

Meeting of the Audit Committee

4pm* on Thursday, 13 June 2013
in 1B27, Technopark, London Road, London SE1

* Pre meeting with the Internal Auditors at 3.30pm in 1B33, Technopark

Agenda

<i>No.</i>	<i>Item</i>	<i>Paper No.</i>	<i>Presenter</i>
1.	Welcome and apologies		Chair
2.	Declarations of Interest		Chair
3.	Minutes of the last meeting (for publication)	AC.14(13)	Chair
4.	Matters arising		
4.1	Halls Debtors update (to note)	AC.15(13)	EDF
5.	Internal Audit		
5.1	Progress report (for monitoring)	AC.16(13)	PwC
5.2	Quarter 2 Continuous Auditing report (for monitoring)	AC.17(13)	PwC
5.3	Quarter 3 Continuous Auditing report (for monitoring)	AC.18(13)	PwC
5.4	Internal audit report – Key Information Sets (for monitoring)	AC.19(13)	PwC
5.5	Internal audit report – Financial forecasting (for monitoring)	AC.20(13)	PwC
5.6	Internal audit report – IT security (for monitoring)	AC.21(13)	PwC
5.7	Internal audit report – Enterprise (for monitoring)	AC.22(13)	PwC
5.8	Internal audit report – new payroll system (for monitoring)	AC.23(13)	PwC
5.9	Internal audit report – TRAC (to note)	AC.24(13)	PwC
5.10	<i>In the absence of PwC</i> Internal auditors contract extension (to approve)	AC.25(13)	EDF
5.11	Draft Internal Audit plan, 2013/14 (to approve)	AC.26(13)	PwC

6.	External Audit		
6.1	External audit plan, 2012/13 (to approve)	AC.27(13)	GT
7.	Risk and Control		
7.1	Risk register (to note)	AC.28(13)	EDF
7.2	HEFCE risk letter (to note)	AC.29(13)	EDF
7.3	HEFCE Institutional visit (to note)	AC.30(13) *	VC
8.	Other Matters		
8.1	TRAC(T) return (to approve)	AC.31(13)	EDF
8.2	Anti-fraud, bribery and corruption report (to consider)	AC.32(13)	EDF
8.3	Review of anti-fraud policy (to consider)	AC.33(13)	EDF
8.4	Speak up report (to review)	AC.34(13)	Sec
8.5	Annual debt write off (to approve)	AC.35(13)	EDF
8.6	Review of Financial Regulations (to note)	AC.36(13)	EDF
8.7	Audit Committee self assessment	AC.37(13) *	Chair
9.	Matters to report to the Board following this meeting		Chair
10.	Any other business		Chair
11.	Date of next meeting: 26 September 2013		Chair

* Paper to follow

Members: Andrew Owen (Chair), Steve Balmont, Douglas Denham St Pinnock, Mee Ling Ng and Shachi Patel

Internal Auditors: Justin Martin and David Wildey (PwC).

External Auditors: David Barnes (Grant Thornton)

With: Vice Chancellor, Pro Vice Chancellor (Academic), Pro Vice Chancellor (External) (for item 5.7), Executive Director of Finance, University Secretary, Financial Controller and Governance Officer.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 13 June 2013
In Room 1B27, Technopark, London Road, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	
Dr Mee Ling Ng	
Shachi Patel	(Independent co-opted member)

External Auditors

David Barnes	Grant Thornton
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Internal Auditors

Justin Martin	PricewaterhouseCoopers (<i>except minutes 18-19</i>)
David Wildey	PricewaterhouseCoopers (<i>except minutes 18-19</i>)

In attendance

Dr Phil Cardew	Pro Vice Chancellor (Academic)
Natalie Ferer	Financial Controller
Richard Flatman	Executive Director of Finance
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Officer

Welcome and apologies

1. Dr Mee Ling Ng was welcomed to her Audit Committee meeting. Apologies had been received from Prof Martin Earwicker.

Declarations of Interest

2. No interests were declared on any item on the agenda.

Minutes of the last meeting

3. The minutes of the meeting held on 7 February 2013 were approved (paper **AC.01(13)**), subject to an amendment to minute 8 to read “the committee requested management to ensure timely preparation of future TRAC returns so that the approval process can be completed on time”. The amended minutes were approved for publication subject to the proposed redaction.

Matters Arising

4. There were no matters arising from the previous minutes which were not picked up elsewhere on the agenda.

Halls Debtors Update

5. The committee noted an update on the process for managing halls of residence debtors (paper **AC.15(13)**) (minutes 9-11 of 7 February 2013 refer). It was noted that the accounting entries had been corrected and new controls implemented. It was noted that independent assurance would be provided by the continuous auditing programme and that recoverability of accommodation debt was identified as a risk in the external audit plan for 2012/13.
6. The committee requested an update at their September meeting on the reconciliation process and a report at their October meeting on the performance of the Halls of Residence.

Internal Audit Progress Report and Continuous Auditing Reports

7. The committee discussed the Internal Audit progress report (paper **AC.16(13)**) and the continuous auditing reports for quarter 2 (paper **AC.17(13)**) and quarter 3 (paper **AC.18(13)**). The committee noted that the internal audit plan for 2012/13 had been completed with the exception of work on value for money.
8. In relation to the quarter 3 continuous audit report and the effectiveness of core financial control areas, the Chairman noted that there was variability in progress. It was reported that some of the changes in rating reflect testing in new areas but that there is still more to be done, and the focus is on moving to a stable control environment in all areas as soon as possible.

Internal Audit Report – Key Information Sets

9. The committee noted the internal audit report on key information sets (paper **AC.19(13)**), which had been given a low risk rating.

Internal Audit Report – Financial Forecasting

10. The committee noted the internal audit report on financial forecasting (paper **AC.20(13)**), which had been given a medium risk rating. It was noted that no issues were found relating to the accuracy or completeness of the data provided in the management accounts but that there was a lack of formal

detailing of the procedures followed by the Business Support Managers and concerns around the treatment and reporting of research and capital expenditure. The committee requested the executive to review capital reporting.

Internal Audit Report – University Enterprise

11. The committee noted the internal audit report on University Enterprise (paper **AC.22(13)**), which had been given a medium risk rating. A focus on engaging academic areas would be necessary to mitigate the risk.

Internal Audit Report - TRAC

12. The committee noted the internal audit report on the Transparent Approach to Costing (TRAC) return (paper **AC.24(13)**), which had been given a medium risk rating. The draft report had been considered by the committee at its meeting of 7 February 2013 alongside the actual TRAC return (minutes 7 and 8 refer) and no changes had since been made to the report.

Internal Audit Report – IT Security and Phishing

13. The committee noted the internal audit report on IT Security and Phishing (paper **AC.21(13)**), which had been given a high risk rating. Areas of weakness were identified in the controls relating to the physical security of the campus server locations, management authorisation for the creation of administrators on the University phonebook system and password security.
14. The committee expressed their concern at the report and requested the Chief Information Officer to attend the next meeting to update the committee on the background to the report, actions being taken to address the findings of the report, current controls in place for information security and key challenges for the future.

Internal Audit Report – Payroll Implementation

15. The committee noted the internal audit report on the implementation review of the new payroll system and the follow up review (paper **AC.23(13)**). It was noted that the actions suggested were being implemented by management and that a new implementation date was expected to be late 2013.

Internal Audit Plan, 2013/14

16. The committee discussed in detail the draft internal audit plan for 2013/14 (paper **AC.26(13)**), which was based on a rolling plan of work and risks identified on the risk register. It was noted that days allocated to continuous auditing (50 in the plan) could be reduced if all areas were performing well in year. The committee emphasised the need to map the plan to the corporate risk register.
17. The committee approved the internal audit plan for 2013/14.

Internal Audit Contract Extension

Justin Martin and David Wildey left the meeting.

18. The committee discussed the recommendation to extend the contract of PricewaterhouseCoopers (PwC) as internal auditors for an additional year (paper **AC.25(13)**). It was noted that PwC were appointed in 2010 for an initial three year term with the opportunity to extend on an annual basis thereafter for a further two years.
19. On the basis that agreed performance standards have been met by PwC the Audit Committee approved extending PwC's contract as internal auditors for an additional year. The committee requested that this be reported to the Board at its meeting of 18 July 2013.

Justin Martin and David Wildey re-entered the meeting

External Audit Plan, 2012/13

20. The committee discussed in detail the draft external audit plan for 2012/14 (paper **AC.27(13)**), which outlined the approach to the audit and key risks.
21. The committee approved the external audit plan for 2012/13. The committee requested an update of progress at their meeting of 26 September 2013.

Corporate Risk Register

22. The committee noted the corporate risk register (paper **AC.28(13)**). It was noted that the risk of potential loss of NHS contract income had been upgraded from high to critical, following uncertainty around the funding position for 2013/14. The two critical risks on the register therefore related to revenue generation.

HEFCE Assessment of Institutional Risk

23. The committee noted HEFCE's assessment of the accountability, risk and sustainability of the University as "not at higher risk" at this time, the higher of two possible ratings (paper **AC.29(13)**).
24. The committee noted the financial benchmarking data from HEFCE.
25. The HEFCE letter had been reported to the Board on 23 May 2013.

HEFCE Institutional Visit

26. The committee noted the outcome of the institutional visit to the University by HEFCE on 9 May 2013 (paper **AC.30(13)**).
27. The committee noted the core and margin policy discussion. The committee requested the correspondence with HEFCE to be circulated to committee members.

Transparent Approach to Costing (Teaching) return

28. The committee noted the Transparent Approach to Costing (Teaching) (TRAC(T)) return (paper **AC.31(13)**), which had been reviewed by the Chairman of the Audit Committee and submitted to HEFCE.
29. The committee ratified the submission to HEFCE.

Anti-fraud, bribery and corruption report

30. The committee noted the anti-fraud, bribery and corruption report (paper **AC.32(13)**).

Review of anti-fraud policy

31. The committee approved the minor amendments to the anti-fraud policy (paper **AC.33(13)**).

Speak up report

32. The committee noted the speak up report (paper **AC.34(13)**). One speak up matter had been raised with the Chairman of the committee whose decision was that the matter should be dealt with under LSBU's internal Student Complaints Procedure.

Annual debt write off

33. The committee approved the write off of tuition fee debt more than six years old to the value of £411,000 (paper **AC.35(13)**).

Review of financial regulations

34. The committee noted that following the annual review of the financial regulations minor amendments would be brought to the Policy and Resources Committee for approval (paper **AC.36(13)**).
35. The committee noted that the revised value of debt write off of £50k annually and £10k for individual bad debts which it would be asked to approve under the financial regulations. The committee's terms of reference would be amended to reflect this. The Executive Director of Finance would be authorised to approve debt write off below these levels. The committee requested that bad debt write off approved by the Executive Director of Finance is reported to the committee.

Audit Committee self-assessment

36. The committee noted the responses of its recent self-assessment exercise (tabled paper **AC.37(13)**). It was noted that the Chairman would discuss the key issues with the Clerk to the Board and the Executive Director of Finance and that a report would come to the meeting of 26 September 2013.

Matters to report to the Board

37. The committee noted that the matters to report to the Board were the re-appointment of PwC as internal auditors, the ICT internal audit report and the external audit plan for 2012/13.

Any other business

38. The committee noted that the Office of the Independent Adjudicator (OIA) had published details of the University's unintentional non-compliance with one of its recommendations in its annual report. The committee requested a report to the Board meeting of 18 July 2013.

Date of next meeting

39. It was noted that the next meeting would be at 4pm on Thursday, 26 September 2013.

London South Bank
University

There being no further business, the meeting concluded.

Confirmed as a true record:

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Chairman

	PAPER NO: AC.14(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Minutes of the meeting of 7 February 2013	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee approves the minutes of its last meeting and approves publication subject to the proposed redactions.	
Matter previously considered by:	N/A	N/A
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	Published on the University's website	

Executive Summary

The Committee is asked to approve the minutes of its meeting of 7 February 2013 and the suggested redactions (in grey) for publication.

London South Bank University

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 7 February 2013
In Room 1B33, Technopark, London Road, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	
Shachi Patel	(Independent co-opted member)

External Auditors

David Barnes	Grant Thornton
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Internal Auditors

Justin Martin	PricewaterhouseCoopers
David Wildey	PricewaterhouseCoopers

In attendance

Prof Martin Earwicker	Vice Chancellor
Dr Phil Cardew	Pro Vice Chancellor (Academic) (<i>for minutes 1-10 and 18-25</i>)
Natalie Ferer	Financial Controller (<i>for minutes 1-19 and 21-25</i>)
Dr Andrew Fisher	Academic Registrar (<i>for minutes 1-6</i>)
Richard Flatman	Executive Director of Finance
Stephen Kay	Head of Residential and Catering Services (<i>for minute 11</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Officer

Welcome and apologies

1. No apologies had been received.

Declarations of Interest

2. Steve Balmont declared an interest in the item on speak up arrangements as a director of the company which owned one of the prospective providers of a whistleblowing advice line service. The committee noted the declared interest.

Minutes of the last meeting

3. The minutes of the meeting held on 30 October 2012 were approved (paper **AC.01(13)**). The minutes were approved for publication subject to the proposed redactions, with the exception that the figure in minute 8 should not be redacted.

Matters Arising

4. There were no matters arising from the previous minutes which were not picked up elsewhere on the agenda.

HESA Improvement Project

5. The committee noted an update on the HESA Improvement project from the Pro Vice Chancellor (Academic) and Academic Registrar (paper **AC.02(13)**). It was noted that the HESA submission had been made for 2012 and that it had met HEFCE requirements. Management required further improvements to data quality to help improve internal decision making. The committee noted that progress was being made.
6. The committee requested the update to the Board to include a project plan with key steps.

Dr Andrew Fisher left the meeting.

TRAC Return – Internal Audit report

7. The committee discussed the internal audit report on the TRAC return process (paper **AC.14(13)**), which was given a classification of medium risk. It was noted that the audit did not check the accuracy of the underlying data but the management process to ensure accuracy.

TRAC Return

8. The committee discussed the annual TRAC return which, following review by the Chairman, had been submitted to HEFCE (paper **AC.03(13)**) on time. The committee noted that the data had met all the validations tests. The committee ratified the return and its submission.

Halls of residence debtors

9. The committee discussed a report on halls of residence debtors (paper **AC.04(13)**), which had been produced following concerns raised in the key issues memorandum by Grant Thornton as part of the year end audit (minute 9 of 30 October 2012 refers).
10. The committee expressed concern that the system had not been working for five years and that the Audit Committee had not been made aware of the issue. The committee requested that they receive an annual report on the level of unpaid halls fees.

Stephen Kay entered the meeting. Dr Phil Cardew left the meeting.

11. The committee approved the write off of **£643k** of cumulative halls of residence bad debt. The committee requested assurance that the problem had now been solved via a report at the next meeting demonstrating that the system was now working well. The committee noted that independent assurance would be provided by the continuous auditing programme.

Stephen Kay left the meeting

Quarterly Risk Report

12. The committee discussed the corporate risk register (paper **AC.05(13)**), which had been updated by the Executive. The register would be reported to the board meeting in March 2013.

Internal Audit Progress Report

13. The committee noted the Internal Audit progress report (paper **AC.06(13)**). The committee noted that all follow up actions had been implemented and that work on risk appetite was still in progress.
14. The committee requested that April be included in quarter 3 audit work.

Quarter 4 (2011/12) Continuous auditing report

15. The committee noted the quarter 4 (2011/12) continuous auditing report (paper **AC.07(13)**), a draft of which had been considered at the previous meeting.

Quarter 1 (2012/13) Continuous auditing report

16. The committee discussed the quarter 1 (2012/13) report (paper **AC.08(13)**). The committee expressed concern at the exception report in payroll, following the incident in the payroll department in 2012. It was noted that since quarter 1 a new payroll manager and team leader had been appointed and that an action plan had been agreed to resolve the problems.
17. The committee noted that a new payroll system was being implemented and requested the internal auditors to undertake a pre-implementation review.

Dr Phil Cardew entered the meeting

Capital Projects – Internal audit report

18. The committee noted the internal audit report on capital projects (paper **AC.09(13)**), which had been given a low risk rating. The committee emphasised the importance of post-expenditure reviews.

Counter Fraud – Internal audit report

19. The committee noted the internal audit report on counter fraud (paper **AC.10(13)**), which had been given a medium risk rating.

Natalie Ferer left the meeting

Finance Department Structure

20. The committee noted the update on the finance department structure and succession planning (paper **AC.11(13)**). It was noted that the key change in year had been the appointment of a new Financial Planning Manager.

Natalie Ferer entered the meeting

Anti-fraud, bribery and corruption report

21. The committee noted that no instances of fraud, bribery or corruption had been detected since the last committee meeting (paper **AC.12(13)**).

Speak up report

22. The committee noted that no issues had been raised through the speak up procedure since the last committee meeting (paper **AC.13(13)**).

23. As required under the speak up policy the committee undertook an annual review. The committee discussed the independent reporting route via the Chairman. After consideration, the committee agreed that an external advice line service was not required. The committee requested the policy to be amended to emphasise the existing independent reporting route to the Chair of the Audit Committee.

Matters to report to the Board

24. The committee noted that the matters to report to the Board were the approval of the TRAC return and the approved write off of halls of residence debts.

Date of next meeting

25. It was noted that the next meeting would be at 4pm on Thursday, 13 June 2013.

There being no further business, the meeting concluded.

Confirmed as a true record:

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Chairman



Committee Action Points

06 June 2013

15:10:32

Committee	Date	Minute	Action	Person Res	Status	
Audit	07/02/2013	3	Publication of redacted minutes	Secretary		<input checked="" type="checkbox"/> Completed
Audit	07/02/2013	6	Update to Board on student data quality project plan with key steps	PVC - A	Discussed by Board - 21 March 2013	<input checked="" type="checkbox"/> Completed
Audit	07/02/2013	10	Halls of residence debtors to be considered by the committee annually	EDF	Ongoing - added to the committee plan	<input checked="" type="checkbox"/> Completed
Audit	07/02/2013	17	Internal auditors to undertake a pre-implementation review for the new payroll system	EDF	Terms of reference agreed	<input checked="" type="checkbox"/> Completed
Audit	07/02/2013	23	Amend speak up policy	Secretary		<input checked="" type="checkbox"/> Completed
Audit	07/02/2013	24	Report to Board on approval of TRAC return and write off of halls debts	EDF	Formed part of the reports from committees considered by the Board on 21 March 2013	<input checked="" type="checkbox"/> Completed

London South Bank University

	PAPER NO: AC.15(13)	
Board/Committee:	Audit Committee	
Date:	13 th June 2013	
Paper title:	Accounting for Halls debtors	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that committee notes the changes made and the current position.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive. Financial control.	
Matter previously considered by:	Audit Committee	7 th February 2013
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	N/A	

Executive summary

Grant Thornton highlighted in their Key Issues Memorandum (KIM) section on control account reconciliations that there has been a long standing problem with the transfer of data from the KX accommodation system to the Agresso financial system. As noted in the KIM, a great deal of work has already been done to resolve the issue and process the correcting entries. It was agreed that system changes would be made as required and correcting entries processed during 2012/13 so that this matter does not continue.

Background

1. The difference between the KX system and the accounting balance in Agresso resulted from incomplete data being extracted and posted to the Agresso financial accounting system. This issue regarding the transfer of data resulted in the following accounting problems:
 - Accumulated credit balances on cash control accounts 7121, 7122 and 7123, causing the balance for 'bank and cash' in the financial statements to be understated.
 - A large difference between the value of Halls debtors reported in the Financial Statements and the balance recorded on the Halls management system (KX). Debtors were overstated, compensating for the understatement in bank and cash balances.
 - large reconciling balances when the bank reconciliation was performed due to being unable to match transactions from the bank statement to Agresso.

Current position:

2. These problems have now been resolved by amending the file that is extracted from KX for accounting purposes and by changing procedures for posting from KX to Agresso. The new process went live during December 2012. Entries to clear historical balance sheet items and correct the halls debtor balance on Agresso have now been processed, including a write down of the debtor balance on Agresso and the reversal of the associated provision for bad debt.
3. The revised files and processes described in Appendix 1 have resulted in transactions from KX being accounted for accurately with references that make the reconciliation process easier.
4. At 31/3/13 the results of the reconciliation process were as follows:
 - Transactions posted to the cash control accounts 7121, 7122 and 7123 were all matched, except for debit balances of £35k. These relate to a few incorrectly posted items and receipts that will be posted at the start of April. These entries will be matched during April.

- All bank transactions coming from KX to Agresso could be matched against the bank statement except for £27K of receipts. It was discovered during the reconciliation process that these had been incorrectly processed and these are being corrected in April.
- The halls debtor position on Agresso can now be reconciled to the KX debtor balance. Differences identified relate to the corrections identified when reconciling the cash control and bank accounts and will be corrected in April.

Appendix 1: Resolution of the problem

Correction of accounting entries

The Interface file from KX has been modified to include batch numbers, separating invoicing and payments and descriptions to facilitate easier reconciliation of the bank account by the Treasury team.

The posting of the file to Agresso has been automated, with automated notifications sent to the accommodation team when a file fails. The accommodation team can then ensure that the data issue is resolved and the corrected file is reissued.

The KX interface file to Agresso has been modified to account for all transactions that are banked within the Kinetics system.

The KX system has been modified to ensure that online payments paid through the WPM online payments system are posted correctly.

Key controls

A reconciliation process has been implemented within the Accommodation team to validate the daily Agresso file.

Cash control accounts are checked on a monthly basis to ensure that transactions can be matched to bank.

The bank account on Agresso is reconciled to the bank statement, with any unreconciled balances investigated and corrected in the following month.

The balance on the Halls debt account on Agresso is agreed to the debtor balance on KX with any differences investigated and corrected in the following month.

A monthly report of the debt position on KX is reviewed by the Financial Accountant each month. Planned activities to recover debt are discussed with the Financial Controller.

The financial processes within the Accommodation team are monitored by the Treasury Manager. Monthly meetings provide a forum for any changes to be agreed and implemented.

Internal Audit will continue their testing of transactions during the continuous audit program and all exceptions will be reported and responded to.

We are also examining closely whether it is more appropriate for the debt collection function within the Accommodation team to transfer to Finance.

	PAPER NO: AC.16(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Internal Audit Report – Progress Report	
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?	<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

PwC have provided a high level summary of their work thus far during 2012/13. The internal audit programme is on target and proceeding to agreed schedule, and copies of the reports for audit work completed to date are presented to the Audit Committee for review.

Appendix 2 shows the results of follow up recommendations, and shows that all of these have been completed for this quarter.

Appendix 3 shows the agreed Key Performance Indicators for the internal audit.

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

London South Bank
University

Internal Audit Progress
Report 2012/2013

**Progress Report to
Audit Committee**

June 2013



Overview

Progress Summary

This report presents a high level summary of the audit activity that has taken place in 2012/13 since our last progress report to the February Audit Committee. A detailed timeline of audit activity for the year is set out at Appendix 1.

Reports presented at the June 2013 Audit Committee

Continuous Auditing (Q2 2012/13; November 2012 – January 2013)

Performance within the cash controls cycle has improved this quarter. We did identify minor exceptions in the student data cycle but have concluded that overall these continue to operate effectively. There continue to be exceptions identified from our work in payroll and accounts receivable, resulting in these cycles remaining as amber.

We have also identified a slight deterioration in controls in relation to accounts payable and general ledger. This is due to the identification of control design issues in each area.

Continuous Auditing (Q3 2012/13; February – April 2013)

The core control environment has improved this quarter. No issues were noted in the accounts receivable cycle and although we identified errors as part of fieldwork within the cash, accounts payable and student data cycles, these are deemed to be minor exceptions.

Payroll and general ledger have continued to be assigned amber ratings. This is due to recurring exceptions noted within each area, including:

- Timely and accurate processing of leavers (P3); and
- Supporting documentation for journals (GL1).

Key Information Sets

The report was classified as low risk. The objective of this review was to consider the methods used to collect the Key Information Sets data against the data quality assertions (completeness, accuracy, validity and restricted access).

We found that LSBU had adopted a logical approach to compiling and reviewing data. Our re-performance of a sample of calculations found that data was calculated accurately but identified a number of instances where management could not locate the original source documentation to validate the results.

Data was submitted to HEFCE on time but there were a number of examples of non-compliance with internal deadlines which threatened this being achieved. We also noted that there are no procedure notes for four of the indicators. LSBU have compared their KIS results to other Universities to perform a competitive analysis however no further actions have been undertaken by the Executive team to use this data. This is due to concerns over the reliability and validity of wider KIS data. We are aware other Institutions are using benchmark data to inform decisions and recommend LSBU continue to assess the validity and reliability of data during 13/14 and consider if it can be used for strategic or marketing purposes.

Financial Forecasting

The report was classified as medium risk. The objective was to review the methodology applied to preparing management accounts and financial forecasts to assess if this is consistent, robust, accurate and complete in its application.

We did not identify any issues surrounding the accuracy and completeness of data, however further work is needed to improve the control environment, particularly with regard to the reporting and monitoring of capital expenditure. The following key findings were reported:

- There are no formal policies or procedures to provide guidance on how to compile management accounts or forecasts;
- Research expenditure categories are not aligned to management account expenditure categories; research costs are initially allocated to the 'miscellaneous' line and requires re-forecasting as actual expenditure is incurred; and

- Management reporting of capital expenditure is incomplete and only includes financial information on Estates and Facilities. There is no formal communication channel in place to discuss the quarterly report with the Executive team. Our work also identified that the Q2 capital report was not produced due to staff sickness and limited resources.

University Enterprise

The report was classified as medium risk. The objective of the review was to assess the operations, responsibilities and governance of University Enterprise. The review also included an assessment of budgeting, management reporting and accounting policies at Commercial Enterprise level.

The Commercial Enterprise vision is in line with expectation for a forward-looking higher education institution and supports the University's objectives to maximise its revenue-generating capacity from Commercial Activity. However, a lack of 'buy-in' across the University could hinder the achievement of these objectives: we noted that some individuals do not understand the rationale behind Enterprise and some Faculties do not see the benefit of the structure to them.

We also identified that:

- There are no formal procedures outlining the process for approval of entering into contracts.
- There is no central register summarising commercial projects across the University. In addition, there is limited transparency of project management and control processes, limiting the ability of SBUEL effectively to oversee these projects. This does not support effective monitoring and reporting;
- Project income and expenditure may be incorrectly allocated due to a lack of guidance on whether projects should be run through SBUEL or LSBU; and
- The format of management reports at the time of audit did not supporting effective monitoring as they had to be manually reconciled to the financial system to review performance against budget.

These control design weaknesses may mean management reports are incomplete or inaccurate, damaging the reliability of management information. This could mean management do not have full oversight of Enterprise projects and lead to inappropriate decision making. Our work also noted that the accounting treatment of Enterprise income in the financial statements may not be compliant with the applicable accounting standards.

TRAC

The report was classified as medium risk. The objective of the review was to assess LSBU's controls over the review of the Transparent Approach to Costing (TRAC) return to ensure this was compliant with Joint Costing and Pricing Steering Group (JCPSG) deadlines.

Procedure notes are in place outlining the timeline for compilation of the TRAC return and there is an established review process to confirm the accuracy and completeness of data.

Our review identified that the compilation and review of the return is restricted to a limited number of individuals. LSBU may wish to consider training additional staff or delegating some tasks to avoid knowledge gaps and for contingency planning purposes.

LSBU also needs to ensure that review processes are documented and retained to evidence the work performed. Review structures should also be reassessed to ensure they are compliant with JCPSG guidance.

We also noted that the University encountered some delays in receipt of data which meant that the 2011/12 return was not authorised by the Vice Chancellor until 02/02/2012. This is after the formal submission date to HEFCE (31/01/2012). LSBU should continue to reiterate data submission timelines – and the impact of non-compliance - to departments to ensure data is received by required deadlines and that the return is submitted on time.

IT Controls and Phishing

This report is classified as high risk. The objective of this review was to assess logical and physical controls within LSBU. In conjunction with the logical and physical security controls testing a phishing exercise was conducted to assess the culture of security amongst the LSBU staff.

Overall we identified areas of weakness in; Physical Security, User Administration and Logical Security controls. The key messages are:

- Physical Security – weak controls over the restriction of access to server rooms has resulted in over 500 people being able to access one server room (K2) and 180 individuals being able to access the other server room (G70). In addition, we identified weak controls in the processes for allocating access to restricted areas and a lack for formal 'area owners' resulting in no management approval for access to or periodic review of those who have access to these areas.
- User Administration – There is a lack of management authorisation for the creation or definition of new "Phonebook" administrators (the phonebook essentially acts as an HR employee staff number generator

and once an individual has a phonebook entry, they can request a photographic badge, network account, email address etc). There is an absence of a formalised process, or retained evidence of requests to add new staff into the phonebook. In addition, we identified 22 network accounts (from a sample of 30) of leavers that were still active.

- Logical Security – Weak logical security settings within Active Directory (staff network accounts), specifically the minimum length is set to six characters with complexity rules off (this would require users to have numbers and other characters in their password) and password expiry set to 180. In addition, we identified a number of administrator accounts which had been set to ‘password never expires’. We also identified a weakness in the logging of activities performed by administrators, whereby the systems are configured to retain only a maximum size of entries (130Mb) and to overwrite the entries should the log become full. At the time of testing, the security log only contained the previous four hours of entries.

Summary of findings from our Phishing Exercise: Shortly before we conducted the phishing exercise the LSBU fell victim to a ‘real’ malicious phishing attack from the internet, halting our scenario being conducted. This will have increased the awareness of staff against such threats and potentially will have affected the results obtained during our phishing scenario. We conducted the test approximately two weeks after the real attack was confirmed as contained and resolved. Of the 1,999 emails that were delivered successfully to LSBU staff, a total of 308 users followed the link requesting staff change their password, and 212 of those users entered their credentials (account name and password) to our portal.

Other work performed in addition to those reviews included as part of the 2012/13 internal audit plan:

We were asked by management (approved by the Audit Committee in February 2013) to perform a pre - implementation review in relation to the new payroll system. These utilised contingency days within the audit plan for the year (7 days). We were then asked to do a payroll follow up review to audit the progress management had made in response to the previous findings (4 days).

Payroll Implementation

The objective of this review was to perform a pre-implementation health check to assess whether appropriate controls had been implemented to ensure the complete and accurate migration of balances from the old system.

Our review found that LSBU had implemented a number of controls to ensure the complete and accurate migration of balances, including: data cleansing; parallel runs; payslip-to-payslip checks; and reconciliations. At the time of audit (March 2013), these controls were operating effectively but were flagging some large variances and errors requiring resolution before the new system is implemented. This review was value enhancing and the report was not risk rated overall however a ‘RAG’ status was included and provided to management as a summary of our key findings and to highlight areas requiring further attention prior to implementation and the new system going live. This highlighted that significant work was required prior to the ‘go live’ date and we also identified a number of further issues that management needed to resolve before implementation.







Payroll Follow – up

The purpose of this audit was to follow up our findings from the Payroll Implementation review performed in March 2013 to confirm that management actions from our initial review have been implemented.

This work was performed in May and we found that LSBU had fully or partially implemented all agreed actions. Where actions were not yet due, the project team has been proactive and taken steps to ensure these are implemented in line with agreed time scales. LSBU have also assigned a new Project Manager who is updating the overall project plan to ensure timely delivery of the project. Although progress has been made, LSBU still has significant work to ensure that delivery timescales are met and that the wider and longer-term risks of system implementation are considered and mitigated. An example of this is that LSBU have not performed a wider systems or business analysis for the new system and there are some areas of IT build which have not been finalised, such as, whether the system is enabled for auto-enrolment.

The planned implementation date of the new system is now September 2013 reflecting the level of work still required and the need to ensure accuracy before ‘go-live’.

We used a traffic light system to demonstrate LSBU’s updated performance against the areas outlined in our original Terms of Reference for the Payroll Implementation Review.

Review area	Summary	Direction of travel	Updated RAG status
Data Migration	There has been a reduction in the number of discrepancies noted between net pay on the old payroll system (Logica) and i-Trent but further work is needed to confirm the accuracy of other payroll elements, for example, National Insurance (NI) numbers, bank details, addresses and pension details. Further data cleansing is needed prior to migration to the new environment.		 Red
Go-Live	Policies and procedure notes are being developed and a training plan for Payroll, Finance and other stakeholders has been devised. A service level agreement (SLA) between Finance and IT is in draft to ensure the ongoing availability of the system but more work is needed to ensure there is appropriate system build documentation. System and business process mapping needs to be completed.		 Amber/Red
Post implementation review and ongoing availability	There is a process in place to identify lessons learnt and ensure the ongoing accuracy and completeness of data. LSBU need to ensure this data continues to be captured throughout the project.		 Amber

Findings of our follow up work

- We have undertaken follow up work on the recommendations on the 4Action system with a target date for action of 12/05/2013 or sooner. We have discussed with management the progress made in implementing recommendations falling due in this period. Where the recommendations had a priority of low, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.
- All recommendations followed up this quarter have been fully implemented. We will report again on the status of this recommendation in the next quarter. Our detailed findings in respect of each recommendation considered this quarter are included in Appendix 2.

Other matters

- We have completed all the reviews within the 2012/13 internal audit programme for the year, other than the VfM report that we will complete as part of our annual report. This has been completed significantly before the end of the year.
- We have also included for consideration a draft internal audit plan for 2013/14 which has been drafted on the basis of discussions with management. This has been produced as a 1 year plan, as last year's plan was the last year of the 3 year plan that we agreed with you on appointment.
- Attached as Appendix 3 is an assessment of our performance against the pre-defined key performance indicators in relation to the 2012/13 audit programme.

Recommendations

- That the Committee **notes** the progress made against our 2012/13 Internal Audit Operational Plan.
- The Committee **comments** upon the 8 reports presented.
- The Committee **comments** on the proposed 2013/14 Internal Audit Plan and **approves** it, subject to committee comments being reflected in the final plan following the Committee meeting.

Appendix 1 - Progress against the 2012/13 operational plan

Included below is a summary of the current progress against the reviews in our 2012/13 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 findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 1; August 2012 – October 2012											
Continuous Auditing of Key Financial Systems (May to July 2012)											
11 (11)	24/08/2012	27/08/2012	15/10/2012	23/10/2012	N/A	0	0	0	0	1	0
Capital Projects											
8 (8)	12/10/2012	15/10/2012	21/11/2012	20/12/2012	Low	4	0	0	0	4	0
Counter Fraud											
5 (5)	24/10/2012	30/10/2012	21/11/2012	20/12/2012	Medium	5	0	0	2	1	2
Quarter 2; November 2012 – January 2013											
TRAC Review											
3 (3)	21/12/2012	7/01/2013	17/01/2013	05/02/2013	Medium	4	0	0	3	1	0
Continuous Auditing of Key Financial Systems (August to October 2012)											
11 (11)	24/08/2012	12/11/2012	26/11/2012	14/12/2012	N/A	0	0	0	1	0	0
Risk Management Follow up											
2 (2)	N/A	21/01/2013	23/01/2013	25/01/2013	N/A	-	-	-	-	-	-
Enterprise											
10 (10)	20/12/2012	14/01/2013	11/03/2013	08/05/2013	Medium	6	0	0	4	1	1
Quarter 3; February 2013 – April 2013											
Continuous Auditing of Key Financial Systems (November 2012 – January 2013)											
10 (10)	20/03/2013	25/03/2013	20/05/2013	30/05/2013	N/A	-	-	-	-	-	-
Key Information Sets											
10 (10)	05/03/2013	11/03/2013	21/03/2013	14/05/2013	Low	5	0	0	1	3	1
Financial Forecasting											
5 (5)	27/02/2013	18/03/2013	11/04/2013	02/05/2013	Medium	3	0	1	1	1	0
IT Security											
15 (15)	12/03/2013	18/03/2013	24/05/2013	-	High	3	0	3	0	0	0
Quarter 4; May 2013 – July 2013											
Continuous Auditing of Key Financial Systems (February – April 2013)											
11 (11)	20/03/2013	15/04/2013	20/05/2013	30/05/2013	N/A	-	-	-	-	-	-
Other											
16 (16)	Planning, contract management, reporting, value for money and Follow up										
Total 117 (117)*											

*An additional 11 audit days have been used (total for 2012/13 of 128 days) for a payroll implementation and follow up review.

Appendix 2 - Results of Follow Up of Recommendations

Recommendation	Progress to date	Priority	Status	Further recommendation
1. Training and support: Guidance and training – Contract Management				
<p>Include the areas identified by the Contract Managers as part of the training to be developed.</p> <p>RBDO should promote the service it offers in relation to giving advice on sources of funding so that Contract Managers are aware of this.</p>	<p>The Research and Enterprise Handbook has been updated to help staff better negotiate their way through the various steps involved in identifying, submitting and managing research and enterprise projects.</p> <p>In addition, the University subscribe to professional subscriptions and held local training and networking sessions allowing senior researchers relay their experiences on a range of research related matters e.g. gaining external research funds, to less experienced staff.</p>	Medium	Implemented	N/A
2. Raising awareness of counter fraud policies and procedures – Counter Fraud				
<p>The University's existing mechanisms for publicising and communicating the Anti-Fraud and Speak Up policies should be reviewed. Staff need to be more explicitly directed to these policies as part of their induction.</p> <p>Remind the Staff Development team of the need to refer to both policies at the new staff induction sessions.</p>	<p>Policies and procedures have been reviewed.</p>	Medium	Implemented	N/A
3. Improving reporting channels – Counter Fraud				
<p>Remind staff of the purpose of the Speak up policy in relation to fraud and the reporting lines available where they want to speak anonymously.</p> <p>Review the independence of reporting lines within the speak-up policy to ensure that these are appropriate.</p> <p>Anonymous reporting could be provided via a web based intranet form; allowing for an individual to record and report on their suspicions without the need to disclose their identify either through email address or otherwise indirectly.</p> <p>Take the Speak Up policy to February 2013 Audit Committee and will take account of independent reporting within the policy.</p>	<p>The speak up policy was taken to February 2013 audit committee for consideration.</p>	Medium	Implemented	N/A

Appendix 3: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance against each KPI is shown in the table below. These highlight the focus of our work and the standard attained:

Audit Stage	2012/13 Audit Plan – Delivery	Progress as at June 2013
Production of Annual Internal Audit Plan	The annual internal audit plan will be produced for the June Audit Committee. The plan will be risk based and linked to the University's Risk Register. Once the plan is approved by the Audit Committee any further material changes must be approved by the Committee.	Achieved for the 2012/13 plan. Minor revisions to the audit plan presented and approved by the Audit Committee at the October and February meeting.
Terms of Reference	All internal audit ToRs will be agreed with the audit sponsor at least 1 week before the fieldwork start date.	The Capital projects final ToR was agreed prior to the fieldwork starting but within a week. However, the content of the ToR had been agreed with management well in advance of this.
Fieldwork	All audit fieldwork will be recorded on our electronic working paper system.	Achieved.
Exit Meeting	An exit meeting will be held at the end of each audit to discuss the audit findings and recommendations with the audit sponsor.	Achieved.
Draft Response	The draft report will be issued to the audit sponsor and Executive Director of Finance within 10 working days of the completion of fieldwork.	Achieved.
Management Response	The audit sponsor will provide the engagement manager with a complete written response to the internal audit report within 10 days of receipt of the draft report.	For a couple of reviews, management responses were not received within 10 days which has resulted in a delay to the final reporting. This has often been a result of further discussions being required between management and PwC to ensure the responses are the most appropriate.
Final Report	The final report will be issued to the audit sponsor and Executive Director of Finance within 5 working days of receiving the management response. The final report will include a schedule identifying responsibility and a timescale for implementation of the recommendations.	Achieved
Audit Committee	The engagement manager or Head of Internal Audit will provide an internal audit update report to each Audit Committee (unless requested not to) and an internal audit annual report to the Audit Committee each year.	Achieved. Update reports provided at September, October, February and June Committees. Our internal audit annual report 2011/12 was presented at the September Committee and the 2012/13 report will be presented at the September 2013 Committee meeting.
Pre Audit Committee Meetings	The engagement manager will meet with the Executive Director of Finance a minimum of 3 weeks before each Audit Committee to discuss progress and reports to be presented to the Audit Committee.	Achieved.
100% of audits delivered against the plan	Progress against plan detailed in the Annual Internal Audit report. Any changes to the Internal Audit plan will be agreed with Executive Director of Finance (and the Audit Committee, where material) prior to action.	Ongoing.
Management Feedback >7 or above	A client satisfaction survey will be issued annually. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	To be issued
Audit Committee Feedback >7 or above	A client satisfaction survey will be issued annually to the Chair of the Audit Committee. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	To be issued

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	PAPER NO: AC.17(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Quarter 2 Continuous Auditing report	
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?	<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 2 2012/13 was undertaken as part of the continuous internal audit programme and is the second report in the continuous auditing cycle for 2012/13.

There have been changes in the ratings compared to Q1 for;

- Accounts payable (Green to Amber)
- Cash (Amber to Green)
- General Ledger (Green to Amber)

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

London South Bank
University

May 2013

FINAL

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

Quarter two (November 2012 – January 2013)



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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

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

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.

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 Data.

In developing our work programme for 2012/13, we met with management to refresh our understanding of the University's controls to ensure that our work remained 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 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	Q2 2012/13	Q1 2012/13	Q4 2011/12	Q3 2011/12	Trend
Payroll	 Amber	 Amber	 Amber	 Red	↔
Accounts payable	 Amber	 Green	 Green	 Amber	↓
Accounts receivable	 Amber	 Amber	 Green	 Amber	↔
Cash	 Green	 Amber	 Green	 Green	↑
General Ledger	 Amber	 Green	 Green	N/A	↓
Student data	 Green	 Green	 Green	 Green	↔

Findings and recommendations

Performance within the cash controls cycle has improved this quarter. We did identify minor exceptions in the student data cycle but have concluded that overall these continue to operate effectively. There continue to be exceptions identified from our work in payroll and accounts receivable, resulting in these cycles remaining as amber.

We have also identified a slight deterioration in controls in relation to accounts payable and general ledger. This is due to the identification of control design issues in each area.

