for individual finding ratings criteria):

Meetings were held with Ed Tinley and Sarah Plant from the Central Research Support (CRS) office to understand the process for submission and award of research projects. In the course of our work, we also sought to determine whether recommendations arising from a recent HEFCE desktop review had been addressed.

A sample of research projects, across all faculties were tested to ensure they were in line with the University policies and procedures. Meetings were held with the Principal Investigator (PIs) of each project, along with the Faculty's Business Support Manager (BSM) and Director of Research.

Our work identified a single medium risk finding

- Although CRS are involved in working with Treasury to identify unknown income received from funders this can often be a long process and this can result in a delay in distributing funds to collaborative partners, breaching contract terms. A more efficient method of matching funds would be if Research made sure the funder included a unique reference with payments so that they could easily be match to the correct project codes by finance.

Project Management (L)❶③

Invoicing (L)❶①

Submission and award (M) ❷Ⓞ

Follow up (L) ❶ ①

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
Invoicing – control design					
1	Some funders pay LSBU directly without the need for the PI to invoice the funder. If a payment advice slip is not provided, there can be delays in allocating the project funds. Whilst there is communication between Treasury and the BSMs, there is often no communication directly with CRS who are often better placed to identify the funds. Where LSBU is a coordinator of a project, this can have a knock-on effect in distributing funds to partner organisations within the required 30 day period.	A delay in allocation of project funds results in late payment of funds to partner organisations and therefore breach of contract.	Although Treasury currently contact both CRS and BSMs when trying to identify income received from unknown funders this is not deemed the most efficient method. The research division should communicate to all funders that use this method to ask them to include a unique project identifier that finance would be able to use to match to projects more easily.	● **Medium risk**	**Agreed:** Yes **Action to be taken:** It is preferable that a sales invoice is raised for any money owed to the University and this is our default position. However, where funders will not accept or do not require an invoice e.g. UK Research Councils (who pay by payment profile) we will request that such funders include a project identifier on the payment reference when they provide a remittance or other record of payment to LSBU detailing amounts paid. **Responsibility for action:** Sarah Plant (Research Awards Manager; Central Research Support Dept) to notify relevant funders as and when necessary. **Target Date:** 30/9/2012 onwards
Submission and Award - Acceptance of funding contracts – control design					
2	Staff were unaware of any controls in place to ensure that contracts are not entered into with funders known by the University as having financial difficulties through failure to pay on prior projects. This is mainly an issue for commercial or new companies that the University is entering into business with. As the majority of contracts are with large public sector bodies the risk is not as great.	Contracts are entered into with funders who are unable meet their financial obligations.	Communication should be in place between CRS and the credit control team so that CRS are aware of funders in financial difficulty.	● **Low risk**	**Agreed:** Yes **Action to be taken:** (i) CRS to put in place a process to inform the Credit Control Team (CCT) of any new or SME organisations that LSBU intends to do research for/with. (ii) A procedure will be put in place for agreeing credit limits and payment terms with such new customers and for setting up new accounts on the sales ledger. In addition, the CCT will notify the CRS whenever they are aware of any funders having difficulty paying invoices. **Responsibility for action:** (i) Sarah Plant (CRS) (ii) Natalie Ferer (Financial Controller, FIN) **Target Date:** (i) by 31/12/2012 (ii) by 31/3/2013

