

	<b>PAPER NO: AC.05(12)</b>
<b>Committee:</b>	<b>Audit Committee</b>
<b>Date:</b>	<b>09 February 2012</b>
<b>Subject:</b>	<b>Internal Audit Progress Report</b>
<b>Author:</b>	<b>Darrell Pariag, Corporate &amp; Business Planning Manager</b>
<b>Executive sponsor:</b>	<b>Richard Flatman, Executive Director of Finance</b>
<b>Recommendation by the Executive:</b>	The Executive recommends that the Audit Committee note the report.

**Executive summary**

PwC have provided a high level summary of their work to date in 2011/12. The internal audit programme is on plan and copies of the reports for audit work completed to date are presented to committee for review.

The progress report also includes follow up work on recommendations with a target date of 31 December 2011. Of the 9 recommendations scheduled for follow up, 3 have been implemented and the remaining 6 are in progress. Management has given reasons for the delays in implementation and in some cases revised implementation dates have been set. These dates reflect the ongoing nature of some of the work. We recognize that further improvement is required at the outset regarding realistic completion dates. In addition we are also looking at changes to the 4Risk system to provide alerts when completion dates are amended as in some cases the extensions are too long. A further update will be provided in the meeting.

**Attachment:**

1. Internal Audit Progress Report

	<b>Board/Committee</b>	<b>Date</b>
Matter previously considered by:	N/A	
Further approval required?	N/A	

Communications – who should be made aware of the decision?	N/A
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LONDON SOUTH BANK  
UNIVERSITY

# Internal Audit Progress Report 2011/2012

*Progress Report to  
Audit Committee*

*January 2012*

*Final*

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# Overview

## Progress Summary

1. This report presents a high level summary of the audit activity that has taken place in 2011/12 since our last progress report to the Audit Committee in November 2011. A detailed timeline of audit activity and related assurance outcomes for 2011/12 is set out at Appendix 1.
2. Since our last report to the Audit Committee in November 2011, we have completed the reviews on the HESA Staff return, Student Residences and Continuous Auditing of Key Financial Systems for August to October 2011. These reports are being presented to this Audit Committee and key findings from each review are noted below.
3. There were no findings to report on the **HESA Staff return** or **Student Residences**.
4. Of the five systems covered by the **Continuous Auditing** work for August to October 2011, four were rated green (Payroll, Accounts Receivable, Cash and Student Financial Data) and one amber (Accounts Payable).
5. We have undertaken follow up work in January 2012 on the recommendations on the 4Action system with a target date for action of 31 December 2011 or sooner. We have discussed progress with implementing the recommendations with those persons assigned responsibility for them and have sought evidence to support their response, except where the recommendations had a priority of Low, in which case, we have accepted management's assurances of their implementation. Of the nine recommendations due for follow up, only three had been implemented and six were in progress. The target date for implementation for six of the recommendations has been postponed. Management have given reasons for some of the delays, such as waiting for the implementation of the new contract management system and changes in staffing. However, for the majority of the recommendations still to be implemented, we have not been provided with an explanation for the delay. It is important that recommendations are addressed on a timely basis so that the University benefits from improved controls and processes as soon as possible. Our detailed findings are included in Appendix 2.

## Report Classification and Individual Findings Ratings

6. Our report classifications and individual findings ratings have been set out at Appendix 3. The individual findings ratings have been updated to include a monetary value for each criteria to make clear how each finding is assessed and to ensure consistency across all internal audit reviews undertaken for the University.

## Recommendation

7. That the Committee notes the progress made against our 2011/12 Internal Audit Operational Plan and the report classification and individual findings ratings.

## Appendix 1 - Progress against the 2011/12 internal audit operational plan

Included below is a summary of the current progress against the reviews in our 2011/12 internal audit operational plan. For each review, the days per the plan are shown, together with the actual days spent to date (shown in brackets).

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total no. of findings	Ratings				
							Critical	High	Medium	Low	Advisory
<b>Quarter 1</b>											
Continuous Auditing of Key Financial Systems											
10 (10)	12/11/10	29/8/11	19/10/11	26/10/11	N/A	0	0	0	0	0	0
HESA Staff Return											
5 (5)	6/11/11	14/11/11	18/11/11	23/12/11	Low risk	0	0	0	0	0	0
<b>Quarter 2</b>											
Student Residences											
7 (7)	9/11/11	5/12/11	8/12/11	8/1/11	Low risk	0	0	0	0	0	0
Continuous Auditing of Key Financial Systems											
10 (10)	13/10/11	21/11/11	10/1/12	20/1/12	N/A	1	0	0	0	1	0
Risk Management											
13 (1)											
<b>Quarter 3</b>											
Management of Representative Partners for International Students											
5 (0.5)	21/11/11	19/3/12									
Continuous Auditing of Key Financial Systems											
10	13/10/11	20/2/12									
Bribery Act 2010											
5											
Delegated Authority Arrangements											
10 (1.5)	16/1/12	27/2/12									
<b>Quarter 4</b>											
Continuous Auditing of Key Financial Systems											
13	13/10/11	21/5/12									
Research and Enterprise											
10											
Value for Money Arrangements											
2											
<b>Other</b>											