A summary of our findings is included below:

Payroll

The following exceptions have been noted during our testing in this area:

- 1/20 leavers tested had been paid subsequent to leaving the University; and
- Our testing of system access identified that 1/12 users with access accounts no longer worked at the University. The user account was not deleted when the individual left employment in October 2012. However, the individual would not have been able to access the payroll system without first using their LSBU log, which had been disabled and the payroll software can only be accessed from specific PCs in the payroll office.

Accounts payable

We identified that the supplier amendment report contained two suppliers which had not actually been amended, which suggests that the report is inaccurate.

Our testing also identified that the University does not run an exception report to identify duplicate suppliers on the system. The accounts payable team are currently developing an exception report so that this control can be implemented. Management may also wish to consider running a report to identify any duplicate orders or invoice numbers which may have been entered on the system.

Accounts receivable

The following exceptions have been noted during our testing in this area:

- 1/25 invoices tested was authorised inappropriately. This had a value of £5 million but was authorised by an individual with only a £2 million authorisation limit; and
- 1/25 tuition fee debts was not chased in line with University policy.

Our review of the aged debt listing also identified a number of credit balances within the aged debt listing. Management have explained that current practice is to net these off against future transactions made by the customer. These are not refunded unless the customer claims these in writing. However, we believe that LSBU should make attempts to refund this money.

Cash

We are pleased to note that our testing did not identify any exceptions in relation to this area.

General Ledger

Testing performed during Q2 has identified that:

- 5/25 journals tested did not have supporting documentation.

Our testing also identified that the authorisation of manual journals does not occur until after they have been posted. These are authorised in batches at the end of each month. If journals are not authorised individually until after they are posted, there is a risk that inappropriate journals are not identified prior to posting. It is recognised that the University has some mitigating controls in place to ensure any issues associated with journals are detected, for example, monthly review of the Income and Expenditure Statement, review of the journal batches and review of balance sheet control accounts. However, we would recommend that a preventative control is used instead. This would reduce the risk of inappropriate journal posting and also reduce the volume of correcting journals required.

Student Financial Data

Supporting documentation could not be located to support 3/25 course changes and withdrawals.













2. Detailed findings

Payroll

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)	Exceptions (Q3 2011/12)
P1	Authorised and accurate new starter forms are received prior to an individual being entered on to the payroll system.	●		●	●	●
P2	Exception reports are reviewed on a monthly basis.	●		●	●	●
P3	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	●	<p>1/20 leavers tested had been paid in the month after they had left.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: We have written to the relevant person to recoup the overpayment. We will review the process of receiving and processing documents from HR and continue to maintain a log of errors and adjustments to reduce the risk of leaver forms not being processed.</p>	●	●	●
P4	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	●		●	●	●
P5	Variation forms, with supporting documentation, are received prior to any changes being made to standing data.	●		●	●	●
P6	Access to the payroll system is restricted to appropriate personnel.	●	<p>1/12 users had left the University but still had an access account.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p>	●	N/A	N/A





Management response:

The user account was not deleted when the individual left employment in October 2012. The individual would not have been able to access the payroll system without first using their LSBU log, which has been disabled. In addition the payroll software can only be accessed from specific PCs in the payroll office.


P7	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.				
P8	Monthly reconciliations are performed between the general ledger and the payroll system. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.				
P9	Expenses are supported by appropriately authorised claim forms.				

Accounts Payable
















	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)	Exceptions (Q3 2011/12)
AP1	Authorised documentation must be received prior to creating a new supplier or amending a supplier record.	●		●	N/A	N/A
AP2	Listings of changes to supplier standing data are reviewed monthly.	●	<p>We tested a sample of amendments (selected from listings of amendments made during the period) to confirm these were appropriate.</p> <p>Our testing identified that 2 of the suppliers selected for testing had not actually been amended in the period which suggests the report is not accurate.</p> <p>Responsibility for action:</p> <p>Penny Green, Head of Procurement</p> <p>Management response:</p> <p>We will investigate why these suppliers were included in the report to determine if we need to amend this.</p>	●	N/A	N/A
AP3	Invoices are approved for payment by an appropriately authorised individual.	●		●	●	●
AP4	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	●		●	●	●
AP5	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation.	●		●	●	●
AP6	Exception reports are generated to identify duplicate suppliers.	N/A	New control brought in for Q2. Testing established this control is not in place. A	N/A	N/A	N/A

	Actions are taken to resolve any errors noted.		control design issue has been raised below.			
AP7	System controls are in place to prevent duplicate order and invoice numbers and suppliers being entered onto the system	N/A	New control brought in for Q2. Testing established that it is possible to set up duplicate suppliers on the system. As such the control design issue raised in response to AP6 is required. Management may also wish to consider running a report to identify any duplicate orders or invoice numbers which may have been entered on the system.	N/A	N/A	N/A
AP8	Daily reconciliations are performed between the general ledger and the creditors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis					

Duplicate suppliers – Control Design

<i>Finding</i>		
No exception report is run to identify duplicate suppliers.		
<i>Risks</i>		
Amounts due to suppliers for goods and services are overpaid.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Medium Risk	It is the responsibility of staff to check that suppliers are not duplicated. This should also be checked by the Procurement Administrator before adding the supplier to Agresso. A report to identify multiple suppliers with the same name is in the process of being designed.	Penny Green, Head of Procurement <i>Target date:</i> 30/06/2013

Accounts Receivable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q1 2012/13)	Exceptions (Q4 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	N/A
AR2	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference		<p>1/25 invoices was authorised inappropriately. The value was £5m and was authorised by a member of staff with an authorisation limit of £2m.</p> <p>Responsibility for action: Julian Rigby, Income Manager</p> <p>Management response: There are no restrictions which apply to sales invoice request approvals documented with the financial regulations. The authorisation signatory form will be amended to be consistent with the financial regulations.</p>			
AR3	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt					
AR4	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis in line with policy		<p>1/25 debts have not been chased monthly according to policy. The value of the debt is £480.</p> <p>Responsibility for action: Julian Rigby, Income Manager</p> <p>Management response: The debt was not chased as the team were aware that the student could not be contacted at the address and phone number on file. This should have been noted on the account. The debt will be transferred to debt collection agency.</p>			
AR5	Debts are written off only following review and authorisation			N/A	N/A	N/A

AR6	Monthly reconciliations are performed between the debtors balance on the general ledger and QLX.	●	●	●	●
AR7	Monthly reconciliations are performed between the debtors balance per QLX to QLS.	●	●	●	●
AR8	Monthly reconciliations are performed between the General Ledger and the debtors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	●	●	●	●

Credit Balances – Control Design

<i>Finding</i>		
The aged debt listing includes a number of credit balances. Per discussion with management, current practice is to net these off against future transactions made by the customer. These are not refunded unless the customer claims these in writing.		
<i>Risks</i>		
If the University does not make appropriate attempts to return overpayments to customers, the University may be breaking the law.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
● High Risk	<p>Most credit balances fall into one of 3 categories:</p> <ul style="list-style-type: none"> International Students who have paid but subsequently were not able to attend as their visa was not approved; Student Loan (SLC) payments where the student needs to contact SLC to claim a refund; and Sponsors who hold credit balances pending a new group of students being enrolled. <p>At year end we will review credit balances older than 12 months and consider writing to the customer asking them to confirm the balance prior to processing a refund.</p>	<p>Natalie Ferer, Financial Controller</p> <hr/> <p><i>Target date:</i> 31/07/2013</p>

Cash

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)	Exceptions (Q3 2011/12)
C1	Cash takings in respect of tuition fees and student residences as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	●		●	●	●
C2	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	●		●	●	●
C3	Cash receipts per the general ledger are reconciled to QLX on a monthly basis. Cash receipts per the general ledger are reconciled to KX on a monthly basis.	●		●	●	●
C4	Cash receipting responsibility within the QLX system is restricted to appropriate individuals. Cash receipting within the KS system are restricted to appropriate individuals.	●		●	●	●
C5	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are performed by Treasury Team and reviewed on a timely basis (by the Financial Accountant), with supporting documentation and reconciling items are investigated on a timely basis.	●		●	●	●

General Ledger

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q1 2012/13)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
GL1	Journals must be authorised, with supporting documentation, prior to being posted on the system.	●	5/25 journals had no supporting documentation. We have raised this as a control design issue below along with an accompanying recommendation regarding pre posting authorisation.	N/A	N/A	N/A
GL2	On a monthly basis management accounts are prepared and significant variances against budget are investigated	●		●	●	N/A
GL3	Suspense accounts and balance sheet control accounts are cleared or reconciled on a quarterly basis.	●		N/A	N/A	N/A
GL4	Access to the general ledger is restricted	●		●	N/A	N/A
GL5	No single individual has access to make changes to both the QLX and QLS systems	●		●	●	●

Authorisation of journals – Control Design

<i>Finding</i>		
There is no requirement to attach supporting documentation to manual journals.		
<i>Risks</i>		
Inappropriate journals may be processed.		
<i>Action plan</i>		
<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
● Medium Risk	In the past Finance staff were able to process journals without attaching supporting documentation. The process will be changed so that in future all journals will have supporting documentation.	Natalie Ferer, Financial Controller
		<i>Target date:</i> 31/07/2013

Authorisation of journals – Control Design

Finding

Manual journals are not authorised until after they have been raised. During testing we identified that journal batches in November and December 2012 were not authorised by the Financial Controller until 25/1/2013, which is deemed untimely.

It is recognised that the University has some mitigating controls in place to ensure any issues associated with journals are detected. However, we would recommend that a preventative control is used instead. This would reduce the risk of inappropriate journal posting and also reduce the volume of correcting journals required.

Risks

Review of multiple journals at the same time, may mean sufficient rigour is not applied to each journal during the review process. This could mean inappropriate journals are not identified.

If journals are not authorised individually until after they are posted, there is a risk that inappropriate journals are not identified prior to posting.

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
-----------------------	------------------------	-----------------------------------


Medium Risk

Business Support Managers (BSMs) are able to post manual journals without authorisation in order to quickly process correcting journals before the management accounts are produced.

Natalie Ferer, Financial Controller

Target date:

We have three controls in place to ensure manual journals are appropriate.

31/07/2013

1. Post-input authorisation by the Financial Controller;
2. Reconciliation of balance sheet accounts on a monthly basis;
3. Review of the Income and Expenditure Statement in each department managed by the BSM.

We will consider whether we can authorise journals prior to posting, however, first we will aim to reduce the number of correcting journals being processed by continuing to analyse the reason for correcting journals and avoid recurrence.

Student Data

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q1 2012/13)	Exceptions (Q3 2011/12)	Exceptions (Q3 2011/12)
S1	Enrolment or re-enrolment paperwork has been completed for each new and re-enrolled student prior to the creation of records within QLS.	●		●	●	●
S2/S5	Exception reports are generated to identify any issues regarding student fee data and course information. These are reviewed and actions are taken to resolve any issues noted.	N/A		N/A	N/A	N/A
S3	Course changes are only actioned on QLS after completion of the Course Changes Log.	●	<ul style="list-style-type: none"> 2/25 course changes did not have accompanying paperwork or audit trail 1/25 course changes did not confirm the course code the student was withdrawn from in the paper work seen <p>Responsibility for action: Andrew Ratajczak, Fees, Bursaries & Central Enrolment Manager</p> <p>Management response: This is a Faculty responsibility and should be documented. We will remind Faculties of the need to retain this information.</p>	●	●	●
S4	Faculty Managers are notified of updates to QLS records and check to confirm these are accurate and appropriate.	●		●	N/A	N/A
S6	Access rights within QLX are restricted to appropriate personnel.	●		●	●	●

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>
<p>●</p> <p>Low</p>	<p>Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or</p> <p>● Minor monetary or financial statement impact £500k; or</p> <p>Minor breach in laws and regulations with limited consequences over £50k; or</p> <p>Minor impact on the reputation of the organisation, resulting in limited unfavorable media coverage restricted to the local press.</p>
<p>Advisory</p>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

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

The purpose of our Continuous Audit programme is to test key controls on an on-going basis to assess whether they are operating effectively and to flag areas and/or report transactions that appear to circumvent controls. Testing is undertaken four times a year (covering three month periods) and provides the following benefits:

- It provides management with an assessment of the operation of key controls on a regular basis throughout the year;
- Control weaknesses can be addressed during the year rather than after the year end; and
- The administrative burden on management will be reduced when compared with a full system review, in areas where there is sufficient evidence that key controls are operating effectively.

Our Continuous Auditing programme for 12/13 will test key controls within the following financial systems this year:

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

We have outlined the controls we will be testing within Appendix 1. These have been identified through our annual audit planning process and meetings with management to update our understanding of the control framework in place. We will continue to refresh this knowledge through the year to ensure we focus upon the key risks facing the University. We will report upon the operating effectiveness of controls on a quarterly basis to provide regular and timely insight to management and Audit Committee members.

We believe that this work touches upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10	x	x	x		x

x = area of primary focus

x = possible area of secondary focus

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 the Approach section below.

At Appendix 1, 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.

Financial process	Key control objectives	Key risks
Payroll and staff expenses	<p>Accurate payments are made to valid employees of the organisation.</p> <p>Accurate payments are made in respect of valid expenses claims.</p>	<p>Fictitious employees are established on the payroll and/or employees are established on the payroll incorrectly (e.g. incorrect pay scale).</p> <p>Payments are made in error to employees who have left the organisation and / or inaccurate final salary payments are made.</p> <p>Overtime or other timesheet based records are inaccurate leading to salary over / under payments.</p> <p>Invalid changes are made to employee salary and bank details leading to incorrect salary payments being made.</p> <p>Information transferred from the payroll system to the main accounting system is not complete and accurate.</p> <p>Expenses are incurred and reimbursed that are not allowable.</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>Payments are made for goods and services which have not been ordered, received or are inadequate.</p> <p>Invalid suppliers or supplier standing data is maintained leading to inaccurate or fraudulent payments.</p> <p>Information transferred from the accounts payable system to the main accounting system is not complete and accurate.</p> <p>Amounts due to suppliers for goods and services are overpaid.</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>Inaccurate or incomplete records of student debts may mean 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. This may mean debts are not recoverable.</p> <p>Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts and maximisation of income.</p> <p>Information transferred from the accounts receivable system to the main accounting system is not complete and accurate.</p>
Cash	<p>Cash ledger balances are accurate and complete.</p> <p>Cash is lost or misappropriated.</p>	<p>Information transferred from the cash receipting systems to the main accounting system is not complete and accurate.</p> <p>Discrepancies between the ledger and till or float records are not promptly identified and investigated. This could mean cash balances are incomplete and / or inaccurate.</p>
General Ledger	<p>Ledger balances are valid and accurate.</p>	<p>Invalid, incomplete or inaccurate journals are posted. This could disguise misappropriations or mean there is no evidence to support decisions made.</p> <p>Suspense accounts and balance sheet control accounts are not cleared on a timely basis.</p> <p>Segregation of duties is not maintained, this could</p>

		compromise the validity and accuracy of general ledger information.
Student Systems	Accurate records of students and their activity are maintained.	<p>Student details and fees payable as recorded upon enrolment are not correct. This could mean income owed to the University is not maximised.</p> <p>Course changes or withdrawals are not identified on a timely basis this could affect fee income owed to the University.</p> <p>Invalid changes are made to student accounts which could compromise the validity, accuracy and completeness of student records.</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 LMU 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 1.

Internal audit team

Name	Title	Contact details
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
Charlotte Bilsland	Audit Manager	07715 484 670 charlotte.bilsland@uk.pwc.com
Josephine Ip	Team Leader	josephine.w.ip@uk.pwc.com
Joy Bowler	Auditor	joy.d.bowler@uk.pwc.com

Key contacts

Name	Title
Richard Flatman	Executive Director of Finance (Audit Sponsor)
Natalie Ferer	Financial Controller
Joanne Monk	Deputy Director of Human Resources
Jenny Laws	Deputy Registrar (Student Management Information Team Leader)
Ravi Mistry	Financial Systems Manager
Ralph Sanders	Financial Planning Manager
Brian Wiltshire	Treasury Manager
Penny Green	Head of Procurement
Julian Rigby	Income Manager
Ravi Mistry	Financial Systems Manager
Nicolas Waring	Cash Office Manager
Denise Sullivan	Payroll Manager
Felicity Clarke	Payroll Team Leader
Andrew Ratajczak	Manager; Fees, Bursaries and Central Enrolment

Timetable

As set out in the approach section above, we will undertake our work on a quarterly basis

	<u>Quarter Two</u> <u>2012/13</u>	<u>Quarter Three</u> <u>2012/13</u>
Fieldwork start	25/03/2013	15/04/2013
Fieldwork completed	05/04/2013	08/05/2013
Draft report to client	19/04/2013	15/05/2013
Response from client	03/05/2013	22/05/2013
Final report to client	10/05/2013	29/05/2013

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: 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 contacts: Denise Sullivan and Felicity Clarke

Key risk	Key control	Reference
Fictitious employees are established on the payroll and/or employees are established on the payroll incorrectly (e.g. incorrect pay scale)	Authorised and accurate 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 are made in error to employees who have left the organisation and / or inaccurate final salary payments are made	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 employee salary and bank details leading to incorrect salary payments being made	Variation forms, with supporting documentation, are received prior to any changes being made to standing data.	P5
	Access to the payroll system is restricted to appropriate personnel.	P6
Overtime or other timesheet based records are inaccurate leading to salary over / under payments	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	P7
Information transferred from the payroll system to the main accounting system is not complete and accurate	Monthly reconciliations are performed between the general ledger and the payroll system. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	P8
Expenses are incurred and reimbursed that are not allowable	Expenses are supported by appropriately authorised claim forms.	P9

Sub-process; Accounts Payable

Key contacts: Penny Green (AP1 – AP2) and Maureen Stanislays (AP3 – AP6)

Key risk	Key control	Reference
Invalid suppliers or supplier standing data is maintained leading to inaccurate or fraudulent payments	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

Key risk	Key control	Reference
Payments are made for goods and services which have not been ordered, received or are inadequate. Invoices payments are not appropriately reviewed and authorised prior to payment	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 supporting documentation.	AP5
Amounts due to suppliers for goods and services are over paid	Exception reports are generated produced to identify duplicate suppliers and payments. Actions are taken to resolve any errors noted.	AP6
	System controls are in place to prevent duplicate order and invoice numbers and suppliers being entered onto the system.	AP7
Information transferred from the accounts payable system to the main accounting system is not complete and accurate	Daily reconciliations are performed between the general ledger and the creditors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	AP8

Sub-process; Accounts receivable

Key contacts: Natalie Ferer and Julian Rigby

Key risk	Key control	Reference
Agreements are entered into with customers prior to the performance of credit checks or credit limits are exceeded. This may mean debts are not recoverable.	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	AR1
Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts and maximisation of income	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference.	AR2
	Reminder letters are sent to debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt.	AR3
	Reminder letters are sent in respect of overdue fees on a monthly basis in line with policy.	AR4
	Debts are written off following appropriate review and authorisation.	AR5
Inaccurate or incomplete records of student debts may mean income is not collected on a timely basis	Monthly reconciliations are performed between the debtors balance on the general ledger and QLX.	AR6
	Monthly reconciliations are performed between the debtors balance per QLX to QLS.	AR7

Information transferred from the accounts receivable system to the main accounting system is not complete and accurate	Monthly reconciliations are performed between the General Ledger and the debtors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	AR8
--	---	-----

Sub-process; Cash

Key contacts: Nicholas Waring (C1-4) and Brian Wiltshire (C5)

Key risk	Key control	Reference
Information transferred from the cash receipting systems to the main accounting system is not complete and accurate	Cash takings in respect of tuition fees and student residences as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	C1
Discrepancies between the ledger and till or float records are not promptly identified and investigated. This could mean cash balances are incomplete and / or inaccurate	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	C2
	Cash receipts per the general ledger are reconciled to QLX on a monthly basis.	C3
	Cash receipts per the general ledger are reconciled to KX on a monthly basis.	
	Cash receipting responsibility within the QLX system is restricted to appropriate individuals.	C4
	Cash receipting within the KS system are restricted to appropriate individuals.	
	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are performed by Treasury Team and reviewed on a timely basis (by the Financial Accountant), with supporting documentation and reconciling items are investigated on a timely basis.	C5

Sub-process; General Ledger

Key contacts: *Detailed below*

Key risk	Key control	Reference
Invalid, incomplete or inaccurate journals are posted. This could disguise misappropriations or mean there is no evidence to support decisions made	Journals must be authorised, with supporting documentation, prior to being posted on the system. Key contact: Ephraim Maimbo	GL1
	On a monthly basis management accounts are prepared and	GL2

	significant variances against budget are investigated. Key contact: <i>Ralph Sanders</i>	
Suspense accounts and balance sheet control accounts are not cleared on a timely basis	Suspense accounts and balance sheet control accounts are cleared or reconciled on a quarterly basis. Key contact: <i>Ephraim Maimbo</i>	GL3
Segregation of duties is not maintained, this could compromise the validity and accuracy of general ledger information	Access to the general ledger is restricted. Key contact: <i>Ravi Mistry</i>	GL4
	No single individual has access to make changes to both the QLX and QLS systems. Key contact: <i>Ravi Mistry</i>	GL5

Sub-process; Student Systems

Key contact: Andrew Ratajczak

Key risk	Key control	Reference
Student details and fees payable as recorded upon enrolment are not correct. This could mean income owed to the University is not maximised	Enrolment or re-enrolment paperwork has been completed for each new and re-enrolled student prior to the creation of records within QLS.	S1
	Exception reports are generated to identify any issues. These are reviewed and actions are taken to resolve any issues noted.	S2
Course changes or withdrawals are not identified on a timely basis this could affect fee income owed to the University	Course changes are only actioned on QLS after completion of the Course Changes Log.	S3
	Faculty Managers are notified of updates to QLS records and check to confirm these are accurate and appropriate.	S4
	Exception reports are generated to identify any issues. These are reviewed and actions are taken to resolve any issues noted.	S5
Invalid changes are made to student accounts which could compromise the validity, accuracy and completeness of student records	Access rights within QLX are restricted to appropriate personnel.	S6

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken our 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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed within our Engagement Letter. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.18(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Quarter 3 Continuous Auditing report	
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?	<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 3 2012/13 was undertaken as part of the continuous internal audit programme and is the third report in the continuous auditing cycle for 2012/13.

There have been changes in the ratings compared to Q2 for;

- Accounts payable (Amber to Green)
- Accounts receivable (Amber to Green)

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

London South Bank
University

May 2013

FINAL

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

Quarter three (February 2013 – April 2013)



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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

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

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.

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 Data.

In developing our work programme for 2012/13, we met with management to refresh our understanding of the University’s controls to ensure that our work remained 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 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	Q3 2012/13	Q2 2012/13	Q1 2012/13	Q4 2011/12	Trend
Payroll	 Amber	 Amber	 Amber	 Amber	
Accounts payable	 Green	 Amber	 Green	 Green	
Accounts receivable	 Green	 Amber	 Amber	 Green	
Cash	 Green	 Green	 Amber	 Green	
General Ledger	 Amber	 Amber	 Green	 Green	
Student data	 Green	 Green	 Green	 Green	

Findings and recommendations

The core control environment has improved this quarter. No issues were noted in accounts receivable this quarter and although we identified errors as part of fieldwork within cash, accounts payable and student data, these are deemed to be minor exceptions.

Payroll and general ledger have continued to be assigned amber ratings. This is due to recurring exceptions noted within each area, including:

- Timely and accurate processing of leavers (P3); and
- Supporting documentation for journals (GL1).

The key issues arising from our work in respect of each system are summarised below:

Payroll

The following exceptions have been noted:

- 3 leavers forms were received late from Human Resources (HR). This means that these individuals will not receive their final salary until April even though their leave date was in February;
- 1/25 variations tested did not agree to supporting documentation: one individual tested should have been paid £291.29 as required by the variation form however a balance of £291.55 was paid. This was a manual error and will be corrected on the next payment run;
- 2/25 expense claims had not been dated when authorised; and
- 3/25 overtime forms tested had been authorised inappropriately: two of these had been authorised by an individual who did not have authority to approve overtime forms; for one, management were unable to determine if authorisation was appropriate because the authorisation level included on the authorised signatory listing was unclear.

Accounts payable

Management were unable to provide supporting documentation for one supplier standing data change.

Our testing in Q2 identified a control design issue that no reports are run to identify duplicate suppliers on the system. Due to the timing of Q3 fieldwork, management are still in the process of developing this report. Therefore this finding has not been included in our overall assessment of control environment as this action was not due at the time of audit.

Accounts receivable

No exceptions were noted as part of testing.

During our Q2 audit we identified that there are a large number of credit balances within accounts receivable. Management have explained that current practice is to net these off against future transactions made by the customer. These are not refunded unless the customer claims these in writing. This practice was raised as an issue in the Q2 report. This issue has not been re-raised this quarter, as due to the timing of Q3 fieldwork, management have not had the opportunity to implement their management response. Therefore this finding has not been included in our overall assessment of control environment as this action was not due at the time of audit.

Cash

We only identified one exception this quarter: 1/20 cash banking forms had not been signed.

General Ledger

Testing performed during Q3 identified that 7/25 journals tested did not have supporting documentation.

We have also noted that authorisation of journals does not occur until after they have been posted. This control design issue was raised as part of the Q2 report, however, due to the timing of Q3 fieldwork, management have not had opportunity to implement their management response. Therefore this issue has not been included in our overall assessment of control environment as this action was not due at the time of audit.
















Student Financial Data

Supporting documentation could not be located to support 3/25 course changes and withdrawals.

2. Detailed findings





Payroll

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)
P1	Authorised and accurate new starter forms are received prior to an individual being entered on to the payroll system.	●		●	●	●
P2	Exception reports are reviewed on a monthly basis.	●		●	●	●
P3	Leaver forms are received from Human Resources upon notification of resignation or redundancy.	●	<p>3 leavers forms were received late from HR. This means that these individuals will not receive their final salary until April even though their leave date was in February.</p> <p>Responsibility for action: Katie Boyce, Director of Human Resources</p> <p>Management response: The 3 leaver forms were sent to payroll late because they had not been passed from the faculty to HR until April. HR will work with Faculties to ensure that HR procedures are followed and documentation sent to HR in a timely manner.</p>	●	●	●
P4	The BACS run is reviewed by the Financial Controller and a Payment Release Form completed.	●		●	●	●
P5	Variation forms, with supporting documentation, are received prior to any changes being made to standing data.	●	<p>1/25 variations did not agree to supporting documentation. A value of £291.55 was paid to the individual when the balance should have been £291.29.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: Confirmed. This was a manual error and will be corrected in the June Payroll.</p>	●	●	●

P6	Access to the payroll system is restricted to appropriate personnel.				N/A	
P7	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.		<p>3/25 overtime forms tested had not been authorised appropriately.</p> <ul style="list-style-type: none"> 2/3 had been authorised by an individual who did not have authority to authorise overtime forms. For 1/3, management were unable to determine if authorisation was appropriate because the authorised signatory listing was unclear. <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: Going forward we will not process overtime unless these have been authorised appropriately. We will update the authorised signatory listing to ensure authorisation limits are clear and correct.</p>			
P8	Monthly reconciliations are performed between the general ledger and the payroll system. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.					
P9	Expenses are supported by appropriately authorised claim forms.		<p>2/25 expense claims had not been dated when authorised.</p> <p>Responsibility for action: Natalie Ferer, Financial Controller</p> <p>Management response: Going forward we will not process expenses unless these have been appropriately signed and dated.</p>			

Accounts Payable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)
AP1	Authorised documentation must be received prior to the creating a new or amending a supplier record.	●		●	●	N/A
AP2	Listings of changes to supplier standing data are reviewed monthly.	●	<p>Management were unable to provide supporting paperwork for 1/25 changes to supplier standing data tested.</p> <p>Responsibility for action: Penny Green, Head of Procurement</p> <p>Management response: The supporting paperwork has been confirmed as missing from the file. We have double checked with the supplier and the bank changes were legitimate. We have received retrospective confirmation in writing. We are looking at introducing a paperless approach to recording this information, so that the risk of missing paperwork is reduced.</p>	●	●	N/A
AP3	Invoices are approved for payment by an appropriately authorised individual.	●		●	●	●
AP4	Invoices are matched to purchase orders for all expenditure prior to payment and variances investigated.	●		●	●	●
AP5	BACS payment runs are reviewed by the Financial Controller prior to payment, with all invoices over £10,000 checked to supporting documentation.	●		●	●	●
AP6	Exception reports are generated to identify duplicate suppliers and payments. Actions are taken to resolve any errors noted.	N/A	See note 1 below.	N/A	N/A	N/A

AP7	System controls are in place to prevent duplicate order and invoice numbers and suppliers being entered onto the system	N/A	See note 1 below.	N/A	N/A	N/A
AP8	Daily reconciliations are performed between the general ledger and the creditors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis					

Note 1

Testing during Q2 we established that there is no exception report to identify duplicate suppliers on the system. A control design issue was raised in the Q2 report.

We have not re-raised this issue, as due to the timing of fieldwork, management have not had time to resolve this before Q3 fieldwork was completed. This issue has not been included in our overall assessment of control environment as this action was not due at the time of audit.

Accounts Receivable

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)
AR1	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	●		●	●	N/A
AR2	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference	●		●	●	●
AR3	Reminder letters are sent to corporate debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt	●		●	●	●
AR4	Reminder letters are sent to individuals in respect of overdue fees on a monthly basis in line with policy	●	See note 2 below.	●	●	●
AR5	Debts are written off only following review and authorisation	●		●	N/A	N/A
AR6	Monthly reconciliations are performed between the debtors balance on the general ledger and QLX.	●		●	●	●
AR7	Monthly reconciliations are performed between the debtors balance per QLX to QLS.	●		●	●	●
AR8	Monthly reconciliations are performed between the General Ledger and the debtors control accounts. These are prepared and reviewed on a	●		●	●	●





















timely basis, with supporting documentation and reconciling items are investigated on a timely basis.

Note 2

During our audit of Q2 controls, we identified that the aged debt listing includes a number of credit balances. Current practice is to net these off against future transactions made by the customer. These are not refunded unless the customer claims these in writing. A control design issue was raised in the Q2 report.

We have not re-raised this issue, as due to the timing of fieldwork, management have not had time to resolve this before Q3 fieldwork was completed. This issue has not been included in our overall assessment of control environment as this action was not due at the time of audit.

Cash

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)
C1	Cash takings in respect of tuition fees and student residences as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.		1/20 cash banking forms had not been signed. Responsibility for action: Natalie Ferer, Financial Controller Management response: This exception occurred because the cash office manager was not available to sign for form. We will ensure that the cash banking form is signed by another member of the Finance team in his absence.			
C2	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.					
C3	Cash receipts per the general ledger are reconciled to QLX on a monthly basis. Cash receipts per the general ledger are reconciled to KX on a monthly basis.					
C4	Cash receipting responsibility within the QLX system is restricted to appropriate individuals. Cash receipting within the KS system are restricted to appropriate individuals.					
C5	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are performed by Treasury Team and reviewed on a timely basis (by the Financial Accountant), with supporting documentation and reconciling items are investigated on a timely basis.					

General Ledger

	Key control	Exceptions <i>(Current quarter)</i>	Details on exceptions <i>(Where applicable)</i>	Exceptions <i>(Q2 2012/13)</i>	Exceptions <i>(Q1 2012/13)</i>	Exceptions <i>(Q4 2011/12)</i>
GL1	Journals must be authorised, with supporting documentation, prior to being posted on the system.	●	7/25 journals had no supporting documentation. Responsibility for action: Natalie Ferer, Financial Controller Management response: This was highlighted in our Q2 report which was performed at a similar time to the Q3 audit. In the past Finance staff were able to process journals without attaching supporting documentation. The process will be changed so in future all journals will have supporting documentation.	●	N/A	N/A
GL2	On a monthly basis management accounts are prepared and significant variances against budget are investigated	●		●	●	N/A
GL3	Suspense accounts and balance sheet control accounts are cleared or reconciled on a quarterly basis.	●		N/A	N/A	N/A
GL4	Access to the general ledger is restricted	●		●	N/A	N/A
GL5	No single individual has access to make changes to both the QLX and QLS systems	●	We identified one user still has access to QLX despite having left the University. Responsibility for action: Andrew Ratajczak, Fees, Bursaries & Central Enrolment Manager Management response: User access to the university network is	●	●	●

determined by whether staff are employed and included on the university phone book and having card access. Therefore, access would be restricted by virtue of these controls. Steps are now in place to remove QL access as and when access to the network is removed or expired. This particular users' QL access has now been revoked.

Note 3

During our audit of Q2 controls, we identified that manual journals are not authorised until after they have been posted to the general ledger. A control design issue was raised in the Q2 report.

We have not re-raised this issue, however, due to the timing of fieldwork, management have not had time to resolve this before Q3 fieldwork was completed. This issue has not been included in our overall assessment of control environment as this action was not due at the time of audit.

Student Data

	Key control	Exceptions (Current quarter)	Details on exceptions (Where applicable)	Exceptions (Q2 2012/13)	Exceptions (Q1 2012/13)	Exceptions (Q4 2011/12)
S1	Enrolment or re-enrolment paperwork has been completed for each new and re-enrolled student prior to the creation of records within QLS.	●		●	●	●
S2/S5*	Exception reports are generated to identify any issues regarding student fee data and course information. These are reviewed and actions are taken to resolve any issues noted.	N/A		N/A	N/A	N/A
S3	Course changes are only actioned on QLS after completion of the Course Changes Log.	●	3/25 course changes did not have accompanying paperwork or audit trail. Responsibility for action: Andrew Ratajczak, Fees, Bursaries & Central Enrolment Manager Management response: This is a Faculty responsibility and should be documented. We will remind Faculties of the need to retain this information.	●	●	●
S4	Faculty Managers are notified of updates to QLS records and check to confirm these are accurate and appropriate.	●		●	N/A	N/A
S6	Access rights within QLX are restricted to appropriate personnel.	●		●	●	●

* This control was included for Q2 and Q3 to identify whether there were any exception reports which served as additional controls to those already identified. After discussion with the Student Data Team we have established that there is no need for additional exception reports above those already tested. These will be removed from our testing plan for 13/14.

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>
<p>●</p> <p>Low</p>	<p>Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or</p> <p>● Minor monetary or financial statement impact £500k; or</p> <p>Minor breach in laws and regulations with limited consequences over £50k; or</p> <p>Minor impact on the reputation of the organisation, resulting in limited unfavorable media coverage restricted to the local press.</p>
<p>Advisory</p>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

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

The purpose of our Continuous Audit programme is to test key controls on an on-going basis to assess whether they are operating effectively and to flag areas and/or report transactions that appear to circumvent controls. Testing is undertaken four times a year (covering three month periods) and provides the following benefits:

- It provides management with an assessment of the operation of key controls on a regular basis throughout the year;
- Control weaknesses can be addressed during the year rather than after the year end; and
- The administrative burden on management will be reduced when compared with a full system review, in areas where there is sufficient evidence that key controls are operating effectively.

Our Continuous Auditing programme for 12/13 will test key controls within the following financial systems this year:

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

We have outlined the controls we will be testing within Appendix 1. These have been identified through our annual audit planning process and meetings with management to update our understanding of the control framework in place. We will continue to refresh this knowledge through the year to ensure we focus upon the key risks facing the University. We will report upon the operating effectiveness of controls on a quarterly basis to provide regular and timely insight to management and Audit Committee members.

We believe that this work touches upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10	x	x	x		x

x = area of primary focus

x = possible area of secondary focus

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 the Approach section below.

At Appendix 1, 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.

Financial process	Key control objectives	Key risks
Payroll and staff expenses	<p>Accurate payments are made to valid employees of the organisation.</p> <p>Accurate payments are made in respect of valid expenses claims.</p>	<p>Fictitious employees are established on the payroll and/or employees are established on the payroll incorrectly (e.g. incorrect pay scale).</p> <p>Payments are made in error to employees who have left the organisation and / or inaccurate final salary payments are made.</p> <p>Overtime or other timesheet based records are inaccurate leading to salary over / under payments.</p> <p>Invalid changes are made to employee salary and bank details leading to incorrect salary payments being made.</p> <p>Information transferred from the payroll system to the main accounting system is not complete and accurate.</p> <p>Expenses are incurred and reimbursed that are not allowable.</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>Payments are made for goods and services which have not been ordered, received or are inadequate.</p> <p>Invalid suppliers or supplier standing data is maintained leading to inaccurate or fraudulent payments.</p> <p>Information transferred from the accounts payable system to the main accounting system is not complete and accurate.</p> <p>Amounts due to suppliers for goods and services are overpaid.</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>Inaccurate or incomplete records of student debts may mean 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. This may mean debts are not recoverable.</p> <p>Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts and maximisation of income.</p> <p>Information transferred from the accounts receivable system to the main accounting system is not complete and accurate.</p>
Cash	<p>Cash ledger balances are accurate and complete.</p> <p>Cash is lost or misappropriated.</p>	<p>Information transferred from the cash receipting systems to the main accounting system is not complete and accurate.</p> <p>Discrepancies between the ledger and till or float records are not promptly identified and investigated. This could mean cash balances are incomplete and / or inaccurate.</p>
General Ledger	<p>Ledger balances are valid and accurate.</p>	<p>Invalid, incomplete or inaccurate journals are posted. This could disguise misappropriations or mean there is no evidence to support decisions made.</p> <p>Suspense accounts and balance sheet control accounts are not cleared on a timely basis.</p> <p>Segregation of duties is not maintained, this could</p>

		compromise the validity and accuracy of general ledger information.
Student Systems	Accurate records of students and their activity are maintained.	<p>Student details and fees payable as recorded upon enrolment are not correct. This could mean income owed to the University is not maximised.</p> <p>Course changes or withdrawals are not identified on a timely basis this could affect fee income owed to the University.</p> <p>Invalid changes are made to student accounts which could compromise the validity, accuracy and completeness of student records.</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 LMU 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 1.

Internal audit team

Name	Title	Contact details
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
Charlotte Bilsland	Audit Manager	07715 484 670 charlotte.bilsland@uk.pwc.com
Josephine Ip	Team Leader	josephine.w.ip@uk.pwc.com
Joy Bowler	Auditor	joy.d.bowler@uk.pwc.com

Key contacts

Name	Title
Richard Flatman	Executive Director of Finance (Audit Sponsor)
Natalie Ferer	Financial Controller
Joanne Monk	Deputy Director of Human Resources
Jenny Laws	Deputy Registrar (Student Management Information Team Leader)
Ravi Mistry	Financial Systems Manager
Ralph Sanders	Financial Planning Manager
Brian Wiltshire	Treasury Manager
Penny Green	Head of Procurement
Julian Rigby	Income Manager
Ravi Mistry	Financial Systems Manager
Nicolas Waring	Cash Office Manager
Denise Sullivan	Payroll Manager
Felicity Clarke	Payroll Team Leader
Andrew Ratajczak	Manager; Fees, Bursaries and Central Enrolment

Timetable

As set out in the approach section above, we will undertake our work on a quarterly basis

	<u>Quarter Two</u> <u>2012/13</u>	<u>Quarter Three</u> <u>2012/13</u>
Fieldwork start	25/03/2013	15/04/2013
Fieldwork completed	05/04/2013	08/05/2013
Draft report to client	19/04/2013	15/05/2013
Response from client	03/05/2013	22/05/2013
Final report to client	10/05/2013	29/05/2013

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: 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 contacts: Denise Sullivan and Felicity Clarke

Key risk	Key control	Reference
Fictitious employees are established on the payroll and/or employees are established on the payroll incorrectly (e.g. incorrect pay scale)	Authorised and accurate 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 are made in error to employees who have left the organisation and / or inaccurate final salary payments are made	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 employee salary and bank details leading to incorrect salary payments being made	Variation forms, with supporting documentation, are received prior to any changes being made to standing data.	P5
	Access to the payroll system is restricted to appropriate personnel.	P6
Overtime or other timesheet based records are inaccurate leading to salary over / under payments	Appropriately authorised overtime claim forms and timesheets are received prior to payment being made.	P7
Information transferred from the payroll system to the main accounting system is not complete and accurate	Monthly reconciliations are performed between the general ledger and the payroll system. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	P8
Expenses are incurred and reimbursed that are not allowable	Expenses are supported by appropriately authorised claim forms.	P9

Sub-process; Accounts Payable

Key contacts: Penny Green (AP1 – AP2) and Maureen Stanislays (AP3 – AP6)

Key risk	Key control	Reference
Invalid suppliers or supplier standing data is maintained leading to inaccurate or fraudulent payments	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

Key risk	Key control	Reference
Payments are made for goods and services which have not been ordered, received or are inadequate. Invoices payments are not appropriately reviewed and authorised prior to payment	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 supporting documentation.	AP5
Amounts due to suppliers for goods and services are over paid	Exception reports are generated produced to identify duplicate suppliers and payments. Actions are taken to resolve any errors noted.	AP6
	System controls are in place to prevent duplicate order and invoice numbers and suppliers being entered onto the system.	AP7
Information transferred from the accounts payable system to the main accounting system is not complete and accurate	Daily reconciliations are performed between the general ledger and the creditors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	AP8

Sub-process; Accounts receivable

Key contacts: Natalie Ferer and Julian Rigby

Key risk	Key control	Reference
Agreements are entered into with customers prior to the performance of credit checks or credit limits are exceeded. This may mean debts are not recoverable.	Credit checks are performed on new customer accounts upon request, prior to the issue of sales invoices.	AR1
Overdue debtor balances are not identified and balances are not actively chased to ensure timely collection of debts and maximisation of income	Invoices are only raised upon receipt of an authorised request form which includes an order requisition reference.	AR2
	Reminder letters are sent to debtors 30, 60 and 90 days following the invoice issue date in respect of invoiced debt.	AR3
	Reminder letters are sent in respect of overdue fees on a monthly basis in line with policy.	AR4
	Debts are written off following appropriate review and authorisation.	AR5
Inaccurate or incomplete records of student debts may mean income is not collected on a timely basis	Monthly reconciliations are performed between the debtors balance on the general ledger and QLX.	AR6
	Monthly reconciliations are performed between the debtors balance per QLX to QLS.	AR7

Information transferred from the accounts receivable system to the main accounting system is not complete and accurate	Monthly reconciliations are performed between the General Ledger and the debtors control accounts. These are prepared and reviewed on a timely basis, with supporting documentation and reconciling items are investigated on a timely basis.	AR8
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Sub-process; Cash

Key contacts: Nicholas Waring (C1-4) and Brian Wiltshire (C5)

Key risk	Key control	Reference
Information transferred from the cash receipting systems to the main accounting system is not complete and accurate	Cash takings in respect of tuition fees and student residences as recorded on QLX are reconciled to cash balances held on a daily basis and discrepancies investigated.	C1
Discrepancies between the ledger and till or float records are not promptly identified and investigated. This could mean cash balances are incomplete and / or inaccurate	Cash deposits made by Loomis are reconciled to records of cash takings on a daily basis.	C2
	Cash receipts per the general ledger are reconciled to QLX on a monthly basis.	C3
	Cash receipts per the general ledger are reconciled to KX on a monthly basis.	
	Cash receipting responsibility within the QLX system is restricted to appropriate individuals.	C4
	Cash receipting within the KS system are restricted to appropriate individuals.	
	Reconciliations are performed on a monthly basis between Agresso and the Bank Statement. These are performed by Treasury Team and reviewed on a timely basis (by the Financial Accountant), with supporting documentation and reconciling items are investigated on a timely basis.	C5

Sub-process; General Ledger

Key contacts: *Detailed below*

Key risk	Key control	Reference
Invalid, incomplete or inaccurate journals are posted. This could disguise misappropriations or mean there is no evidence to support decisions made	Journals must be authorised, with supporting documentation, prior to being posted on the system. Key contact: Ephraim Maimbo	GL1
	On a monthly basis management accounts are prepared and	GL2

	significant variances against budget are investigated. Key contact: <i>Ralph Sanders</i>	
Suspense accounts and balance sheet control accounts are not cleared on a timely basis	Suspense accounts and balance sheet control accounts are cleared or reconciled on a quarterly basis. Key contact: <i>Ephraim Maimbo</i>	GL3
Segregation of duties is not maintained, this could compromise the validity and accuracy of general ledger information	Access to the general ledger is restricted. Key contact: <i>Ravi Mistry</i>	GL4
	No single individual has access to make changes to both the QLX and QLS systems. Key contact: <i>Ravi Mistry</i>	GL5

Sub-process; Student Systems

Key contact: Andrew Ratajczak

Key risk	Key control	Reference
Student details and fees payable as recorded upon enrolment are not correct. This could mean income owed to the University is not maximised	Enrolment or re-enrolment paperwork has been completed for each new and re-enrolled student prior to the creation of records within QLS.	S1
	Exception reports are generated to identify any issues. These are reviewed and actions are taken to resolve any issues noted.	S2
Course changes or withdrawals are not identified on a timely basis this could affect fee income owed to the University	Course changes are only actioned on QLS after completion of the Course Changes Log.	S3
	Faculty Managers are notified of updates to QLS records and check to confirm these are accurate and appropriate.	S4
	Exception reports are generated to identify any issues. These are reviewed and actions are taken to resolve any issues noted.	S5
Invalid changes are made to student accounts which could compromise the validity, accuracy and completeness of student records	Access rights within QLX are restricted to appropriate personnel.	S6

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken our 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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed within our Engagement Letter. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.19(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Internal Audit Report - Key Information Sets	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee discuss and 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 audit report for key information sets (KIS) was undertaken as part of the internal audit programme for 2012/13.

