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Board/Committee:	Audit Committee	
Date:	30 October 2012	
Paper title:	Continuous Auditing Quarter 4 report 2011/12	
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?	<ul style="list-style-type: none"> • 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 attached Continuous Audit report for Quarter 4 2011/12 was undertaken as part of the continuous internal audit programme and is the final report in the continuous auditing cycle for 2011/12. There have been changes in the ratings compared to Q3 for Payroll (Red to Amber), Accounts Receivable (Amber to Green) and Accounts Payable (Amber to Green).

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

London South Bank
University

October 2012

***Internal Audit
Report 2012/2013***
Continuous Auditing

Draft Report: Quarter Four (April – July 2012)



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Distribution List

For action:	Natalie Ferer (Financial Controller)
For information:	Richard Flatman (Executive Director of Finance) Chair and Members of the Audit Committee

Our internal audit work has been performed in accordance with HEFCE's 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.

This report has been issued in draft and therefore findings are subject to amendment or withdrawal. Our definitive conclusions will be those contained in the final report.

1. Executive summary

Background and approach:

Effective financial controls are essential for providing assurance over both the efficient and effective use of funds, and the reporting and forecasting of complete and accurate management information. In recognition of this, our internal audit programme makes provision for a rolling programme of audit work which focuses upon the design and operation of the organisations core financial controls. The systems included within the scope of our work in 2012/13 are:

- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- General Ledger; and
- Student Financial Data.






















In developing our work programme for 2012/13, we met with management to refresh our understanding of the University's controls and ensure that our work remains targeted to the key risks facing the institution. The controls included within the scope of our work are set out within our Terms of Reference included at Appendix Two.

Our work programme for 2012/13 includes a number of new risk areas. In the course of this first phase of work we have invested time in liaising with management to obtain a detailed understanding of these processes, some of which were under review by management as at the date of our audit work. We will report on the operating effectiveness of these controls from the following quarter onwards, covering the full 2012/13 financial year.

Our detailed findings are set out in Section Two of this report; a summary of our findings and the matters arising in the course of our work this quarter is set out below.

System summaries

Our system summary below is determined with reference to the extent or monetary impact of the exceptions we identified in the course of our work (our rating criteria are set out at Appendix One);

System / Rating	Q4 2011/12	Q3 2011/12	Q2 2011/12	Trend
Payroll	 Amber	 Red	 Green	
Accounts payable	 Green	 Amber	 Amber	
Accounts receivable	 Green	 Amber	 Green	
Cash	 Green	 Green	 Green	
Student financial data	 Green	 Green	 Green	
General Ledger	 Green	N/A	N/A	N/A

Findings and recommendations

Whilst acknowledging that a significant number of controls tested as part of this quarters audit are operating as designed and there has been a general improvement observed in respect of each of the systems under review, there remain areas where improvements could be made. The key issues arising from our work in respect of each system are summarised below

Payroll

The following exceptions were identified in this area:

- In respect of one of 25 new starters sampled, the new starter had not been enrolled on a timely basis following their enrolment on the HR system. As a result, this hourly paid employee was not paid in their first month of employment upon submission of a completed claim form. We note however that this matter has since been rectified by management.
- In respect of one employee (from a sample of twenty five) no supporting documentation could be provided to evidence that a change to their bank details had been made following a request from the individual concerned.
- No reconciliation between the payroll system and the general ledger had been prepared in May 2012. Furthermore, in respect of the reconciliations prepared in June and July, explanations for significant reconciling balances were outstanding as at the date of our audit work.

Accounts receivable

We noted that in respect of two of 25 sampled debtor balances, reminder letters had not been sent in respect of debts over 30 days old. It is however acknowledged that the balance of these debtors totalled only £1,400.

Accounts payable

We are pleased to note that our testing identified no exceptions in relation to this area.

Cash

We noted the following exceptions:

- In the course of our work, we identified that a user access profile to the QLX system existed in respect of an employee who had left the organisation during the quarter. Where user access profiles are not removed on a timely basis, there is a risk that such profiles might be used inappropriately to access and modify system records.
- The year end bank reconciliation had not been signed to evidence proper and timely review.