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total no. of findings	Ratings				
							● Critical	● High	● Medium	● Low	● Advisory
Planning, contract management and reporting											
9 (5)											
Follow up											
5 (2)											
<b>Total</b>											
<b>114 (42)</b>											

## Appendix 2 - Results of Follow Up of Recommendations

Recommendation	Progress to date	Status	Further recommendation
<b>1 Source:</b> <b>Contract Management Internal Audit Report 2010/11</b>		<b>Priority:</b> <b>High</b>	
<p>Each Contract Manager should keep a copy of the contract to check that the agreed service is being delivered.</p> <p>The Procurement Team should provide guidance on the monetary amount/risk level where a contract should include monitoring of KPIs.</p>	<p>There has been a delay in implementing the recommendation as it has been proposed to create a Contract Management System whereby copies of each contract will be available centrally on the intranet. Budget approval is still required for this.</p> <p>Guidance on the monetary amount/risk level where a contract includes the monitoring of KPIs will be given on a contract management training programme due to be put in place.</p> <p>Target date for implementation date amended to 30 June 2012.</p>	In progress	Original recommendation stands.
<b>Responsibility for action: Head of Procurement</b> <b>Target Date:31 December 2011</b>			
<b>2 Source:</b> <b>Fixed Asset Review Internal Audit report 2010/11</b>		<b>Priority:</b> <b>Medium</b>	
<p>Management should investigate if the University holds other records, e.g. in the IT department, which lists unique asset numbers for IT equipment and if so, how this can be reconciled to the asset register. Consideration should also be given to clearly marking future purchases of easily portable assets as the property of the University and with a unique asset number. The asset number and its location should also be recorded on the fixed asset register.</p>	<p>The following actions are still to take place:</p> <ul style="list-style-type: none"> <li>To investigate what systems currently exist in Estates and Facilities, ICT and in the faculties for tracking assets and equipment.</li> <li>To investigate the feasibility of cross referencing inventory systems to fixed asset register.</li> </ul> <p>Target date for implementation amended to 31/03/2012.</p>	In progress	Original recommendation stands.
<b>Responsibility for action: Financial Controller</b> <b>Target Date:31 December 2011</b>			
<b>3 Source:</b> <b>Budget Setting and Monitoring - Internal Audit report 2010/11</b>		<b>Priority:</b> <b>Medium</b>	
<p>The University should continue to work towards achieving a standardised budget setting process, as set out in the Budget Guidance, which all faculties and departments follow.</p> <p>The Budget Managers and their line managers should ensure they receive the guidance and training they need to undertake their role as a Budget Manager and have a Delegated Letter of Authority in place where appropriate.</p>	<p>The 2011/12 Budget Guidance is available on the University's intranet.</p> <p>The University has been working towards a standardised budget setting process through initiating and delivering financial awareness and budget management training sessions. Training has been offered to all budget managers.</p> <p>Delegated Letters of Authority have been put in place which are filed in the personnel documents and accessible by the employee and key staff members.</p>	Implemented	No further recommendation.
<b>Responsibility for action: Financial Planning Manager</b> <b>Target Date: 31 December 2011</b>			

Recommendation	Progress to date	Status	Further recommendation
<p><b>4 Source:</b> <b>Contract Management Internal Audit report 2010/11</b></p> <p>A contract database should be created and should include:</p> <ul style="list-style-type: none"> <li>• Name of contractor</li> <li>• Contract start date</li> <li>• Contract value</li> <li>• Contract Manager</li> <li>• Contract risk rating</li> </ul> <p>Once the initial information has been entered on the database by the Procurement Team, Contract Managers should be required to keep the database up to date and regularly monitor it.</p> <p><b>Responsibility for action:</b> <b>University Secretary and Clerk to the Board of Governors</b> <b>Target Date: 31 December 2011</b></p>	<p>A “beta” contract library has been developed, which will hold all contracts that LSBU enters into going forward. It will not duplicate the existing contracts held in the procurement database, but will link to this database.</p> <p>Management are reviewing the extent to which existing contracts will be added to the library, but a starting point will be to add any contracts that were signed from 1 August 2010 to date.</p>	<p><b>Priority:</b> <b>Medium</b></p> <p>Implemented</p>	<p>No further recommendation.</p>
<p><b>5 Source:</b> <b>Effectiveness of Health &amp; Safety Management Controls Internal Audit report 2010/11</b></p> <p>‘Keep Your Work Area Tidy’ awareness-raising posters to be introduced, referring to safety considerations. Housekeeping standards to be enforced by workshop/laboratory supervisors. Introduce more regular ‘walk-around’ inspection regimes to identify real-time hazards (slip/trip/fall hazards, fire hazards, blocked exits etc.) Consider adopting technology-based tools, such as inspection routine datalogging systems (e.g. Deister datalog) to provide assurance that regular inspection and corrective action raising for physical hazards is occurring. Elements of a regular inspection regime (fire door checks etc.) could be delegated to cleaning contractors or security personnel.</p> <p><b>Responsibility for action: Health and Safety Adviser</b> <b>Target Date: 30 November 2011</b></p>	<p>Health and Safety ‘Surgeries’ are completed every quarter by a Health and Safety Advisor where each faculty is visited and assessed whether the relevant Health and Safety checks have been completed, such as:</p> <ul style="list-style-type: none"> <li>• Ensuring adequate and appropriate Faculty/Central Support Services health and safety management support structures</li> <li>• Ensuring adequate health and safety role based training</li> <li>• Risk management</li> </ul> <p>Laboratory supervisors are also encouraged to enforce housekeeping standards at the quarterly inspections.</p> <p>‘Keep Your Work Area Tidy’ awareness-raising posters have not been introduced so the implementation date has been extended.</p> <p>Target date for implementation amended to 30/06/2012.</p>	<p><b>Priority:</b> <b>Medium</b></p> <p>In progress</p>	<p>‘Keep Your Work Area Tidy’ posters to be introduced.</p>
<p><b>6 Source:</b> <b>Value for Money Internal Audit report 2010/11</b></p> <p>Management should incorporate formal reference to VfM considerations in the Project Management Methodology.</p> <p>This should include guidance as to how to consider and achieve VfM and how to access examples of projects where VfM has been achieved in the University.</p>	<p>There was a change in staffing which has delayed the implementation of this recommendation.</p> <p>The following actions will take place</p> <ul style="list-style-type: none"> <li>• Formal reference to VfM considerations to be updated.</li> </ul>	<p><b>Priority:</b> <b>Medium</b></p> <p>In progress</p>	<p>Original recommendation stands.</p>