The report classifies the University's methods and procedures for production and publication of KIS data to Hefce's Unistats website as being low risk.

Whilst it found that the data was calculated accurately in all cases, it recommends that procedure notes are produced to guide future provision.

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

London South Bank University
Key Information Sets
Final Report

Internal Audit Report

May 2013



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Distribution List

For action	Andrew Fisher, Academic Registrar
For information	Phil Cardew, Pro Vice Chancellor (Academic)
	Richard Flatman, Audit Committee

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Our internal audit work has been performed in accordance 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.

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Low Risk See appendix 1 for details	N/A; No comparable previous review performed	Control design	0	0	0	1	1
		Operating effectiveness	0	0	1	2	0
		Total	0	0	1	3	1

Scope of the review

See appendix 2 for details

The objective of this review was to consider the methods used to collect the Key Information Sets data against the data quality assertions (completeness, accuracy, validity and restricted access).

Background and approach

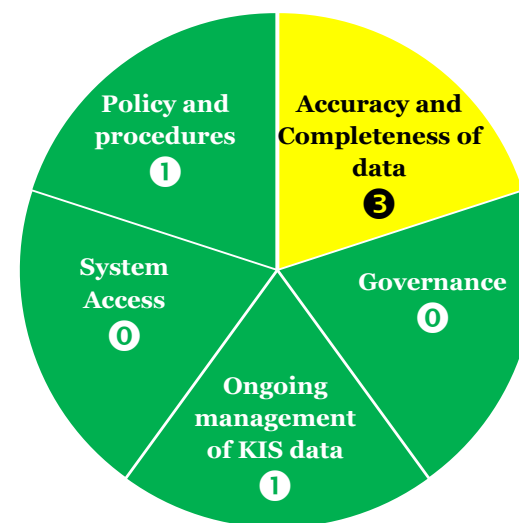
In September 2012, HEFCE launched the Unistats website. This is designed to be a tool for prospective students to compare data on courses and Universities through analysis of a selection of Key Information Sets (KIS). The data is taken directly from Universities, along with the National Student Survey and the Destination of Leavers Survey.

Summary of Findings





LSBU adopted a logical approach to compiling data: departments collated the initial results and submitted these to a central team who double checked calculations before submission. Our re-performance of a sample of calculations found data was calculated accurately but identified a number of instances where Management could not locate the original source documentation to validate the results.

Data was submitted to HEFCE on time but there were a number of examples of non-compliance with internal deadlines which threatened this being achieved. We also noted that there are no procedure notes for four of the indicators.

LSBU have compared their KIS results to other Universities to perform a competitive analysis however no further actions have been undertaken by the Executive team to use this data. This is due to concerns over the reliability and validity of wider KIS data. We are aware other Institutions are using benchmark data to inform decisions and recommend LSBU continue to assess the validity and reliability of data during 13/14 and consider if it can be used for strategic or marketing purposes.



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
-  Medium risk Design of Controls or Operating in Practice issues identified
-  High risk Controls Design or Controls Operating in Practice issues identified
-  Critical risk Controls Design or Controls Operating in Practice issues identified

2. Detailed current year findings

Finding: Lack of procedure notes – Control Design

The University is responsible for collecting data for six of the key information sets. Our review identified that there were no procedure notes outlining data collection procedures for four of these areas. These were:

- Course fees;
- Accreditation;
- Annual University accommodation costs; and
- Private accommodation costs.

Risks

Lack of detailed procedure notes may mean the data collection method agreed by the KIS Steering group may not be complied with or is misunderstood by the staff leading to issues over the accuracy, completeness and validity of data.

There is also a risk of inconsistencies in the data collection methods adopted by different departments/faculties without formal guidance provided to staff. Data may not be comparable year on year if the data collection methods are not clearly set out in the procedure notes.

Action plan

Finding rating



Low risk

Agreed action

The Registry department have already begun to have conversations with Faculty Quality Assurance Administrators and other relevant staff to review processes for 2013 KIS data collection.

We will review the KIS guidance updates issued by HEFCE and incorporate these into the procedure notes prior to the 2013 September KIS submission.

Responsible person / title

Andrew Fisher (Academic Registrar)

Target date:

31/07/2013

Finding: Lack of supporting documentation– Operating Effectiveness

We tested a sample of KIS to confirm the accuracy, completeness and validity of data. Our testing identified that supporting source documentation was not available for all KIS data sets This included:

- **Time and Learning** – This measures the percentage of time spent in different learning activities, by year. We noted that the student numbers cannot be agreed to the student record system as this only shows numbers as at a point in time. It is not possible to retrospectively agree this figure.
- **University accommodation costs** – This measures the typical annual cost for university accommodation. The 2011/12 price lists used to calculate the upper and lower quartile annual costs have not been retained by the University accommodation team or the archiving team.

We were unable to confirm the accuracy, completeness and validity for the KIS samples selected relating to these areas.

Risks

Data may be inaccurate or incomplete leading to incorrect results being reported.

Action plan

Finding rating



Medium risk

Agreed action

The registry department will retain copies of supporting documentation.

Student numbers will be captured and retained at the time when the data is processed for the Time and Learning measure.

University accommodation price lists will be requested from the accommodation department. Copies of these will be retained by the registry department.

Responsible person / title

Andrew Fisher (Academic Registrar)

Target date:

31/07/2013

Finding: Errors on source documentation – Operating Effectiveness

Module statements are reviewed and approved by the Faculty Academic Standards Committee prior to their publication on the Virtual Learning Environment platform (Blackboard) for existing students. Module statements provide detailed information such as number of credits, assessment methods and teaching methods to existing students.

During testing of a sample of KIS, we identified that one of the 25 KIS selected contained a typing error. This has limited impact on the KIS calculation as the module details used on the calculation spreadsheet were correctly recorded but could be indicative of other errors concerning the accuracy of underlying data.

Risks

Inaccurate results are posted. Incorrect module information may mislead registered students in relation to the learning methods and the assessment methods within the course.

Action plan

Finding rating



Low risk

Agreed action

A CMP2 project is due to launch in each faculty over the next few months. One of the aims of this project is to re-check course documents and to identify errors on the module statements before these are approved by the FASC.

Responsible person / title

Andrew Fisher (Academic Registrar)

Target date:

31/07/ 2013

Finding: Non-compliance to internal submission deadline– Operating Effectiveness

The time frame for processing KIS data was approved in April 2012 by the KIS Steering Group. An internal data submission deadline was agreed as 01/06/2012.

- Two out of the four faculties did not meet the internal submission deadline;
- One out of 25 sampled required fees information to be provided by a collaborative course partner – this was not submitted to the University within the internal submission deadline.

Risks

Failure to submit data within the internal deadline may cause a delay in meeting the HEFCE submission deadline. According to the HEFCE guidance, if an institution did not provide the KIS data they would fail QAA reviews. HEFCE may seek to collect the data themselves and deduct the cost of this work from the institution's grant. There is also likely to be a significant reputational impact on the institutional as it is perceived to be denying student's information.

Action plan

Finding rating



Low risk

Agreed action

We have submitted the September 2012 KIS data to HEFCE within the deadline of 22nd August 2012. A number of amendments have been made on the KIS data following the internal submission by faculties.

Faculties will be reminded to submit their September 2013 KIS data in a timely manner. We will liaise with our collaborative partners to ensure that they are aware of our deadline for KIS data submission.

Responsible person / title

Andrew Fisher (Academic Registrar)

Target date:

31/07/2013

Finding: Insufficient ongoing management of KIS data– Control Design

The University performed a competitive analysis of KIS results against other universities in September 2012. This resulted in the production of Balanced Scorecards by the Marketing department to compare the University’s KIS data against its competitors. However, no further actions have been undertaken by the Executive team to use this data for strategic or marketing purposes.


The University chose not to use KIS data for internal planning processes as it does not consider the data to be valid or reliable benchmarks.

We are aware from our work with other universities that some Institutions are using benchmark data to inform strategic decisions. We recommend the University continue to review benchmark data during 13/14 to determine the validity and reliability of this data for benchmarking purposes. It may be beneficial to receive feedback from departments to see what further information would be useful to assist with this process.

Risks

In the absence of meaningful use of the benchmark data there is a potential opportunity cost of not making changes to course configurations which other peer institutions are making.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Advisory	We have not pursued this as we do not consider data to be valid or reliable for benchmarking processes. We will continue to reassess this during 13/14.	Andrew Fisher (Academic Registrar) <i>Target date:</i> N/A

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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

Appendix 2. Terms of Reference

Background

In September 2012, HEFCE launched the Unistats website (www.unistats.direct.gov.uk). This is designed to be a tool for prospective students to compare data on courses and Universities. The data is taken from the Universities themselves, along with the National Student Survey and the Destination of Leavers Survey.

Universities are responsible for compiling their own statistics for some of the indicators based on guidance which has been issued by HEFCE. The remainder are supplied by third parties, such as the National Union of Students of HEFCE.

We believe our review will touch upon the following areas as part of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10			x		x

x = area of primary focus

x = possible area of secondary focus

Scope

This review will consider the methods used to collect the data against the data quality assertions (completeness, accuracy, validity and restricted access). We will also reperform the calculations for a sample of data sets.

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

Sub-process	Key control objectives	Key risks
Policies and procedures	<ul style="list-style-type: none"> A policy for data quality has been defined and is supported by procedure notes and guidance outlining the process and key deadlines for compiling key information sets. 	<ul style="list-style-type: none"> Lack of a defined methodology, policy and procedure notes may mean staff do not know how to compile data. This could mean data is compiled on an inconsistent basis, meaning it is

	<ul style="list-style-type: none"> Policy and procedure notes, including key deadlines, have been circulated to staff. 	<p>incomparable or that data is not gathered correctly meaning it is inaccurate or incomplete.</p> <ul style="list-style-type: none"> If guidance is not circulated or understood, methodology may not be followed or applied consistently. This could mean data is unreliable, inaccurate or incomplete. There is no timetable in place summarising key deadlines or the timetable is unrealistic, this could mean data is submitted late.
Governance	<ul style="list-style-type: none"> A framework is in place for monitoring performance on data quality. There is an appropriate governance structure in place demonstrating management's commitment to data quality. 	<ul style="list-style-type: none"> Inadequate information flow and poor management decision making. Data quality objectives are not met.
Accuracy and completeness of data ¹	<ul style="list-style-type: none"> There is supporting documentation in place to validate key information statistics. Results are complete and accurate. Judgements applied are valid and appropriate. 	<ul style="list-style-type: none"> Source data is not retained to support performance meaning it is not possible to prove the validity, accuracy or completeness of results. Inappropriate controls surrounding source data could mean that data is not reliable. Information to support key judgements made is not retained and/or challenged. This could mean judgements applied are inappropriate which may affect reported results.
System integrity	<ul style="list-style-type: none"> The system used to collate data is protected against unauthorised access/ processing and is secure against loss or damage of data. 	<ul style="list-style-type: none"> Inappropriate or unauthorised amendments undermining the integrity of data. Inadequate data transfer controls mean data submitted to HEFCE is not correct.

Ongoing management of KIS data

- Key milestones have been identified and are mapped to a clear timetable, with progress against this being monitored.
- Appropriate consultation with wider stakeholders has been undertaken to ensure lessons are learned from the 2012 exercise for future years.
- Key data sets are shared with internal stakeholders to inform strategic and commercial decisions.
- Key trends may not be noticed and lessons learnt not identified for the purpose of management decision making or improvement to University services.

¹ We will select a sample of Key Information Sets and re-perform calculations to confirm accuracy, completeness, validity and restricted access.

Limitations of scope

The scope of our work will be limited to those areas outlined above. Our testing of the accuracy and completeness of data will be restricted to a sample of Key Information Sets which will be selected during the audit. We will only consider information sets compiled by the University and will not consider those taken from other sources.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of Key Information Sets through discussions with key personnel, review of methodology and procedure notes and walkthrough tests;
- Identify the key risks relating to 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

Name	Title	Contact details
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
Charlotte Bilisland	Team Manager	07715 484 470 charlotte.bilisland@uk.pwc.com

Josephine Ip	Auditor	07983 381 515 josephine.w.ip@uk.pwc.com
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Key contacts

Name	Title	Contact details	Responsibilities
Phil Cardew	Pro Vice Chancellor (Academic) <i>(Audit Sponsor)</i>	0207 815 6010 phil.cardew@lsbu.ac.uk	Review and approve terms of reference Review draft report
Andrew Fisher	Academic Registrar <i>(Audit Contact)</i>	0207 815 7415 fishera7@lsbu.ac.uk	Review and approve final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan
Richard Flatman	Executive Director of Finance	0207 815 6301 richard.flatman@lsbu.ac.uk	Receive draft and final terms of reference Review draft report Review and approve final report
Darrell Pariag	Corporate and Business Planning Manager	0207 815 6908 pariagd2@lsbu.ac.uk	Receive final terms of reference Receive draft and final report

Timetable

Fieldwork start	11 th March 2013
Fieldwork completed	22 nd March 2013
Draft report to client*	19 th April 2013
Response from client	26 th April 2013
Final report to client	3 rd May 2013

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.

** It was agreed with Management to extend the reporting timetable to accommodate annual leave commitments of staff during the review.*

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's Key Information Sets (as set out in our terms of reference), subject to the limitations outlined below.

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.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). 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.

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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	PAPER NO: AC.20(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Financial Forecasting	
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?	<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 audit report for financial forecasting was undertaken as part of the internal audit programme for 2012/13.

The report found no issues relating to accuracy or completeness of the data provided in the management accounts, but records a risk classification of medium, owing to a lack of formal detailing of the procedures followed by the Business Support Managers, and some concerns around the treatment and reporting of Research & Capital expenditure.

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

London South Bank University

Financial Forecasting

Final Report

Internal Audit Report

May 2013



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Distribution List

For action	Ralph Sanders, Head of Financial Planning and Reporting
For information	Richard Flatman, Executive Director of Finance Audit Committee

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Our internal audit work has been performed in accordance 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.

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium Risk See appendix 1 for details	N/A; No comparable previous review performed	Control design	0	1	1	1	0
		Operating effectiveness	0	0	0	0	0
		Total	0	1	1	1	0

Scope of the review

See appendix 2 for details

The objective of this assignment was to review the methodology applied to preparing management accounts and financial forecasts to assess if this is consistent, robust, accurate and complete in its application.

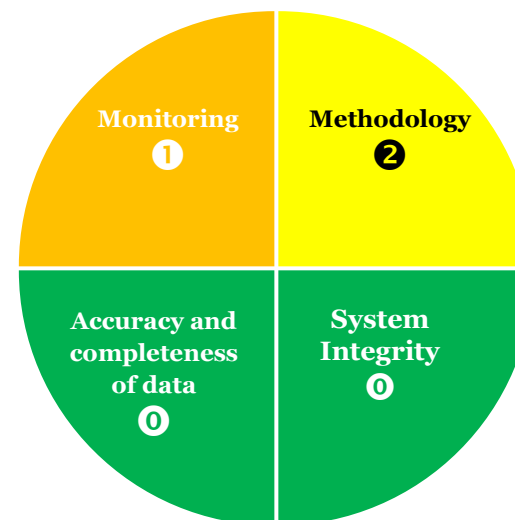
Background and approach

LSBU prepare monthly management accounts for capital and revenue which include financial forecasts, alongside budgets for the year and actuals to date. These are prepared by Business Support Managers (BSMs) across the University and are submitted to HEFCE on an annual basis.


Summary of Findings

We did not identify any issues surrounding the accuracy and completeness of data – our sample testing of a selection of revenue and capital streams did not identify any issues. Further work is needed to improve the control environment, however, as follows:

- There are no formal policies or procedures to provide guidance to BSMs on how to compile management accounts or forecasts;
- Research expenditure categories are not aligned to management account expenditure categories; research costs are initially allocated to the ‘miscellaneous’ line and requires re-forecasting as actual expenditure is incurred; and
- Management reporting of capital expenditure is incomplete and only includes financial information on Estates and Facilities. There is no formal communication channel in place to discuss the quarterly report with the Executive team. Our work also identified that the Q2 capital report was not produced due to staff sickness and limited resources.



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
-  Medium risk Design of Controls or Operating in Practice issues identified
-  High risk Controls Design or Controls Operating in Practice issues identified
-  Critical risk Controls Design or Controls Operating in Practice issues identified

2. Detailed current year findings

Finding: Lack of procedure notes – Control Design


We spoke to a sample of 6 BSMs to understand the process for compiling management accounts and financial forecasts. The methodology used to compile these reports is largely consistent across different business units, however, there are no formal procedure notes outlining how this should be performed for each area.

This could mean there are inconsistencies in compilation methods and variation methods which may mean management accounts and forecast are not comparable for the purpose of management decision making. For example, we noted the threshold for revenue variance investigation ranged from 5% to 10%.

Risks

Inconsistent methodology could mean management accounts and forecast are not comparable for the purpose of management decision making.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	Procedure notes will be formalised. Ralph Sanders will collate information from all the BSMs in order to draft the procedure notes on Revenue income/expenditure forecasting and will be responsible for drafting the procedure note for capital expenditure.	Ralph Sanders (Head of Financial Planning and Reporting) <i>Target date:</i> 31/07/2013

Finding: Coding of research expenditure– Control Design

Research organisers complete research expenditure forms which are submitted to BSMs when project funding has been agreed with sponsors. These are used to create initial budgets for research expenditure.

The expenditure categories used on research expenditure forms are not aligned to management account expenditure categories. This means initial research projects are usually allocated to the ‘miscellaneous’ category and have to be re-forecasted as the actual expenditure is posted onto Agresso.

Risks

Ambiguity over research expenditure categories may mean that BSMs are unable to allocate research expenditure accurately. Initial budgeting may be inaccurate.

Action plan

Finding rating

Agreed action

Responsible person / title



Low risk

Sarah Allwood will be responsible to designing a new research expenditure form where the expenditure categories will be comparable with the management accounts.

Ralph Sanders (Head of Financial Planning and Reporting)

Target date:

31/07/2013

Finding: Monitoring of capital expenditure– Control Design

Capital is monitored via informal quarterly meetings which are attended by the Executive Director of Finance, Head of Financial Planning and Reporting, Reporting Business Support Manager and Business Support Manager. Our testing identified that the capital report does not provide an overview of all the capital expenditure for the quarter and only includes financial information on Estates and Facilities. There is no monitoring of capital expenditure relating to ICT (which has the second highest capital spend) or other capital projects.


Although this report is discussed within Finance, there is no formal communication channel to discuss this with the Executive team.

We also identified that the Q2 capital report was not produced due to staff sickness and limited resources.

Risks

Insufficient management oversight due to incomplete data, inadequate reporting arrangements and untimely reporting.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 High risk	<p>A set of procedure notes will be written by Ralph Sanders to ensure that there is clear structure, timeline and reporting channel in relation to capital expenditure. This will be shared with the individuals involved in the process.</p> <p>The capital report will include all the financial performance including Estates and Facilities, ICT and other capital projects by the end of this financial year.</p> <p>The quarterly report will be produced as expected. We will be restructuring BSM responsibilities over the next few months which is anticipated to help with the workload of the Estate & Facilities BSM.</p>	<p>Ralph Sanders (Head of Financial Planning and Reporting)</p> <p><i>Target date:</i> 31/07/2013</p>

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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

Appendix 2. Terms of Reference

Background

Effective financial forecasting helps organisations to prepare for the future: it assists management decision making through enabling organisations to change operations to ensure financial benefit is maximised; it can help prevent future losses through analysis of trends; and, when done effectively, gives key stakeholder's confidence that the organisation understands its own business model.

London South Bank University (LSBU) prepares monthly management accounts to monitor capital and revenue budgets. Management accounts are prepared based on information extracted from Agresso (the University's general ledger) by Business Support Managers (BSMs) across the University.

LSBU also prepare financial forecasts containing both capital and revenue data using the COGNOS planning tool. These are submitted to HEFCE on an annual basis. The most recent annual forecast submitted forecasts a surplus of £2.5m.

The objective of this review is to review the methodology applied to prepare management accounts and financial forecasts to assess if this is consistent, robust, accurate and complete.

We believe our work will touch upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10	x		x		x

x = area of primary focus

x = possible area of secondary focus

Scope

This review will consider the method followed to compile monthly management accounts and financial forecasts.

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

Sub-process	Key control objectives	Key risks
Methodology	<ul style="list-style-type: none"> • There is a defined methodology in place for compiling management accounts and financial forecasts which is understood by staff. • Procedures in place are robust and support the accuracy, completeness and validity of reported figures. 	<ul style="list-style-type: none"> • Staff do not understand how to compile data. This could mean financial forecasts and management accounts are compiled on an inconsistent basis, meaning they are not comparable or reliable for the purpose of management decision making. • Processes are not robust meaning actual or budgeted figures may be inaccurate, incomplete, invalid or unreliable. • If guidance is not circulated or understood, methodology may not be followed or applied consistently. This could mean forecasts are unreliable, inaccurate or incomplete.
Accuracy and completeness of data*	<ul style="list-style-type: none"> • There is supporting documentation in place to validate management accounts and financial forecasts. • Results are complete and accurate. • Assumptions and judgements applied are valid and appropriate. 	<ul style="list-style-type: none"> • Source data is not retained. This could undermine the integrity of data and mean it is not possible to prove the validity, accuracy or completeness of results. • Inappropriate controls surrounding source data could mean that data is not reliable. • Information to support key judgements made is not retained and/or challenged. This could mean judgements applied are inappropriate which may affect budgeted or actual figures meaning inappropriate management decisions are made.
System integrity	<ul style="list-style-type: none"> • The systems used to collate financial forecasts and management accounts are protected against unauthorised access/ processing and is secure against loss or damage of data. 	<ul style="list-style-type: none"> • Inappropriate or unauthorised amendments may undermine the integrity of data.
Monitoring and reporting	<ul style="list-style-type: none"> • Financial performance – including variances - is reviewed, understood and challenged. 	<ul style="list-style-type: none"> • Inadequate information flow could mean performance is not reported, challenged or understood. This could mean trends are not identified and lead to poor management decision making.

* We will select a sample of figures from financial forecasts and management accounts and agree these back to supporting documentation to confirm accuracy of data.

Limitations of scope

The scope of our work will be limited to those areas outlined above. Our testing of the accuracy and completeness of data will be restricted to a sample of figures reported within financial forecasts and management accounts. These will be selected during the audit and will include understanding of a sample of judgements applied to review whether these are reasonable and supportable.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of Financial Forecasting through discussions with key personnel, review of methodology and procedure notes and walkthrough tests;
- Identify the key risks relating to 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

Name	Title	Contact details
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
Charlotte Bilsland	Team Manager	07715 484 470 Charlotte.bilsland@uk.pwc.com
Josephine Ip	Auditor	07983 381 515 josephine.w.ip@uk.pwc.com

Key contacts

Name	Title	Contact details	Responsibilities
Richard Flatman	Executive Director of Finance (Audit Sponsor)	0207 815 6301 richard.flatman@lsbu.ac.uk	Review and approve terms of reference Review draft report
Ralph Sanders	Head of Financial Planning and Reporting (Audit Contact)	0207 815 6319 sanderr4@lsbu.ac.uk	Review and approve final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan
Andrew Garrod	Business Support Manager	0207 815 6029 garroda@lsbu.ac.uk	Receive draft and final terms of reference
Keith Woulds	Reporting Business Support Manager	0207 815 6322 wouldk@lsbu.ac.uk	Receive draft report Receive final report
David Kotula	Reporting Analyst (Special Projects)	0207 815 6361 kotulad@lsbu.ac.uk	
Sarah Allwood	Business Support Manager	0207 815 8470 allwoods@lsbu.ac.uk	
Darrell Paraig	Corporate and Business Planning Manager	0207 815 6908 pariagd2@lsbu.ac.uk	

Timetable

Fieldwork start	18 th March 2013
Fieldwork completed	29 th March 2013
Draft report to client**	19 th April 2013
Response from client	26 th April 2013
Final report to client	3 rd May 2013

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.

*** It was agreed with Management to extend the reporting timetable due to staff unavailability during the review.*

Appendix 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's Financial Forecasting processes (as set out in our terms of reference), subject to the limitations outlined below.

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.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). 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.

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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed in our engagement letter. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.21(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	IT Security & Phishing	
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?	<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 audit report for IT security controls & the specific risk related to Phishing attacks was undertaken as part of the internal audit programme for 2012/13.

The report found the risk in this area to be high.

Areas of weakness were identified in the controls relating to 3 areas:

- The physical security of the campus server locations
- Management authorisation for the creation of administrators on the University phonebook system, which is the critical factor enabling staff access to buildings & IT systems

- Logical Security, with password complexity below average

Additionally a fake phishing attack was executed 2 weeks after a real phishing attack had compromised University e-mail traffic and restorative action had required all staff to change their system passwords. In spite of this, nearly 10% of University staff responded to the fake attack and surrendered their password details.

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

London South Bank University

IT Controls and Phishing

Final Report

Internal Audit Report

June 2013



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Distribution List

For action	David Swayne, CIO
For information	Richard Flatman, Director of Finance Chair and members of Audit Committee

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Our internal audit work has been performed in accordance 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.

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 High risk See Appendix 1 for basis of scoring	N/A; No comparable previous review performed	Control design	0	3	0	0	0
		Operating effectiveness	0	0	0	0	0
		Total	0	3	0	0	0

Scope of the review
See Appendix 2 for details

The objective of this review was to assess logical and physical controls within LSBU. In conjunction with the logical and physical security controls testing a phishing exercise was conducted to assess the culture of security amongst the LSBU staff.

Background and approach

IT controls form an integral part of protecting an organisation’s information (personal and financial), data and assets (physical and intellectual). Underpinning the IT controls is the culture of security and the organisation’s employee’s awareness of risks to information, assets and data.

The University, as part of its daily operation would typically see a large number of people (students, staff and visitors) entering and leaving buildings and using shared and potentially publically accessible IT equipment. The need for strong controls around the physical and logical security is key to protecting the University’s information and assets.

In addition, we performed a targeted phishing test against London South Bank University (LSBU) internal users (members of staff) where a scenario was designed to fool users into disclosing sensitive information relating to the LSBU.

Summary of Findings – IT Controls

Overall we identified areas of weakness in; Physical Security, User Administration and Logical Security controls. The key messages are;

Physical Security – weak controls over the restriction of access to server rooms has resulted in over 500 people being able to access one server room (K2), and 180 individuals being able to access the other server room (G70). In addition, we identified weak controls in the processes for allocating access to restricted areas and a lack of formal ‘area owners’ resulting in no management approval for access to or periodic review of those who have access to these areas.

User Administration – There is a lack of management authorisation for the creation or definition of new “Phonebook” administrators (the phonebook essentially acts as an HR employee staff number generator and once an individual has a phonebook entry, they can request a photographic badge, network account, email address etc). There is an absence of a formalised process, or retained evidence of requests to add new staff into the phonebook. In addition, we identified 22 network accounts (from a sample of 30) of leavers that were still active.

Logical Security – Weak logical security settings within Active Directory (staff network accounts), specifically the minimum length is set to six characters with complexity rules off (this would require users to have numbers and other characters in their password) and password expiry set to 180. In addition, we identified a number of administrator accounts which had been set to ‘password never expires’. We also identified a weakness in the logging of activities performed by administrators, whereby

the systems are configured to retain only a maximum size of entries (130Mb) and to overwrite the entries should the log become full. At the time of testing, the security log only contained the previous four hours of entries.

Summary of Findings – Phishing

Phishing Exercise - Shortly before we conducted the phishing exercise the LSBU fell victim to a 'real' malicious phishing attack from the internet, halting our scenario being conducted. This will have increased the awareness of staff against such threats and potentially will have affected the results obtained during our phishing scenario. We conducted the test approximately two weeks after the real attack was confirmed as contained and resolved. Of the 1,999 emails that were delivered successfully to LSBU staff, a total of 308 users followed the link requesting staff change their password, and 212 of those users entered their credentials (account name and password) to our portal.

2. Detailed current year findings

Finding: Physical Security of IT Assets

There is an overall lack of oversight and governance of the physical access restrictions protecting LSBU's IT equipment. The University uses an electronic badge system RW Pro-Access (SALTO) to control access to the various areas across the Campus (staff, student and other areas). Within the system there is the ability to define specifically restricted areas (zones) and specific access control lists. Whilst there are areas which have been specifically restricted, there is no formalised process for management to approve the addition of individuals to the access control lists or periodically review of the contents of these lists. Our review of the SALTO system, specifically for the areas where there is IT equipment highlighted the following issues;

- a) Lack of formal 'owners' of restricted access control lists, lack of formalised processes for management to approve the addition of individuals to these lists and to periodically review for appropriateness; and
- b) There are two server rooms across the campus, hosting the University's application servers ('G70 CSD Server' and 'K2 V416'). Both of these rooms are secured using the electronic badge readers. Analysis of the SALTO system identified a total of 514 individuals (across five different access control lists) who had access to the K2 room and 182 individuals (across two access control lists) who have access to the G70 room.

In addition to the server rooms, there are 'network closets' distributed across the Campus. These rooms contain live networking equipment (switches), and in some cases spare switches. Access to these rooms is controlled by physical keys and not the SALTO system. The following issues were identified during our review of these closets / rooms;

- c) The room 1B37, containing live networking equipment and a large number of spare networking equipment (approx eight switches) was unlocked. In addition, this room provides the network for the University's Vice Chancellor's office and his staff; and
- d) A 'rack' containing live networking equipment was located outside an education room (G52), in a stairwell. The lock for this rack was broken, resulting in the door remaining open, exposing the networking equipment to all staff / students / contractors who have access to the Campus; and
- e) There is no formal authorised signatory list for the issuing of keys to network closets. Internal Audit was able to request, sign for and receive the key to a network closet, despite showing a standard 'contractors' badge.

Risks

Lack of suitable physical security controls can lead to unauthorised, inappropriate or malicious access to live systems. This can potentially expose the University to loss of or theft of equipment or malicious activity resulting in service outages.

Action plan

Finding rating



High risk

Proposed action

- a) *ICT will work with LSBU Security to agree an 'owner' for each restricted space and the access control list associated with the space. The owner will work with Security to implement a process to approve the addition of individuals to the list and these will be reviewed on a quarterly basis.*
- b) *The individuals that have access to the server rooms will be reviewed and access restricted to those that need to be able to enter the rooms as a part of their work.*
- c) *The locks used on network rooms will be reviewed to ensure that they have the capability to lock automatically so that they cannot be left unlocked.*
- d) *A call has been logged with Estates and Facilities to repair the lock.*
- e) *ICT will discuss the use of id-cards associated with authorised users being used to control access to network closets in addition to the server rooms.*

Responsible person / title

David Swayne, CIO

Target date: 30 September 2013

Finding: User Administration

To enable an individual to gain access to the University’s network environment, email systems and physical ID badge, an entry must be created for them on an internally developed system – Phonebook. This allocates individuals with a unique ‘personnel’ number. The Business ownership of the system is not formally documented or agreed, although it is perceived that ICT are the owners as they provide technical support to the system. System administrative access to Phonebook is limited to three individual ‘super users’ within the ICT department, however each faculty across the University has locally defined ‘administrators’ who have the ability to add or remove individuals into the Phonebook. We identified the following issues;

- a) A lack of a formalised process or management approval / authorisation for the definition of new administrators for Phonebook. This is applicable to the definition of new Facility administrators and new super users; and
- b) A lack of a formalised process to request the addition of a new user to Phonebook, including the retention of auditable evidence.

Once an individual is entered into the phonebook, a network (Active Directory - AD) account can be requested. This is done by any individual with access to the on-line forms on the University’s intranet pages. The completed form needs to contain the phonebook ID of the individual the account is being requested for, plus the email address of their manager. Once submitted, the on-line form is sent to the Manager’s email address within the form, who in turn forwards the email to the help desk. The help desk then forwards the email to an in-house developed automated system (CAMS), which takes the information within the email and generates an AD account automatically. It is possible (but not required) to define, within the new account on-line form an end date for the account.

- c) We requested a list of staff leavers from HR for the previous six months. Of the 30 leaver accounts tested, 22 remained active within Active Directory.

Risks

- a) and b) Lack of controls over the assignment of privileges may result in excessive, inappropriate and unauthorised access to systems and data.
- c) Redundant accounts within systems increases the risk of unauthorised or inappropriate access to information and / or data.

Action plan

Finding rating



High risk

Proposed action

- a) *The use of the Phonebook system as the ‘golden record’ for staff will be examined along with replacing the CAMS system. A propriety identity management solution will be procured that includes approval processes for user accounts and audit trails for changes.*
- b) *See (a) – Phonebook should not be the trigger system for ICT accounts.*
- c) *A review of user accounts will be undertaken against staff leavers. People that have left will be removed from the system.*

Responsible person / title

David Swayne, CIO

Target date: (c) will be completed by the end of August 2013. (a) and (b) will be completed by end of December 2013.

Finding: Logical Security

a) The University does not have a documented Logical Security policy. This policy should detail the security settings used across the IT enterprise. This document should detail the configurable security parameters that should be set for each operating system in-use for both servers and networking infrastructure. In addition, this should include the password settings to be enforced (length, history and expiry etc.) for all user accounts (Active Directory and applications in use).

During our review of the logical security settings within Active Directory, we noted the following issues;

b) Weak enforced password settings; minimum length is set to six characters (with complexity set to off), maximum age is set to 180 days and minimum age is set to zero (i.e. a user can change their password immediately, to cycle through back to the original password);

c) The security log settings on one of the tested Domain controllers was set to a maximum size of 130Mb, with the configuration setting ‘overwrite as necessary’ being set. At the time of testing, this resulted in only 4 hours of security logs being retained. The security logs are not exported to an external log server.

d) During our review, we identified six AD accounts, with Domain Administrative privileges, whose security settings had been set to ‘password never expires’. In addition, one of the six accounts was of a generic syntax “Install”, and was in active use.

Risks

a) The lack of clearly documented security policies may result in systems being incorrectly or inconsistently configured, potentially exposing the University’s network and systems to attacks and malicious activity.

b) Weak password setting may expose systems to inappropriate or malicious access.

c) The absence of complete security activity logging may prevent the University from accounting for actions of individuals, in the event of an investigation.

d) The use of generic accounts will result in the actions or activities performed not being accounted to an individual.

Action plan

Finding rating

Proposed action

Responsible person / title



High risk

a) *A logical security policy will be written and implemented. LSBU is currently tendering to appoint a Managed Security Service provider and they will be consulted to ensure that an appropriate policy is put in place. Unfortunately LSBU removed the post of Information Security Manager some time ago.*

b) *Following agreement of the Security Policy, the password strength and maximum age will be adjusted. Steps have already been taken to prevent users from re-using their old password immediately.*

David Swayne, CIO

Target date: 30 September 2013

c) Security logs will be exported to an external server as part of the Managed Security Service and this will also include a forensic element to follow-up on incidents.

d) The use of privileged account passwords that don't expire will be examined and expiration dates set. The "Install" account will be stopped from being used.

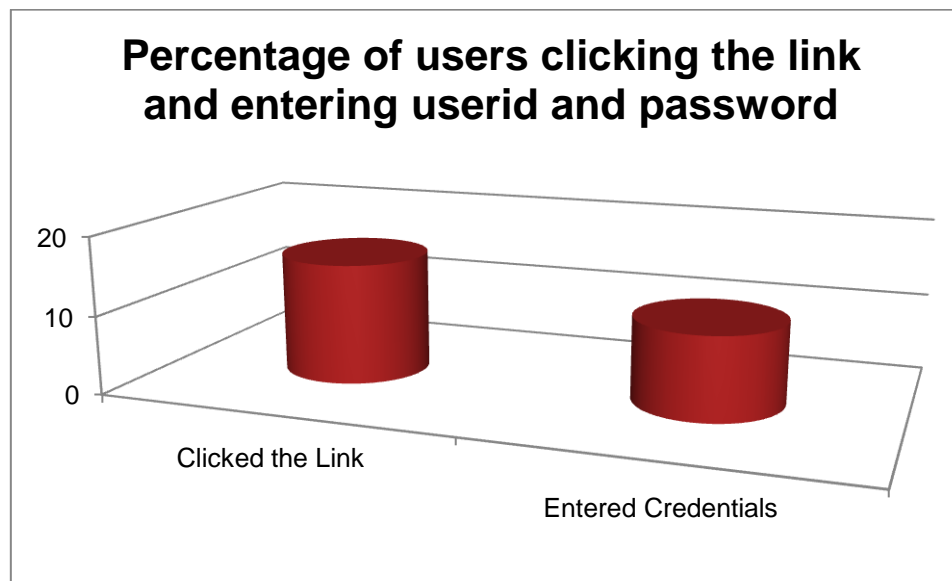
Phishing - Overview of Findings

The test was initiated at 13:30 on the 7th May 2013, with all the emails being delivered to the London South Bank University email servers. Due to the high volume of users included, it took several hours for all emails to be delivered.

The following observations were made;

- The ratio of users who clicked on the original link was lower than an average response.
- The ratio of users that went on to enter their credentials after having followed the link is higher than an average response.
- Several users replied to the email, asking if this was a phishing attack or seeking additional help with how to comply with the request.