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
Submission and Award- Acceptance of funding contracts – control design					
3	Contracts provided by funders are reviewed by the Central Research Support (CRS) team. There is no one within this team with formal legal training so they currently rely on previous experience to identify any issues with the contracts.	Inappropriate contracts are entered into or parties are unaware of their responsibilities so risk being in breach of contract.	Introduction of a part-time team member with commercial/legal training, or review of contracts by the University solicitor would limit this risk. At a minimum this should be in place for significant contracts.	🟢 **Low risk**	**Agreed:** Yes **Action to be taken:** CRS will continue to administer and process all research contracts for sign off by the Executive. Research contracts deemed to have unfamiliar terms or which exceed £250k in value will be referred to the University Solicitor for review/advice. **Responsibility for action:** Ed Tinley (Head of CRS) **Target Date:** 30/9/2012 onwards
Project Management - Communication between the Faculties and Business Support Managers – control effectiveness					
4	Meetings are held on a monthly basis between BSMs and PIs in Engineering Science and the Built Environment (ESBE) and Health and Social Care (HSC) to ensure a prompt review of expenditure codes and to serve as a reminder for project invoicing. In Business (BUS) and Faculty for Arts and Human Sciences (AHS) however, more responsibility is placed on the PI to review the information themselves and then contact the BSM with any issues. In some cases, PIs in these faculties were unaware of the extent of their responsibilities. PIs across the four faculties seemed unaware of the Web Agresso system and how they could use it to review financial information in relation to their projects.	Projects are not being reviewed regularly so issues are not identified in a timely manner.	PIs should receive training from finance on the purpose of Web Agresso and how it can be used to help them in project management. Regular meetings should also be in place between the PI and BSM to discuss the results of this monitoring process. Roles and responsibilities of BSMs and PIs should be formalised and communicated through the Research Handbook.	🟢 **Low risk**	**Agreed:** Partial **Action to be taken:** (i) Agresso web training is provided on a regular basis by the Finance System Manager. The Business Support Team (BST) will make sure that new PIs attend the training and work with the System Manager to deliver refresher courses for all PIs. (ii) Regular meetings are in place between PIs and members of the BST based upon risk and materiality of research projects. The BST will review the frequency of meetings with the relevant Faculty Directors of Research and amend as necessary. (iii) CRS will amend the Research Handbook to include greater clarity on the Roles and Responsibilities of BSMs and PIs with respect to financial monitoring of research projects. **Responsibility for action:** (i) & (ii) Head Business Support Team (FIN) (iii) Sarah Plant (CRS). **Target Date:** (i), (ii) & (iii) by 31/12/2012

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
Project Management - Communication between the CRS, Faculties and Business Support Managers – control effectiveness					
5	PIs felt that there was often a poor handover following staff changes and that continuity and accumulated expert knowledge were being lost.

This was noted in particular in ESBE where it was felt further instruction on European funding was needed from Keith Bowen (the previous BSM) by the new BSM in place. | Key knowledge is lost and the process becomes inefficient or incorrect. | Full inductions should be held for new BSMs and regular meetings should be held between BSMs to share knowledge and advice on any common issues. | ● **Low risk** | **Agreed:** No
Action to be taken:
Inductions are in place. However, in depth knowledge of projects will only be transferred on the job. Each project is different and will take any new member of staff time to get to know.
Finance has established a small team to oversee/manage the financial affairs of research projects. This will reduce the risk of knowledge being lost during transition.
Some guidance on the financials of research projects is available and will be formalised in a financial manual. All working and findings on the individual projects are now saved on a central database which can be accessed by all Finance staff – this will help the BST better familiarise themselves with individual projects.
Responsibility for action:
Sarah Allwood (BST)
Target Date:
31/03/2013

PwC Comment:
We agree that the formalisation of guidance would contribute toward a smoother transition in the event of any changes in the Business Support Team. However, in light of our findings we would continue to encourage management to review their current induction and on boarding arrangements to ensure PIs feel adequately supported throughout the life of their project. |
| **Project Management - Communication between the CRS, Faculties and Business Support Managers – control effectiveness** | | | | | |
| 6 | All of the eight CRS contract files reviewed had appropriate Full Economic Costing (FEC) forms in place, as reviewed by the Faculty. The PIs across all faculties felt that the ad-hoc support offered by the CRS team in preparing these was invaluable, but they would benefit from a training event explaining how to complete them.
Where variation s to the contract were required, revised FEC forms and variation forms have been completed for all contracts tested. It was felt by PIs and BSMs involved in multiple variations that the current paper-based system was | A lack of staff awareness leads to inappropriate budgets and costing forms for the projects.

Variations are not processed promptly or departments are not all working with the latest version of the contract. | Training should be provided to PIs on how costings are calculated and advice on how to complete FEC forms.