General Ledger

This is a new system area defined in the 2012/13 Terms of Reference for this work and therefore the first time that we have looked at the design of a number of the controls in this area. In the course of our work we identified a single This is in relation to the retention of evidence where access to the general ledger had been granted following the receipt of an appropriately authorised request. No other exceptions were identified in the course of our work in this area.

Student Systems

We are pleased to note that our testing identified no exceptions in relation to this area.

2. Detailed findings

Payroll

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q2 2011/12)
P1	Authorised new starter forms are received prior to an individual being entered on to the payroll system	1	From our sample of 25 new employees, we identified one individual who had not been added to payroll on a timely basis. As a result the hourly paid individual was not able to be paid in their first month of employment upon submission of a completed claim form. This matter has since been rectified by management.	1	0
P2	Exception reports are reviewed on a monthly basis.	0		0	N/A
P3	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	0		1	1
P4	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	0		0	0
P5	Variation forms are received prior to any changes being made to standing data.	1	In respect of one employee, no supporting documentation could be provided in respect of a change in bank details (Employee no. 152595) Responsibility for action: Perlina Payne; Payroll Manager	0	0
P6	Access to the payroll system is restricted	N/A	To be performed for Quarter One 2012/13 onwards	N/A	N/A
P7	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	0		2	0

P8 Monthly reconciliations are performed between Agresso and the Payroll System

2

The following exceptions were identified in relation to payroll

1

0

1. No payroll reconciliation had been prepared in May 2012
2. Explanations in respect of a number of reconciling items in both June and July were outstanding as at the date of audit work.

**Responsibility for action:
Natalie Ferer, Financial
Controller**

P9 Only expenses supported by appropriately authorised claim forms are reimbursed.

0

0

2

Accounts Payable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
AP1	Authorised documentation must be received prior to creating a new or amending a supplier record.	0	New control tested in 2012/13	N/A	N/A
AP2	Listings of changes to supplier standing data are reviewed monthly.	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
AP3	All invoices are approved for payment by an appropriately authorised individual	0		0	0
AP4	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	0		0	38
AP5	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation	0		0	2
AP6	Monthly reconciliations are performed between the General Ledger and the creditors control accounts	0		0	0

Accounts Receivable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
AR1	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
AR2	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	0		2	1
AR3	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	2	In respect of two debtor balances over 30 days old, reminder letters had not been circulated (Customer numbers 7606 and 7609); it is of note however that these balances totalled only £1,400 Responsibility for action: Julian Rigby; Income Manager	0	0
AR4	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis	0		0	0
AR5	Debts are written off only following review and authorisation	N/A	<i>This had not taken place as at the date of our fieldwork and will be considered in the following quarter</i>	N/A	N/A
AR6	On a monthly basis the debtors balance per the general ledger is reconciled to QLX	0		0	0
AR7	On a monthly basis the invoiced balance per QLX is reconciled to QLS.	0		0	0
AR8	Monthly reconciliations are performed between the General Ledger and the Agresso sales ledger	0		0	0


Cash

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
C1	Cash takings in respect of tuition fees as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	0		0	0
C2	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	0		0	5
C3	Cash receipts per Agresso are reconciled to QLX on a monthly basis	0		0	0
C4	Cash receipting responsibility within the QLX system is restricted	1	We identified one individual who had left the organisation on 22 nd June but whose access to the system spanned the entire quarter	0	0
C5	Monthly reconciliations are performed between the General Ledger and the Bank Statement	1	The July bank reconciliation had not been signed to evidence review. Responsibility for action: Ephraim Maimbo Financial Accountant	1	1

General Ledger

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
GL1	Journals must be authorised prior to being posted on the system <i>Key contact: Ephraim Maimbo</i>	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
GL2	On a monthly basis management accounts are prepared and significant variances against budget are investigated	0	New control tested in 2012/13	N/A	N/A
GL3	Suspense accounts and balance sheet control accounts are cleared on a quarterly basis	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
GL4	Access to the general ledger is restricted	<i>Note this is a new area for 2012/13 Refer to control design improvement proposed; see below</i>		N/A	N/A
GL5	No single individual has access to make changes to both the QLX and QLS systems	0		0	0