The overall percentage of users that fell for the test is proportionately lower than we would expect. It is not known the precise cause of this, however it is likely to be either due to the vast majority of the users that were emailed not having seen the email and therefore not having had a chance to respond or that awareness was increased as a result of the recent phishing attack. Out of the 1,999 emails that were delivered successfully 308 users followed the link and 212 of those users entered their credentials. The following graph demonstrates this;



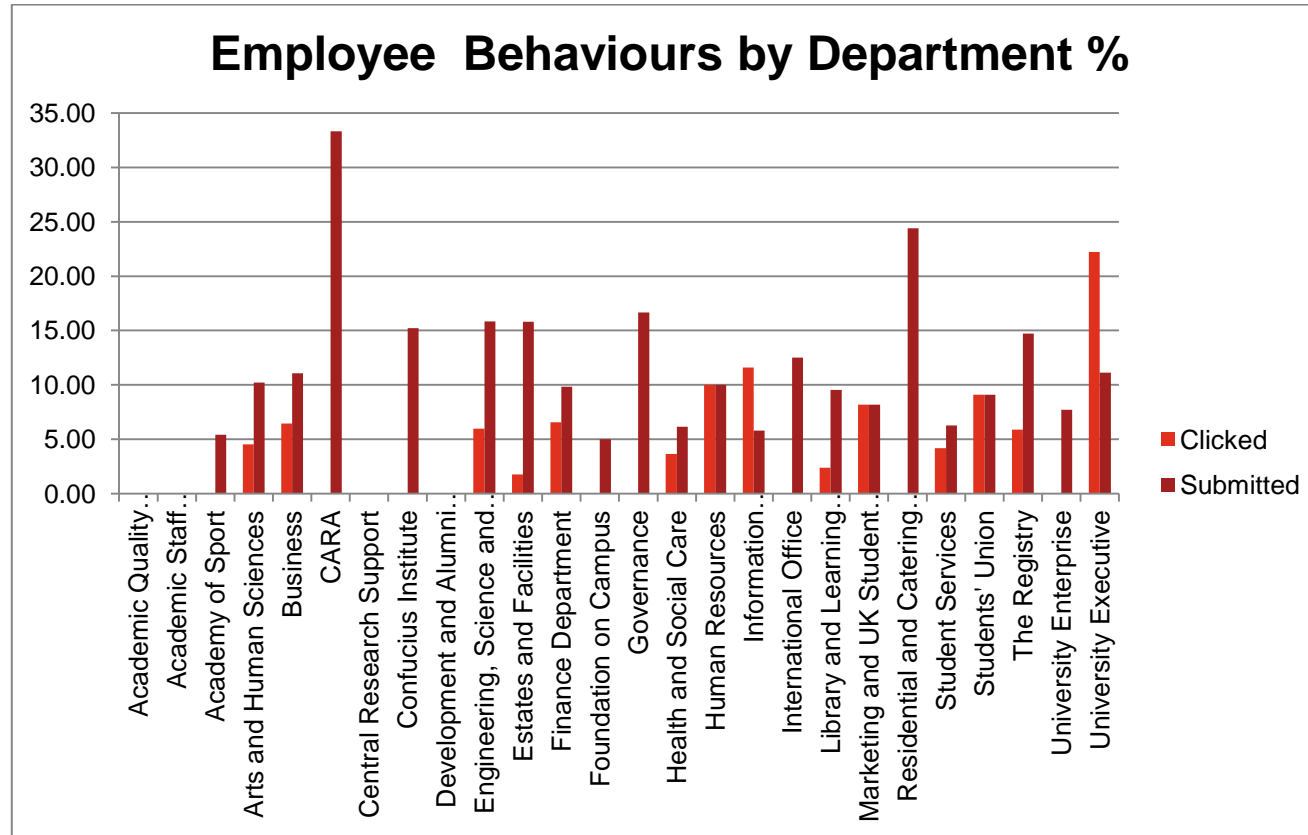
Balanced Summary

Shortly before the phishing test was about to commence, LSBU fell victim to a malicious phishing attack from the internet, halting the scenario being conducted by PwC. This will have increased the awareness of staff against such threats and will have affected the results obtained during PwC's phishing scenario.

It should be noted that the number of users who clicked the link had a lower percentage than a typical response; however the ratio of those who clicked the link to those that entered their credentials was much higher than an average. Results were still be registered in our portal when the testing was terminated, it is therefore assumed that many of the users to whom emails were sent did not have the chance to respond to the email. It is assumed from these statistics that many of the emails sent were not read.

Several of the LSBU members of staff replied to the phishing email. Two such responses asked if this was a legitimate email from ICT, while several stated that their passwords already complied with policy stated within the email and asked if they were still required to change them. Further, two members of staff replied stating that the website was inaccessible, one of which stated that the corporate security policy was blocking the site and requested directions on how to comply with the request. LSBU should ensure that staff are educated to forward any email queries to the known ICT email address and not reply to the senders address.

London South Bank University also provided the team with information relating to the departmental structure of the user base. This information allowed for direct comparisons to be performed between departments. The following images indicate the patterns that we have observed;



The table below shows a detailed breakdown per department where members of staff clicked the link and submitted credentials. The table shows the total number of staff per department who clicked the link, this number includes those that also entered credentials.

<i>Faculty</i>	<i>Total in Department</i>	<i>Clicked</i>	<i>Submitted</i>
Academic Quality Development Office	7	0	0
Academic Staff Development Unit	5	0	0
Academy of Sport	37	2	2
Arts and Human Sciences	353	52	36
Business	280	49	31
CARA	3	1	1
Central Research Support	5	0	0
Confucius Institute	46	7	7
Development and Alumni Relations Office	9	0	0
Engineering, Science and The Built Environment	335	73	53
Estates and Facilities	57	10	9
Finance Department	61	10	6
Foundation on Campus	20	1	1
Governance	6	1	1
Health and Social Care	358	35	22
Human Resources	30	6	3
Information Communication Technology	69	12	4
International Office	16	2	2
Library and Learning Resources	84	10	8
Marketing and UK Student Recruitment	49	8	4

Residential and Catering Services	41	10	10
Student Services	48	5	3
Students' Union	11	2	1
The Registry	34	7	5
University Enterprise	26	2	2
University Executive	9	3	1

LSBU requested a breakdown of Web Browser vendors and versions found during the phishing test. It was noted that a core of 8 different web browsers detected, over 23 different versions.

<i>Browser</i>	<i>Version</i>	<i>Number</i>
Android	2.3.5/4.0.4/4.1.2	3
Chrome	11.x/21.x/26.x/27.x	50
Firefox	11/14.x/16/18/20	30
Internet Explorer	6/7	8
Internet Explorer	8	154
Internet Explorer	9	15
Internet Explorer	10	18
iPad	5.x/6	12
iPhone	6	4
Opera	9.8	3
Safari	5.x/6.x	11

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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

Appendix 2. Terms of Reference

Background

IT controls form an integral part of protecting an organisation's information (personal and financial), data and assets (physical and intellectual). Underpinning the IT controls is the culture of security and the organisation's employee's awareness of risks to information, assets and data.

The University, as part of its daily operation would typically see a large number of people (students, staff and visitors) entering and leaving buildings and using shared and potentially publically accessible IT equipment. The need for strong controls around the physical and logical security is key to protecting the University's information and assets.

Scope

Phishing

We will perform a targeted phishing test against London South Bank University (LSBU) internal users (members of staff). We will construct a scenario that will be designed to fool users into disclosing sensitive information relating to the LSBU.

The scenario that we create with will include a custom built web portal designed with the same look and feel as existing LSBU websites and other publically available materials. We will also produce an email designed to entice staff to follow a link onto our portal. We will require guidance from nominated staff both on the contents of the email and the contents of the web portal to ensure that LSBU is happy with these prior to any testing being executed.

IT Controls

Sub-process

Control objective

User Administration (Starters, Movers and Leavers)

Controls are established to ensure that user accounts are appropriately authorised prior to creation, accounts are modified or removed when employees change roles or leave the University.

Logical Security Management

Controls are established to ensure that logical security settings are appropriate and applied consistently across the LSBU IT environment to prevent data loss, unauthorised access, or theft;

- Logical Security Policy,
 - Active Directory security configuration,
 - Activity logging,
 - Desktop security (encryption, USB access, local administrative rights), and
 - McAfee Antivirus currency and deployment.
-

Physical Security Management	Controls are established to ensure the physical security of LSBU's buildings and associated IT assets (workstations, portable devices and network equipment).
------------------------------	---

Limitations of scope

This review will focus on controls around the LSBU staff accounts and infrastructure, and will not assess the controls over student accounts or IT infrastructure, except where the same controls exist for both staff and students.

Audit approach

The audit will be carried out using a risk-based approach. We will use document review and interviews with key members of staff to consider the controls set out above.

The following procedures will be adopted:

Interviews with key ICT and application administration staff to gain an understanding of the process and controls in place in respect of the sub-processes noted above.

Assessing the adequacy of procedures and controls in operation to mitigate potential risks identified.

Review and testing of the controls in place aligned with the processes identified above. This will include review of key documentation, walk-through testing and sample testing of servers and applications.

Budget

Internal audit has budgeted fifteen days for the completion of this review.

Internal audit team

Name	Title	Role	Contact details
Justin Martin	Partner	Engagement Leader	justin.martin@uk.pwc.com
Martin Allen	Director	Technology Assurance - lead	martin.allen@uk.pwc.com
Andrew C Cocking	Manager	IT Audit Manager	andrew.c.cocking@uk.pwc.com
Dominic Collier	Senior Manager	Lead Phishing Test	dominic.p.collier@uk.pwc.com

Key contacts – The London South Bank University

Name	Title	Role	Contact details
Richard Flatman	Director of Finance	Audit Owner	richard.flatman@lsbu.ac.uk
David Swayne	Head of IT	Audit Key Contact	david.swayne@lsbu.ac.uk

Timetable

Fieldwork start	18 th March 2013
Fieldwork completed	12 th April 2013
Draft report to client	26 th April 2013
Response from client	10 th May 2013
Final report to client	17 th May 2013

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 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of IT Controls and Phishing (as set out in our terms of reference), subject to the limitations outlined below.

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.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). 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.

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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed in our contract. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.22(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	University Enterprise	
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?	<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 audit report for University Enterprise was undertaken as part of the internal audit programme for 2012/13, and focused on commercial enterprise activity.

The report found the risk in this area to be medium, identifying lack of buy in from faculty staff as a risk to corporate objectives in this area, and the following issues around contract management and analysis:

- Lack of formal procedures around contract set up
- A lack of central project management & reporting
- Management report compatibility issues requiring manual input

The Board of SBUEL have reviewed the draft report.

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

London South Bank University
University Enterprise
Final Report

Internal Audit Report

May 2013



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2. Detailed current year findings	3
Appendix 1. Basis of our classifications	9
Appendix 2. Terms of Reference	11
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
Distribution List

For action	Tim Gebbels, Director of Enterprise
For information	Beverley Jullien, Pro Vice Chancellor (External)
	Richard Flatman, Director of Finance
	Audit Committee

This report has been prepared solely for London South Bank University in accordance with the terms and conditions set out in our contract. We do not accept or assume any liability or duty of care for any other purpose or to any other party. This report should not be disclosed to any third party, quoted or referred to without our prior written consent.

Our internal audit work has been performed in accordance 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.

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium Risk <i>See Appendix 1 for basis of scoring</i>	N/A; No comparable previous review performed						
		Control design	0	0	3	1	1
		Operating effectiveness	0	0	1	0	0
		Total	0	0	4	1	1
Scope of the review <i>See Appendix 2 for details</i>	The objective of this review was to assess the operations, responsibilities and governance of University Enterprise. The review also included an assessment of budgeting, management reporting and accounting policies at Commercial Enterprise level.						
Background and approach South Bank University Enterprise Limited (SBUEL) is a subsidiary of London South Bank University (LSBU). The activities of University Enterprise are not wholly represented by the company SBUEL as some activities fall outside of the reporting through this organisation. The activities of SBUEL are currently represented by Commercial Enterprise, Student Enterprise and Spin Outs and IP. The focus of this review will be Commercial Enterprise. Commercial Enterprise can be defined as consultancy, commercial research, education programmes run for commercial profit, events and conferences (including hire of facilities). The University has been developing the structure and relating processes for managing these activities over the last 18 months.							
Summary of Findings The Commercial Enterprise vision is in line with expectation for a forward-looking higher education institution and supports the University’s objectives to maximise its revenue-generating capacity from Commercial Activity. However, a lack of ‘buy-in’ across the University could hinder the achievement of these objectives: we noted that some individuals do not understand the rationale behind Enterprise and some Faculties do not see the benefit of the structure to them. We also identified that:							
<ul style="list-style-type: none"> • There are no formal procedures outlining the process for approval of entering into contracts • There is no central register summarising commercial projects across the University. It is possible to extract a listing from the University’s general ledger system but there are doubts concerning the accuracy of source coding which undermines the reliability of data. In addition, there is limited transparency of project management and control processes, limiting the ability of SBUEL effectively to oversee these projects. This does not support effective monitoring and reporting; • Project income and expenditure may be incorrectly allocated due to a lack of guidance on whether projects should be run through SBUEL or LSBU ; and • The format of management reports at the time of audit did not supporting effective monitoring as they had to be manually reconciled to the financial system to review performance against budget. 							
These control design weaknesses may mean management reports are incomplete or inaccurate, damaging the reliability of management information. This could mean management do not have full oversight of Enterprise projects and lead to inappropriate decision making.							
Our work also noted that the accounting treatment of Enterprise income in the financial statements may not be compliant with the applicable accounting standards.							

2. Detailed current year findings

Finding: Allocation of faculty driven projects

There is a lack of clarity surrounding what constitutes activities are defined as 'Enterprise activities' and 'University activities'. For example, commercial lettings are run by both Enterprise and Estates. Similarly, commercial projects may be run by Enterprise or Faculties.

There is currently no formal policy outlining whether projects should be run through SBUEL or LSBU. We recognise that in practice this rarely presents an issue, as most types of project have historical precedent and so treatment is not ambiguous. However, it will become more difficult to rely on 'precedent' as more complicated projects are adopted.

Risks

Lack of clarity could mean that projects are run by staff with inadequate experience.

Allocations should be based on technical considerations related to tax and the University's charitable status. Lack of policy may mean that these are not considered.

There may be inconsistencies in approaches between services provided at an Enterprise level and similar services provided by University. Standardising these processes may lead to efficiencies.

Action plan

Finding rating



Medium risk

Proposed action

The Enterprise team will develop a straightforward checklist to enable non-financial experts to allocate projects correctly, in the context of taxation and other compliance considerations.

Responsible person / title

Tim Gebbels, Director of Enterprise

Target date:

31/07/2013


Finding: Alignment of Objectives – Faculties and Enterprise

There is a lack of goal congruence between the Enterprise vision and the reality of managing commercial activity at a Faculty level. Our interviews with Faculties identified that some individuals are sceptical about the new approach to Enterprise being taken by the University Enterprise team, do not see its relevance to their own work and are unclear that engagement with Enterprise will lead to any ‘value’. There is a perception that the engagement imposes an additional administrative burden on them. Overall, this leads to a lack of buy-in to the goals of the Enterprise teams in some Faculty areas and can mean opportunities to maximise income for Enterprise are not seized.

Risk

Failure to attain Faculty buy-in and align objectives could hinder the achievement of planned objectives.

Action plan

<i>Finding rating</i>	<i>Proposed action</i>	<i>Responsible person / title</i>
 Medium risk	<p>We have performed multiple exercises with Faculties to explain the purpose of University Enterprise. However, there remains an issue regarding ‘buy- in’ within some Faculties to the work we are trying to do. This is largely centred on the lack of strategic goals and incentives which are aligned across University Enterprise and Faculty. There are a number of perceived ‘perverse’ incentives (often around financial control and targets) which continue to act as barriers to more aligned working.</p> <p>We will share findings from this report with the University Executive team to establish a formal route to securing better alignment of objectives and incentives with Faculties. In parallel, we will continue to perform formal exercises to engage with key stakeholders at Faculty level to build buy-in from individuals into the nature of the Enterprise offering, the resources available and the potential for ‘value-add’ in their own work.</p>	<p>Tim Gebbels, Director of Enterprise and University Executive</p> <hr/> <p><i>Target date:</i></p> <p>31/07/2013</p>

Finding: Oversight of commercial activity

There is no central register summarising commercial projects across the University. It is possible to extract a listing from Agresso (the University’s general ledger system) however there are doubts over whether source coding is accurate which undermines the reliability of data.

In addition, there is limited transparency of project management and control processes, limiting the ability of SBUEL effectively to oversee these projects.

Risks

Without a complete, accurate and reliable listing of projects and transparency of project management and control, SBUEL cannot exercise sufficient oversight of commercial activity. This could lead to weakened controls, deteriorating standards of commercial management at lower levels and failure to apply the most appropriate and efficient business strategies.

Incorrect coding of project income may mean it is allocated incorrectly; this may threaten the University’s charitable status or lead to inappropriate tax treatments.

Incorrect coding of project income could affect funding received from HEFCE.

Action plan

Finding rating

Proposed action

Responsible person / title



Medium risk

This issue originally stemmed from the lack of a complete set of management accounts. Since the audit, we have worked with management accountants to develop a complete set which we are currently analysing.

There is no need for a central register as all projects should now be identified through the management reporting process.

Our review of the management accounts has identified some potential miss-classifications of Enterprise income and expenditure. Further work is needed to confirm whether these items have been classified incorrectly. We will do a review of spend to get assurance this is accurate. Once this work has been completed, we will share outputs with the University Executive to decide whether reclassification of these items is necessary.

In addition, we are seeking to establish better controlled project management processes but, in part due to the lack of alignment identified in the previous issue, faculties are not always supportive of this initiative.

Tim Gebbels, Director of Enterprise

Target date:

31/07/2013

Finding: Lack of approval limits for contracting

There are no procedures outlining the approval limits for entering contracts for the supply of products or services (i.e. sales) at an Enterprise level. The University's Financial Regulations do not include any delegation limits in respect of sales.

Risks

Individuals could commit the University to a project which is unsuitable or undeliverable.

If the University and/or Enterprise are committed to a project and/or contract which it cannot deliver, there is a risk that they could become subject to claims for compensation or reputation damage.

Action plan

Finding rating

Proposed action

Responsible person / title



Medium risk

Procedures will be developed to formalise approval limits. This will be developed to be consistent with University Financial Regulations and will include due diligence checks on contracting parties, consultation with legal and analysis of budgets.

Tim Gebbels, Director of Enterprise

Target date:

It is noted that the Financial Regulations are not specific on the controls that must be applied beyond those imposed by the FEC form (i.e. they specify no value constraints).

31/07/2013

Values for each level should be set based on a review and discussion of the capacity of the University to deliver commercial contracts and will be agreed by the SBUEL Board of Directors.

Finding: Format of Management Accounts

Management accounts are produced to monitor performance.

At the time of audit, the format used did not facilitate monitoring of projects against budget or offer a clear indicator of performance because the accounts had to be manually reconciled to the finance system allow comparison against budget.

Risks

Management accounts which are not transparent could lead to poor decision making and misinformation, leading to an inaccurate picture of commercial performance and poor management decisions.

Action plan

Finding rating



Low risk

Proposed action

Since the audit we have developed a new set of management accounts. These are more complex but provide a complete picture of activity which has enabled more effective monitoring. These reports will continue to need refinement and we will amend these on an ongoing basis to ensure they are fit for purpose.

Responsible person / title

Tim Gebbels, Director of Enterprise

Target date:

31/07/2013

Finding: Accounting Policies

Income is recognised in the year only to the extent that it will fully offset expenditure; the remaining balance is deferred at year end, leading to large deferred income balances. The accumulated deferred income balance in relation to each project is released as a lump sum at the end of the project life. The value of deferred income currently held on the balance sheet is material to the financial position of the company.

Our expectation is that income is only recognised once the conditions of entitlement have been met. For contracts this is often based on delivery of key milestones and in proportion to the work carried out at the accounting date.

University Enterprise should review their accounting policies to confirm treatment is consistent with these and consult with the External Auditors to confirm the appropriate approach.

Risks

The practice currently adopted obscures the true financial position of the company on a month by month basis. The adopted policy does not appear to be compliant with the applicable accounting standards (UK GAAP), which could lead to compliance issues and related liabilities.

Action plan

Finding rating



Proposed action

We will review our accounting policies to ensure they are consistent with UK GAAP and that they meet current business needs. We will update accounting policies as appropriate, ahead of the financial year end.

Responsible person / title

Tim Gebbels, Director of Enterprise

Target date:

31/07/2013

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
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Medium	3 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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

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Appendix 2. Terms of Reference

Background

The activities of University Enterprise are not wholly represented by the company SBUEL (a subsidiary of London South Bank University entitled South Bank University Enterprises Limited) as some activities fall outside of the reporting through this organisation. From discussions with Enterprise management, we also understand that some activity occurs outside of SBUEL and University Enterprise and within the University itself such as some commercial lettings. The activities of University Enterprise are currently represented by commercial enterprise, student enterprise and spin outs and IP. The focus of this review will be Commercial Enterprise. Commercial Enterprise is defined as consultancy, commercial research, education programmes run for commercial profit, knowledge transfer, events and conferences and lettings and hire of facilities.

Scope

The sub-processes and related control objectives included in this review are:

Sub-process	Control objectives
University Enterprise - Governance	<ul style="list-style-type: none"> • Appropriate oversight is exercised over the activities of University Enterprise/SBUEL. • The activities of University Enterprise are supported by Enterprise objectives which are aligned to the University's corporate objectives. • The governance structure has the appropriate reporting and responsibility lines to ensure good governance.
Operations and responsibilities of University Enterprise	<ul style="list-style-type: none"> • There is a clear line of sight with regard to the activities that are managed through University Enterprises, SBUEL and the University. • For all appropriate commercial activities to be managed through the appropriate University entity in order to create efficiencies and maximise opportunities associated with economies of scale. VAT and tax. • There are policies and procedures in place to ensure that contracts linked to commercial activities are actively managed with an appropriate control environment supporting them such as robust systems.
Commercial Enterprise – Budgeting setting, monitoring and management reporting <ul style="list-style-type: none"> • Projects managed at Enterprise level • Projects managed at Faculty level 	<ul style="list-style-type: none"> • Projects are entered into once a business case, budget and project plan have been prepared, reviewed and approved. • Projects are monitored on a timely basis with performance monitored against approved budgets and project plans and actions taken as a result. • The financial performance of Commercial Enterprise is subject to appropriate and timely scrutiny. • Processes and procedures are consistent across the organisation.
Commercial Enterprise – Accounting policies and financial reporting	<ul style="list-style-type: none"> • The accounting policies of Enterprise are compliant with UK GAAP. • Management accounts are transparent and have the appropriate information to support the decision making

	<p>of the organisation.</p> <ul style="list-style-type: none"> The basis of allocation across cost centres and companies is appropriate and the use of cost centre and company is consistent with the activities of the organisation.
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Limitations of scope

This review will review the processes and procedures in place but will not test compliance against these as part of this review as this is expected to be covered in a later review.

This review will focus on Commercial Enterprise when reviewing the processes and procedures for budget setting, monitoring, management and financial reporting. It will not cover Student Enterprise or IP and Spin-Out.

Audit approach

Our audit approach is as follows:

- Review key governance documents to consider whether the governance structure for University Enterprise is sufficient to ensure appropriate oversight at both the group and subsidiary level.
- Hold meetings with management to understand the responsibilities of SBUEL and University Enterprises and how commercial activity is managed by the University, either through SBUEL, University Enterprise or the University itself.
- Hold meetings at a faculty level with a number of key individuals to obtain their understanding of the University's/University Enterprises' processes and procedures that in are in place for managing commercial activity, including budget setting, monitoring and reporting. These processes and procedures will be compared against the processes and procedures expected by the University and best practice.
- Obtain University Enterprise annual budgets and management accounts to consider whether it is timely and robust as a means to monitor financial performance. We will also consider whether all activities of the entity are considered as part of this monitoring control, whether it has been appropriately approved and aligned with the University's corporate objectives.
- Review the accounting policies of the University and University Enterprise associated with commercial activity and compare this against the appropriate accounting standards and best practice. We will also consider whether there are clear policies and procedures in place to ensure that income and costs are properly allocated to University Enterprise and SBUEL within the ledger.

Internal audit team

Name	Title	Role	Contact details
Justin Martin	Partner	Engagement Partner	justin.f.martin@uk.pwc.com
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Joti Atir	Senior Associate	Team Leader	Joti.ahir@uk.pwc.com

Key contacts

Name	Title	Role	Contact details
Beverley Jullien	Pro Vice Chancellor (External)	Audit Owner	bev.jullien@lsbu.ac.uk
Richard Flatman	Director of Finance	Key Contact	richard.flatman@lsbu.ac.uk
Tim Gebbels	Director of Enterprise	Key Contact	gebbelst@lsbu.ac.uk
Warren Turner	Pro Dean, Faculty of Health	Audit Contact	turnerw@lsbu.ac.uk
Dilip Patel	Pro Dean, Faculty of Business	Audit Contact	dilip@lsbu.ac.uk
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Limitations inherent to the internal auditor's work

We have undertaken the review of the University's Enterprise processes (as set out in our terms of reference), subject to the limitations outlined below.

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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

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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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed in our contract. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.23(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Payroll implementation	
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?	<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 reports provide a pre-implementation health check of the proposed new Midland i-trent payroll system, and a follow-up review of the recommendations arising therefrom.

The original report found the risk in data migration and the go-live plan to be red, identifying duplicates and errors in the January parallel run, and errors in the existing system data.

A detailed management action plan is included on pages 3-6.

The follow up report found that LSBU had fully or partially implemented the actions arising from the pre-implementation review, and had assigned a new project manager.

However, there is still much work to be done to meet delivery timescales and consider and mitigate long term risk.

The Data migration RAG status has remained as Red.

The Go-Live RAG status has reduced from Red to Amber/Red

The Post Implementation review RAG status has reduced from Amber/Red to Amber

The implementation date has been deferred to reflect the significant work still remaining and the need to ensure accuracy before “go-live”. The new implementation date is expected to be September 2013.

A summary of detailed findings and management comments is contained on pages 3 to 10.

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

Attachments:

Payroll implementation review – April 2013

Payroll follow up review – May 2013

London South Bank University

Payroll Implementation

Final Report

Internal Audit Report

April 2013



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Distribution List

For action	Natalie Ferer, Financial Controller
For information	Richard Flatman, Executive Director of Finance Audit Committee

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Our internal audit work has been performed in accordance 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.

1. Executive summary




Background

London South Bank University (LSBU) is implementing a new Payroll system, Midland i-Trent. The objective of this review was to perform a pre-implementation health check to assess whether appropriate controls had been implemented to ensure the complete and accurate migration of balances from the old system (Payfact). The University is planning to go 'live' with i-Trent from 01 April 2013.

Key findings

LSBU have implemented a number of controls to ensure the complete and accurate migration of balances, including: data cleansing; parallel runs; payslip-to-payslip checks; and reconciliations. At the time of audit (March 2013), these controls were operating effectively but were flagging some large variances and errors requiring resolution before the new system is implemented. For example, the January 2013 parallel run identified 18 duplicate records and only 33% of data between the two systems was accurate to within £1. These issues are being investigated by the project team.

We have used a traffic light system to demonstrate University performance against the areas outlined in our Terms of Reference (Appendix 1). This review is deemed as value enhancing and the report has not been risk rated overall; the RAG status has been included to provide a summary of our key findings and to highlight areas requiring further attention.

Review area	Summary	RAG status
Data Migration	Controls have been designed to ensure the complete and accurate migration of payroll balances. These have identified that payroll data is inaccurate and requires cleansing prior to migration to the new environment.	 Red
Go-Live	System process maps are out-of-date and although procedure notes explain key functionalities of the new system, the University needs to create their own policies so users know how to perform key functions, such as, creating starters, processing leavers and performing amendments on the system. More work is needed to ensure there are appropriate and robust contingency plans to support the organisation should the implementation fail and that users are supported in the use of the application through training and user documentation.	 Red
Post implementation review and ongoing availability	There is a process in place to identify lessons learnt and ensure the ongoing accuracy and completeness of data. Further work is needed to ensure that adequate controls are in place to ensure ongoing availability of the system.	 Amber / Red

Our detailed findings are set out in Section 2.

2. Detailed findings

Issue Noted	Risk	Management comment and action plan
<p>Payroll data is inaccurate and requires cleansing before system Go Live.</p> <p>A script was produced by Logica CMG (developers for Payfact) to import payroll data from Payfact to i-Trent. This exercise identified that a number of inaccurate payroll records, including:</p> <ul style="list-style-type: none"> • Mismatched National Insurance numbers; • Incorrect personnel numbers; • Incorrect bank details; • Duplicate employees; and • The import of staff members who no longer work at the University. 	<p>Individuals may be over or under paid due to inaccurate payroll information.</p>	<p>Agreed. We are investigating the cause of these problems, for example, why the Logica extract included employees who had left and why the data load into i-Trent resulted in a mis-match of data in some cases.</p> <p>Data cleansing was completed at the end of March. Some of this data cleansing could have been done earlier but some of these errors may be to do with how we extracted data from Logica and then loaded into I Trent, so could not have been anticipated.</p> <p>Parallel running is due to complete by 26/04/2013.</p> <p>Go live has been delayed until July.</p> <p><i>Responsible Owner:</i> Denise Sullivan, Payroll Manager</p> <p><i>Implementation Date:</i> 26/04/2013</p>
<p>Timely performance of parallel runs</p> <p>Only one parallel run (January) has been performed. This identified that:</p> <ul style="list-style-type: none"> • Of 2466 records processed, 18 were duplicates. • Of the 2448 unique records processed, only 40.9% of net pay data was accurate to within £1 between the two systems; • Of the total, only 18.9% of data was exactly accurate. • The value of overpayments would have been £110k. The value of underpayments would have been £205k. 	<p>Individuals may be over or under paid due to inaccurate payroll information.</p>	<p>Agreed. We are currently checking payslip-to-payslip on the old and new system to identify and rectify calculation errors. Some of these result in specific pay elements and deductions not being configured and tested adequately on i-Trent.</p> <p>Midland HR consultancy have been booked for week commencing 16th May and it is planned that most of the calculations will be fixed at this time.</p> <p><i>Responsible Owner:</i> Natalie Ferer, Financial Controller</p> <p><i>Implementation Date:</i> 15/05/2013</p>
<p>The interface between i-Trent and the University's general ledger (Agresso) has not been tested</p> <p>At the date of audit, the project team had not tested the interface</p>	<p>Incomplete or inaccurate data transfer could mean year end balances for the financial statements</p>	<p>Agreed. At the time of the audit we were producing output files for the Finance Systems Manager to test the interface with Agresso. We will ensure this is tested as</p>

<p>between iTrent and Agresso. This means it was not possible to test if there are adequate security arrangements in place for processing costing files, for example:</p> <ul style="list-style-type: none"> • Ensuring the parameters could not be manipulated; • Ensuring only personnel of appropriate authority and technical ability have access to running the costing file; • Confirming that the costing file output is stored securely to prevent manipulation prior to upload on Agresso; and • Confirming that only authorised personnel are able to upload the file to Agresso. 	<p>are incorrect.</p> <p>Balances could be manipulated inappropriately or by accident due to inadequate security arrangements or inappropriate access.</p>	<p>part of follow up work performed by Internal Audit.</p> <p><i>Responsible Owner:</i> Natalie Ferer, Financial Controller</p> <p><i>Implementation Date:</i> 31/04/2013</p>
<p>Contract Extension</p> <p>The University have not confirmed if it possible to extend their contract with Logica if the system does not go live in April.</p>	<p>Lack of contingency plan in event of system failure could mean individuals are not paid or are paid incorrect sums.</p>	<p>Agreed. Logica have now given the University a 'letter of intent' to cover April processing and a formal contract is expected before the end of April. This contract will be for up to 7 years with 3 months notice to terminate the contract.</p> <p><i>Responsible Owner:</i> Natalie Ferer, Financial Controller</p> <p><i>Implementation Date:</i> 31/04/2013</p>
<p>Project Risk Register</p> <p>A project risk register exists and is monitored as part of ongoing project management arrangements. We noted the following issues:</p> <ul style="list-style-type: none"> • Controls and actions have been identified but there are no dates indicating when it has last been updated; • There are no risk owners; • There is no key outlining how a high, medium or low risk is calculated; • There is no inclusion of inherent risk or residual risk; • There is currently no risk to reflect the impact of inadequate training arrangements. 	<p>Risks may not be adequately identified or managed.</p>	<p>Agreed. We will update the document to include this information and will present this to the Payroll Project Board on 20th March.</p> <p><i>Responsible Owner:</i> Natalie Ferer, Financial Controller</p> <p><i>Implementation Date:</i> 31/03/2013</p>
<p>Lessons Learned</p> <p>The project team have created an 'issues list' to track any challenges</p>	<p>If lessons learnt are not documented and managed, there is a risk that knowledge will be lost when</p>	<p>Agreed. The issues list has now been updated and this will be reviewed weekly by the Project Sponsor to ensure all fields are completed.</p>

and put measures in place to prevent re-occurrence. We noted that:

- There is no column indicating the date the issue was raised; therefore it is not possible to see how long this issue has been outstanding;
- There are several incomplete fields (13/19 fields).

resources change, leading to avoidable issues and errors being repeated and best practice identified potentially not being applied to similar projects in the future.

We will perform an initial post-implementation review by the end of July 2013 to ensure we capture lessons learned.

We will perform a further review once the system has been going live for at least 3 months to ensure we capture any further lessons which may be learnt when the system has gone live. We will share these with colleagues to use for other large scale projects.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/08/2013 and 31/10/2013

Lack of Training and handover

The University is employing Agency staff to assist with the implementation. No formal handover arrangements have been agreed to transfer this knowledge to new payroll team members when they leave the organisation and there are currently no plans for training to be provided to staff on how to operate the new system.

Our review of i-Trent user manuals identified that these are focussed on system functionalities and navigation of the new system. There are no policies outlining how to process payroll information, for example, creating new starters, processing leavers and posting amendments.

Users do not understand how to use the new system leading to processing errors.

Agreed. Training was included as part of the original project plan: two members of staff have been on a three day course run by Midland HR and all payroll staff received in house training in December and January.

We will review and update the training plan and materials in order that the existing team receive appropriate training and that knowledge is handed over from temporary to permanent staff .

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/04/2013

Lack of process maps

There are no up-to-date system process maps outlining the transaction flow and key controls over the new system.

Users do not understand how to use the new system leading to processing errors

Agreed. The Payroll team are now working on process mapping, facilitated by ICT and Finance Systems Manager. This will form part of the user manual for payroll staff.

We will send these to Internal Audit for review. Key controls will be tested as part of the continuous auditing cycle.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/07/2013

Lack of audit trail

There is current no audit logging of changes made to the system despite i-Trent having this functionality.

Inappropriate or unauthorised changes may be applied to the system and are no detected.

Agreed. The project manager advised that this functionality had not been activated at the time of the audit. A specification for the audit functionality is being prepared and be activated on 16/05/2013 for the June parallel run.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 16/05/2013

Support arrangements

There are currently no formal arrangements between LSBU and i-Trent for continuing technical support. It is planned that iTrent queries will be processed internally through the Topdesk issue tracking system. However the IT department do not have the knowledge of the i-Trent system to answer these queries.

Inadequate controls for ongoing availability could lead to system failure

Agreed. We in the process of agreeing and documenting a support agreement between ICT and Finance. We are also considering creating a post of i-Trent system administrator. For now, technical support is not being purchased from Midland HR.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 19/05/2013

Appendix 1. Terms of Reference

Background

London South Bank University is implementing a new Payroll system, Midlands i-Trent. The objective of this review is to assess whether appropriate controls have been implemented to ensure the complete and accurate migration of balances. Our work will touch upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
7	x		x		

x = area of primary focus

x = possible area of secondary focus

Scope

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

Sub-process	Key control objectives	Key risks
Data Migration	<ul style="list-style-type: none"> Data has been cleansed prior to migration to the new environment. Controls have been designed to ensure the complete and accurate migration of payroll balances. 	<ul style="list-style-type: none"> Individuals may be over or under paid due to inaccurate payroll information.
Go Live	<ul style="list-style-type: none"> Go-live will be authorised. Contingency plans exist to support the organisation should the implementation fail. Users are supported in the use of the application through training and user documentation. Users are supported in resolving problems with the system. Ongoing changes to the new system after go-live are 	<ul style="list-style-type: none"> Lack of appropriate review and authorisation mechanism may mean the system is implemented inappropriately. This could mean payroll is incorrect. Lack of contingency plan in event of system failure could mean individuals are not paid or are paid incorrect sums. Users do not understand the new system leading to processing errors.

supported through a formal change program.

Post implementation review and ongoing availability

- There is a defined process in place to identify lessons learnt and ensure the ongoing accuracy and completeness of data.
- Controls are in place to ensure ongoing availability of the system.
- Lessons learnt are not identified or captured. This could mean errors are repeated or not resolved.
- Inadequate controls for ongoing availability could lead to system failure.

As part of our audit we will also review controls in place over the new system and identify any areas for development.

Limitations of scope

The scope of our work will be limited to those areas outlined above. Our testing will not include any assessment of project governance. Our assessment of new controls over the payroll system will be based on business process maps and controls maps provided by the University. Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of Payroll implementation through discussions with key personnel, review of methodology and procedure notes and walkthrough tests;
- Identify the key risks relating to 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

Name	Title	Contact details
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
Charlotte Bilsland	Team Manager	07715 484 470 charlotte.bilsland@uk.pwc.com
Richard Fleming	Auditor	richard.t.fleming@uk.pwc.com

Key contacts

Name	Title	Contact details	Responsibilities
Richard Flatman	Executive Director of Finance <i>(Audit Sponsor)</i>	0207 815 6301 richard.flatman@lsbu.ac.uk	Review and approve terms of reference Review draft report
Natalie Ferer	Financial Controller <i>(Audit Contact)</i>	0207 815 6316 ferern@lsbu.ac.uk	Review and approve final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan
Darrell Pariag	Corporate and Business Planning Manager	0207 815 6908 pariagd2@lsbu.ac.uk	Receive draft and final terms of reference Receive draft report Receive final report

Timetable

Fieldwork start	11 th March 2013
Fieldwork completed	20 th March 2013
Draft report to client	25 th March 2013
Response from client	5 th April 2013
Final report to client	12 th April 2013

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 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's Payroll Implementation processes (as set out in our terms of reference), subject to the limitations outlined below.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). 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.

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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London South Bank University
Payroll Follow Up
Final Report

Internal Audit Report

May 2013



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Distribution List

For action	Natalie Ferer, Financial Controller
For information	Richard Flatman, Executive Director of Finance Audit Committee

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1. Executive summary

Background







We performed an initial review of the implementation of London South Bank University's (LSBU) new Payroll system, Midlands i-Trent (i-Trent), in March 2013; the objective of the review was to assess whether appropriate controls had been implemented to ensure the complete and accurate migration of balances. The purpose of this audit was to follow up our findings and confirm that management actions from our initial review have been implemented. At the time of audit fieldwork, the new payroll system was planned to go-live in July 2013.

Key findings


LSBU have fully or partially implemented all agreed actions. Where actions are not yet due, the project team has been proactive and taken steps to ensure these are implemented in line with agreed time scales. LSBU have also hired a new Project Manager who is updating the overall project plan to ensure timely delivery of the project.

Although progress has been made, LSBU still has significant work to ensure that delivery timescales are met and that the wider and longer-term risks of system implementation are considered and mitigated. An example of this is that LSBU have not performed a wider systems or business analysis for the new system and there are some areas of IT build which have not been finalised, such as, whether the system is enabled for auto-enrolment .

We have used a traffic light system to demonstrate LSBU's updated performance against the areas outlined in our original Terms of Reference for the Payroll Implementation Review. This review is deemed as a value add management report and has not been risk rated overall; the RAG status has been included to provide a summary of our key findings and to highlight progress made against areas requiring further attention.

Review area	Summary	Direction of travel	Updated RAG status
Data Migration	There has been a reduction in the number of discrepancies noted between net pay on the old payroll system (Logica) and i-Trent but further work is needed to confirm the accuracy of other payroll elements, for example, National Insurance (NI) numbers, bank details, addresses and pension details. Further data cleansing is needed prior to migration to the new environment.		 Red
Go-Live	Policies and procedure notes are being developed and a training plan for Payroll, Finance and other stakeholders has been devised. A service level agreement (SLA) between Finance and IT is in draft to ensure the ongoing availability of the system but more work is needed to ensure there is appropriate system build documentation. System and business process mapping needs to be completed.		 Amber/Red
Post implementation review and ongoing availability	There is a process in place to identify lessons learnt and ensure the ongoing accuracy and completeness of data. LSBU need to ensure this data continues to be captured throughout the project.		 Amber

2. Detailed findings

Original Issue Noted	Risk	Original Management Comment and Action Plan	Direction of Travel	Status Update and Revised Management Comment/Action Plan
<p>Payroll data is inaccurate and requires cleansing before system Go Live.</p> <p>A script was produced by Logica CMG (developers for Payfact) to import payroll data from Payfact to i-Trent. This exercise identified that a number of inaccurate payroll records, including:</p> <ul style="list-style-type: none"> • Mismatched NI numbers; • Incorrect personnel numbers; • Incorrect bank details; • Duplicate employees; and • The import of staff members who no longer work at the University. 	<p>Individuals may be over or under paid due to inaccurate payroll information.</p>	<p>Agreed. We are investigating the cause of these problems, for example, why the Logica extract included employees who had left and why the data load into i-Trent resulted in a mis-match of data in some cases.</p> <p>Data cleansing was completed at the end of March. Some of this data cleansing could have been done earlier but some of these errors may be to do with how we extracted data from Logica and then loaded into I Trent, so could not have been anticipated.</p> <p>Parallel running is due to complete by 26/04/2013.</p> <p>Go live has been delayed until July.</p> <p><i>Responsible Owner:</i> Denise Sullivan, Payroll Manager</p> <p><i>Implementation Date:</i> 26/04/2013</p>		<p>Partially implemented</p> <p>The initial data cleansing exercise is complete but further data cleansing is needed to confirm accuracy and completeness.</p> <p>The latest analysis of data has identified:</p> <ul style="list-style-type: none"> • 80 incorrect or missing bank details; • 22 missing NI numbers (excluding non-PAYE payroll); and • 184 incorrect NI numbers. <p>Other elements still require investigation, including:</p> <ul style="list-style-type: none"> • Identification of duplicate employees; • Removal of dummy and unused accounts; and • Confirmation of the accuracy of non-financial data such as addresses. <p>These are planned to be completed as part of the April payroll run (to be performed in May).</p> <p><i>Management Comment:</i></p> <p>We shall migrate personal details from Logica to i-Trent to resolve issues such as missing or incorrect NI numbers, bank account details and addresses. From that point, we will ensure that data is kept in parallel to the</p>

Logica system until we are live with i-Trent.

Responsible Owner: Denise Sullivan, Payroll Manager

Implementation Date: 31/07/2013

Timely performance of parallel runs

Only one parallel run (January) has been performed. This identified that:

- Of 2466 records processed, 18 were duplicates.
- Of the 2448 unique records processed, only 40.9% of net pay data was accurate to within £1 between the two systems.
- Of the total, only 18.9% of data was exactly accurate.
- The value of overpayments would have been £110k. The value of underpayments would have been £205k.

Individuals may be over or under paid due to inaccurate payroll information.

Agreed. We are currently checking payslip-to-payslip on the old and new system to identify and rectify calculation errors. Some of these result in specific pay elements and deductions not being configured and tested adequately on i-Trent.

Midland HR consultancy have been booked for week commencing 16th May and it is planned that most of the calculations will be fixed at this time.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 15/05/2013



Partially Implemented

Variances identified have been listed on the project team's 'issues list' and are being monitored on an ongoing basis.

Parallel runs up to April have been performed and payslip-to-payslip checks are underway to identify and rectify calculation errors. LSBU have also worked with Midland HR consultancy to fix calculations.