Recommendation	Progress to date	Status	Further recommendation
<p><b>Responsibility for action: Corporate &amp; Business Planning Manager</b> <b>Target Date: 30 September 2011</b></p>	<ul style="list-style-type: none"> <li>Head of Procurement to meet with Project Managers to discuss VfM.</li> <li>Examples of projects where VfM has been achieved to be made available once they have gone through the lifecycle of the project.</li> </ul> <p>Target date for implementation amended to 30/06/2012.</p>		
<p><b>7 Source: Fixed Asset Review Internal Audit report 2010/11</b></p> <p>Given the importance of value for money, especially in the current economic climate, further guidance should be added to the financial regulations to ensure that value for money is considered for all disposals.</p> <p><b>Responsibility for action: Financial Controller</b> <b>Target Date:31 December2011</b></p>	<p>Section 9.14 of the financial regulations will be updated to give further guidance on how to ensure value for money is achieved when disposing of fixed assets.</p> <p>Target date for implementation amended to 29/02/2012.</p>	<p><b>Priority: Low</b></p> <p>In progress</p>	<p>Original recommendation still stands.</p>
<p><b>8 Source: Value for Money Internal Audit report 2010/11</b></p> <p>The Annual VfM report should be a comprehensive account of all three principles of VfM and the activities throughout the University.</p> <p>The report should confirm performance, progress and share good practice across the University.</p> <p><b>Responsibility for action: Head of Procurement</b> <b>Target Date:30 October 2011</b></p>	<p>A VfM working group is being set up to ensure there is good practice across the University. The Terms of Reference which will state the role of the group is still being finalised.</p> <p>Target date for implementation amended to 30/06/2012.</p>	<p><b>Priority: Medium</b></p> <p>In progress</p>	<p>Original recommendation still stands.</p>
<p><b>9 Source: International Office Internal Audit report 2008/09</b></p> <p>An International Recruitment Strategy should be formally agreed and approved.</p> <p><b>Responsibility for action: Director of Internationalisation</b> <b>Target Date:01 November 2011</b></p>	<p>The international fee structure was approved by the Board on 30 September 2010.</p> <p>The Pro Vice Chancellor (External) updated the Board on International Strategy on 14 July 2011 and the topic was discussed in detail at the Board Strategy Day of 28 September 2010.</p> <p>The Board has approved the Corporate Plan 2011-14, including a section on Internationalisation.</p>	<p><b>Priority: Low</b></p> <p>Implemented</p>	<p>No further recommendation.</p>

## Appendix 3 - Report classification and individual findings ratings





### Individual finding ratings

Finding rating	Assessment rationale
<b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance resulting in inability to continue core activities for more than two days; or</li> <li>• <b>Critical</b> monetary or financial statement impact of £5m; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences over £500k; or</li> <li>• <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.</li> </ul>
<b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance resulting in significant disruption to core activities; or</li> <li>• <b>Significant</b> monetary or financial statement impact of £2m; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences over £250k; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.</li> </ul>
<b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or</li> <li>• <b>Moderate</b> monetary or financial statement impact of £1m; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences over £100k; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.</li> </ul>
<b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or</li> <li>• <b>Minor</b> monetary or financial statement impact £500k; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences over £50k; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.</li> </ul>
<b>Advisory</b>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

## Report classifications

The report classification is determined by allocating points to each of the findings included in the report

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

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



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