Retention of system access requests – Control design improvement

<i>Finding</i>		
We understand that currently, no records are retained to evidence that where staff are granted access to the University's general ledger system, no documentary evidence is retained to demonstrate that this access was approved by an appropriately senior member of staff.		
<i>Risks</i>		
Access to the general ledger is not appropriately restricted.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Low Risk	Records will be retained in order to validate that access to the general ledger has been granted based upon receipt of an appropriately authorised request.	<i>Target date:</i>

Student Financial Data

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
S1	Enrolment forms are completed in respect of each new learner prior to the creation of records within QLS	0		0	0
D2	Course changes are only actioned on QLS upon receipt of an authorised form or email from a member of academic staff	0		0	0
S3	Faculty Managers review QLS records made available to them on a monthly basis	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
S4	Learning outcomes are inaccurately recorded	N/A	<i>To be performed for Quarter One 2012/13 onwards</i>	N/A	N/A
S5	Access rights within QLX are restricted	0		0	0

Appendix 1. Assessment Criteria

System summary ratings

The finding ratings in respect of each financial sub-process area are determined with reference to the following criteria;

Rating	Assessment rationale
<p>●</p> <p>Red</p>	<p>A high proportion of exceptions identified across a number of the control activities included within the scope of our work; or</p> <p>Control failures which, individually or in aggregate, have resulted in the significant misstatement of the University's financial records.</p>
<p>●</p> <p>Amber</p>	<p>Some exceptions identified in the course of our work, but these are limited to either a single control or a small number of controls; or</p> <p>Control failures which, individually or in aggregate, have resulted in the misstatement of the organisations financial records, but this misstatement is not significant to the University</p>
<p>●</p> <p>Green</p>	<p>Limited exceptions identified in the course of our work</p> <p>Control failures which, individually or in aggregate, do not appear to have resulted in the misstatement of the organisations financial records.</p>

Control design improvement classifications

The finding ratings in respect of any control design improvements identified in the course of our work are determined with reference to the following criteria;

Rating	Assessment rationale
<p>●</p> <p>Critical</p>	<p>Critical impact on operational performance resulting in inability to continue core activities for more than two days; or</p> <p>Critical monetary or financial statement impact of £5m; or</p> <p>Critical breach in laws and regulations that could result in material fines or consequences over £500k; or</p> <p>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.</p>
<p>●</p> <p>High</p>	<p>Significant impact on operational performance resulting in significant disruption to core activities; or</p> <p>Significant monetary or financial statement impact of £2m; or</p> <p>Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or</p> <p>Significant impact on the reputation or brand of the organisation, resulting in unfavorable national media coverage.</p>
<p>●</p> <p>Medium</p>	<p>Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or</p> <p>Moderate monetary or financial statement impact of £1m; or</p> <p>Moderate breach in laws and regulations resulting in fines and consequences over £100k; or</p> <p>Moderate impact on the reputation or brand of the organisation, resulting in limited unfavorable media coverage.</p>

- Low** *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 unfavorable media coverage restricted to the local press.

Advisory *A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.*

Appendix 2. Terms of Reference

To: Richard Flatman (Director of Finance)

From: Justin Martin (Head of Internal Audit)

This review is being undertaken as part of the 2012/2013 Internal Audit plan approved by the Audit Committee.

Background

During 2011/12, the Internal Audit programme included quarterly reviews of the key controls over five of the University's core financial sub-processes, including:

- Payroll;
- Accounts Payable;
- Accounts Receivable;
- Cash;
- Student Data

As part of our audit planning for 2012/13, we held meetings with management to update our understanding of the control framework in place and refresh our testing programme to ensure it continues to focus upon the key risks facing the Institution.

Testing undertaken in 2011/12 identified that the controls in place appeared to be largely operating effectively, but that opportunities remained to improve levels of compliance.

Whilst the core controls included in our testing programme (set out in detail at Appendix One) remain unchanged, a number of amendments have been agreed. These relate to:

- The creation of a 'General Ledger' process area; within which we will consider the review and authorisation of journal postings, timely clearance of suspense accounts, and maintenance of segregation of duties within the system.
- Additional testing in respect of student data to ensure that completion and achievement data, a core driver of HEFCE funding, is properly reviewed and scrutinised by management.
- Additional testing to ensure that creditor and payroll exception reports are prepared and reviewed on a timely basis to detect any anomalous standing data changes.