Some calculations have been fixed however some of these still need to be rectified. The April parallel run identified that:

- Of the 2463 records processed, 80.4% of net pay data was accurate to within £1 between the two systems.
- 73.53% of data was exactly accurate.
- The value of overpayments would have been £18k. The value of underpayments would have been £26k.
- 232 individuals are not on i-Trent. This is because they are non-PAYE or are paid on an hourly basis, for example students who have been reimbursed for expenses through the Logica..

These results require investigation to confirm accuracy.

Management Comment:

There are various issues that are leading to

inaccurate payments. Some of these are due to incorrect calculations which are being resolved by Midland HR consultants. A log of issues has been devised and currently being updated. As part of this all historical issues are being reviewed and updated also in terms of resolution. We are setting up mechanisms to allow monitoring.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/07/2013

The interface between i-Trent and the University's general ledger (Agresso) has not been tested

At the date of audit, the project team had not tested the interface between iTrent and Agresso. This means it was not possible to test if there are adequate security arrangements in place for processing costing files, for example:

- Ensuring the parameters could not be manipulated;
- Ensuring only personnel of appropriate authority and technical ability have access to running the costing file;
- Confirming that the costing file output is stored securely to prevent manipulation prior to upload on Agresso; and
- Confirming that only authorised personnel are able to upload the file to Agresso.

Incomplete or inaccurate data transfer could mean year end balances for the financial statements are incorrect.

Balances could be manipulated inappropriately or by accident due to inadequate security arrangements or inappropriate access.

Agreed. At the time of the audit we were producing output files for the Finance Systems Manager to test the interface with Agresso. We will ensure this is tested as part of follow up work performed by Internal Audit.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/04/2013



Partially implemented

The format of the interface file has been tested and confirmed as working. LSBU has not confirmed the content of the general ledger file or end-to-end process. This is now planned for the end of June.

An initial comparison file has been prepared which compares the April costing debit and credit file with the Logica file to highlight any differences to be resolved before this is performed. A user guide has also been developed outlining the procedure to be followed and associated controls.

Management Comment:

The costing and general ledger interface segment of the system is not complete. Midland HR consultancy will compare the system blueprint to the actual system build and will advise what needs to be changed. Following this, we will process changes to system data and compare this to Agresso and costing data from the old payroll system. A user guide outlining how to maintain the general ledger and costing structure will be produced.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 30/06/2013

Contract Extension

The University have not confirmed if it possible to extend their contract with Logica if the system does not go live in April.

Lack of contingency plan in event of system failure could mean individuals are not paid or are paid incorrect sums.

Agreed. Logica have now given the University a 'letter of intent' to cover April processing and a formal contract is expected before the end of April. This contract will be for up to 7 years with 3 months notice to terminate the contract.



Implemented

LSBU have renewed their contract with Logica with effect from 01/04/2013 for 12 months.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/04/2013

Management Comment:

N/A – recommendation implemented.

Project Risk Register

A project risk register exists and is monitored as part of ongoing project management arrangements. We noted the following issues:

- Controls and actions have been identified but there are no dates indicating when it has last been updated;
- There are no risk owners;
- There is no key outlining how a high, medium or low risk is calculated;
- There is no inclusion of inherent risk or residual risk;
- There is currently no risk to reflect the impact of inadequate training arrangements.

Risks may not be adequately identified or managed.

Agreed. We will update the document to include this information and will present this to the Payroll Project Board on 20th March.



Implemented

The project risk register has been updated, to include:

- Dates;
- Risk owners;
- Classification of risk (high, medium and low);
- Explanation of how risk classifications are calculated based on likelihood and impact;
- Inclusion of inherent and residual risk.

This has been presented to the Payroll Project Board is used on an on-going basis.

Management Comment:

N/A – recommendation implemented.

Lessons Learned

The project team have created an 'issues list' to track any challenges and put measures in place to prevent re-occurrence. We noted that:

- There is no column indicating the date the issue was raised; therefore it is not possible to see how long this issue has been outstanding;
- There are several incomplete fields (13/19 fields).

If lessons learnt are not documented and managed, there is a risk that knowledge will be lost when resources change, leading to avoidable issues and errors being repeated and best practice identified potentially not being applied to similar projects in the future.

Agreed. The issues list has now been updated and this will be reviewed weekly by the Project Sponsor to ensure all fields are completed.

We will perform an initial post-implementation review by the end of July 2013 to ensure we capture lessons learned.

We will perform a further review once the system has been going live for at least 3 months to ensure we capture any further lessons which may be learnt when the system has gone live. We will share these with colleagues to use for other large scale projects.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/08/2013 and 31/10/2013



In progress

The issues list has been updated to include dates when issues have been raised and resolved. This has been completed.

An initial post-implementation review has been planned for the end of July. A secondary review will be performed once the system has been live for three months. These activities are included on the project plan.

Management Comment:

N/A – action not due. Original management comment remains appropriate.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/10/2013

Lack of training and handover

The University is employing Agency staff to assist with the implementation. No formal handover arrangements have been agreed to transfer this knowledge to new payroll team members when they leave the organisation and there are currently no plans for training to be provided to staff on how to operate the new system.

Our review of i-Trent user manuals identified that these are focussed on system functionalities and navigation of the new

Users do not understand how to use the new system leading to processing errors.

Agreed. Training was included as part of the original project plan: two members of staff have been on a three day course run by Midland HR and all payroll staff received in house training in December and January.

We will review and update the training plan and materials in order that the existing team receive appropriate training and that knowledge is handed over from temporary to permanent staff.



Partially Implemented

A training and handover plan is in draft form and is being developed to include:

- Who requires training (on an individual and departmental basis);
- Activity to be undertaken;
- Due date for training;
- Any further actions, including who is responsible and when this is due.

A central repository of training guides and user instructions exists, including:

- Quick reference user guides;

system. There are no policies outlining how to process payroll information, for example, creating new starters, processing leavers and posting amendments.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/04/2013

- Audit functionality guide;
- Training plans;
- Pay run checklist; and
- User guides for viewing pay slips.

This will continue to be developed ahead of system go-live.

Management Comment:

The training plan is to be completed and signed off as part of the project plan. This will include training as part of the project stage for the project team and for the payroll team and application support team to prepare them for business as usual.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 15/09/2013

Lack of process maps

There are no up-to-date system process maps outlining the transaction flow and key controls over the new system.

Users do not understand how to use the new system leading to processing errors

Agreed. The Payroll team are now working on process mapping, facilitated by ICT and Finance Systems Manager. This will form part of the user manual for payroll staff.



In progress

New processes are due to be mapped and documented which will result in a user manual for payroll staff.

We will send these to Internal Audit for review. Key controls will be tested as part of the continuous auditing cycle.

Management Comment:

N/A – action not due. Original management comment remains appropriate.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/07/2013

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/07/2013

Lack of audit trail

There is current no audit logging of changes made to the system despite i-Trent having this functionality.

Inappropriate or unauthorised changes may be applied to the system and are not detected.

Agreed. The project manager advised that this functionality had not been activated at the time of the audit. A specification for the audit functionality is being prepared and will be activated on 16/05/2013 for the June parallel run.

Responsible Owner: Natalie Ferer,
Financial Controller

Implementation Date: 16/05/2013



Implemented

The audit functionality has been activated. The following reports will be generated on a monthly basis:

- **Core session analysis** – this report identifies user activity by all users with access above ‘read only’. It monitors activity such as logging in and out of the system, password changes and application releases.
- **Transaction audit** - this report identifies all changes made to payroll standing data and who was responsible.
- **Changes to bank detail reports** – this report monitors all changes to payroll bank details.

Management Comment:

N/A – recommendation implemented.

Support arrangements

There are currently no formal arrangements between LSBU and i-Trent for continuing technical support. It is planned that iTrent queries will be processed internally through the Topdesk issue tracking system. However the IT department do not have the knowledge of the i-Trent system to answer these queries.

Inadequate controls for ongoing availability could lead to system failure

Agreed. We are in the process of agreeing and documenting a support agreement between ICT and Finance. We are also considering creating a post of i-Trent system administrator. For now, technical support is not being purchased from Midland HR.

Responsible Owner: Natalie Ferer,
Financial Controller

Implementation Date: 19/05/2013



Partially implemented

An SLA between Finance and IT has been developed in draft. This document outlines each department’s roles and responsibilities, contact details and the requirement for an annual review.

There are still some outstanding areas to be agreed before go-live, including:

- Whether the application of ‘hot-fixes’ and service packs includes server or application level data;
- Role of Finance Helpdesk, to include a diagram as an appendix outlining role;

- Feedback from i-Trent on what 'suitability qualified staff' means to ensure patching and upgrading is performed by appropriate personnel.

Management Comment:

The System support document between ICT and Finance will be finalised. We will consider options for support through Midland HR consultancy.

Responsible Owner: Natalie Ferer, Financial Controller

Implementation Date: 31/08/2013

Appendix 1. Terms of Reference

Background

London South Bank University is implementing a new Payroll system, Midlands i-Trent. We performed an initial review of the implementation of this system in March 2013; the objective of the review was to assess whether appropriate controls have been implemented to ensure the complete and accurate migration of balances.

Our work identified that the controls implemented by the University were operating effectively but were flagging some large variances and errors requiring resolution before the system could go live. To ensure these variances and errors could be fully investigated, the University decided to postpone the implementation to June 2013.

The objective of this review is to follow up the issues noted during our initial review and ensure that management actions have been implemented.

Scope

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

Sub-process	Key control objectives	Key risks
Follow up of agreed actions	<ul style="list-style-type: none">Agreed action plans regarding findings have been implemented.	<ul style="list-style-type: none">Recommendations have not been implemented this could mean payroll balances are inaccurate or incomplete.

Limitations of scope

The scope of our work will be limited to those areas outlined above. Our testing will be limited to following up the findings identified as part of the Payroll Implementation review. It will not include any assessment of project governance.

Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of work performed through discussions with key personnel, review of methodology and procedure notes and walkthrough tests;
- Identify the key risks relating to the process;
- Evaluate the design of the controls in place to address the key risks;
- Test the operating effectiveness of the key controls.

Fees

- Our fee for this work has been agreed as £2,300 (4 days work @ £575 a day) excluding VAT.

Internal audit team

Name	Title	Contact details
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
Charlotte Bilsland	Team Manager	07715 484 470 charlotte.bilsland@uk.pwc.com

Key contacts

Name	Title	Contact details	Responsibilities
Richard Flatman	Executive Director of Finance <i>(Audit Sponsor)</i>	0207 815 6301 richard.flatman@lsbu.ac.uk	Review and approve terms of reference Review draft report
Natalie Ferer	Financial Controller <i>(Audit Contact)</i>	0207 815 6316 ferern@lsbu.ac.uk	Review and approve final report Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan

Timetable

Fieldwork start	20 th May 2013
Fieldwork completed	23 rd May 2013
Draft report to client	24 th May 2013
Response from client	25 th May 2013
Final report to client	29 th May 2013

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 2. Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our Payroll Follow Up Review (as set out in our terms of reference), is subject to the limitations outlined below.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). 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.

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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed in our contract. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.24(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	TRAC report	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee notes the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	Strong internal/financial control. Creating an environment in which excellence can thrive.	
Matter previously considered by:	n/a	
Further approval required?	n/a	
Communications – who should be made aware of the decision?	n/a	

Executive summary

The attached audit report for the Transparent Approach to Costing return (TRAC) was undertaken as part of the internal audit programme for 2012/13. It is presented here in final form for noting. It was considered in draft form at the last meeting alongside the TRAC submission. No final changes have been made to the report.

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

London South Bank University
TRAC Return
Final Report

Internal Audit Report

February 2013




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Distribution List

For action	Darrell Paraiag
For information	Richard Flatman, Audit Committee

1. Executive summary

Report classification	Direction of Travel	Total number of findings					
		Critical	High	Medium	Low	Advisory	
 Medium Risk See appendix 1 for details	N/A; No comparable previous review performed	Control design	0	0	2	1	0
		Operating effectiveness	0	0	1	0	0
		Total	0	0	3	1	0

Scope of the review The objective of this review was to assess London South Bank University’s (LSBU) controls over the review of the Transparent Approach to Costing (TRAC) return to ensure this was compliant with Joint Costing and Pricing Steering Group (‘JCPSG’) guidelines.
See appendix 2 for details

Background and approach

TRAC was introduced in 1999. It is an Activity-Based Costing system, adapted to academic culture in a way which also meets the needs of the main public funders of higher education. It is a process for taking financial information from published financial statements and applying cost drivers (such as academic time and space usage) to allocate costs to academic departments and activities. The University is required to report to the Higher Education Funding Council for England (HEFCE) in January each year based on accounts from the previous year – the TRAC return and forms part of the University’s Annual Accountability Return (AAR). The University is required to have systems and processes in place to ensure the data submitted is compliant with TRAC guidelines.

Summary of Findings

Procedure notes are in place outlining the timeline for compilation of the TRAC return and there is an established review process to confirm the accuracy and completeness of data.

Compilation and review of the return is restricted to a limited number of individuals. LSBU may wish to consider training additional staff or delegating some tasks to avoid knowledge gaps and for contingency planning purposes. LSBU needs to ensure that review processes are documented and retained to evidence the work performed. Review structures should also be reassessed to ensure they are compliant with JCPSG guidance. The University encountered delays in receipt of data which meant that the 2011/12 return was not authorised by the Vice Chancellor until 02/02/2012. This is after the formal submission date to HEFCE (31/01/2012). LSBU should continue to reiterate data submission timelines – and the impact of non-compliance - to departments to ensure data is received by required deadlines and that the return is submitted on time.



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
-  Medium risk Design of Controls or Operating in Practice issues identified
-  High risk Controls Design or Controls Operating in Practice issues identified
-  Critical risk Controls Design or Controls Operating in Practice issues identified

2. Detailed current year findings

Finding: Lack of contingency planning – Control Design

Knowledge surrounding the compilation of the TRAC return is restricted to a limited number of staff. The TRAC return is prepared by the Reporting Analyst - Special Projects. The completed return and self-assessment is subsequently reviewed by an independent member of staff and the Finance Director.

Although procedure notes outline how to compile the return, no-one else has been trained to perform these functions.

Risks

Lack of contingency planning could leave knowledge gaps. This could mean the return is completed inaccurately and/or inaccuracies are not identified by reviewers. The return may not be submitted on time if a key staff member is absent and unable to perform review responsibilities.

Action plan

Finding rating



Low risk

Agreed action

Limited resource and changes in staffing has meant that knowledge surrounding the compilation of the return is restricted to a few key staff members. We will consider whether training can be given to other staff members to ensure there is a pool of knowledge and whether activities can be delegated to support the timely completion of the TRAC return.

We have detailed procedure notes in place which are updated on an annual basis. These include links to relevant websites for technical guidance and are stored in a public location. This helps to mitigate against the risk of knowledge gaps.

Responsible person / title

David Kotula (Reporting Analyst – Special Projects)

Target date:

30/11/2013

Finding: Lack of documented evidence for self-assessment – Control Design


The Statement of Requirements (section 4.5.2), issued by JCPSG states that the University should complete a full self-assessment of compliance on each point listed in the Statement of Requirements (and any updates not incorporated into the Statement).

During the audit, we saw several e-mails showing an element of review had occurred however there was no formal documentation recording the outputs of this exercise meaning we cannot prove if this exercise was performed fully.

Risks

Lack of audit trail means individuals cannot trace key decisions or assumptions made. It may be difficult to identify inaccuracies in compilation or their root cause. The self-assessment may not have been performed meaning the University is not compliant with JCPSG requirement.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	Historically we have always documented our self-assessment in full however although we did perform this process in the current year, we did not document this formally. We will ensure that a detailed checklist is retained for the return submitted in 2014.	David Kotula (Reporting Analyst – Special Projects) <u><i>Target date:</i></u> 31/01/2014

Finding: Late submission of the TRAC return – Operating Effectiveness

The TRAC return was submitted electronically on 31/01/2012; the hard-copy version was not signed until 02/02/2012.

This was caused by non-compliance with internal deadlines. LSBU has a detailed timeline of when datasets should be submitted by to complete the return. A summary of identified area of non-compliance with this timetable has been included as an appendix to this report (see appendix 1).

Lack of required information meant compilation of the return was delayed: the final draft return should have been completed by the second week of January per the internal timetable; this was not completed until 31/01/12.

This meant a number of review responsibilities were also delayed. For example:

- The self assessment should have been reviewed by the Financial Planning Manager, Audit Committee, Faculty Managers and Research Contacts in the third week of January. This was performed in fourth week of January. There was no evidence of this review (see issue #2 above); and
- The Vice-Chancellor was unable to sign the return until 02/02/2012.


Risks

Return data may inaccurate or incomplete due to untimely submission of data.

Late submission could mean the University does not benefit from benchmarking data compiled from the return.

The University cannot access indirect cost rates which are published on the 1st of February.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	<p>Agreed - there were delays in receiving the data and the Vice-Chancellor did not authorise the return until 02/02/2012.</p> <p>The compilation of the return is time pressured as we are reliant on the annual accounts being published before we compile the return. This is not completed until December and is complicated by the Christmas holidays during which a number of academic staff take annual leave meaning data cannot be collected in this period.</p> <p>To avoid delays incurred in prior years, we have sent off data requests at an earlier stage for the 2012/13 return. We have agreed time with the Vice-Chancellor on 30/01/13, during which we will aim to have the return authorised.</p>	<p>David Kotula (Reporting Analyst – Special Projects)</p> <hr/> <p><i>Target date:</i> 31/01/2013</p>

Finding: Inadequate review arrangements – Control Design

The JCPSG Statement of Requirements states that reasonableness tests should be performed. These need to be reviewed by the TRAC Manager, Finance Director, TRAC Steering Group and an institutional Committee.


The return was reviewed by the TRAC Manager and the Chair of the Audit Committee. The following exceptions were noted:

- There is no TRAC Steering Group; and
- Due to personal commitments the return could not be reviewed by the Finance Director. In his absence the return was reviewed by the Financial Planning Manager.

Risks

Review arrangements may inadequate this could mean inaccuracies may not be identified.

Action plan

<i>Finding rating</i>	<i>Agreed action</i>	<i>Responsible person / title</i>
 Medium risk	Historically there was a dedicated TRAC Steering Group; however this has not been in place in the last few years. The equivalent members of this group have been contacted as part of the review process but this needs to be formalised. We will put this in place in time for the next return in December 2013. We will formalise a scheme of delegation which outlines who can authorise returns should a member of staff be unavailable during the normal review period and ensure there is an appropriate chain of command.	David Kotula (Reporting Analyst – Special Projects) <i>Target date:</i> 30/11/2013

Appendix 1. Examples of non-compliance

During fieldwork, we identified a number of instances of non-compliance with internal deadlines. These are summarised below:

Data/Action Required	Deadline	Date received	Reason	Risk
Access Estates Dataset (Tribal/K2) for Space Usage	• December 2011	• 10/01/2012	• Departmental delay	• LSBU is unable to submit its return in line with deadlines due to incomplete data
Library Usage Data	• December 2011	• 03/07/2011	• The difference of submitting this information at the yearend was immaterial	• Data is inaccurate or incomplete because it shows the financial position ahead of the financial year-end
Estate Valuation figures for Insurance – RFI and Infrastructure Adjustments	• December 2011	• 30/01/12	• Departmental delay	• LSBU is unable to submit its return in line with deadlines due to incomplete data
Meet with Faculty managers to review TAS for individual staff	• 1st week of January 2012	<ul style="list-style-type: none"> • w/c 12/01/12 - emails sent to Faculty Managers • 20/01/2012 - meetings held with AHS Managers • 24/01/2012 - meetings held with other managers 	• Departmental delay	• LSBU is unable to submit its return in line with deadlines due to incomplete data
Meet with Research Department to discuss staff and PGR student FTE's	• 1st week of January 2012	• 30/01/12 - meeting with Research Department Manager	• Staff unavailability	• LSBU is unable to submit its return in line with deadlines due to incomplete data

Appendix 2. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • 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

Appendix 3. Terms of Reference

Background

The Transparent Approach to Costing in Higher Education (TRAC) was introduced as an integral part of institutional costing systems eleven years ago. The preparation of annual TRAC data is required by HEFCE as part of the University's Annual Accountability Return (AAR) and therefore the institution is required to have systems and processes in place to ensure the data submitted is in compliance with TRAC guidelines.

Scope

We will perform a review of the design and operating effectiveness of key controls in place intended to ensure that the TRAC return is properly reviewed for compliance with JCPSG guidelines in advance of the submission deadline to HEFCE of 31 January 2012.

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

Sub-process	Key control objectives	Key risks
Self-assessment	The TRAC Return has been reviewed to ensure that it is compliant with the minimum requirements specified by the JCPSG.	The TRAC return does not reconcile to the audited financial statements No self assessment has been made with reference to the TRAC Statement of Requirements.
Secondary review	The TRAC Return has been reviewed to ensure that the outputs of the exercise are fair and reasonable.	Secondary review of the TRAC return and TRAC rates are not scheduled to be performed on a timely basis in advance of submission to HEFCE.

Limitations of scope

Our work will not seek to provide assurance over the accuracy of the TRAC return, or seek to verify the accuracy and completeness of the source data used to compile the TRAC return.

Audit approach

The review will be carried out using the following approach:

- Review of background documents including relevant policies and procedures, management directives, manuals and other relevant guidance;
- Interviews with relevant officers to document the processes and controls in place and to establish compliance with these controls; and
- Assessing the adequacy of procedures and controls in operation to mitigate potential risks.

Internal audit team

Name	Title	Contact details
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
Josephine Ip	Senior Associate	0207 213 2765 josephine.w.ip@uk.pwc.com

Key contacts

Name	Role	Contact details
Richard Flatman	Audit Sponsor	richard.flatman@lsbu.ac.uk
David Kotula	Key contact	kotulad@lsbu.ac.uk

Timetable

Fieldwork start	7 th January
Field work completed	11 th January
Draft report to client	18 th January
Response from client	25 th January
Final report to client	31 st January

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 4. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the University's capital project appraisal processes (as set out in our terms of reference), subject to the limitations outlined below.

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 the processes under consideration (as set out in our terms of reference) relates to the twelve month period prior to the date of audit (unless otherwise indicated in our terms of reference). 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.

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.



This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed in our engagement letter. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.25(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Internal audit contract extension	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee notes the internal audit contract position and agrees a 12 month extension to 31 July 2014.	
Aspect of the Corporate Plan to which this will help deliver?	Strong internal/financial control. Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee & Board of Governors	Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

The internal audit contract was tendered in 2010 and PwC were appointed. The contract was for a 3 year term initially but structured as 3+1+1, with the opportunity to extend on an annual basis thereafter for a further two years.

The contract has been subject throughout to regular review against agreed performance indicators which have been reported to each meeting of committee (see internal audit progress report for latest update).

On the basis of the KPIs, the agreed performance standards have been met and the recommendation of the Executive is to extend the contract for a further 12 month period with a further review/extension at 31 July 2014.

London South Bank University

	PAPER NO: AC.26(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Internal audit plan – 2013/14	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee reviews and approves the Internal Audit Plan 2013/14.	
Aspect of the Corporate Plan to which this will help deliver?	Strong internal/financial control. Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

The 3 year strategic planning cycle for internal audit has now come to an end and the internal auditors have presented an updated plan for 2013/14 in line with the 1 year contract extension.

The plan has been discussed in the first instance with the Executive Director of Finance and has been shared more widely with the Executive team.

The plan, which has the support of the Executive and is recommended to Committee for approval, has continuous audit (key financial controls) as the primary area of focus for 2013/14 although student data is again covered because we require ongoing assurance in this area. But there is less focus on non-financial reviews and business performance than previously.

The base programme has been cut back to 110 days which is more in line with the terms of the original contract (99 days) and which is the minimum number of days which PwC require to support the annual audit opinion in 2013/14.

The plan does include suggested areas where further assurance from internal audit may be required. However, it is suggested that the plan be approved for the base programme and that these other areas be monitored closely during the year in terms of additional support that may be required.

Attachment: Internal Audit Plan 2013/14.

Risk Assessment and Internal Audit Plan 2013/14 – Draft for discussion

London South Bank
University

June 2013

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Distribution List

For action	Audit Committee Members Richard Flatman – Executive Director of Finance
For information	James Stevenson – University Secretary and Clerk to the Board of Governors

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University.

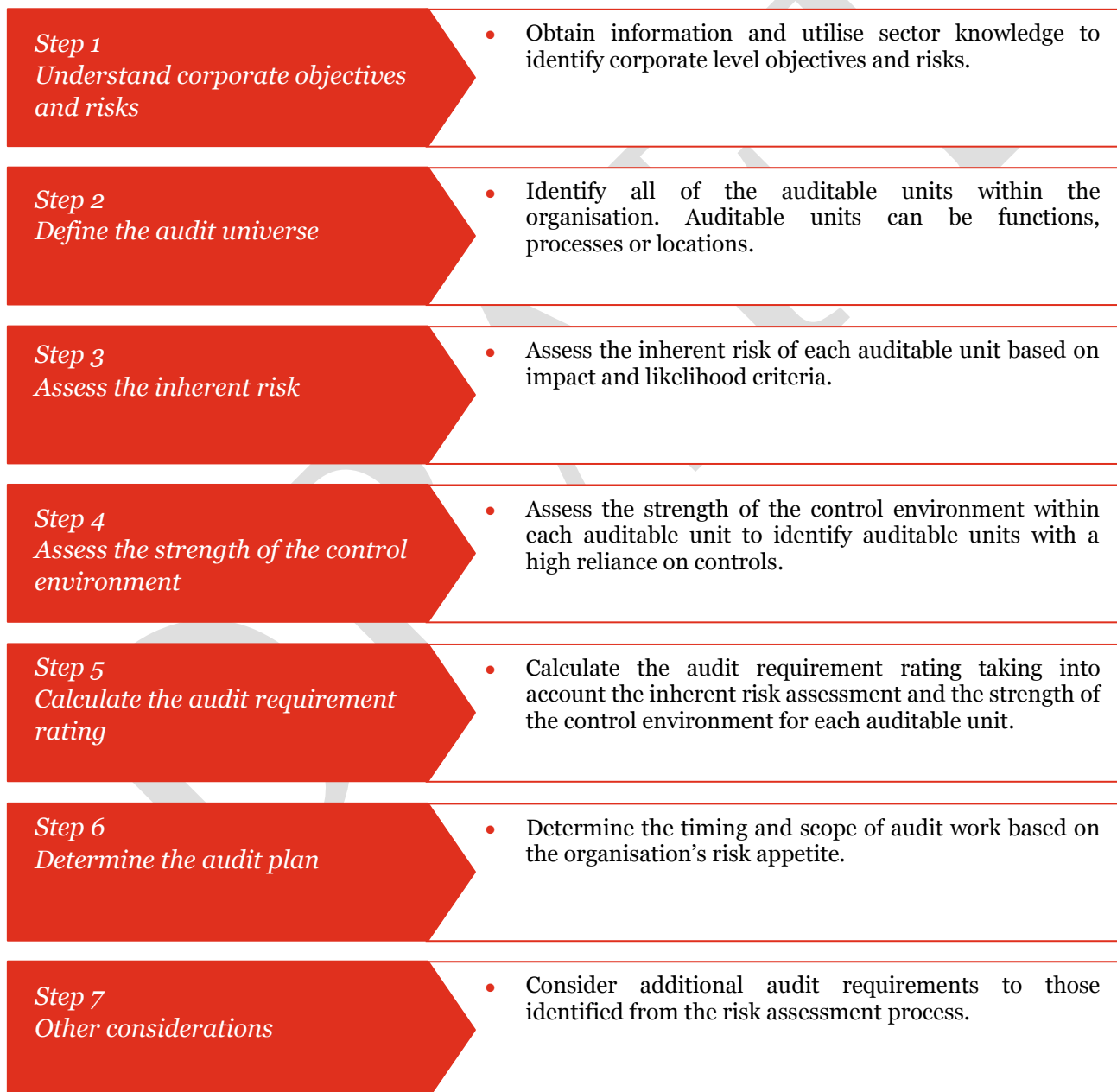
1. Introduction and approach

Introduction

This document sets out the risk assessment and our internal audit plan for London South Bank University in 2013/14.

Approach

A summary of our approach to undertaking the risk assessment and preparing the internal audit plan is set out below. A more detailed description can be found in Appendix 1 and 2.



Basis of our plan

Our annual internal audit opinion is based on and limited to the internal audits we complete over the year and the control objectives agreed for each internal audit. We have kept the number of audit days in 2013/14 to 110. Although this is above the 99 base days agreed on our appointment three years ago, this represents less base days than the previous three years. In our view, these are the minimum number of days required to support the annual audit opinion in 2013/14.

As the risk assessment and base internal audit plan has been limited to 110 days for London South Bank's internal audit service it does not purport to address all key risks identified across the audit universe as part of the risk assessment process. Accordingly, the level of internal audit activity represents a deployment of limited internal audit resources and in approving the risk assessment and internal audit plan, the Audit Committee recognises this limitation.

Basis of our annual internal audit conclusion

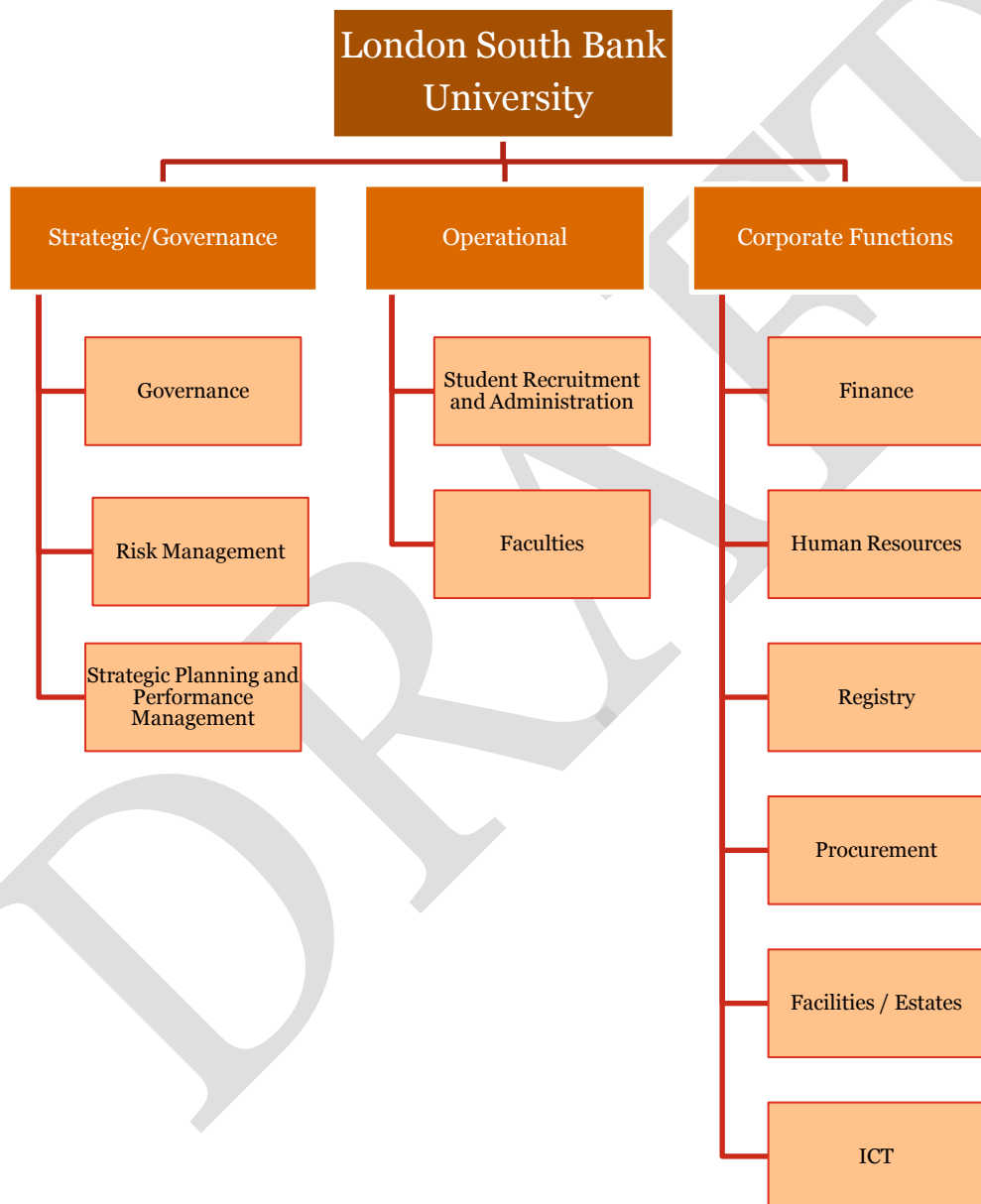
Our annual internal audit opinion will be based on and limited to the internal audits we have completed over the year and the control objectives agreed for each individual internal audit. The agreed control objectives will be reported within our Annual Internal Audit Report.

Internal audit will be performed in accordance with PwC's Internal Audit Methodology and 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. Our work is designed to comply with HEFCE's Financial Memorandum which must be followed for Higher Education Institutions (HEIs).

2. Audit universe, corporate objectives and risks

Audit universe

The diagram below represents the high level auditable units within the audit universe of London South Bank University. These units form the basis of the internal audit plan.



Corporate objectives and risks

Corporate level objectives and risks have been determined by London South Bank University. These are recorded within Appendix 3 and have been considered when preparing the internal audit plan.

3. Internal Audit Plan and risk assessment

HEFCE Requirements

The HEFCE Audit Code of Practice does not include guidance on the practice of internal audit, but does endorse the approach set out in the Code of Ethics and International Standards (January 2009) of the Institute of Internal Auditors (IIA).

The HEFCE Audit Code of Practice requires Internal Audit to provide the governing body, the designated officer and other managers within the University with assurance on the adequacy and effectiveness of risk management, control and governance arrangements. This supports the requirement for Higher Education Institutions (HEIs) to have effective arrangements in place over these three key areas.

We are also required to include in our annual report an opinion over your arrangements for securing economy, efficiency and effectiveness (value for money).

Further to these requirements of internal audit, the Audit Committee is required to include in its annual report a conclusion on the arrangements in place around data quality. Whilst this is not mandated for internal audit coverage in the HEFCE Audit Code of Practice, management of HEIs typically ask us to cover this area to support the assurances underpinning the Audit Committee's annual report.

Based on this we see five minimum requirements for internal audit work in order to meet the minimum HEFCE compliance requirements within the HEFCE Audit Code of Practice as shown in this diagram.



Purpose of Audit Plan

This 2013/14 plan summarises the results of our recent planning work.

It sets out:

- The function, scope and standards of our Internal Audit Service provision;
- A one year programme of work required to meet the risks of the University for 13/14;
- How the audit programme maps to the University's risks; and
- How the audit programme maps to the Audit Committee's reporting responsibilities.

Basis of the Plan

The plan is based around a structured assessment of system risks within the University's operations. Resources are directed according to the risk assessment. The plan has been drafted in consultation with management and in accordance with the HEFCE Audit Code of Practice within the Financial Memorandum.

The University's corporate risk assessment has been significant in drafting our audit plan and as a result we have mapped our internal audit strategy for 2013/14 against the University's corporate risk register, as shown in Appendix 3.

Key Priorities

In line with the HEFCE Audit Code of Practice, Internal Audit plans should be reviewed on a regular basis to ensure that the Internal Audit services provided continue to reflect the changing needs and priorities of the

Institution. With our knowledge of the University and the way it operates we have identified the following current priorities and have produced our 13/14 plan to reflect these priorities.

Data Quality

Robust reporting is essential to the activity of all HEIs, with the need to report externally as well as making appropriate internal management decisions. The HEFCE Audit Code of Practice includes guidance on assurances sought from designated officers and Audit Committees around the management and quality assurance arrangements for data submitted to the Higher Education Statistics Agency (HESA), HEFCE, and other funding bodies.

The Audit Committee's annual report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of these data submissions. The University has undertaken a lot of work on data quality of student numbers. We will include the student data system within our review of the financial key controls each year and a rolling programme of data quality reviews over the returns the University sees as key risk areas. In 2013/14 we shall be reviewing the HESA Finance return as well as reviewing and providing assurance on management's progress against their student data action plan.

Risk Management and Governance

The Audit Committee needs assurance that the risks facing the University are being managed properly. We conducted a review of the risk management arrangements in place, how risks are being reported and monitored and the link with corporate planning in 2012/13 and will follow up on this work in 2013/14. We also plan to perform a quality of management information review to provide assurance over the quality of the information prepared and used by the University in making strategic decisions. We are also planning to review the University's disaster recovery and business continuity arrangements.

Financial Systems Key Controls

The Financial Memorandum clarifies the responsibilities around financial systems and internal audit coverage in this area. We will undertake our work on the financial systems key controls through our continuous auditing programme. Continuous auditing is the process of ongoing testing of key controls on a regular basis throughout the year, to assess whether they are operating effectively, and to flag areas and report transactions that appear to circumvent control parameters. We use a combination of manual testing and data mining tools to extract data from the key financial IT systems to check that controls are operating as designed. We will apply this approach to payroll, accounts receivable, accounts payable, cash, general ledger and student data. Given the direction of travel within this work and the implementation of new systems such as payroll we estimate that this work will require 50 days in 2013/14. Over time we would look to reduce the regularity of the work (for example 3 rather than 4 times a year), but we would recommend that this is done once the environment and findings stabilise. We will revisit this throughout the 2013/14 audit programme.

Value for Money

The HEFCE Audit Code of Practice makes reference to the fact that in the Higher Education sector there is an underlying duty of care to ensure that public funds are spent on the purposes for which they are intended, and that good value for money (VfM) is sought. This duty is included as a condition of grant in the Financial Memorandum between the DfE and HEFCE. VfM may be considered in two ways;

- Considering VfM in each of the systems examined; or
- Conducting specific, more detailed, reviews of key areas where there is seen to be an opportunity for significant improvement.

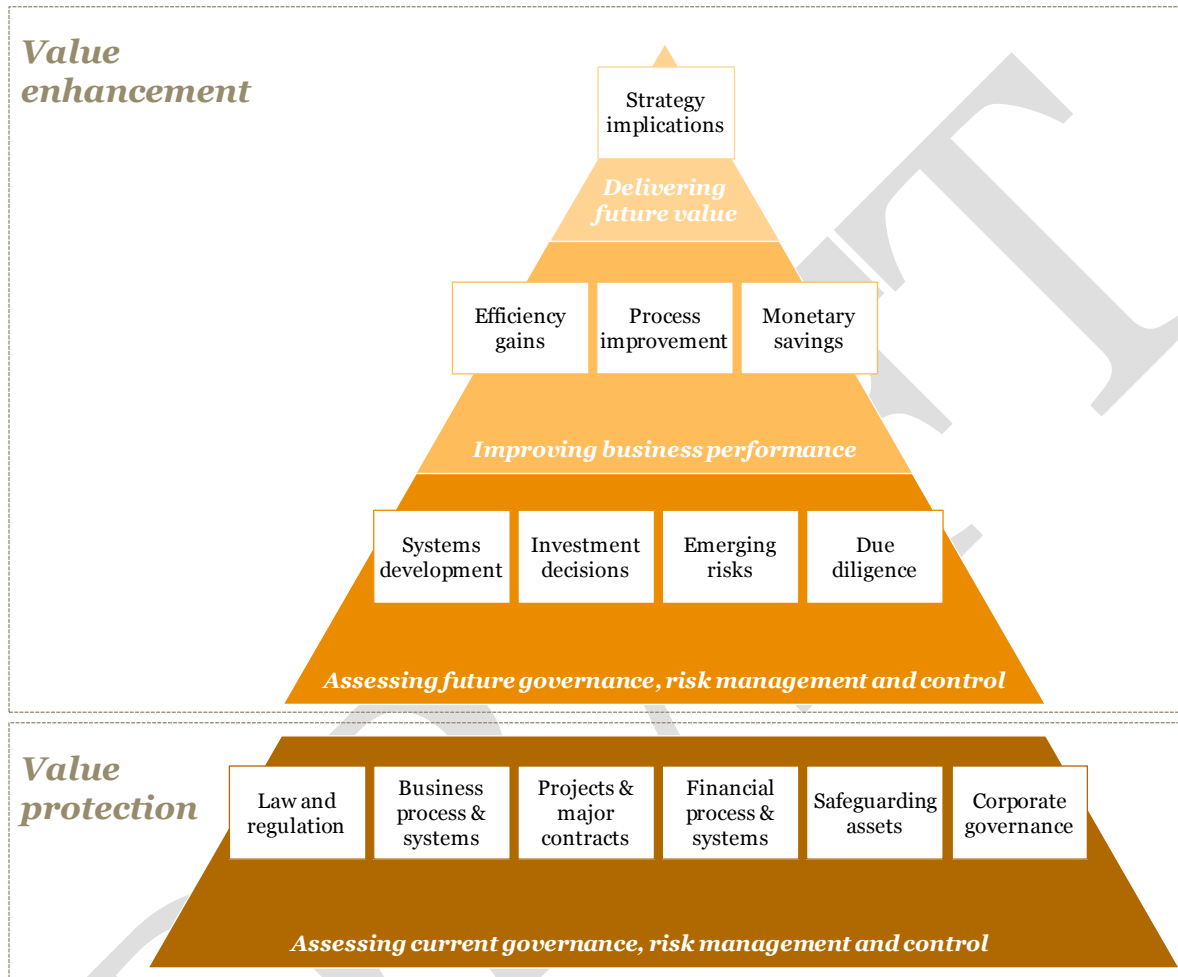
We are required to include an opinion on the adequacy and effectiveness of the University's VfM arrangements (not results, outputs or achievement) in our annual report to the Audit Committee, governing body and designated officer. A specific review of VfM arrangements will be performed in 2013/14.

Follow Up Reviews

The purpose of follow up of internal audit recommendations is to reinforce the importance of controls within the Institution, and provides updated information about whether important risks have been properly dealt with through remedial control actions.

Delivering value through our approach

Our approach focuses on two types of review, Value Protection (VP) and Value Enhancement (VE), as illustrated in the diagram below. VP provides a review of your current governance, risk management and control arrangements, which constitutes a traditional controls assurance methodology. VE is focused on assessing future risks, such as looking at your new projects / systems and improving your performance, by, for example, identifying opportunities for efficiency gains, saving money and improving quality. The nature of value protection and value enhancement is illustrated below.



