

	PAPER NO: AC.44(12)	
Board/Committee:	Audit Committee	
Date:	27 September 2012	
Paper title:	Terms of reference – Continuous Auditing 2012/13	
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 approve 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 is an update of the terms of reference for the Continuous Audit 2012/13 which is part of the Internal Audit plan for 2012/13 which has been approved by the Audit Committee. The core controls tested by the Internal Audit 2012/13 remain unchanged, but a number of amendments have been agreed which 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.

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

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# London South Bank University

## Terms of reference – Continuous Auditing 2012/13 - Final

**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.

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<b>Financial process</b>	<b>Key control objectives</b>	<b>Key risks</b>
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 (i.e. at the correct start date and salary rate)
	Accurate payments are made in respect of valid expenses claims	Payments to those leaving employment are not ceased promptly and/or overpayments are not identified and recovered promptly

		<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	<p>Ledger balances are valid and accurate</p>	<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	<p>Accurate records of students and their activity are maintained</p>	<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 at Appendix One.

### **Internal audit team**

<b>Name</b>	<b>Title</b>	<b>Contact details</b>
Justin Martin	Head of Internal Audit	0207 212 4269 Justin.f.martin@uk.pwc.com
David Wildey	Senior Manager	0207 213 2949 / 07921 106 603 david.w.wildey@uk.pwc.com
Daniel Franklin	Team Manager	07715 484696 daniel.franklin@uk.pwc.com
Emily Wright	Senior Associate	emily.wright@uk.pwc.com

## **Appendix 1: Key controls schedule**

Based upon our understanding of the financial systems in place at the University and in discussion with management, we have agreed that the operating effectiveness of the following controls will be considered. These have been mapped to the key risks identified as in scope above.

## 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

Key risk	Key control	Reference
	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation	AP5
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 [TBC]	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]  <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

<b>Key risk</b>	<b>Key control</b>	<b>Reference</b>
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]	S4
Invalid changes are made to student records	Access rights within QLX are restricted	S5