We will continue to report upon the operating effectiveness of controls on a quarterly basis to provide regular and timely insight to management and Audit Committee members.

Scope

During 2012/13, we will continue to review the operating effectiveness of key controls in place during the period 1 May 2012 to 30 April 2013 as detailed in our 'Approach' section below.

At Appendix One, we have set out the specific controls and key contacts for each transaction cycle; where the control environment changes in the financial year or we agree with management to revise our approach to reflect revised processes or previous recommendations, we will update this Appendix and re-issue our Terms of Reference to reflect that.

The financial processes, related key control objectives and key risks within the scope of our work are detailed below.

Process	Key control objectives	Key risks
Payroll and staff expenses	Accurate payments are made to valid employees of the organisation	New employees are not set up on the payroll system accurately Payments to those leaving employment are not ceased promptly and/or

Payroll and staff expenses (Cont.)	Accurate payments are made in respect of valid expenses claims	<p>overpayments are not identified and recovered promptly</p> <p>Overtime or other timesheet based records are inaccurate.</p> <p>Invalid changes are made to employee salary and bank details</p> <p>Discrepancies between the ledger and the payroll system are not identified and investigated.</p> <p>Invalid expenses claims are reimbursed.</p>
Accounts payable	<p>Expenditure commitments are made with prior budgetary approval</p> <p>Payments are made only following the satisfactory receipt of goods or services</p> <p>Payments are made only to valid suppliers</p>	<p>Goods and services are procured without appropriate budgetary authorisation prior to commitments being made</p> <p>Invoices and purchase card statements are not appropriately reviewed and authorised prior to payment</p> <p>Invalid suppliers or supplier standing data is maintained.</p> <p>Discrepancies between the ledger and the creditors control account are not identified and investigated.</p>
Accounts receivable	<p>Fee income is collected on a timely basis</p> <p>Goods or services are delivered only to credit worthy customers</p> <p>Debts due are collected promptly</p>	<p>Accurate records of student debts are not maintained and income is not collected on a timely basis.</p> <p>Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded.</p> <p>Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts</p> <p>Discrepancies between the ledger and the debtors control account are not identified and investigated.</p>
Cash	<p>Cash ledger balances are accurate and complete</p> <p>Cash is lost or misappropriated</p>	<p>Reconciling amounts are not promptly identified and investigated</p> <p>Discrepancies between the ledger and till or float records are not promptly identified and investigated</p>
General Ledger	Ledger balances are valid and accurate	<p>Invalid, incomplete or inaccurate journals are posted</p> <p>Suspense accounts and balance sheet control accounts are not cleared on a timely basis</p> <p>Segregation of duties is not maintained</p>
Student Systems	Accurate records of students and their activity are maintained	<p>Student details and fees payable as recorded upon enrolment are inaccurate or incomplete</p> <p>Invalid changes are made to student records</p> <p>Course changes or withdrawals are not identified on a timely basis</p> <p>Learning outcomes are inaccurately recorded</p>

Limitations of scope

The following limitations of scope are in place:

- Our work is not intended to provide assurance over the effectiveness of all the controls operated by management over these financial systems; the focus of our work will be limited to those controls which are deemed by management to be most significant to the system under consideration; and
- Our work will not consider the organisations IT security framework and associated controls in place.

Audit approach

To provide LSBU with regular and timely insight into the operating effectiveness of their controls, we will undertake our testing on a quarterly basis, covering the following periods during 2012/13.