Value protection

You need assurance on your core systems and we have included necessary core system reviews in the plan. We will communicate risk areas and issues identified from our work so that our approach is co-ordinated to address risks identified.

Value enhancement

Risk based work is critical to London South Bank University, as it improves risk awareness and overall control. Our work programme is designed to ensure that the significant risks identified in your risk register are managed effectively. As part of this process we will assess your risk management framework and governance. Internal audit provides a valuable role in improving business performance and delivering future value. We use our broader specialist skills and experience to help the University to achieve its aims and objectives.

An element of the internal audit plan will always remain focused on fundamental processes; we intend to increase the proportion of our plan supporting you to improve your business performance in areas such as efficiency gains, process improvements and delivering savings.

Risk assessment results

Each auditable unit has been assessed for inherent risk and the strength of the control environment, in accordance with the methodology set out in Appendix 1 and 2. Where there is a requirement to perform work in an auditable unit on a cyclical basis i.e. less frequently than annually, we have referenced the year in which we have performed this work in the last three years. A full summary of our previous audit programme is included within Appendix 4. The results are summarised in the table below.

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments
A	Strategic/governance						
A.1	Governance	6	3	5	●	Every year	Data quality arrangements will be covered every year. Data quality is an important issue in HEIs and inaccuracies in data returns can result in large fines from HEFCE therefore data quality will be looked at each year.
A.2	Risk Management	5	4	3	●	Every year	Risk management arrangements will be covered every year. HEFCE requires internal auditors to cover risk management arrangements each year.
A.3	Strategic Planning and performance Management	6	6	4	●	Every year	Aspects of the University's strategic planning decisions will be reviewed each year. In 2013/14, processes for VfM will be considered along with the quality of management information.
B	Operational						
B.1	Student recruitment and administration	6	3	5	●	Every year	The student data system will be covered by continuous auditing each year. We will also perform a review of the HESA Finance return in 2013/14.
B.2	Faculties	5	3	4	●	Every year	Certain reviews will cover a sample of faculties each year. For example, risk management in 2013/14.
C	Corporate Functions						
C.1	Finance	5	3	4	●	Every year	Continuous auditing on key financial systems each year (payroll, accounts payable, account receivable, student data, general ledger and cash). Key financial systems must have robust

Ref	Auditable Unit	Inherent Risk Rating	Control Environment Indicator	Audit Requirement Rating	Colour code	Frequency	Comments
							controls and these should be checked each year, including IT aspects. One off reviews on specific areas will also be undertaken.
C.2	Human Resources	4	4	2	●	Every three years	We reviewed payments to Hourly Paid Lecturers in year 2010/11.
C.3	Registry	5	4	3	●	Every year	This is covered by the continuous auditing work on student data carried out each year.
C.4	Procurement	4	4	2	●	Every three years	Contract management review in 2010/11.
C.5	Student Services	3	3	2	●	Every three years	Student residences review performed in 2011/12.
C.6	Facilities / Estates	4	4	2	●	Every three years	Student residences review performed in 2011/12.
C.7	ICT	5	4	4	●	Every two years	IT controls and Phishing review performed in 2012/13. Disaster recovery and business continuity review planned for 2013/14.

Key to frequency of audit work

Audit Requirement Rating	Colour Code	Timescale	Description
6, 5 and 4	●	Every year	A review of processing and monitoring control design and operating effectiveness
3	●	Every two years	A review of the design and operating effectiveness of monitoring controls
2	●	Every three years	A review of the adequacy of breadth of monitoring controls and analytical review of the output of monitoring controls.
1	●	No further work	N/A

4. 2013/14 Annual plan

Base annual plan and indicative timeline

The following table sets out the internal audit work planned for 2013/14; together with indicative start dates for each audit. This represents our view of the minimum reviews required to form our annual opinion.

Ref	Auditable Unit	Indicative number of audit days	Indicative number of audit days				Comments
			Q1	Q2	Q3	Q4	
A	Strategic/ governance						
A.2	Risk Management follow up	5				✓	<ul style="list-style-type: none"> • Policies and Procedures • Reporting and Monitoring of risk • Risk Identification • Embedding Risk Management
A.3	Value for Money arrangements	5				✓	HEFCE requirement. We will also consider VFM arrangements on other reviews performed.
A.3	Quality of Management Information	10	✓				A review of the completeness and accuracy of management information.
B	Operational						
B.1/ A.1	HESA Finance Return	10		✓			Testing of data quality in relation to the HESA Finance Return
B.1	Student Data	5	✓				Review of progress against action plan
C	Corporate Functions						
C.1	Continuous Auditing	50	✓	✓	✓	✓	<p>We will review controls in the following areas:</p> <ul style="list-style-type: none"> • General Ledger • Cash • Accounts Payable • Accounts Receivable • Payroll • Student Systems
C.6	Disaster Recovery and Business Continuity	10		✓			<ul style="list-style-type: none"> • Design of policies and procedures for disaster recovery and business continuity • Testing of procedures • Communication of controls
Z	Audit Project Management						
Z.1	Planning and Management	10	✓	✓	✓	✓	
Z.2	Follow up	5	✓	✓	✓	✓	
	Total Days	110					

Suggested areas where further assurance from Internal Audit may be required:

From our work undertaken during 2012/13 and discussion with management, there are additional reviews that we believe Management and the Audit Committee need to consider for inclusion in the 2013/14 plan in addition to the core days on the previous page. These are:

- Given the high risk findings from our 2012/13 IT controls and Phishing review, we would recommend that further work is undertaken in this area. We recommend a wider review is undertaken which encompasses other areas related to the IT environment within the organisation which were not covered as part of the review in 2012/13.
- The risk assessment in section 3 expects us to perform a review for the auditable unit of Human Resources every third year. The last review in this area was back in 2010/11 when we reviewed payments to hourly paid lecturers. Therefore, we would recommend that we perform a review of staff performance management given this auditable unit has not had an audit review for three years.
- It has been three years since we performed a review in relation to procurement. We would recommend that we perform a review over contract management arrangements or some deep dive reviews into significant contracts to ensure that the University is following best practice and monitoring these contracts effectively as well as ensuring that VfM is being achieved.
- We would also recommend a review of your anti-fraud arrangements given the nature of the risks associated with this area. We have a diagnostic tool that we can use to identify the areas of higher fraud risk and an assessment of the controls in place to mitigate these threats.
- FRS102 impact assessment - a review of the financial statements against the new reporting standard to provide an impact assessment of the impact of these changes on the financial performance and standing of the University. Even though the standard is not applicable until year ends 2016, BUFDG is already undertaking pilots with Institutions across the country and University's will need comparative information as at the 2014 year end for conversion purposes. As a result we are already seeing a number of Universities starting to plan for this significant reporting change as it also represents a considerable long term project that needs to be managed carefully. From the work we are doing with BUFDG and the sector, the new standard is expected to have a considerable financial impact, particularly with regard to an Institutions balance sheet. As a result, Institutions need to be factoring this into any discussions they are having in relation to financing, bank covenants etc;

Other reviews that we could perform which would provide assurance include:

- Review of project and programme management arrangements across the University on a sample of projects or a detailed review of arrangements for a specific programme.
- Review of compliance with UK Border Agency documentation requirements for international students;
- Review of the controls and procedures for the halls of residence system.
- Compliance with obligations for under 18s and vulnerable adults.

Appendix 1: Detailed methodology

Step 1 - Understand corporate objectives and risks

In developing our understanding of your corporate objectives and risks, we have:

- Reviewed your strategy, organisational structure and corporate risk register;
- Drawn on our knowledge of the Higher Education Sector; and
- Met with a number senior management.

Step 2 - Define the Audit Universe

In order that the internal audit plan reflects your management and operating structure we have identified the audit universe for London South Bank University made up of a number of auditable units. Auditable units include functions, processes, systems, products or locations. Any processes or systems which cover multiple locations are separated into their own distinct cross cutting auditable unit.

Step 3 - Assess the inherent risk

The internal audit plan should focus on the most risky areas of the business. As a result each auditable unit is allocated an inherent risk rating i.e. how risky the auditable unit is to the overall organisation and how likely the risks are to arise. The criteria used to rate impact and likelihood are recorded in Appendix 2.

The inherent risk assessment is determined by:

- Mapping the corporate risks to the auditable units;
- Our knowledge of your business and the Higher Education sector; and
- Discussions with management.

Impact Rating	Likelihood Rating					
	6	5	4	3	2	1
6	6	6	5	5	4	4
5	6	5	5	4	4	3
4	5	5	4	4	3	3
3	5	4	4	3	3	2
2	4	4	3	3	2	2
1	4	3	3	2	2	1

Step 4 - Assess the strength of the control environment

In order to effectively allocate internal audit resources we also need to understand the strength of the control environment within each auditable unit. This is assessed based on:

- Our knowledge of your internal control environment;
- Information obtained from other assurance providers; and
- The outcomes of previous internal audits.

Step 5 -Calculate the audit requirement rating

The inherent risk and the control environment indicator are used to calculate the audit requirement rating. The formula ensures that our audit work is focused on areas of with high reliance on controls or a high residual risk.

Inherent Risk Rating	Control design indicator					
	1	2	3	4	5	6
6	6	5	5	4	4	3
5	5	4	4	3	3	n/a
4	4	3	3	2	n/a	n/a
3	3	2	2	n/a	n/a	n/a
2	2	1	n/a	n/a	n/a	n/a
1	1	n/a	n/a	n/a	n/a	n/a

Step 6 -Determine the audit plan

Your risk appetite determines the frequency of internal audit work at each level of audit requirement. Auditable units may be reviewed annually, every two years or every three years.

Step 7 -Other considerations

In addition to the audit work defined through the risk assessment process described above, we may be requested to undertake a number of other internal audit reviews such as regulatory driven audits, value enhancement or consulting reviews.

Appendix 2: Risk assessment criteria

Determination of Inherent Risk

We determine inherent risk as a function of the estimated **impact** and **likelihood** for each auditable unit within the audit universe as set out in the tables below.

<i>Impact rating</i>	<i>Assessment rationale</i>
6	Critical impact on operational performance; or Critical monetary or financial statement impact; or Critical breach in laws and regulations that could result in material fines or consequences; or Critical impact on the reputation or brand of the organisation which could threaten its future viability.
5	Significant impact on operational performance; or Significant monetary or financial statement impact; or Significant breach in laws and regulations resulting in large fines and consequences; or Significant impact on the reputation or brand of the organisation.
4	Major impact on operational performance; or Major monetary or financial statement impact; or Major breach in laws and regulations resulting in significant fines and consequences; or Major impact on the reputation or brand of the organisation.
3	Moderate impact on the organisation's operational performance; or Moderate monetary or financial statement impact; or Moderate breach in laws and regulations with moderate consequences; or Moderate impact on the reputation of the organisation.
2	Minor impact on the organisation's operational performance; or Minor monetary or financial statement impact; or Minor breach in laws and regulations with limited consequences; or Minor impact on the reputation of the organisation.
1	Insignificant impact on the organisation's operational performance; or Insignificant monetary or financial statement impact; or Insignificant breach in laws and regulations with little consequence; or Insignificant impact on the reputation of the organisation.

<i>Likelihood rating</i>	<i>Assessment rationale</i>
6	Has occurred or probable in the near future
5	Possible in the next 12 months
4	Possible in the next 1-2 years
3	Possible in the medium term (2-5 years)
2	Possible in the long term (5-10 years)
1	Unlikely in the foreseeable future

Appendix 3: Mapping the risk register to the Internal Audit Plan in 2013/14

Risk		Mapping to Internal Audit Strategic Plan
CP-01	Failure to position the University to effectively respond to changes in government policy and the competitive landscape.	We have included a follow up review of Risk Management arrangements in 2013/14.
CO-01-02	Failure to meet revenue targets.	Each year we have included the key controls in the student data system within the financial key controls work. We have also included a review of management information as part of the 13/14 plan.
CO-10-01	Increasing pension deficit.	We have not included any specific reviews of the pension deficit in the plan, but we have pension expertise within PwC that would enable us to assist management in this area if required.
CO-08-01	Ineffective data systems leading to failure to supply meaningful and reliable management information (internally) and to comply with the requirements of external agencies.	We will contribute towards the University's approach by including a review of financial key controls within the plan each year. We have also included a review of management information as part of the 13/14 plan as well as a review of the University's progress against their student data action plan and a review of the HESA Finance return.
CO-10-06	Potential loss of NHS contract income.	We have not included any specific reviews of this in our audit plan, however we could consider this as part of our suggested review of contract management arrangements in 2013/14 if requested by management.
CO-10-08	Potential impact of estates strategy delivery on financial position	No specific reviews included for 2013/14.
Co-10-09	Poor staff engagement	No specific reviews included for 2013/14.

Appendix 4: Summary of audit programme 2010 - 2013

The table below summarises the coverage of our internal audit work programme between 2010 and 2013.

System	2010/11	2011/12	2012/13
	Days	Days	Days
Financial Systems			
Financial Systems Key Control Reviews including continuous auditing	45	43	43
Payments to Hourly Paid Lecturers	10	0	0
Payroll Implementation	0	0	7
Payroll Follow Up	0	0	4
Financial Forecasting	0	0	5
Funding arrangements for Confucius Institute	10	0	0
<i>Sub Total</i>	<i>65</i>	<i>43</i>	<i>59</i>
Operational Systems			
Health and Safety	10	0	0
Student Residences	0	7	0
Research	0	10	0
Data Quality – rolling programme of reviews: 2011/12 – HESA Staff Return 2012/13 – Key Information Set		5	10
Management of Representative Partners for International Students	0	5	0
Enterprise	0	0	10
Bribery Act 2010	0	5	0
IT Security Arrangements	0	0	15
Review of Capital Programme	0	0	8
Delegated Authority arrangements	0	10	0
TRAC Review	0	0	3
Management of Fraud Risk	0	0	5
Contract Management	10	0	0
<i>Sub Total</i>	<i>20</i>	<i>42</i>	<i>51</i>

Risk and Governance-Based Reviews			
Risk Management	2	13	2
<i>Sub Total</i>	<i>2</i>	<i>13</i>	<i>2</i>
Value for Money			
<i>Value for Money Arrangements</i>	<i>10</i>	<i>2</i>	<i>2</i>
Other			
Follow Up	5	5	5
Planning, Management and Reporting	9	9	9
Review of Financial Regulations	1	0	0
Total	112	114	128

In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, London South Bank University discloses any such information, 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.

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**London South Bank
University**

	PAPER NO: AC.27(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Audit Approach Memorandum for the year ending 31 st July 2013	
Author:	Grant Thornton, External Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee notes the Audit Approach Memorandum for the year ending 31 st July 2013.	
Aspect of the Corporate Plan to which this will help deliver?	Reporting financial performance. Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee & Board of Governors	Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	University Executive, Internal Audit, Finance staff	

Executive summary

Grant Thornton will be performing the audit of London South Bank University for the year ending 31st July 2013.

The attached memorandum sets out the key elements of their proposed audit strategy.

The committee is requested to note the contents of the report.

The Audit Plan for London South Bank University

Year ended 31 July 2013

13 June 2013

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The Audit Committee
London South Bank University
103 Borough Road
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13 June 2013

Dear Sirs

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Audit Plan for London South Bank University for the Year ended 31 July 2013

We summarise on the following pages the key aspects of our proposed 2013 audit plan, for the purposes of communication to those charged with governance of London South Bank University in accordance with requirements of International Standard on Auditing (UK and Ireland) 260.

The audit will be performed in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

This Audit Plan highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with the Executive Director of Finance and the Financial Controller.

Our Audit Findings report will be issued prior to approval of the financial statements and will present our significant findings and other matters arising from the audit. We will communicate any significant adverse or unexpected findings affecting the audit on a timely basis, either informally or through an interim memorandum.

We look forward to working with you during the course of the audit.

Yours faithfully

David Barnes

Partner

Chartered Accountants

Member firm within Grant Thornton International Ltd

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The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

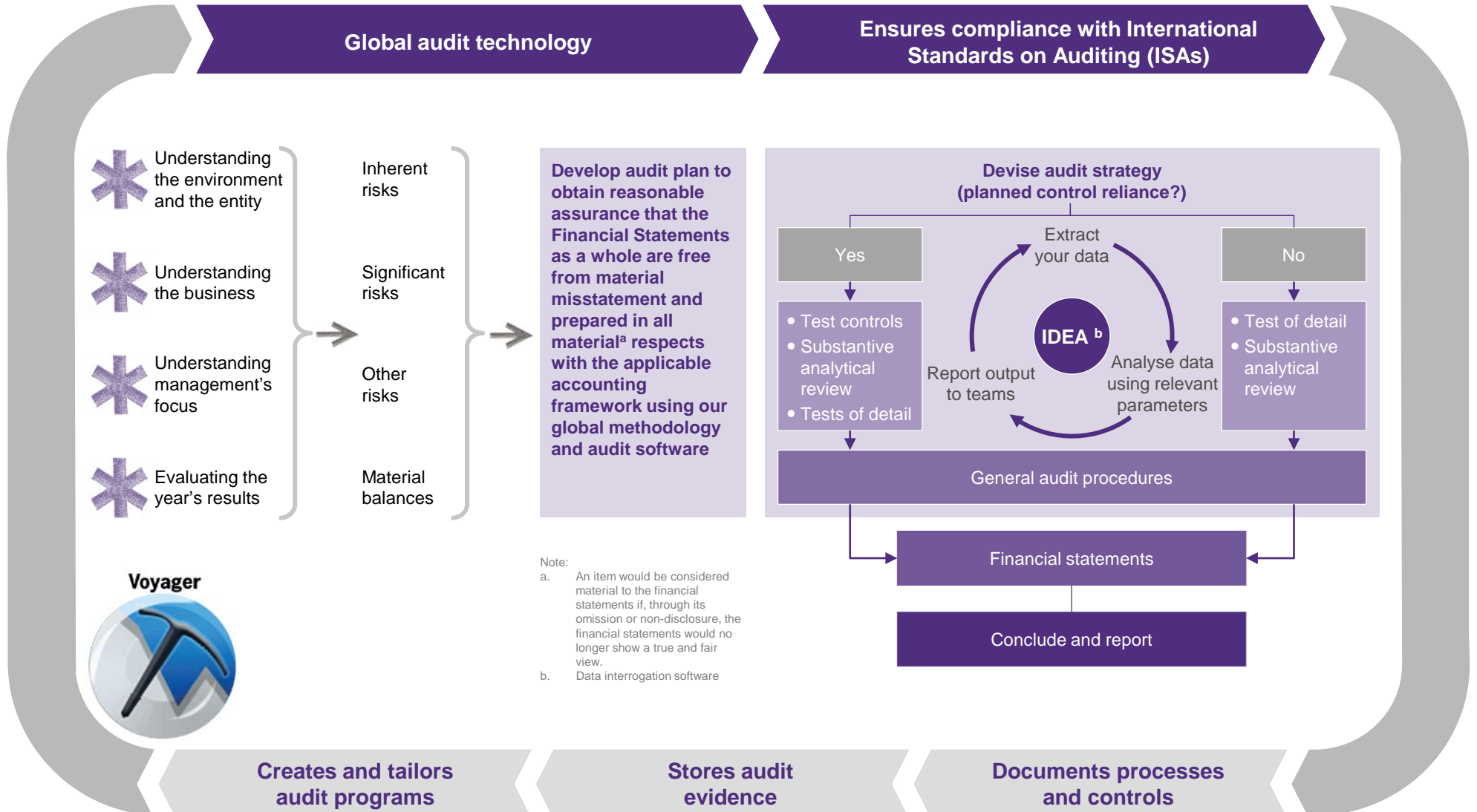
1. Understanding your business

<p>Governance</p> <ul style="list-style-type: none"> The Board of Governors Vice-Chancellor Chair of the Audit Committee Executive Director of Finance 	<p>Strengths</p> <ul style="list-style-type: none"> A Top 20 UK university for graduate starting salaries Significant recent estate development, including the new Enterprise Centre Rated the highest possible for education quality in the latest QAA assessment Awarded highest assurance rating by HEFCE (2011 review) Significant funding from the Strategic Health Authority 	<p>Weaknesses</p> <ul style="list-style-type: none"> Changing working capital profile as a consequence of the payments of student debts by the SLC Dependence on student recruitment for income and attracting students in a competitive environment (e.g., league tables) Pension fund deficit and potential for further 'top up' funding 	<p>Capital investment</p> <ul style="list-style-type: none"> Enterprise Centre due to open in September 2013 Increasing investment in capital expenditure
<p>Assurance framework</p> <ul style="list-style-type: none"> Audit Committee Internal audit Internal control framework 	<p>London South Bank University</p>		<p>Key technical issues</p> <ul style="list-style-type: none"> Impact planning for FRS102 Actuarial valuation of the defined benefit pension fund Valuation of the Enterprise Centre
<p>Information systems</p> <ul style="list-style-type: none"> There are established and integrated systems for financial reporting Subsidiaries use the same systems as the University 	<p>Opportunities</p> <ul style="list-style-type: none"> Potential for growth in international students and relationships Potential for growth in enterprise income 	<p>Threats</p> <ul style="list-style-type: none"> Government policies in relation to HE funding and international students Reduction in NHS contract income Changing pattern of post school employment opportunities National and global competition from other leading HE institutions 	<p>Entities</p> <ul style="list-style-type: none"> The University London South Bank University Enterprises Limited
	<p>Key stakeholders - University</p> <ul style="list-style-type: none"> The Board of Governors Over 1,800 staff Over 25,000 students Alumni 	<p>Key stakeholders – wider society</p> <ul style="list-style-type: none"> Local community (residents and businesses) Prospective employers of students Regulators Funders, including research bodies and banks 	

Our response

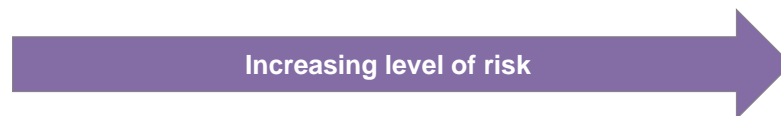
- In developing our understanding of the University we have identified a number of key audit risks and issues. In the following pages we assess the significance of the risks on our audit opinion, and detail our approach to addressing them.
- We will also ensure that wherever possible we utilise the wider assurance framework operating across the University, including the work of your internal auditors.

2. Our audit approach



3. An audit focused on risks

Account	Material (or potentially material) balance?	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Extent of substantive testing
Property valuations	Yes	Investments	Medium	Not remote	Risk of incorrect valuation of investments	Full
Tangible fixed assets	Yes	Property, Plant and Equipment	Low	Remote	Risk of incorrect treatment of fixed assets	Reduced
Stock	No	Inventory	Low	Remote	Risk of incorrect valuation of stock	None
Trade debtors	Yes	Revenues	Medium	Not remote	Risk of incorrect recognition of income streams and recoverability of balances	Full
Other debtors	Yes	Revenues	Low	Remote	Risk of incorrect recognition of income streams and recoverability of balances	Reduced
Cash	Yes	Cash	Low	Remote	Risk of incorrect valuation of cash	Reduced
Trade creditors	Yes	Operating Expenses	Medium	Not remote	Risk that creditors are understated	Full
Other creditors	Yes	Operating Expenses	Medium	Not remote	Risk that creditors are understated	Full
Accruals and deferred income	Yes	Revenues	Medium	Not remote	Risk of incorrect recognition of income streams	Full
Deferred capital grants	Yes	Revenues	Medium	Not remote	Risk of incorrect recognition of income streams	Full
Pension fund liability	Yes	Employee Remuneration	Medium	Not remote	Risk of incorrect valuation of pension fund liability	Full
Reserves	Yes	Equity	Low	Remote	Risk of incorrect treatment of reserves	Reduced



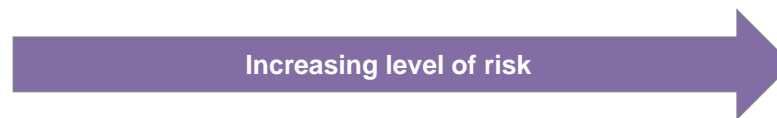
Remote

Not remote

Significant risk

3. An audit focused on risks (continued)

Account	Material (or potentially material) balance?	Transaction cycle	Inherent risk	Material misstatement risk?	Description of risk	Extent of substantive testing
Revenue - Funding Council	Yes	Revenues	Medium	Not remote	Risk of incorrect recognition of income stream	Full
Revenue - tuition fees and educational contracts	Yes	Revenues	High	Significant	Income includes fraudulent transactions	Full
Revenue - research grants and contracts	No	Revenues	Medium	Remote	Risk of incorrect recognition of income stream	Reduced
Revenue - other income	Yes	Revenues	Medium	Not remote	Risk of incorrect recognition of income stream	Full
Revenue - endowment and investment income	No	Revenues	Low	Remote	Risk of incorrect recognition of income stream	Reduced
Employee costs	Yes	Employee Remuneration	Medium	Not remote	Risk of incorrect recognition of employee remuneration	Full
Depreciation	Yes	Property, Plant and Equipment	Low	Remote	Risk of incorrect treatment of fixed assets	Reduced
Other operating expenses (including interest payable)	Yes	Operating Expenses	Medium	Not remote	Risk that expenses incurred are not for the purpose of the business and have been incorrectly classified	Full



Remote

Not remote

Significant risk

4. Significant risks identified

“Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.” (ISA 315)

Significant risk	Description	Substantive audit procedures
The revenue cycles include fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue.	In addition to the testing detailed in the individual revenue streams below, we will: <ul style="list-style-type: none"> • review and test revenue recognition policies for all revenue streams; • test key controls on significant revenue streams.
Management over-ride of controls	Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.	To ensure that we gain reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, the work we will perform in this area will include: <ul style="list-style-type: none"> • review of accounting estimates, judgements and decisions made by management; • a review of the controls in place over the accounting system and other key IT software applications by the IT members of our audit team; • testing of a sample of journals entries which will be determined through the use of our data interrogation software (IDEA) which enables our audit team to focus on higher risk journal postings; • identification of the related parties of the University and a review of the procedures in place to ensure that any related party transactions are approved, captured and correctly presented within the financial statements; • review of unusual significant transactions.

5. Other risks identified

The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures (ISA 315).

Significant risk	Description	Substantive audit procedures
Valuation of properties	The University's development of the Terraces into an Enterprise Centre should be completed during, or shortly after, the year end. In the prior year an impairment review resulted in a reduction in the carrying value of the development. We will therefore review the costs incurred to date and the carrying value of the development to conclude whether the valuation in the financial statements is appropriate.	<p>We will:</p> <ul style="list-style-type: none"> • review the detailed business plans for forecasts for the Enterprise Centre; • review the costs incurred on the Enterprise Centre in the period; and • review the University's assessment of the carrying value
Risk that income from tuition fees and educational contracts has not been correctly recognised	Within the 2012 financial statements, the University recognised nearly £74m in fees relating to tuition fees and educational contracts. The correct recognition of this income stream (including consideration of the recoverability of the associated debtor) is an area of significant risk for the University.	<p>We will:</p> <ul style="list-style-type: none"> • review the reconciliation of the balance due from the Student Loans Company; • review the treatment of income from the Strategic Health Authority; • perform substantive testing on a sample of students (from a variety of courses and study patterns, including NHS students) to ensure that their fees have been correctly recognised within the financial statements; • undertake a review of debts for recoverability by evaluating management's estimate of recoverability of overdue fees; • compare aged balances with prior years aged balances; • calculate ageing as a percentage of total fees debtors and if unusual percentages or relationships are noted, investigate and determine if an adjustment is necessary; and • review the accounting treatment being applied to the creditor balances relating to overseas students.
Student numbers and the existence of HEFCE income	The recognition of HEFCE grant funding has been a significant issue for the sector as a whole in recent years and continues to be a complex area. Whilst we understand that the University is not expecting any issues in the current year, the inherently complex nature of the funding rules means this remains an area of risk.	<p>We will:</p> <ul style="list-style-type: none"> • review the process that the Board of Governors has gone through to satisfy themselves of the integrity of the student data; • review the correspondence with HEFCE during the year; • review the results of any reviews undertaken by HEFCE and your internal auditors during the year (including the work undertaken by internal auditors on data quality and management); • Review initial calculations for the allocation of funding to ensure that the amounts appear reasonable; • review your HESA/HESES reconciliation and discuss and differences and the implications thereof with appropriate personnel; and • agree amounts recognised to remittance statements provided by HEFCE.

5. Other risks identified (continued)

Risk	Description	Planned audit procedures
Existence of accommodation income and recoverability of debtors	As in previous years a significant part of the University's income is from accommodation income and catering income. The correct recognition of this income stream (including consideration of the recoverability of the associated debtor) is an area of significant risk for the University.	We will: <ul style="list-style-type: none"> • conduct an analytical review of accommodation and other income for the year and perform "proof in total" testing where appropriate; and • review the process used by the University to calculate the bad debt provision to determine whether the process is reasonable compared to historical recoveries.
Risk that creditors and operating expenses are understated	Due to the nature of the University's activities, creditors and accruals are significant and therefore there is a high risk that liabilities relating to the year could be missed in significant volumes, giving rise to a material impact on the reported results.	We will: <ul style="list-style-type: none"> • enquire of accounting staff as to the possibility of unrecorded liabilities and examine any unprocessed invoices for unrecorded creditors; • search for unrecorded liabilities by scanning the payments journal for 60 days subsequent to the year end, or to the end of fieldwork, for large or unusual entries; • select creditor balances, (based on large purchase activity and/or large balances) and test or perform reconciliations of creditor statements to balances payable at the accounting date. We will investigate reconciling items and ensure that accruals have been made for missing liabilities; • review all significant balance sheet items and compare to prior year and expectations and investigate any differences; • review expenditure streams for the year and verify significant items to supporting documentation.
Risk that employee remuneration is overstated	Payroll expenditure constitutes a significant proportion of the University's costs, totalling nearly £73m in the 2011/12 financial statements.	We will: <ul style="list-style-type: none"> • analytically review payroll expenses in comparison to prior years and budgets and investigate any significant or unexpected variances; • gain an understanding of procedures and controls in place to record and process employee remuneration; • perform tests (using data interrogation software) to identify exceptions such as duplicate employee names, NI numbers, monthly significant fluctuations in pay and will investigate the results.

5. Other risks identified (continued)

Risk	Description	Planned audit procedures
<p>Pension liability</p>	<p>A number of the University's employees are included in the local government pension fund, a defined benefit scheme which is accounted for under FRS 17. Under this standard the University is required to carry out a full valuation of the assets and liabilities of the scheme on an annual basis and that the net amount is included in the year end financial statements.</p>	<p>The University will use the services of a professional actuary to carry out a valuation of the pension fund using assumptions agreed with management. We will engage our in-house actuarial team to review the assumptions used in the valuation against their expectations and their experience of other valuations currently being carried out. We will also carry out a review of the detailed disclosures within the financial statements to ensure that full compliance with FRS 17 is met.</p>
<p>Loan covenants</p>	<p>The University has loans with financial institutions. The breaching of any of the covenants in these loans could lead to the University having to repay these amounts on demand and would need to be disclosed as such within the financial statements in accordance with Financial Reporting Standard 25.</p> <p>We understand that the finance team reviews and reports on these regularly and will review these covenants prior to the year end and, in the unlikely event that there are any breaches, will seek to obtain assurance from the relevant institution before the end of the financial year that the debt will not be called in early.</p>	<p>We will review the calculations in relation to all financial covenants to ensure these have been appropriately calculated and will review compliance with non-financial covenants.</p> <p>If there are any breaches in covenants we will ensure that any waivers have been appropriately documented and the appropriate disclosure is included within the financial statements.</p>

6. Scope of group audit

ISA 600 requires that as Group auditors we obtain sufficient appropriate audit evidence regarding the financial information of the components and the consolidation process to express an opinion on whether the group financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework.

	Company name	Auditor	Audit scope	Statutory audit
London South Bank University		GT UK		Yes
	London South Bank University Enterprises Limited	GT UK	Reliance	Yes

We understand that because of a change in the constitution of London South Bank University Student Union from July 2013, the University no longer exercises control over the Student Union and it will not longer be included in the consolidation of the University. We will review the amended constitution to ensure that this conclusion is correct and the Union can be excluded from the results of the Group.

Audit scope

- **Reliance**— the component is subject to a statutory audit by ourselves and we will take assurance from our own work

7. Fees and independence

Fees	
	£
London South Bank University statutory audit (as per tender document)	39,780
Payment profile for statutory audits	
June 2013	3,900
July 2013	7,800
September 2013	24,180
October 2013	3,900
Taxation compliance for London South Bank University Enterprises Limited	2,460
iXBRL tagging for subsidiary accounts	850
Payment profile for taxation services and iXBRL tagging	
October	1,800
On finalisation of the computations	1,510

Our ability to deliver to the agreed timetable and fee will depend on the assumptions. If there are any variances to the plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal such will be billed separately after discussion with you.

Our fee assumptions include:

- Our fees are exclusive of VAT
- Supporting schedules to all figures in the accounts are supplied on the first day of fieldwork and in accordance with the agreed upon information request list
- The group structure has not changed
- You will make available management and accounting staff to help us locate information and to provide explanations
- All deadlines agreed with us are met

Independence and ethics

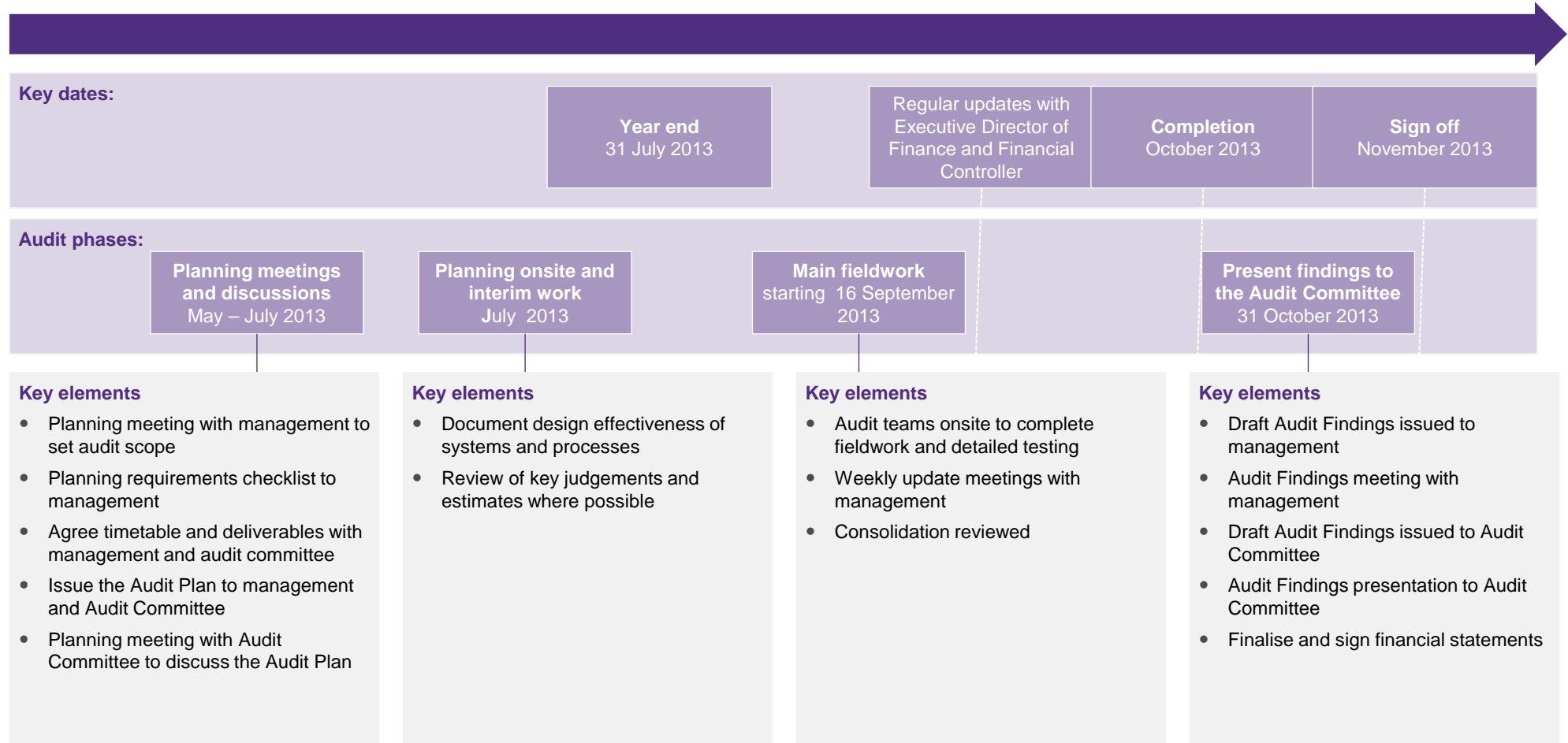
We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton network member Firms will be included in our Audit Findings report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards.

8. Logistics – summary approach

The audit timeline



9. Communication of audit matters with those charged with governance

Our communication plan	Audit plan	Audit findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Company accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓

International Auditing Standard (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

10. Financial reporting developments – changes to UK GAAP

The future of UK GAAP represents the single largest change to accounting standards in the UK for a generation; From the year ended 31 July 2016, the University will be required to report under either full IFRS or The FRS, a new standard for the UK based on a 'light' version of IFRS.

Impacts	
Specific impact on the University	<p>Availability of optionality within FRS102 will not be clear until a draft SORP is available to the sector. However, based on FRS102 the following is our initial assessment of the key impacts of the standards to the University accounts:</p> <p>Holiday accruals – under both standards at each year end there will be a requirement to accrue for any unutilised staff holiday entitlements. Where holiday and financial year ends are not aligned this can present a complex logistical issue as well as an impact on the financial statements</p> <p>Leases – both standards include a slightly different definition of finance leases in comparison to current UK GAAP. Whilst this is unlikely to materially impact on the University's results, the conversion represents an opportunity to review all lease agreements and ensure they are appropriately accounted for</p> <p>Grants – the FRS will give the University the choice to recognise government grants either under the existing accruals basis, or when the performance conditions have been met. This may accelerate the recognition of some income streams</p> <p>FRS 17 – the FRS will require entities to recognise a liability for any contractual commitment to fund a deficit on a multi-employer defined benefit pension scheme. This may impact the University in the future depending on any arrangements made with the relevant scheme operators</p>
Impact on subsidiaries	<p>The University's subsidiaries will also be required to transition. The following options will be available to each entity:</p> <p>Full IFRS – the subsidiaries could adopt full IFRS individually.</p> <p>Reduced IFRS – the subsidiaries could report using the reporting principles of IFRS but with significantly reduced disclosures.</p> <p>The FRS – the subsidiaries could report under The FRS regardless of the framework the University chooses.</p>

Managing the transition
<p>From our experience in helping other entities transition between frameworks we note that the key to managing the process successfully is thorough planning and ensuring the time and resource commitments are not underestimated.</p> <p>Although the first reporting period covered is not until the year ended 31 July 2016, the University will be required to restate its 2014 and 2015 balance sheets as part of the transition. Therefore it is not too soon to start considering how you will address the transition process.</p> <p>Timely actions and the right support will ensure that the process goes as smoothly as possible. We understand that management are considering the transition and have already had discussions over some of the key areas</p>
<p>We recommend that as part of your transition planning you should consider the following questions:</p> <ul style="list-style-type: none"> • how detailed does the University's transition plan need to be? • does the University understand the specific impact the transition will have on each entity? • who does the University need to train and when? • what agreements does the University have linked to the financial statements, and how will these be impacted? • does the University have the appropriate systems in place to identify all of the information required? • what extra resources may be required? • what steps can be taken to streamline the process? For example corporate restructuring. • does the University have the support it needs from its peers, advisors etc?

Whilst, for independence reasons, we cannot assist you in carrying out the transition process, we will support you in managing the transition by:		
On going discussion	Workshops	Technical releases
We will continue to discuss the transition and their plan with management. As part of this we will share our views on the transition process and current thinking both internally and across the Sector.	We are running a series of workshops, focused on the impact of the transition specifically in relation to Higher Education organisations. This will enable us to share our views in a structured format and will give your team the opportunity to meet with the peers and discuss issues across the sector. We would expect to run similar training sessions directly with key members of your team.	Our national technical team are preparing a number of fact sheets and technical releases on the transition. We will share these with you as they are released and will ensure you have a direct support line into this team.



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	PAPER NO: AC.28(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Corporate Risk Register	
Author:	John Baker, Corporate & Business Planning Manager	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Committee note the updated risk register.	
Aspect of the Corporate Plan to which this will help deliver?	The corporate risk framework is aligned to the new corporate plan and effective management of corporate risk underpins successful delivery of all aspects of the plan.	
Matter previously considered by:	Executive	On: 15/05/2013
	Board of Governors	On: 23/05/2013
Further approval required?	n/a	
Communications – who should be made aware of the decision?	n/a	

Executive summary

The latest Corporate Risk Register is attached.

Three risk actions have been updated, but details of two do not appear in the report:

Risk **CO-10-06** 'Potential loss of NHS contract income'

This been upgraded from 'High' and now is rated as 'Critical'. The risk has also been updated to reflect changes to the 'Existing Controls' and additional 'Actions' have been added e.g. 'Review staffing in faculty to reflect total activity, freeze non-critical vacant posts and HPL activity until income assured'.

Risk CO-08-01 'Ineffective Data systems'

This has an action for education around UKBA requirements to be provided for all staff engaged with international students.

This is partially complete, with training sessions having been held for the majority of faculties, and will be completed for all central support staff by the end of June.

Risk CO-10-08 'Potential impact of estates strategy delivery on financial position'

This has an action relating to the completion of negotiations for the new student centre.

In accordance with the terms of the contract that the completion date for the works is either amended or confirmed within a given period, the University's employers agent Gardiner & Theobald have undertaken the review in consultation with the university's lawyers Muckle LLP. They have subsequently written to Mansell confirming that the completion dates for the contract remain as 30th July 2012 for the section one, the Student Centre and 18th October 2012 for section two, the first floor café area.

This means that no extension of time has been awarded.

Damages have been taken as before advised. Total damages amount to £245,000.