This should form part of the Research induction programme which should be run twice a year to capture any new starters during the year. This could also be broadened to include refresher guidance for those who feel they require additional training.

Sharepoint, or other shared drive, | ● **Low risk** | **Agreed:** Yes
Action to be taken:
(i) A Research Induction and Refresher programme will be developed and offered to all new and existing researchers. This will include detailed information on the costing of research projects and the internal processes to be followed.
(ii) An "on-line" guidance tool for staff on Costing will be developed with Finance and OSDT and be made available on the Research web page.
(iii) The CRS will move towards a fully electronic process for the administration of research project forms through Sharepoint for the sharing/use/transfer of internal research forms, including Variation Forms.
Responsibility for action: |

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
	often slow and lead to issues with departments working from different versions of the form.		should be used for storing and sharing the latest local version of variation forms, incorporating electronic signatures for authorisation to give a wholly electronic process.		(i) Sarah Plant (CRS) with OSDT. (ii) Dr Ed Tinley (Head of CRS). (iii) Sarah Plant (CRS) with Sarah Allwood (BST) and ICT **Target Date:** (i) & (ii) 31/3/2013 (iii) 31/12/2012

Invoicing – control effectiveness

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
7	The PI is responsible for notifying the BSM when invoices are due but for contract RC6370 the PI noted difficulties keeping track of when the next invoices are due. This is not monitored. On this same contract, an invoice was raised for a period during which the PI was on maternity leave which it should not have been. The invoice had been authorised but the issue was not identified during review of the invoice request. The funder noted the error when they received the invoice and queried it with LSBU.	Invoices are not raised in a timely manner.	Use of an electronic reminder system for all relevant parties to flag invoice dates as they arise, or monthly meetings between PIs and BSMs where invoicing is discussed as an agenda item; currently in place for ESBE only.	🟢 **Low risk**	**Agreed:** Yes **Action to be taken:** The implementation of Sharepoint will improve the control of projects. Information about invoice requests, dates and milestones will be input onto Sharepoint. This will trigger an alert whenever an invoice is due, prompting the BSM and the PI to take the necessary action. Invoicing will be a regular feature of the Quarterly Research Projects Review meetings outlined in 8 below. **Responsibility for action:** Sarah Allwood (BST) with Sarah Plant (CRS) and ICT **Target Date:** 28/02/2013

Follow up HEFCE desktop review - Communication between the CRS, Faculties, Business Support Managers and Directors of Research– control effectiveness

	Finding	Potential Risk Implications	Recommendations	Finding rating	Management Response and agreed actions
8	Lack of review meetings between CRS and the Faculties was raised as a recommendation in the desktop review. Such meetings have not been taking place within the following Faculties: Health and Social Care (HSC), Business (BUS) and Engineering Science and the Built Environment (ESBE). These faculties also claimed that they were not fully aware of the restructuring of RBDO and any impact this may have for them. A meeting was held by the Faculty for Arts and Human Sciences (AHS) on 12 January 2012 but no minutes were recorded from the meeting. Meetings are ad-hoc and are not formally documented so we were unable to evidence their occurrence in line with the previous recommendation.	Poor communication between departments, resulting in a failure to detect issues in a timely manner. Potential for breach of funding terms and conditions.	Review meetings should be introduced on at least a quarterly basis for all Faculties. Minutes should be kept from the meetings for reference.	🟢 **Low risk**	**Agreed:** Yes **Action to be taken:** We will reintroduce Quarterly research project review meetings with each Faculty. This will include CRS, Faculty Directors of Research and relevant members of the BST. Action points will be produced from each meeting **Responsibility for action:** Dr Ed Tinley (Head of CRS) **Target Date:** From 1/10/12; with 4 meetings per Faculty per annum.

# 3. Basis of our report classification and finding ratings

A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	*A finding that could have a:* • **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	A finding that could have a: • **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	A finding that could have a: • **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	A finding that could have a: • **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 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.