- Quarter Four 2011/12
- Quarter One 2012/13
- Quarter Two 2012/13
- Quarter Three 2012/13

The controls which will be considered in the course of our testing, mapped to the key risks identified above, have been set out overleaf

Sub-process; Payroll

Key contact; Perlina Payne

Key risk	Key control	Reference
New employees are not set up on the payroll system accurately (i.e. at the correct start date and salary rate)	Authorised new starter forms are received prior to an individual being entered on to the payroll system	P1
	Exception reports are reviewed on a monthly basis.	P2
Payments to those leaving employment are not ceased promptly and/or overpayments are not identified and recovered promptly	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	P3
	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	P4
Invalid changes are made to salary and employee bank details	Variation forms are received prior to any changes being made to standing data.	P5
	Access to the payroll system is restricted	P6
Overtime or other timesheet based records are inaccurate.	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	P7
Discrepancies between the ledger and the payroll system are not identified and investigated.	Monthly reconciliations are performed between Agresso and the Payroll System	P8
Invalid expenses claims are reimbursed.	Only expenses supported by appropriately authorised claim forms are reimbursed.	P9

Sub-process; Accounts Payable

Key contact; Penny Green (AP1-AP2) Maureen Stanislays (AP3 –AP6)

Key risk	Key control	Reference
Invalid suppliers or supplier standing data is maintained.	Authorised documentation must be received prior to the creating a new or amending a supplier record.	AP1
	Listings of changes to supplier standing data are reviewed monthly.	AP2
Invoices payments are not appropriately reviewed and authorised prior to payment	All invoices are approved for payment by an appropriately authorised individual	AP3
	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	AP4
	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to	AP5

Key risk	Key control	Reference
	supporting documentation	
Discrepancies between the ledger and the creditors control account are not identified and investigated.	Monthly reconciliations are performed between the General Ledger and the creditors control accounts	AP6

Sub-process; Accounts receivable

Key contact; Natalie Ferer/Julian Rigby

Key risk	Key control	Reference
Agreements are entered in to with customers prior to the performance of credit checks or credit limits are exceeded.	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices. <i>To be performed for Quarter One 2012/13 onwards</i>	AR1
Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	AR2
	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	AR3
	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis	AR4
	Debts are written off only following review and authorisation	AR5
Outstanding student debts are not identified and collected on a timely basis.	On a monthly basis the debtors balance per the general ledger is reconciled to QLX	AR6
	On a monthly basis the invoiced balance per QLX is reconciled to QLS.	AR7
Discrepancies between the ledger and the debtors control account are not identified and investigated.	Monthly reconciliations are performed between the General Ledger and the Agresso sales ledger	AR8

Sub-process; Cash

Key contact; Nicholas Waring (C1-4), Brian Wiltshire (C5)

Key risk	Key control	Reference
Reconciling amounts are not promptly identified and investigated	Cash takings in respect of tuition fees as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	C1
Cash is lost or misappropriated	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	C2
	Cash receipts per Agresso are reconciled to QLX on a monthly basis	C3
	Cash receipting responsibility within the QLX system is restricted	C4
	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are reviewed by the Head Cashier.	C5

Sub-process; General Ledger

Key contacts; *Detailed below*

Key risk	Key control	Reference
Invalid, incomplete or inaccurate journals are posted	Journals must be authorised prior to being posted on the system <i>Key contact: Ephraim Maimbo</i>	GL1
	On a monthly basis management accounts are prepared and significant variances against budget are investigated <i>Key contact: Cherie Chin- A-Fo</i>	GL2
Suspense accounts and balance sheet control accounts are not cleared on a timely basis	[TBC; To be tested from Q1 2012/13] <i>Key contact: Ephraim Maimbo</i>	GL3
Segregation of duties is not maintained	Access to the general ledger is restricted <i>Key contact: Ravi Mistry</i>	GL4
	No single individual has access to make changes to both the QLX and QLS systems	GL5

Sub-process; Student Systems

Key contact; Andrew Ratajczak

Key risk	Key control	Reference
Student details and fees payable as recorded upon enrolment are inaccurate or incomplete	Enrolment forms are completed in respect of each new learner prior to the creation of records within QLS	S1
Course changes or withdrawals are not identified on a timely basis	Course changes are only auctioned on QLS upon receipt of an authorised form or email from a member of academic staff	S2
	Faculty Managers review QLS records made available to them on a monthly basis	S3
Learning outcomes are inaccurately recorded	[TBC; To be tested from Q1 2012/13]	S4
Invalid changes are made to student records	Access rights within QLX are restricted	S5

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the first of four planned phases of continuous auditing work this year, subject to the limitations outlined below.

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 the operating effectiveness of the controls may not be 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.

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.



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