Mansell are still providing further information on the measured account to the quantity surveyor, but it is still anticipated that the project will be delivered within the approved budget. Given this situation it is not in the University's interest to rush settlement of the final account. The quantity surveyor is however preparing a draft final account to issue to Mansell.

The Committee is requested to note the revised Corporate Risk Register.

Attachments: Corporate Risk Register

Corporate Level - Risk Register

Date	06/06/2013
Risk Status	Open
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
1	CP-01 Failure to position the university to effectively respond to changes in government policy and the competitive landscape Risk Owner: Martin Earwicker Last Updated: 06/06/2013	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees and funding models - Increased competition, supported by Government policy - Failure to anticipate change - Failure to position (politically) - Failure to position (capacity/structure) - Failure to improve League Table position <p>Effects:</p> <ul style="list-style-type: none"> - Further loss of public funding - Loss of HEFCE contract numbers - Failure to recruit students - Business model becomes unsustainable 	4 3 Critical	<p>Financial controls (inc. forecasting/modelling, restructure) to enable achievement of operating surplus target</p> <hr/> <p>Maintain relationships with key politicians/influencers, boroughs and local FE</p> <hr/> <p>Annual review of corporate strategy by Executive and Board of Governors</p> <hr/> <p>OFFA agreement for 13/14 and 14/15</p> <hr/> <p>Recent work/modelling to establish a fee position net of fee waivers less than £7500. Monitoring of guidance and continual modelling/update as required in response to changing position.</p>	4 1 High	<p>Resolve the position with Hefce regarding recent correspondence over average fee levels relating to the 11/12 core and margin competition process</p> <p>Person Responsible: Martin Earwicker</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Identifying and building on our academic strengths (Portfolio Review).</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Improve contacts with national and regional press</p> <p>Person Responsible: Lynn Grimes</p> <p>To be implemented by: 31/07/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
2	CO-01-02 Failure to meet revenue targets	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees mechanisms for UGFT - Increased competition - Failure to develop and communicate brand - Lack of accurate real-time reporting mechanisms - LSBU late entrant to international student market and fails to catch-up - Poor league table position - Portfolio or modes of delivery do not reflect market need - Failure to engage with non-enterprise activities <p>Effects:</p> <ul style="list-style-type: none"> - Under recruitment - Loss of HEFCE contract numbers - Over recruitment leading to penalties on HEFCE numbers - Failure to meet income targets for non-HEFCE students 	4 3 Critical	<p>Report on student recruitment presented to every monthly Executive meeting and also reviewed by Board of Governors</p> <hr/> <p>Enterprise Business Plan submitted annually to SBUEL Board for approval and quarterly updates provided at Board meetings.</p> <hr/> <p>International Action Plan, including International Fees & Discounting policy, simplified fee structure and discount/scholarship programme for targeted countries, enhanced in-market and partner activity</p> <hr/> <p>Sustainable internationalisation strategy</p> <hr/> <p>League Table action plan</p> <hr/> <p>Modelling of student recruitment numbers, including worse case scenarios which aid the planning process.</p> <hr/> <p>SBUEL has 2 Non-Executive Directors in place to oversee the Enterprise strategy</p> <hr/> <p>Differentiated campaigns started for postgraduate and part-time students</p>	4 2 Critical	<p>Identify, research, develop and implement a range of major long term investment opportunities with potential to generate significant income and contribution over ~5+ years under the auspices of the 16-20 Challenge programme, overseen by the University Executive (as Programme Board).</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Postgraduate action plan developed.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Step-change in Internationalisation Plan to be incorporated.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Identifying and building on our academic strengths (Portfolio Review).</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
3	CO-10-01 Increasing pensions deficit	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Increased life expectancies - Reductions to long term bond yields, which drive the discount rate - Poor stock market performance - Poor performance of the LPFA fund manager relative to the market - TPS/USS schemes may also become subject to FRS17 accounting <p>Effects:</p> <ul style="list-style-type: none"> - Increased I&E pension cost means other resources are restricted further if a surplus is to be maintained - Balance sheet is weakened and may move to a net liabilities position, though pension liability is disregarded by HEFCE - Significant cash injections into schemes may be required in the long term 	3 3 High	<p>Switch of inflator from RPI to CPI (expected to be lower in the long term)</p> <hr/> <p>Regular monitoring of national/sector pension developments and attendance at relevant conferences and briefing seminars</p> <hr/> <p>Regular valuation of pension scheme (actuarial and FRS 17). Most recent FRS valuation shows significant reduction in LPFA deficit and reduced I&E cost moving forward following switch to CPI.</p> <hr/> <p>Reporting to HR committee on progress.</p> <hr/> <p>Tight control of staff costs in all areas (and reported to committee and Board via agreed KPIs)</p> <hr/> <p>Proposal for new LPFA scheme, effective April 2014</p> <hr/> <p>Strict control on early access to pension at redundancy/restructure</p> <hr/> <p>Active monitoring in year of trends in discount rate, life expectancy assumptions etc to ensure year-end adjustments are minimised</p>	3 3 High	<p>Create alternative, defined contribution pension option linked to creation of new enterprise subsidiary.</p> <p>Person Responsible: Richard Flatman</p> <p>To be implemented by: 30/06/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
6	CO-08-01 Ineffective data systems leading to failure to supply meaningful and reliable management information (internally) and to comply with the requirements of external agencies	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Data in systems is inaccurate - Data systems are insufficient to support effective delivery of management information - Financial constraints limit ability to improve systems - Insufficient capacity to deliver improved systems - Failure to manage data through the clearing period - Internal management information reporting insufficient to verify external reporting - Lack of data quality control and assurance mechanisms <p>Effects:</p> <ul style="list-style-type: none"> - Insufficient evidence to support effective decision-making at all levels - Inability to track trends or benchmark performance - Internal management information reporting insufficient to verify external reporting - Failure to manage recruitment levels through the clearing period resulting in over-recruitment - Failure to submit credible HESA/HESES return - Failure to satisfy requirements of UKBA leading to potential revocation of licence and loss of £8m+ in revenue in the short term, with reputational damage causing significant longer term revenue loss 	3 3 High	<p>Engagement with internal auditors to systematically check data in key systems (and processes around key systems):</p> <ul style="list-style-type: none"> - Finance (including student fees) - Student data - HR systems - Space management systems <hr/> <p>Systematic data quality checks of staff returns by HR in conjunction with faculties.</p> <hr/> <p>Engagement between International Office, Registry and Faculties to ensure compliance with UKBA requirements, specifically with regards to:</p> <ul style="list-style-type: none"> - Visa applications and issue of Certificate of Acceptance to Study - English language requirements - Reporting of absence or withdrawal <hr/> <p>Internal Audit system in place and conducted by PwC to provide assurances on data quality.</p> <hr/> <p>Internal Audit system in place and conducted by PwC to provide assurance on UKBA compliance</p>	3 2 High	<p>Annual education of all staff engaged with international students, to update on UKBA requirements; annual independent review by UKBA specialist to highlight areas for improvement.</p> <p>Person Responsible: Jennifer Parsons</p> <p>To be implemented by: 30/04/2013</p> <hr/> <p>Data management project</p> <p>Project has three stages. Project completion dates: Stage 1 - May 2013 Stage 2 - September 2013 Stage 3 - September 2014</p> <p>Person Responsible: David Swayne</p> <p>To be implemented by: 30/09/2014</p> <hr/> <p>HESA improvement project</p> <p>Project has two stages Project completion dates: Stage 1 - October 2012 Stage 2 - October 2013</p> <p>Person Responsible: Andrew Fisher</p> <p>To be implemented by: 31/10/2013</p> <hr/> <p>To improve admissions processes</p> <p>Person Responsible: Andrew Fisher</p> <p>To be implemented by: 30/09/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
		<p>- Failure to satisfy requirements of Professional, Statutory and Regulatory bodies (NHS, course accreditation etc)</p>		<p>Data warehousing, to construct a 'master data view' and reports therefrom, including:</p> <ul style="list-style-type: none"> - Cleansing core systems to ensure all data as accurate and complete as possible - Ensuring reports use core data without manipulating results - Provision of standard reports on key aspects of data: <ul style="list-style-type: none"> *Progression analysis *Student engagement *Admissions (especially during clearing) *Enrolment <hr/> <p>Systematic data quality checks of student returns by Registry in conjunction with faculties.</p>		

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
14	CO-10-06 Potential loss of NHS contract income	<p>Cause & Effect:</p> <p>Cause: Reduction in expected CPPD funding due to ongoing NHS financial challenges/ structural change. In addition potential problems with NHS deanery recruitment to community programmes. Failure to maintain student numbers on the contract resulting in clawback</p> <p>Effect: Reduction in income Reduced staff numbers Negative impact on reputation</p>	4 3 Critical	<p>Named Customer Manager roles with NHS Trusts, CCGs and HEE.</p> <hr/> <p>Monitor quality of courses (CPM and NMC) annually in autumn (CPM) and winter (NMC)</p> <hr/> <p>Regular contact with commissioning contract managers and deanery</p>	4 2 Critical	<p>Review staffing in faculty to reflect total activity, freeze non-critical vacant posts and HPL activity until income assured.</p> <p>Person Responsible: Warren Turner</p> <p>To be implemented by: 28/06/2013</p> <hr/> <p>Continue contract discussions with newly formed HEE/ LETB's</p> <p>Person Responsible: Judith Ellis</p> <p>To be implemented by: 28/06/2013</p> <hr/> <p>Submit a strong return to next REF exercise.</p> <p>Person Responsible: Nicola Crichton</p> <p>To be implemented by: 31/12/2013</p> <hr/> <p>Ensure a quality campus in each HEE/ LETB area.</p> <p>Person Responsible: Warren Turner</p> <p>To be implemented by: 01/09/2013</p> <hr/> <p>Grow into new markets for medical and private sector CPPD provision</p> <p>Person Responsible: Warren Turner</p> <p>To be implemented by: 31/08/2013</p> <hr/> <p>Improvement in NSS returns and scores</p> <p>Person Responsible: Judith Ellis</p> <p>To be implemented by: 31/07/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
						<p>Develop opportunities for further International 'in-country' activity.</p> <p>Person Responsible: Dr Michelle Spruce</p> <p>To be implemented by: 30/09/2013</p> <hr/> <p>Increase uptake in band 1-4 activity Support Trusts in seeking external (non NHS) funding</p> <p>Person Responsible: Sheelagh Mealing</p> <p>To be implemented by: 01/09/2013</p>
37	CO-10-08 Potential impact of estates strategy delivery on financial position	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Poor project controls - Lack of capacity to manage/deliver projects - Reduction in agreed/assumed capital funding - Reduction in other government funding <p>Effects:</p> <ul style="list-style-type: none"> - Adverse financial impact - Reputational damage - Reduced surplus - Planned improvement to student experience not delivered - Inability to attract new students 	<p>3 3</p> <p>High</p>	<p>Regular Reports are provided to both P&R and the Board on planned capital expenditure.</p> <hr/> <p>Full Business Case including clarity on cost and funding prepared for each element of Estates Strategy and approved by Board of Governors</p> <hr/> <p>Clear requirement (including authority levels) for all major (>£1m) capital expenditure to have Board approval</p> <hr/> <p>Property Committee is a sub-committee of the Board of Governors and has a remit to review all property related capital decisions.</p> <hr/> <p>Automated process developed for business cases including all capital spend. Guidance developed as part of new process.</p>	<p>3 1</p> <p>Medium</p>	<p>Completion of the Terraces Project will see the completion also of the current development plan in relation to the Anchor Projects. The potential acquisition of the Hugh Aster Court (Peabody Building) on Keyworth Street opens up the opportunity for the redevelopment of the North West quarter of the campus and the creation of a clear University 'front door'.</p> <p>Plans have been developed for a major redevelopment scheme that will be shared with the Executive in July and following consultation with the Faculties and major stakeholders, the 2013 Estate Development Plan will be shared with Governors for consideration and consultation in the Autumn 2013.</p> <p>Person Responsible: Ian Mehrstens</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
				<p>Financial forecasts regularly updated to take account of changing assumptions about future capital funding.</p> <hr/> <p>Clear project governance established for both the renovation of the Terraces and the Student Centre</p> <hr/> <p>Estates & Facilities Dept project controls</p>		<p>To be implemented by: 30/11/2013</p> <hr/> <p>Deliver the renovation of the Terraces in accordance with agreed budget.</p> <p>Person Responsible: Beverley Jullien</p> <p>To be implemented by: 31/07/2013</p> <hr/> <p>Complete and report on the final negotiations for the Student Centre</p> <p>Person Responsible: Ian Mehrtens</p> <p>To be implemented by: 30/04/2013</p>
305	CO-13-01 Data protection (Upgraded from Registry's operational register)	<p>Cause & Effect: Loss of student data security either en masse (e.g. address harvesting) or in specific cases (e.g. loss of sensitive personal files)</p>	<p>3 2 High</p>	<p>Following a meeting on 16/11/12, David Swayne has taken responsibility for improving our control over data protection risks at an institutional level.</p>	<p>3 2 High</p>	<p>Define an Information Security solution for LSBU and implement it. LSBU has no Information Security Manager - the post was removed some time ago. To rectify this situation a Managed Security Service is being procured.</p> <p>Person Responsible: David Swayne</p> <p>To be implemented by: 30/09/2013</p> <hr/> <p>1. Define Mobile Device Policy - this is agreed and published 2. Prepare and deliver a training course on this topic - this is in progress in collaboration between ICT and OSDT 3. Ensure that all mobile devices have adequate protection - laptop encryption tool being selected, mobile device management tool purchased and being deployed</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
						Person Responsible: David Swayne To be implemented by: 31/07/2013
362	CO-10-09 Poor staff engagement	Cause & Effect: Causes: <ul style="list-style-type: none"> •Bureaucracy involved in decision making at the University •No teamwork amongst departments at the University •Staff feeling that they do not receive relevant information directly linked to them and their jobs •Poor pay and reward packages •Poor diversity and inclusion practises Effects: <ul style="list-style-type: none"> •Decreased customer (student) satisfaction •Overall University performance decreases •Low staff satisfaction results •Increased staff turnover •Quality of service delivered decreases 	3 3 High	Departmental Business Planning process <hr/> Feedback page for staff to leave comments on staff Gateway <hr/> Scheduled Team meetings <hr/> Corporate Roadshows <hr/> Staff engagement survey <hr/> Quarterly review meetings	3 2 High	Co-ordination of the 2013 employee engagement survey Person Responsible: Mrs Vongai Nyahunzvi To be implemented by: 31/05/2013
	Risk Owner: Martin Earwicker Last Updated: 04/02/2013					

	PAPER NO: AC.29(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	HEFCE assessment of institutional risk	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee notes HEFCE's assessment of risk and the associated financial benchmarking data.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee & Board of Governors	Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

HEFCE assesses on an annual basis the accountability, risk and sustainability of institutions which it funds. A small number are deemed to be at “higher risk” with the vast majority being “not at higher risk”.

Based on the accountability returns for 2011-12, HEFCE's assessment is that LSBU is “not at higher risk” at this time.

Attachment: Risk assessment letter from HEFCE dated 3/04/13

3 April 2013

Professor Martin Earwicker
Vice Chancellor and Chief Executive
London South Bank University
103 Borough Road
LONDON
SE1 0AA

Northavon House
Coldharbour Lane
BRISTOL BS16 1QD

Telephone 0117 931 7317
www.hefce.ac.uk

RECEIVED VC/EXECUTIVE OFFICE
REFERENCE: 04 04
- 4 APR 2013
ACTION: RF/ME

Direct Line 0117 931 7341
Direct Fax 0117 931 7150
E-mail a.langlands@hefce.ac.uk

Dear Martin,

HEFCE's annual assessment of institutional risk: London South Bank University

1. The purpose of this letter is to inform you of the risk status of London South Bank University, as determined by HEFCE, and of any failure to comply with the accountability obligations set out in the Financial Memorandum (HEFCE publication 2010/19) and other HEFCE guidance. We have copied this letter to Mr David Longbottom, Pro-Chancellor and Chair of the Board of Governors, and request that you formally submit this letter to the next meeting of the governing body.
2. Based on the accountability returns submitted for 2011-12, our overall assessment at this time is that London South Bank University is **not at higher risk**. In making this assessment we also conclude that the institution is meeting the accountability obligations set out in the Financial Memorandum and other HEFCE guidance.
3. The annual accountability return submitted in December 2012 showed that the University performed well in 2011-12 despite a decrease in income resulting from a reduction in students numbers attributable to managing the consequences of over-recruitment in 2010- 11 and the impact of the discontinuation of the University Modernisation Fund which funded 300 places. We note that the balance sheet is relatively strong and that the University is continuing to generate cash from its operating activities. The forecast for 2012-13 does not raise any material concerns over the short-term financial sustainability of the University. We note that the recruitment performance for home/EU students in 2012-13 was significantly below the SNC limit, but that the University clearly understands the risks associated with undershooting the SNC limit in future years. We also recognise that the University has engaged positively with HEFCE over these concerns and that it is continuing to develop mitigating actions that can be implemented should the risks

crystallise. We request that the University continue to engage with HEFCE officers and keep us informed of progress against the financial plan.

Risk assessment process

4. The annual accountability returns submitted to HEFCE by higher education institutions (HEIs) are the primary means by which HEFCE assesses the accountability, risk and sustainability of institutions. These annual risk assessments are based on current information in a number of areas of activity, including: financial performance, student recruitment and retention, audit findings, and compliance with HEFCE accountability requirements (including the Financial Memorandum and other guidance). It has been agreed that the financial forecasts will be submitted after the other returns in July.
5. In order to inform institutions of their risk assessments on a timelier basis this year we intend to send every institution a risk letter by the end of April 2013. We may issue a further risk letter to some institutions following the assessment of July forecasts, but only if that assessment makes a material change to the earlier risk assessment. Although the risk assessment is an annual process, issues emerging during the year can lead to a review of an institution's risk status and a change to its risk assessment at any point in the year. We currently assess a small number of institutions as being 'at higher risk', with the vast majority 'not at higher risk'. In addition some institutions 'not at higher risk' may have a specific risk issue highlighted for their attention. It is the responsibility of the governing body of the institution to ensure that risks are being managed effectively.

Adverse changes in circumstances

6. We require institutions to report material adverse changes in the institution's circumstances, such as a significant and immediate threat to the financial position, significant fraud or major accounting breakdown. The Financial Memorandum (Annex B paragraphs 14-17) provides more detail on the specific requirement. Whilst we fully respect the autonomy of institutions, we remind you of this requirement and that timely reporting of material adverse changes is an important element of the accountability framework for higher education. Given the unprecedented scale of the current changes to higher education funding and possible impacts on student recruitment, it is especially important that you inform HEFCE of any material adverse changes at the earliest stage.

Future context and feedback on financial performance

7. As we continue to move to a new funding framework, we encourage institutions to continue to assess the potential impacts of future changes on their operations and, where necessary, to implement mitigating actions. This scenario planning will need to consider the financial and non-financial impact of potential changes in student demand, over- or under-recruitment, student retention, availability of public funding, and pay and pensions pressures. Non compliance with requirements of other regulators, such as the UK Border Agency, may also present a significant risk. These are among the many factors that will

need to be monitored by you, your senior team and governing body, and we are happy to discuss these with you as part of our regular engagements with the institution.

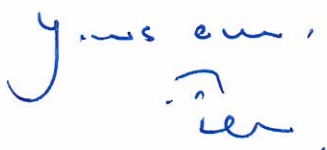
8. The Annexes provide feedback on the relative financial performance of the institution compared to the rest of the higher education sector. Inclusion of this information is intended to be helpful, rather than flagging areas of significant concern to us. For contextual information, additional financial benchmarking data has been made available to the institution's head of finance.

Who to contact

9. For further feedback from the annual accountability process, or if you would like to discuss any issues relating to risk assessment or accountability, contact the HEFCE Assurance Consultant, Jacqui Brasted (0117 931 7389, j.brasted@hefce.ac.uk) in the first instance, or Regional Consultant, Derek Hicks (0117 931 7460, d.hicks@hefce.ac.uk).

Freedom of information

10. This letter is provided in confidence to London South Bank University. While we have no objection to it being made available to third parties, we do not accept responsibility for any reliance they may place upon it. Though we have no plans proactively to release this information we ask you to consider carefully the implications of any public disclosure you may wish to make or are asked to make. As you know we are subject to the Freedom of Information Act 2000, and the content of this letter may ultimately be disclosable if a request is made to us under that Act.



Alan Langlands

cc: Mr David Longbottom, Pro-Chancellor and Chair of the Board of Governors

Annex A – Table of benchmarking of key financial metrics

London South Bank University

Indicators:		2010-11 Actual	2011-12 Actual	2012-13 Forecast
1. Historical cost surplus / (deficit) as % of total income	Institution	7.4	5.3	2.5
	Overall sector mean	5.7	4.9	2.6
	1 st quartile	3.1	2.4	1.2
	Median value	5.9	5.3	2.5
	3 rd quartile	8.7	7.8	4.1
2. Net liquidity / (total expenditure – depreciation) (days)	Institution	180	209	172
	Overall sector mean	109	118	101
	1 st quartile	70	76	64
	Median value	105	109	83
	3 rd quartile	155	157	130
3. External borrowing (on balance sheet) as % of total income	Institution	25.3	24.1	22.3
	Overall sector mean	22.4	23.6	25.8
	1 st quartile	8.4	9.8	8.5
	Median value	19.7	22.7	22.9
	3 rd quartile	34.6	34.5	36.0
4. Discretionary reserves (excl. pension asset/(liability)) as % of total income	Institution	67.7	77.1	80
	Overall sector mean	51.2	56.0	57.5
	1 st quartile	33.2	39.0	39.3
	Median value	47.3	55.5	54.4
	3 rd quartile	66.3	74.2	76.9
5. Net cash flow as % of total income	Institution	18.3	14.5	9.3
	Overall sector mean	9.2	8.1	5.0
	1 st quartile	6.7	6.3	3.3
	Median value	10.0	8.5	6.5
	3 rd quartile	13.7	11.6	9.0
6. Staff costs as % of total income	Institution	53.5	52.6	56.2
	Overall sector mean	53.0	52.6	54.1
	1 st quartile	49.0	49.2	51.3
	Median value	53.5	53.1	54.7
	3 rd quartile	56.1	55.9	57.5
7. Estates: percentage of estate classified in condition categories C and D in 2010-11	Institution	43.3		
	Overall sector mean	22.5		
	1 st quartile	10.0		
	Median value	18.4		
	3 rd quartile	27.0		

Source of data: Indicators 1 to 6 are calculated from the 2012 financial results and forecasts data as submitted to HEFCE in December 2012. Further details on this and on how the indicators are calculated are available on the HEFCE extranet under “2012 financial results and forecasts – summary statistics”. Details on how to access this benchmarking information will be sent to Directors of Finance.

Indicator 7: 2010-11 Estates data provided from Estates Management Statistics. For further information see HEFCE publication 2011/17 or http://www.hesa.ac.uk/index.php?option=com_collins&task=show_colln&Itemid=232&c=C10042&s=10&wvy=any&wvs=1&isme=1.

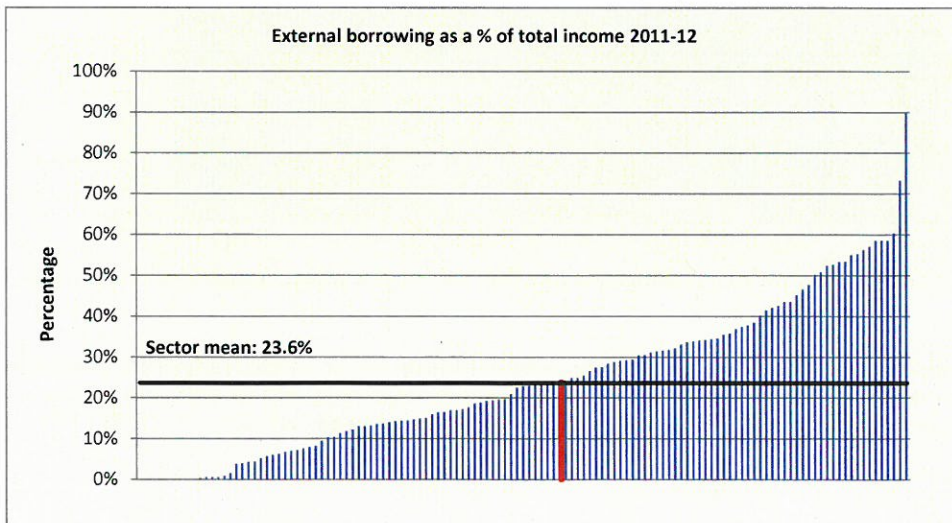
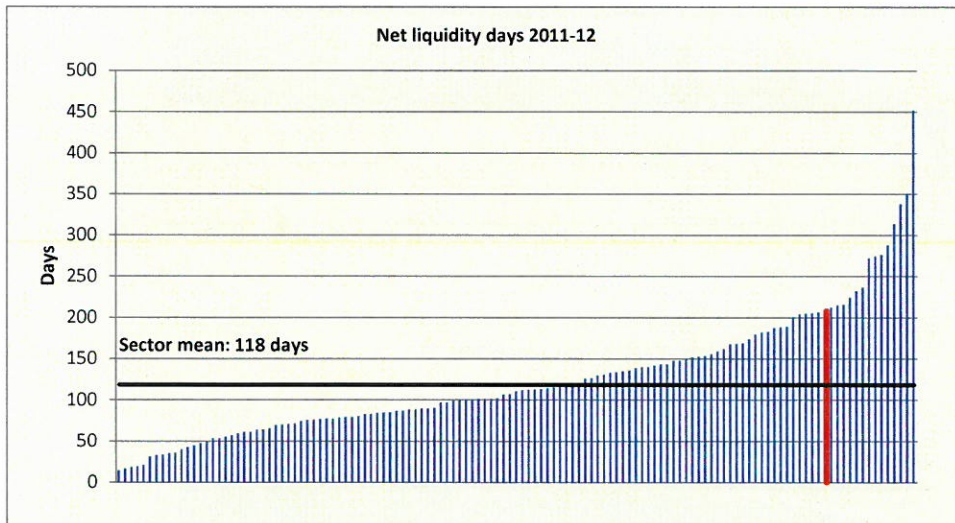
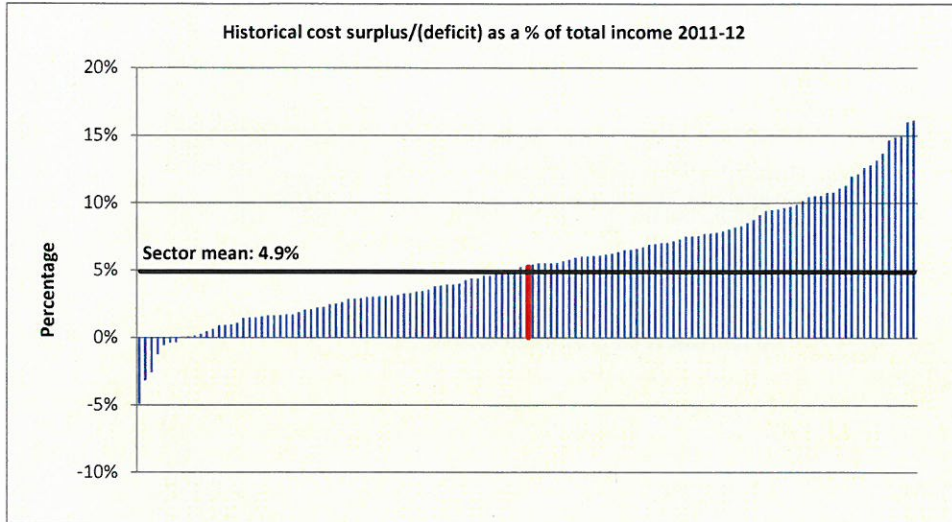
Although not comprehensive, these indicators were chosen to provide an overall view of financial performance:

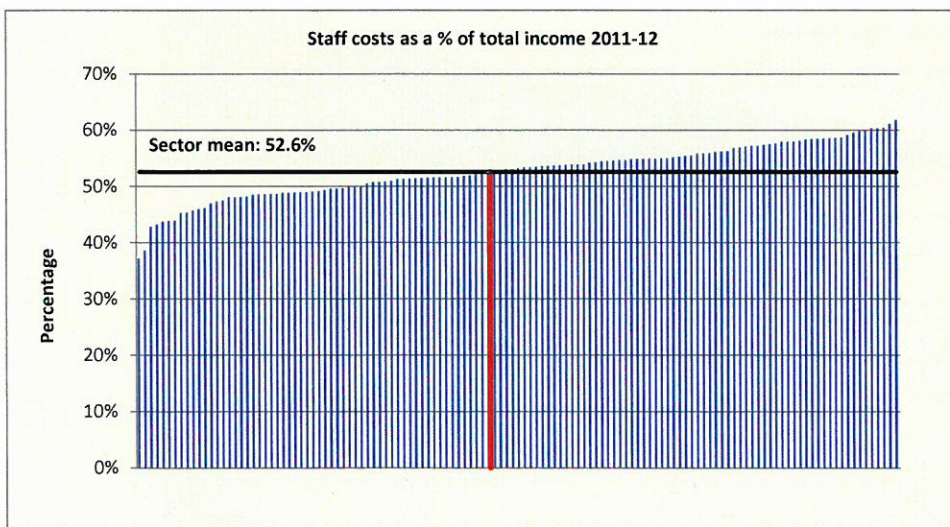
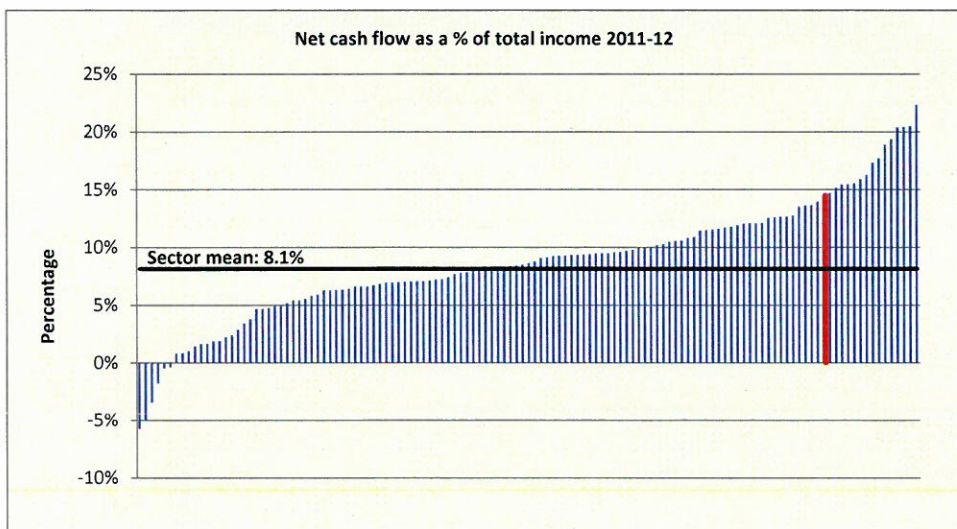
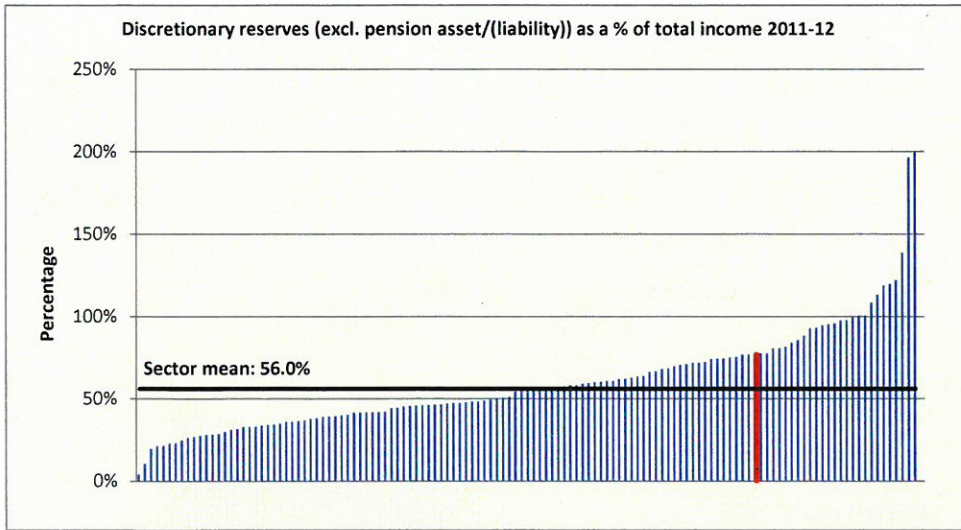
- Historical cost surplus: generation of surplus for investment
- Net liquidity: coverage of, and ability to respond quickly to, short-term financial pressures
- External borrowing (on-balance sheet): reliance on borrowings for development, balancing need for growth / development with increased costs of borrowing
- Discretionary reserves (excluding pension asset/(liability)): provision of a buffer against large unexpected financial pressures
- Net cash flow from operating activities: financial sustainability of the institution's core business
- Staff costs: appropriateness and significance of the staff cost structure for the institution
- Estates: indication of possible future estates costs

Annex B - Benchmarking of key financial indicators for 2011-12

Institution: London South Bank University

The figures below show the key financial information for 2011-12 relative to the sector. The data for London South Bank University are highlighted in red.





Source of data: Financial indicators are calculated from the 2012 financial results and forecasts data as submitted to HEFCE in December 2012. Further details on this and on how the indicators are calculated are available on the HEFCE extranet under "2012 financial results and forecasts – summary statistics". Details on how to access this benchmarking information will be sent to Directors of Finance.

London South Bank
University

	PAPER NO: AC.30(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	HEFCE Institutional Visit	
Author:	HEFCE	
Executive sponsor:	Martin Earwicker, Vice Chancellor	
Recommendation by the Executive:	That the committee note the report	
Aspect of the Corporate Plan to which this will help deliver?	N/A	
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 committee is requested to note the attached notes of the institutional visit of HEFCE on 9 May 2013.

10 June 2013

Professor Martin Earwicker
Vice-Chancellor
London South Bank University
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Dear Martin

HEFCE Institutional Visit to London South Bank University, 09 May 2013

Thank you for welcoming us on our recent visit to London South Bank University. It was very useful to discuss developments and the outlook for the year ahead. As a follow up to the meeting, please find a brief note of some of the key points we discussed:

We discussed the core and margin letter that was issued to institutions a few days previously and which outlined the average fee policy that applies to institutions who received margin places. We recognise your view that this letter is inconsistent with previous statements about the policy and could therefore have considerable ramifications for your financial forecasting, which you have already been in discussion with HEFCE colleagues about. We understand that you will be writing to us to formalise this matter and we will see that this issue is taken up by colleagues who are working on the policy. Please do not hesitate to contact either me or Jessica Hamilton during this process and we will do all that we can to aid you in reaching an outcome (0117 931 7379, j.hamilton@hefce.ac.uk).

We noted with interest your concerns around the future of WP funding particularly in reference to your work on retention, which is where the funding is most useful for LSBU. You explained that a reduction of WP funding would put upward pressure on fee levels which, based on current evidence, would depress further applications from under-represented groups in HE.

With this in mind, we spent some time discussing recruitment for 2013-14 and you reported that you are leading against competitors in application rates with a 4.5% increase on last year, and a significant increase in firm acceptances. You linked these achievements to your strong engagement policy during the application process, and you have also worked your portfolio around student demand with the aim of filling your SNC. You stated that you have seen a 15% increase in part-time applicants since the previous year when you experienced

a 25% decline, but that overall part-time numbers still paint a challenging picture. This is due in-part to the drop in employer-funded applications, especially in subjects like Engineering. You expressed concern about the decline in mature student applications and added that the new loans system for mature students in FE may have a negative knock-on effect for engagement of this population at HE level. Overall, you have noted an increase in younger, white, middleclass students which will signify a change in the type of graduate produced at LSBU and may have an affect on the local community as fewer graduates come from, and remain, in the region. We would be interested to hear how this changing population also affects your work in retention.

You explained that, while you have marginally increased your tariff, it remains around the 240 mark and you have retained a flexible approach in accepting applications. Due to the significant recruitment you make through Clearing, it would be undesirable to increase the tariff by a significant extent. You also reported that there has been no change in the number of unconditional offers you make, or to your offer making process more generally.

We touched on the topic of the UK Border Agency/Home Office and you expressed considerable frustration with processes as well as the negative press that has damaged the overseas market. You reported a significant decline in applications from India and Pakistan, which has been a sector-wide experience, and you expressed the difficulty that UKBA policies pose when upholding the 'student experience'. I understand that Jenni Parsons has been in discussion with Jessica about these matters, and we hope that this dialogue will continue so that we can gain a deeper understanding of the challenges we face in the changing climate. Please keep us posted with any developments.

With reference to the upcoming SNC Consultation and the proposed policies on flexibility, exemptions, and alternative providers, we reported that we do not expect to see a change in the exemptions policy to BBB. You explained that the new exemption of particular combinations may be specifically consequential to you, since mature students often hold combinations and traditionally make up a high proportion of your student populous. Their inclusion in the exempt population could create greater challenges in meeting your SNC, as well as increase the competition in recruiting this type of student. Since you have reported an increase in younger applications, this may not have a considerable outcome but it would be very helpful to be kept informed with your views.

Looking ahead, you forecast a £4-£5 million surplus for 2012-13 and a £2.5 million surplus for 2013-14. Your strategy is very focussed on maintaining student numbers and retaining students, and we noted with interest the contextual information you provided around retention. In this respect, you reported a retention rate for first-year students of 63%, with 13% dropping out or withdrawing, and the remaining 24% moving to different courses. You have improved your approach in spotting and engaging with potential non-continuations to improve your retention rate, and this approach is central to your strategic planning for the future.

You are preparing for the REF and are in the process of compiling 18 impact statements under the new criteria. You explained that there is considerable workload for institutions when balancing adherence to equality and diversity regulations, against estimating lower

capacity. Overall, you reported that you are in good shape to make a contribution at the previous level or higher in the 2014 REF, though we emphasised that funding implications are impossible to predict.

You have agreed to remain Vice Chancellor of LSBU until the end of the calendar year to give more time to finding the right candidate to fill the position. You discussed with us your frustration with the considerable data returns that burden the sector and questioned the necessity of the extent of the requirements made by HEFCE and other bodies. It would be valuable if you wrote to us providing specific examples so that we can take the matter up in-house and respond to your particular concerns.

I hope this note broadly concurs with your view of the main points we discussed but do get back to me if I've overlooked or misrepresented anything important. I look forward to working with you and colleagues: please do contact me or Jessica if there is anything you'd like to discuss.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Derek Hicks', written in a cursive style.

Derek Hicks
Regional Consultant

	PAPER NO: AC.31(13)	
Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Transparent Approach to Costing – TRAC(T) Sign off	
Author:	David Kotula, Reporting Analyst (Special Projects)	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends, based on the assurances provided herein, that the committee retrospectively approves the attached return which was made to HEFCE on 8 th May 2013.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability.	
Matter previously considered by:	N/A	
Further approval required?	N/A	
Communications – who should be made aware of the decision?	HEFCE (Already Advised)	

Executive summary

The Transparent Approach to Costing (Teaching) return - TRAC(T), is a sub-analysis of the Transparent Approach to Costing (TRAC) return and has been made annually since 2007.

TRAC (T) has three main aims:

- to enable higher education institutions (HEIs) to understand their own costs better, so that they can use cost information for planning, decision-making and management;
- to inform HEFCE's allocation of funds for teaching;

- to assist in understanding the total costs of sustainable teaching.

A reconciliation of the total costs in TRAC(T) to the figures published in the TRAC return is shown in table A (see Appendix 1). LSBU is benchmarked against a group of universities with similar levels of income from Teaching. For this purpose we are included in Peer Group E. (see Appendix 2). The return analyses the costs of HEFCE fundable teaching into HESA cost centres and then divides this cost by the total student numbers in each of those cost centres as reported in the HESA return to give *Subject-FACTS* for each of the current HESA cost centres (Full Average Annual Subject-related Cost of Teaching a HEFCE-fundable FTE student in a HESA academic cost centre). This output forms table B of the return (see Appendix 1).

The outcome of the benchmarking exercise was that LSBU has a lower mean Subject-FACT of £5,338, compared to the peer group mean of £6,101. Compared to 2010/11 the mean for LSBU is 2.4% higher than the prior year mean of £5,209. The variance can be attributed to a reduction in student FTE's of 6.4%, which has increased the mean, but which has been partially offset by reduced costs in year.

The draft benchmark figures have been reviewed and we are satisfied that we have complied in full with the requirements. The report was signed off and has been submitted to HEFCE. We have had confirmation from HEFCE that the return relating to TRAC(T) has been received.

Assurances regarding process

The following assurances are provided to Committee with regard to process:

1. Reconciliation to accounts

- The TRAC(T) return is an annual return based on the teaching element of the TRAC annual return. The basis for the 2011/12 return was the financial accounts for year ending 31/07/2012.
The return has been checked and reconciles to the published financial accounts for the year ending 31/07/2012.
- The financial information used is a sub-set of the TRAC return. All costs that do not relate to publicly funded teaching are extracted. This information includes costs down to individual staff level for teaching staff and to cost centre level for faculty support staff. The individual staff costs are extracted from establishment data used in the budgeting process. All figures are reconcilable back to the published accounts and the 2011/12 TRAC return.

2. Compliance with guidelines/regulations

- The return has been prepared by the University's Reporting Analyst (Special Projects) in accordance with the regulations set down by HEFCE for the preparation of the TRAC(T) return. This includes any updated regulations or issues raised at TRAC self help groups organised by the TRAC Development Group and BUFDG.
- The regulations state that support and guidance should be gathered from faculty managers and that a TRAC steering committee be set-up that includes participants from each faculty and Research. LSBU is in the process of re-convening a Full Economic Costing Group (FECG) chaired by the Head of Financial Planning & Reporting which fulfils this role.
- The regulations state that a draft report should be issued to HEFCE by the end of February. This is followed by a benchmarking exercise with our peer group. This exercise allows for adjustments to be made prior to the final report sign off. The final report is then issued to HEFCE.
- The core costing information is based on the amount of time spent teaching for each academic member of staff. This is derived from a Time Allocation Survey

(TAS) that is completed four times a year. The regulations state that the results should be reviewed and verified by faculty managers to allow for any adjustments to be made prior to using the data in the TRAC return.