Limitations inherent to the internal auditor's work
Our internal audit work has been performed in accordance with HEFCEs Financial Memorandum. 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.

Internal control
Internal control systems, no matter how well designed and operated, are affected by inherent limitations. 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.

Future periods
Our assessment of controls relating to Key Information Sets (as set out in our terms of reference) is for the twelve month period prior to the date of audit. 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.

PricewaterhouseCoopers LLP Disclaimer

This document has been prepared for the intended recipients only. To the extent permitted by law, PricewaterhouseCoopers LLP does not accept or assume any liability, responsibility or duty of care for any use of or reliance on this document by anyone, other than (i) the intended recipient to the extent agreed in the relevant contract for the matter to which this document relates (if any), or (ii) as expressly agreed by PricewaterhouseCoopers LLP at its sole discretion in writing in advance.

In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000, it is required to disclose any information contained in this report, it will notify PwC promptly and consult with PwC prior to disclosing such report. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and London South Bank University shall apply any relevant exemptions which may exist under the Act to such report. If, following consultation with PwC London South Bank University discloses this report or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

© 2012 PricewaterhouseCoopers LLP. All rights reserved. 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom) or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Appendix 1 - Terms of reference

London South Bank University

Terms of reference – Research- final

To: **Bev Jullien and Phil Cardew**

From: **Justin Martin, Engagement Leader**

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

Background

The Research and Business Development Office (RBDO) was split into separate Research and Enterprise Departments in January 2012. The Research element went into a new Central Research Support (CRS) Department and remainder into an Enterprise Department. Allied to the later, the remit of the University's Enterprise Company was enhanced through the appointment of a new Director of Enterprise to reflect the increased focus on Enterprise.

From January 2012, the CRS Department are responsible for the pre-award support to academic staff seeking to attract funding for their research projects. At the point of award, responsibility for the projects transfers to the Academic (Principal Investigator), Faculty and Department, supported by the Business Support Manager and Human Resources. The CRS Department continue to provide support, as required, to the Principal Investigator.

LSBU are also in partnership agreements with other institutions on research projects which hold a greater risk if project management is not performed efficiently.

Scope

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

Sub-process	Control objectives
Submission and award	• Research projects are managed by the CRS until award to ensure submission quality and compliance.
Project management	• Management Information reports are produced and reviewed on a regular basis. • Monitoring of project progress is performed on a timely basis and any issue areas are addressed. • There is clear communication between the CRS, Faculties/Department and their Business Support Managers. • Staff are aware of their roles and responsibilities and have had adequate training.
Invoicing	• Invoicing is performed in a timely manner. • Invoices are accurate.
Follow up	• Recommendations from the HEFCE and Desktop reviews have been addressed.

Limitations of scope

The review will look at a sample of research projects only.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of the CRS and research administration in the Faculties/Departments through discussions with key personnel, review of systems documentation and tests.
- Identify the key risks in the process.
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls.

Internal audit team

Justin Martin	Partner	Engagement Partner	justin.f.martin@uk.pwc.com
Debbie Tilson	Manager	Engagement Manager	debbie.e.tilson@uk.pwc.com
Lizzie Scragg	Senior Associate	Team Leader	elizabeth.a.scragg@uk.pwc.com
Emily Wright	Associate	Auditor	emily.l.wright@uk.pwc.com

Key contacts – London South Bank University

Bev Jullien	Pro Vice Chancellor (External)	Audit Sponsor	jullienb@lsbu.ac.uk
Phil Cardew	Pro Vice Chancellor (Academic)	Audit Sponsor	phil.cardew@lsbu.ac.uk
Ed Tinley	Head of Central Research Support	Audit Owner	tinleye@lsbu.ac.uk

Timetable

Fieldwork start	6 June 2012
Fieldwork completed	19 June 2012
Draft report to client	3 July 2012
Response from client	17 July 2012
Final report to client	24 July 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.

Appendix 1, Information request

- A listing of all research projects completed/on-going in the academic year as at 31/5/12

- Meetings with the relevant project owners and the support team

- Meeting with CRS representatives