- The TRAC(T) requirement is for all costs to be allocated based on the relevant HESA Cost centres. Staff HESA cost centres are derived from a report collated by the HR department and then reviewed by faculty managers at a department level.
- Non-Staff costs are derived from the TRAC return that is sourced from the Agresso finance system at a cost centre level. HESA cost centres are applied on a department level.
- The robustness and accuracy of the data is verified during a reconciliation process by a suitably qualified colleague.
- Andrew Owen, Chairman of the Audit Committee, has reviewed the TRAC process and a copy of the TRAC(T) return has been issued to him.

The committee is requested to retrospectively approve the attached return made to HEFCE on 8th May 2013

This workbook contains four sections: A; B; C; and D (in 4 worksheets)
 A provides source data for Subject-FACTs
 B is the calculation of Subject-FACTs
 C provides an analysis of costs and should be of value in understanding your figures
 D provides further analysis of student FTEs

Only Sections A and B are mandatory (part of the **minimum requirements**).
 Sections C and D are optional.

Institution: London South Bank University
Code: H-0076
UKPRN: 10004078

A Source Data MANDATORY

This section **should** be completed by all institutions.
 The purpose of this Section is to provide a reconciliation to the figures returned under annual TRAC.

£000			
Total expenditure in financial statements	131,753		per annual TRAC report
plus target surplus for sustainable operations	<u>10,963</u>		per annual TRAC report (infrastructure adjustment + return for financing and investment adjustment)
gives TRAC costs	142,716		per annual TRAC report
less Research	15,204		per annual TRAC report
Other	<u>12,981</u>		per annual TRAC report
gives Teaching	114,532		per annual TRAC report
		% of	
		Teaching	
less NPFT	9,801	8.6%	per annual TRAC report
non-Funding Council-fundable PFT	<u>44,448</u>	<u>38.8%</u>	
gives Funding Council-fundable PFT	60,283	52.6%	
		% of	
		Funding Council-fundable	
less non-subject related			
funding proxy	11,707	19.4%	per funding table (Appendix 10 or Appendix 12-2) (note 1)
bursaries (note 2)	<u>3,479</u>	<u>5.8%</u>	actual costs and charges included in financial statements
total non-subject related	15,185	25.2%	
gives Subject-related costs of Funding Council-fundable provision	<u><u>45,097</u></u>		

Notes:

- The funding proxy total **should** agree to the total costs of non-subject related areas where Funding Council funding is used as the proxy, provided at the bottom of the table in Appendix 10/Appendix 12-2 of the TRAC(T) guidance. The main exceptions to this are listed in Part VIII, Section C, paragraph 9, and are:
 - institutions with collaborative awards or arrangements eg. Summer Schools, Strategic Alliance Partnership
 - lead institutions in HEFCE-recognised funding consortia
 - institutions with 'London whole institution' funding
 - three named institutions
 - institutions with negative funding
 - institutions who are carrying forward or bringing forward some of this income, or who are capitalising it.
 Please note that the figures in Appendix 10/Appendix 12-2 are displayed to the nearest £ and need to be divided by 1000 before entering in this table. Appendix 10 and Appendix 12-2 for 2011-12 can be found on the JCPSPG website (www.icpsg.ac.uk/guidance/2008/). Please give reasons for differences to Appendix 10/Appendix 12-2 in the "Validation" worksheet or on a separate word document if necessary.
- The non-subject related bursaries figure comprises the actual costs or charges made to the financial statements for bursaries, fee remissions, hardship payments and scholarships of Funding Council-fundable taught students. Please note that any scholarships relating to research students or non-Funding Council-fundable students should not be included in this figure - those are research costs or non-Funding Council-fundable Teaching costs and should be deducted under the lines "less Research" or "less non-Funding Council-fundable PFT" or "less NPFT" in the table above.

A.1 Cost recording methods MANDATORY

Do you believe that you have met all of the minimum requirements (once your figures have been benchmarked and reviewed for reasonableness)?
 Please select Yes or No from the drop-down list

To inform their teaching funding methods, the Funding Councils need representative data for the sector (covering all subject areas) on the costs of different subjects. Do you believe that your TRAC(T) figures are fit for the purpose of informing the relevant Funding Councils' teaching funding methods?
 Please select Yes or No from the drop-down list

Do you consider your figures to be robust at the level of department? (Robustness is defined as: meeting the minimum requirements and recording academic time allocation data that are statistically robust at the level of department)
 Please select Yes or No from the drop-down list

Do you produce a cost per student by department for use by institutional managers?
 Please select Yes or No from the drop-down list

Are you reporting that you recover more than 105% of your costs on PFT activity on your Annual TRAC return and if so have you assessed the impact of this on your Subject-FACTs?
 Please select Yes, No or n/a from the drop-down list

Institution: London South Bank University
Code: H-0076
UKPRN: 10004078

B. Report to Funding Councils

MANDATORY

This section **should** be completed by all institutions.

The purpose of this section is to collect the information that could be used by the Funding Councils.

		Price groups in use for 2011-12 reporting	Total subject- related costs of Funding Council- fundable provision (a) £000	Funding Council- fundable student FTEs from HESA (b) FTEs	Subject-FACTS (c)=((a)/(b))*1000 £
HESA academic cost centre					
01	Clinical medicine	A	0	0.00	0
		B	0	0.00	0
		Total	0	0.00	0
02	Clinical dentistry	A	0	0.00	0
		B	0	0.00	0
		Total	0	0.00	0
03	Veterinary science	A	0	0.00	0
		B	0	0.00	0
		Total	0	0.00	0
04	Anatomy and physiology		0	0.00	0
05	Nursing and paramedical studies		2,696	287.42	9,379
06	Health and community studies		765	91.23	8,386
07	Psychology and behavioural sciences		1,727	284.09	6,078
08	Pharmacy and pharmacology		0	0.00	0
10	Biosciences		3,066	408.23	7,510
11	Chemistry		0	0.00	0
12	Physics		0	0.00	0
13	Agriculture and forestry		0	0.00	0
14	Earth, marine and environmental sciences		0	0.00	0
16	General engineering		1,164	325.53	3,575
17	Chemical engineering		1,470	207.46	7,086
18	Mineral, metallurgy and materials engineering			0.00	0
19	Civil engineering		1,464	287.78	5,087
20	Electrical, electronic and computer engineering		2,328	339.68	6,854
21	Mechanical, aero and production engineering		2,074	366.55	5,657
23	Architecture, built environment and planning		4,960	1,033.34	4,800
24	Mathematics		0	0.00	0
25	Information technology and systems sciences, and computer software engineering		2,217	333.94	6,640
26	Catering and hospitality management		0	0.50	0
27	Business and management studies		11,711	1,998.12	5,861
28	Geography		0	0.00	0
29	Social studies		4,220	1,296.84	3,254
30	Media studies	B	0	0.00	0
		C	683	191.12	3,572
		D	0	0.00	0
		Total	683	191.12	3,572
31	Humanities and language based studies		134	57.78	2,313
33	Design and creative arts		2,856	722.72	3,952
34	Education	C	535	99.75	5,359
		D	291	42.36	6,860
		Total	825	142.11	5,806
35	Modern languages		0	0.00	0
37	Archaeology		0	0.00	0
38	Sports science and leisure studies	B	0	0.00	0
		C	628	64.95	9,674
		D	0	0.00	0
		Total	628	64.95	9,674
41	Continuing education		110	9.47	11,607
Total in HESA academic cost centres			45,097	8,448.89	5,338
99	Cost centre not assignable			0.00	
Total			45,097	8,448.89	5,338

Notes:

1. Where students in one cost centre are funded across a number of price groups, please enter costs against the relevant price group/s where possible. If this is not possible, enter figures in the Total line for that cost centre (over-riding the formulae that are in the 'Total' cells). Please do not allocate costs between price groups using the current price group relativities - just enter a figure in the Total line.

2. The total costs in column (a) should agree with the total subject-related costs of Funding Council-fundable provision at the bottom of Section A.

3. The student FTEs in column (b) are defined in Part VII, Chapter E.3 of the Guidance. These are Funding Council-fundable student FTEs, excluding sandwich year-out students. If you require further information on how these FTEs have been derived you should refer to the document 'Information about the 2011-12 HEFCE web facility: HEFCE-fundable student FTEs for TRAC(T)' which can be found on the TRAC(T) guidance web page <http://www.jcpsg.ac.uk/guidance/2008/>.

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Please use the box below, or a separate word document if you want to make commentary on the data above e.g. if you know reasons why any of the figures may be an outlier.

CC 26 only has 0.5 student FTE's. This number is seen as not material, therefore no costs have been matched to it.

TRAC(T) 2011-12

Institution: London South Bank University
Code: H-0076
UKPRN: 10004078

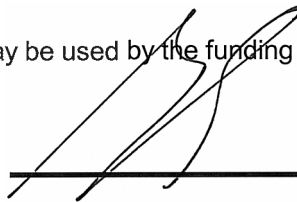
This form should be completed by the Head of the institution or an appropriate deputy and not by the individual responsible for completing the return.

With reference to the TRAC(T) data loaded on: 28/02/2013 12:41

I confirm that the data held by the HEFCE for this institution are correct.

I understand that this data may be used by the funding councils to inform their teaching funding methods.

Signed:



Name:

N. Emmet

Position:

VC

Date (dd/mm/yyyy):

8 May 2017

Please print out and fill in the confirmation sheet and then scan and upload this document to the funding councils via the secure area of the HEFCE website no later than Thursday 25 April 2013. The funding councils no longer require a paper copy.

Appendix 2

Peer Groups for annual TRAC, TRAC fEC and TRAC (T) benchmarking 2010/11

Criteria (references to income are to 2004/05 data)

Peer group A: Russell Group (all have medical schools) excluding LSE plus specialist medical schools

Peer group B: All other institutions with Research income of 22% or more of total income

Peer group C: Institutions with a Research income of 8%-21% of total income

Peer group D: Institutions with a Research income of between 5% and 8% of total income and those with a total income > £120m

Peer group E: Teaching institutions with a turnover of between £40m and £119m

Peer group F: Smaller teaching institutions

Peer group G: Specialist music/arts teaching institutions

Peer Group E

H-0047 Anglia Ruskin University

H-0026 University of Bedfordshire

H-0049 University of Bolton

H-0050 Bournemouth University

H-0009 Buckinghamshire New University

H-0012 Canterbury Christ Church University

H-0011 University of Chester

H-0056 Coventry University

H-0038 University of Cumbria

H-0057 University of Derby

H-0058 University of East London

H-0016 Edge Hill University

H-0061 University of Huddersfield

H-0062 University of Lincoln

H-0023 Liverpool Hope University

H-0076 London South Bank University

H-0027 University of Northampton

H-0031 Roehampton University

H-0037 Southampton Solent University

H-0077 Staffordshire University

H-0078 University of Sunderland

H-0079 University of Teesside

H-0080 Thames Valley University

H-0105 University of the West of Scotland

	PAPER NO: AC.32(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Anti fraud, bribery and corruption report	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that Audit committee note the position as reported below.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

1. This paper is presented to each meeting of Audit Committee to alert members to any instances of fraud, bribery or corruption arising in the period since committee last met. Two matters have been reported since the last meeting as noted below.
2. In March 2013, a fraudulent attempt was made to change the bank details of Neilcott Construction (the building contractors currently renovating the Terraces). The University's standard procedures were followed, and the fraudulent request was identified and prevented. The supplier amendment was not processed. The Head of Procurement has been in contact with Neilcott's Director of Finance, a report has been submitted to Action Fraud and our case has been forwarded to the Metropolitan Police. A £700,000 Neilcott invoice was due to be paid in the next payrun. Identifying this fraud ensured that the correct

supplier received payment, and that the University was not exposed to any additional payments.

3. At the end of January 2013 a student paid her residence fees of £2,450.28 into a bank account that does not belong to the University. The incident came to light when Residence staff chased the student for non payment of fees. The student produced an email sent to her from the University instructing her to pay her fees into a Halifax Bank account at a branch in Romford, Essex, and evidence from her own bank that the payment had been made. The email was sent from the email account accommodation@lsbu.ac.uk. This role based account is used by multiple staff and it cannot be proved from data held in ICT who sent this particular email. It is also possible that that the email account was hacked and the message was sent to the student by someone outside the organisation. We carried out a thorough investigation and procedures for using the role based account have been changed. It has been concluded that this is an isolated incident and no further reoccurrence has been identified.

	PAPER NO: AC.33(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Review of anti-fraud policy	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	That committee approve changes to the anti-fraud policy and fraud response plan.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee	On: Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	All staff	

Executive summary

1. LSBU has a fraud response plan which forms part of the University's financial regulations. However, until 2011 we did not have a separate document setting out policy in relation to fraud and the responsibilities for its prevention and detection.

The anti-fraud policy was created in 2011 and approved. A copy is attached. The policy is intended to ensure that all cases of suspected fraud are promptly reported, investigated and dealt with as necessary, thereby safeguarding the finances and resources of the University and its subsidiaries.

The policy is subject to annual review and approval. Changes proposed are detailed below. The Committee is asked to recommend approval of the policy attached.

2. Proposed changes to the Anti Fraud Policy and Fraud Response plan are highlighted in the document. They are:

- Replace references to a Whistle Blowing Policy with a link to the Speak Up Policy
- Addition to the definition of a significant fraud to include a fraud involving senior officers of the University
- Minor changes to layout to clarify the definition of a significant fraud and the process to be followed when a significant fraud is suspected

Anti Fraud Policy and Fraud Response Plan

1. Introduction

The Anti Fraud Policy outlines LSBU's position on fraud and sets out responsibilities for its prevention and detection. The policy is intended to ensure that all cases of suspected fraud are promptly reported, investigated and dealt with as necessary, thereby safeguarding the finances and resources of the University and its subsidiaries.

This policy applies to all staff and students.

2. Policy

LSBU does not tolerate fraud in any form. We aim to prosecute anyone who commits fraud against the University.

The University requires all staff and students to act honestly, with integrity and to safeguard any University resources for which they are responsible.

Holders of Letters of Delegated Authority are formally responsible for ensuring that all staff are aware of the University's fraud reporting protocols and that all incidents of suspected theft, fraud, misuse of the University's assets or serious weaknesses in internal control are reported in accordance with the processes set out in this document.

3. Definition of fraud

Fraud can be defined as the use of deception with the intention of:

- Gaining an advantage, personally and/or for family or friends
- Avoiding an obligation
- Causing a financial loss to the University or any subsidiary or associated company, including SBUEL.

Whilst not a definitive list, the main types of fraud are:

- The theft of cash, assets or any other property of the University by staff or students
- False accounting – dishonestly destroying, defacing, concealing or falsifying any account, record or document required for any accounting purpose, with a view to personal gain or gain for another, or with the intent to cause loss to the University or furnishing information which is or may be misleading, false or deceptive
- Deliberate claiming of expenses that were not incurred on University business, or the use of University Purchasing Cards for the same purpose
- Abuse of position – abusing authority and misusing University resources or information for personal gain or causing loss to the University
- Entering into unfavourable contracts or arrangements with suppliers in order to benefit personally from the relationship.

- Attempting to make payments to the University with a stolen or unauthorised credit/debit card.

4. Prevention of fraud

Fraud is costly, both in terms of reputational risk and financial loss, as well as time consuming to identify and investigate. Therefore minimising the risk of fraud is a key objective.

The University has established systems and procedures in place which incorporate effective and efficient internal financial controls. One of the main objectives of these controls is to minimise the risk of fraud and allow fraud to be detected promptly. These systems and processes are embodied in the Financial Regulations, and it is therefore important that all staff are aware of, and follow, the Financial Regulations.

All staff should be vigilant and consider the risk of fraud within their areas. Staff should notify their line manager if they believe an opportunity for fraud exists because of poor procedures or lack of effective supervision. The Finance Department can provide guidance where procedures need to be improved.

Managers should be aware that certain patterns of behavior may indicate a desire for concealment. These include, but are not limited to:

- Taking few holidays
- Resistance to delegation
- Resentment to normal discussion of work issues
- Frequently working alone late or at weekends

Managers should consider the risk of fraud when these patterns of behavior are apparent in their staff.

5. Reporting a suspected fraud

Any member of staff who suspects with good cause that fraud has been committed must report the matter immediately to their line manager. The line manager should then immediately inform the relevant Executive Dean/Head of Support Department and the Executive Director of Finance.

LSBU has a [Speak Up Policy](https://my.lsbu.ac.uk/assets/documents/regulations/speak-up-policy.pdf) ~~whistleblowing policy~~ which may be used by staff who, for any reason, wish to submit information outside of the management chain described above. This policy can be viewed at <https://my.lsbu.ac.uk/assets/documents/regulations/speak-up-policy.pdf> <http://www.lsbu.ac.uk/foi/documents/PublicInterestDisclosure.pdf>.

All reported cases of suspected fraud will be investigated.

The internal and external auditors have their own procedures for reporting any incidences of suspected fraud that they discover during the course of their audit work.

6. Fraud Response plan

When an incidence of fraud is identified, there is an immediate need to safeguard assets, recover losses and secure evidence for legal and disciplinary processes. In order to meet these objectives, the University has a fraud response plan. Staff and students are required to act in accordance with the fraud response plan.

If a member of staff discovers or suspects a fraud, theft, corruption or other financial irregularity, they must immediately inform their Executive Dean or Head of Support Department and the Executive Director of Finance. Failure to do so will result in disciplinary action. The Executive Director of Finance will instigate the following response:

- Take action to mitigate the potential loss to the University
- Immediately inform the Vice Chancellor, the University Secretary, the Internal Audit manager and The University's Employee and Officers insurers.
- Initiate an investigation. The scope of this investigation should be agreed with the Vice Chancellor and the University Secretary. The Internal Auditors should undertake the investigation.
- Decide immediately whether or not to treat this incident as a criminal investigation and involve the police and/or accredited fraud investigators
- Take steps to prevent a recurrence of such an irregularity or breach of internal controls.

If a fraud is significant:

- The chair of the Audit Committee, the Chair of the Board of Governors and the University's HEFCE accounting officer should also be informed (The Accountability and Audit: HEFCE Code of Practice, which flows from the HEFCE Financial Memorandum, contains a mandatory requirement that any significant fraud must be reported to the HEFCE Accounting Officer)
- The Chair of Audit Committee will decide if he wants to convene an extraordinary meeting of Audit Committee to consider action already taken, or proposed to be taken.

A significant fraud is one where:

- The sums of money involved are significant
- The fraud involves senior officers of the University
- The particulars of the fraud or irregularity are novel, unusual or complex
- There is likely to be public interest because of the nature of the fraud or irregularity, or the people involved.

In the event of a suspected fraud involving the Finance Department, the Vice Chancellor will initiate action. The Executive Director of Finance will not be involved in the subsequent investigations.

In the event of a suspected fraud involving the Vice Chancellor, the Executive Director of Finance will inform the Chair of the Board of Governors directly.

Investigation of a suspected fraud

The Executive Director of Finance, the University Secretary and the Internal Auditors must conduct an investigation on a timely basis, observing the principles of natural justice and preserving confidentiality.

All staff must cooperate in an investigation or action to mitigate loss and must observe reasonable expectations of confidentiality.

The Vice Chancellor may take action during the investigation against any member of staff who is potentially implicated in the suspected fraud. This action may include:

- Temporary suspension from duty
- Denial of access to University buildings and computer networks

Result of investigation

In the event that an allegation is substantiated, the action taken by the Vice Chancellor as a consequence will be recorded in writing. Such action should be proportionate to the allegation but may include:

- Temporary suspension from duty
- Denial of access to University buildings and computer networks
- Summary dismissal or dismissal under notice
- Notification of the police
- Notification of other parties likely to be affected
- Restitution by the perpetrator
- Other disciplinary procedures

	PAPER NO: AC.34(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Speak up report	
Author:	James Stevenson, University Secretary & Clerk to the Board	
Sponsor:	Andrew Owen, Chair of the Audit Committee	
Recommendation:	The Audit Committee is requested to note the report	
Aspect of the Corporate Plan to which this will help deliver?	N/A – but speak up is one aspect of developing a climate of personal responsibility and ethical conduct by staff / stakeholders	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	Policy will be published to staff and students	

Speak up report

1. Under the speak up procedure, since the last meeting of the Audit Committee on 7 February 2013, there has been one new speak up matter raised with the Chair of the Audit Committee in relation to a complaint by a student who has recently completed a social work degree. The Chair's decision is that the matter should be dealt with under the LSBU Student Complaints Procedure and not the Speak Up Policy. A letter has been sent to the student. No other matters have been raised with the University Secretary, Director of HR or Deputy Director of HR.
2. The committee is requested to note the speak up report.

	PAPER NO: AC.35(13)	
Board/Committee:	Audit committee	
Date:	13 June 2013	
Paper title:	Tuition fee debt write off	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	That the Committee approve the writing off of tuition fee debt that is more than six years old. The total write off proposed is £411,000	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive by ensuring that our underpinning business processes, systems, policies and investments create an environment that enables success	
Matter previously considered by:	None	On:
Further approval required?	Policy and Resources	On: 3 July 2013
	University Board	On: 18 July 2013
Communications – who should be made aware of the decision?	All staff involved in Finance administration and budget management	

Executive summary

1. The University has a policy of writing off debt that is more than 6 years old, unless there is a reasonable expectation that the money can be recovered. Approval is sought for the write off of £411,000 where all debt collection activities have been exhausted.

Detail of debts to be written off.

2. At the end of the last financial year, debts that had reached 6 years old were not written off and therefore the request is to write off debts incurred in both 2005/6 and 2006/7. These have been fully provided for in the provision for bad debts.

3. The proposed amount of write-off on the tuition fee ledger is £411k. The analysis below shows the academic period that the debts related to. All attempts to recover these debts, including referral to a debt collection agency, have been exhausted. The total amount of unpaid fees for 2006/7 is £278k, but the latest indication is that arrangements are being made via the debt collection agency for recovery of a high proportion of this. At this stage the write off for 2006/07 is therefore low at £36,000.
4. If in future a student requires a certificate or transcript, or wishes to enrol for further courses, they will need to settle their debts before documents are issued or enrolments completed.
5. Uncollected debts by academic period are detailed below:

Academic year fees relate to	06/07	05/06	04/05	03/04	Prior periods	Total
debt to be written off	36,000	193,000	81,000	87,000	14,000	£411,000

Recommendation

6. It is recommended that the Committee approve the writing off of tuition fee debt that is more than six years old. The total write off proposed is £411,000.

London South Bank University

	PAPER NO: AC.36(13)	
Board/Committee:	Audit committee	
Date:	13 June 2013	
Paper title:	Review of Financial Regulations	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	That the Committee note that the financial regulations have been reviewed and that an update will be taken to Policy and Resources Committee on 3 July 2013 for approval. In particular the committee should note and recommend approval of the changes regarding bad debt write off.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive by ensuring that our business processes, systems and policies enable success.	
Matter previously considered by:	None	On:
Further approval required?	Policy and Resources University Board	On: 3 July 2013 On: 18 July 2013
Communications – who should be made aware of the decision?	All staff involved in Finance administration and budget management.	

Executive summary

1. An annual update of the University's Financial Regulations is brought to the Board each year. This is to ensure that the Financial Regulations remain relevant and reflect the structure and organisation of the University. The regulations have been reviewed and a number of minor changes are to be proposed to Policy and Resources Committee at its meeting on July 3. The only

substantive change affecting Audit Committee relates to changes regarding authorisation of bad debt write off.

2. Currently Audit Committee must approve all debts to be written off. It is now proposed that:

- All debts (tuition fee and sales ledger) over 6 years old will be written off on an annual basis unless there is a reasonable expectation that the money can still be recovered. If the total value of the annual write off is less than £50k it can be approved by the Executive Director of Finance. Audit Committee approval is required where the total value of the annual write off exceeds £50k.
- In exceptional circumstances debts may be required to be written off during the year (eg in the event of company liquidation). This will require the approval of only the Executive Director of Finance. The maximum limit for write off on any individual debt is £10k. Above this limit, approval of Audit Committee is required.

	PAPER NO: AC.37(13)	
Board/Committee:	Audit Committee	
Date:	13 June 2013	
Paper title:	Audit Committee self-assessment	
Author:	Andrew Owen, Chairman of the Audit Committee	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee discuss the findings of the self-assessment exercise	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive	
Matter previously considered by:	Annually by Audit Committee	N/A
Further approval required?	Board (for information)	On: 18 July 2013
Communications – who should be made aware of the decision?	N/A	

Executive Summary

The Audit Committee reviews its effectiveness annually using the National Audit Office checklist for the self-assessment exercise.

The committee are asked to note the responses and discuss the issues arising.

LSBU

Review of Audit Committee Effectiveness

Responses to Self Assessment Questionnaire

June 2013

Draft

		AO	SB	DDStP	SP	RF	ME	PC
SECTION 1: Good practice principles for Audit Committees								
Principle 1: The role of the Audit Committee								
Terms of Reference								
1	Have all executive responsibilities, and making or endorsing of decisions been excluded from the roles and responsibilities of the Audit	Y	Y	Y	Y	Y		Y
2	Does the Audit Committee follow up recommendations regarding its effectiveness?	Y	Y	Y	Y	Y		Y
3	Does the Audit Committee's role include monitoring and reviewing the executive's processes for assessing, reporting and owning business risks and their financial implications?	Y	Y	Y	Y	Y		Y
4	Has the role and responsibilities of the Audit Committee been clearly defined and communicated to all Audit Committee members, along with details of how the Committee supports the Board?	Y	Y	Y	Y	Y		Y
5	Are the Terms of Reference reviewed at least annually by the Board and the Audit Committee, to ensure that the work of the Audit Committee is aligned with good practice and business needs?	Y	Y	Y	Y	Y		Y
6	Do the Terms of Reference include rules for a quorum?	Y	Y	Y	?	Y		Y
7	Does the Audit Committee meet regularly (at least four times a year), and do meetings coincide with key dates in the financial reporting and audit cycle?	Y	Y	Y	Y	Y		Y

SB Qu3: There is room to improve risk reporting to address a tendency to move target dates back and to set multi-stage actions with a long end date and due dates for intermediate stages unspecified.

RF

The move to 4 meetings a year rather than the 3 has helped. In terms of the audit cycle the key challenge remains reporting the results of continuous audit work on a timely basis.

		AO	SB	DDStP	SP	RF	ME	PC
Principle 2: Membership, Independence, Objectivity and Understanding								
Independence								
8	Is the Chair of the Audit Committee different from the Chair of the Board?	y	y	y	y	y		y
9	Are the Audit Committee members either independent non-executive Board members or independent external members, and have they been appointed for an appropriate period of time (e.g. three years)?	y	y	y	y	y		y
Relationship with the Executive								
10	Are the Executive members of the organisation invited to attend Audit Committee meetings, participate in discussions, and provide information to the Audit Committee as and when the Audit Committee deems it necessary?	y	y	y	y	y		y
Other participants								
11	Where appropriate, does a representative from the sponsoring body attend the Audit Committee meetings (e.g. if an Executive Agency, does a member of the Sponsoring Department attend the meeting)?	y	y	y	?	n/a		y
12	Does the Accounting Officer, Finance Director, Head of Internal Audit and the External Auditor routinely attend the Audit Committee, or attend at the request of the Audit Committee members?	y	y	y	y	y		y
13	Are the numbers attending the Audit Committee meetings sufficient to deal adequately with the agenda, but not too many to blur issues?	y	y	y	y	y		y
Conflict of interest								
14	Is the first agenda item of every meeting a request for the Audit Committee members to declare any potential conflict of interest with any of the business items on the Audit Committee's agenda?	y	y	y		y		y
15	In instances where there is a declaration of interest in any of the agenda business items, are appropriate actions taken, e.g. is the member asked to leave the meeting while the business item is being discussed?	y	y not arisen	y	y	y		In ToR but not occurred
16	In instances where the conflict of interest is likely to last for a long time, has the Audit Committee member been asked to relinquish his or her membership?	n/a	n/a	n/a	?	y		In ToR but not occurred
17	Are the Audit Committee members required to declare their interest in a register of interests?	y	y	y	y	y		y
Terms of Appointment								
18	Do all Audit Committee members have a clear understanding of what is expected of them in their role, set out in a letter of appointment, including:	y	y	y	y			it would appear so
a	their appointment and purpose;	y	y	y	y			y
b	the support and training that they will receive;	y	y	y	y			y
c	the commitment required;	y	y	y	y			y
d	their remuneration;	n/a	y	n/a	y			n/a
e	conflict of interest procedures;	y	y	y	y			y
f	expected conduct;	y	y	y				y

g	duration of appointment and how often it may be renewed		y	y	y	y			not certain as and when reviewed
h	how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance; and		n/a	y	y	n			y
i	termination conditions?		n/a	y	n/a	n			not occurred

SB Qu 18: I am not aware that a formal letter of appointment exists and covers off each of these points. Without wishing to be overly bureaucratic, it would do no harm to have such a template letter which can be used for new appointments and, as necessary, refreshed periodically for all committee members.

SP Qu 15 Member abstains rather than leaves the room

SP Qu 18e I would like to know, in what circumstances/situations it would be appropriate to raise concerns directly with the chair without management being present.

RF Qu18 I assume that they have a formal letter of appointment, but am not certain that this is the case. I believe they all have a good understanding of what is required.

RF Independant, non executive members of the board are required to declare interests in a register. I am not sure same applies to co opted members of Audit Committee.

		AO	SB	DDStP	SP	RF	ME	PC
Principle 3: Skills								
Range of skills								
19	Are there formal assessment criteria for the appointment of the Audit Chair, including attitudes to non-executives, strength of personality, experience of chairing, and time commitment?	n	n	n/a	?	y		not formally
20	Do the assessment criteria of Committee members include, or expect Audit Committee members to acquire as soon as possible after appointment:							
a	understanding of the objectives of the organisation and current significant issues for the organisation;	y	n	y	y	y		"
b	understanding of the organisation's structure, including key relationships such as that with a sponsoring department or major partner;	y	n	y	y	y		"
c	understanding of the organisation's culture;	y	n	y	n	y		"
d	understanding of any relevant legislation or other rules governing the organisation; and	y	n	y	n	y		"
e	broad understanding of the government environment, particularly accountability structures and current major initiatives?	y	n	y	n	y		"
21	Does the Audit Committee ensure that there are areas of collective understanding, including:	y	y	y				
a	accountancy – with at least one member having recent and relevant financial experience;	y	y	y	y	y		y
b	governance, assurance and risk management;	y	y	y	y	y		not formally
c	audit;	y	y	y	y	y		"
d	technical or specialist issues pertinent to the organisation's business;	y	y	y	?	y		"
e	experience of managing similar sized organisations;	y	y	y	?	y		"
f	understanding of the wider environments in which the organisation operates; and	y	y	y	y	y		"
g	detailed understanding of the government environment and accountability structures?	y	y	y	?	y		"
Additional skills								
22	Do the Audit Committee members feel empowered to:							
a	co-opt members for a period of less than one year to provide specialist skills that the members do not have to be an effective Committee;	y	y	y	?	y		y
b	procure specialist advice at reasonable approved expense to the organisation, on an ad-hoc basis to support them in relation to particular pieces of Committee business	y	y	y	?	y		y
Training and Development								
23	Is there an induction checklist for new Audit Committee members that details key things that they must do e.g. visits to important business locations, meetings with Board, Risk Manager, Internal Audit and External Auditors?	n	n	n/a	n			Not formally
24	Do all new members of the Audit Committee attend an induction training course for Audit Committee members run by the National School of Government, or other sector-related organisation?	?	n	n	y			"

25	Does the Audit Committee ensure that new members have sufficient knowledge of the business to identify the key risk areas and to challenge both line management and internal and external auditors on critical and sensitive issues?		y	y	y	y			y
26	Does the Audit Committee and the Chair make recommendations to the Board on the Committee's and individual members training needs?		y	y	n/a	?			y
27	Does the Audit Committee keep abreast of best practice and developments in corporate governance in central government and more widely?		y	y	y	see comment			y

SB

Qu 20: I am not aware that assessment criteria are documented in this form anywhere

SB

Qu 21 d: Independent members of the Audit Committee have had fairly limited sector knowledge to date. This is an area which we might look to address in future.

SB Qu 24: I am unclear what induction training currently takes place and what scope there may be to improve.

RF Qu 23-27 Not sure how formalised the induction training programmes are.

SP Qu27 In my role as an audit committee member of an FE college, the clerk there regularly sends selected and relevant sector/knowledge share updates relevant to members of the audit committee. This is very helpful to the role. Nothing similar is offered (at least to my knowledge) to members of the LSBU audit committee.

		AO	SB	DDStP	SP	RF	ME	PC
Principle 4: Scope of work								
Relationship with internal audit								
28	Does the Audit Committee consider the independence and effectiveness of Internal Audit?	y	y	y	y	y		y
29	Does the Audit Committee consider that the experience, expertise and professional standard of the Internal Audit team are appropriate for the size, complexity, and inherent risk of the organisation?	y	y	y	?	y		y
30	Does the Audit Committee consider that the scope of Internal Audit work, the available resources at its disposal, and their access to information and people allow it to address significant risks within the organisation?	y	y	y	y	y		y
31	Does the Audit Committee review and approve the Internal Audit plan before they commence any work and make suggestions regarding risk and problem areas that the audit could address in the short and long term?	y	y	y	y	y		y
32	Does the Audit Committee receive regular progress reports on studies/work undertaken by Internal Audit?	y	y	y	y	y		y
33	Does the Audit Committee review internal audit reports and management responses to issues raised, and monitor the progress made on Internal Audit's recommendations?	y	y	y	y	y		y
Relationship with external audit								
34	Where relevant, does the Audit Committee consider the independence, objectivity, and effectiveness of the External Auditors?	y	y	y	y	y		y
35	Does the Audit Committee periodically obtain the views of the External Auditor on the work and effectiveness of the Audit Committee?	y	n	y	y	?		y
36	Is the Audit Committee informed by the External Auditors on an annual basis as to their quality control procedures and compliance with applicable UK ethics guidance?	y	y	y	?	?		y
37	Does the Audit Committee consider the External Auditor's Audit Strategy before they commence work, and make suggestions regarding risk and problem areas the audit could address in the short and long term?	y	y	y	y	y		y
38	Do the External Auditors inform the Audit Committee of key developments and issues at key stages of the audit?	y	y	y	y	y		y
39	Where relevant, does the Audit Committee review the audit fees?	y	y	y	y	y		y
40	Does the Audit Committee consider the management letter and other relevant reports (e.g. the NAO's Value for Money work), and the management's response, and monitor the progress made on the recommendations?	y	y	y	y	y		y
Relationship between internal audit and external auditors								
41	Does the Audit Committee consider whether there are areas where joint working between Internal Audit and the External Auditors would be beneficial?	y	y	y	?? Not sure	y		y
42	Does the Audit Committee seek confirmation from Internal Audit and the External Auditors on the effectiveness of the relationship?	y	y	y	?	y		y
Fraud								

43	Does the Audit Committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating effectively?		y	y	y	y	y		y
44	Does the Audit Committee consider whether there is a code of conduct and its distribution to employees?		y	n/a	y	y	y		y
45	Does the Audit Committee consider whether management arrangements for whistle-blowing are satisfactory?		y	y	y	y	y		y
Internal control									
46	Does the Audit Committee consider whether corporate governance is embedded throughout the organisation, rather than treated as a compliance exercise?		y	y	y	y	y		y
47	Does the Audit Committee consider whether the system of internal reporting gives early warning of control failures and emerging risks?		y	y	y	y	y		y
48	Does the Audit Committee consider whether the SIC is sufficiently comprehensive and meaningful, and the evidence that underpins it?		y	y	y	y	y		y
49	Does the Audit Committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?		y	y	y	y	y		y
50	Does the Audit Committee consider whether financial control, including the structure of delegations, enables the organisation to achieve its objectives and achieve good value for money?		y	y	y	y	y		y
51	Does the Audit Committee monitor whether the organisation's procedures for identifying and managing business risk have regard for the relevant legislation and regulation?		y	y	y	?	y		y
Financial reporting									
52	Does the Audit Committee review the first draft of the annual accounts before the External Auditors start work on them?		n	y	y	n	n		I believe so, not sure
53	Before the Accounting Officer signs off the Annual Report and Financial Statements, does the Audit Committee consider:								
a	that the accounting policies in place comply with relevant requirements, particularly the Treasury's Financial Reporting Manual and Accounts Direction;		y	y	y	y	y		y
b	that there has been a robust process in preparing the accounts and annual report;		y	y	y	y	y		y
c	whether the accounts and annual report have been subjected to sufficient review by management and by the Accounting Officer and/or Board;		y	y	y	y	y		y
d	that when new or novel accounting treatments arise, whether appropriate advice on accounting treatment has been taken;		y	y	y	y	y		y
e	whether there is an appropriate anti-fraud policy in place, and whether losses are suitably recorded;		y	y	y	y	y		y
f	whether suitable processes are in place to ensure accurate financial records are kept;		y	y	y	y	y		y
g	whether suitable processes are in place to ensure regularity and propriety is achieved; and		y	y	y	y	y		y
h	whether issues raised by the External Auditors have been given appropriate attention.		y	y	y	y	y		y
54	Where the accounts have been qualified, does the Audit Committee consider the action taken by the Board to deal with the causes of the qualification?		n/a	n/a	n	n/a	n/a		I do not remember this occurring

55	Does the Audit Committee satisfy itself that the annual financial statements represent fairly the financial position of the organisation, regardless of the pressures on executive management?		y	y	y	y	y		y
56	Before the Accounting Officer signs off the Letter of Representation, does the Audit Committee review it and give particular attention to non-standard issues of representation?		y	y	y	y	y		y

RF Qu 36 This was done as a part of the tender exercise, not sure it is done on an annual basis

RF Qu 52 This has been reviewed and discussed previously, but is not considered practical

RF The only real issue arising is whether the committee seeks the views of the external auditors on the work and effectiveness of the committee.

SB Qu 35: We might ask this question of the External auditor

SB Qu 38: More could be done and circulated between meetings

SB Qu 44: Is document on Standards in public life adequate here

SB Qu 45: Could be more formal.

SB Qu 47: Should we seek to improve the early warning and reporting of fraud to all those concerned?

SB Qu 53: Is there a case for documenting each of these points more fully?

		AO	SB	DDStP	SP	RF	ME	PC
Principle 5: Communication								
Reporting to the Board								
57	Does the Audit Committee send regular reports or provide oral updates to the Board that they review at their meetings?	y	y	y	y	y		y
58	Does the Audit Committee provide an Annual Report to the Board, timed to support preparation of the Statement on Internal Control?	y	y	y	y	y		y
59	Does the Annual Report of the Audit Committee present the Committee's opinion about:				y			y
a	the comprehensiveness of assurances in meeting the Board and Accounting Officers needs;	y	y	y	y	y		y
b	the reliability and integrity of these assurances;	y	y	y	y	y		y
c	whether the assurance available is sufficient to support the Board and Accounting Officer in their decisions taken and their accountability obligations;	y	y	y	y	y		y
d	the implication of these assurances for the overall management of risk;	y	y	y	y	y		y
e	any issues the Audit Committee considers pertinent to the Statement on Internal Control, and any long-term issues the Committee thinks the Board and/or Accounting Officer should give attention to;	y	y	y	y	y		y
f	financial reporting for the year;	y	y	y	y	y		y
g	the quality of both Internal and External Audit and their approach to their responsibilities; and	y	y	y	y	y		y
h	the Audit Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.	y	n	y	?	y		y

SB

Qu 59 g & h: I regret I cannot recall if the Annual Report (or the HEFCE template forming the basis for the Annual Report) explicitly refers to these issues. If not, explicit reference might be added.

		AO	SB	DDStP	SP	RF	ME	PC
SECTION II: The role of the Chair:								
Agenda setting								
60	Is the Board Secretary different from the Audit Committee Secretary?	n	y	n	n	n not that I'm aware of		n
61	Does the Chair of the Audit Committee meet with the Committee Secretary before every meeting to discuss and agree the business for the meeting?	agenda agreed	y	y	?	y I assume so		I believe so
62	Are inputs on Any Other Business formally requested in advance from Committee members and attendees?	y	y	y	y	y		y
63	Are outline agendas planned one year ahead to cover core activities and specific issues on a cyclical basis?	y	y	y	y	y		y
64	Does the agenda exclude executive business, so that there is no overlap with the work of the Board whilst linking to the main elements of the organisation's business?	y	y	y	y	y		y
65	Are the meetings set for a length of time which allows all business to be conducted, yet not so long that the meeting becomes ineffective?	y	y	y	y	y		y
66	Does the Chair encourage full and open discussion and invite questions at the Audit Committee meetings?	y	y	y	y	y		y
Communication								
67	Does the Chair of the Audit Committee have open lines of communication with the Board, Head of Internal Audit, and the External Auditors?	y	y	y	y	y		y
68	Does the Chair encourage all Committee members to have regular interface with the organisation and its activities to help them understand the organisation, its objectives, and business needs and priorities?	y	y	y	y	y		y
69	Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?	y	y	y	y	y		y
70	Does the Audit Committee issue guidelines concerning the format and content of the papers to be presented to the Committee?	y	y	y	y	y		y
Monitoring actions								
71	Does the Chair or the Secretariat ensure that all action points from Committee meetings are appropriately acted upon?	y	y	y	y	y		y
72	Does the Chair or the Secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence?	y	y	y	y	y		y
73	Is a report on matters arising made and minuted at the Audit Committee's next meeting?	y	y	y	y	y		y
Appraisal								
74	Does the Chair ensure that the Committee members are provided with an appropriate appraisal of their performance as a Committee member?	n	n/a	y	?	? Not certain		informally
75	Does the Audit Committee Chair seek appraisal of their personal performance from the Accounting Officer or Chair of the Board?	n	n/a	n/a	?	? Not certain		not that I'm aware of
76	Are Audit Committee meetings well attended, with records of attendance maintained and reviewed annually by the Board?	y	y	y	y	y		y

Appointments

77	Is the Chair involved in the appointment of new Committee members, including providing advice on the skills and experience required of the new individual?							
		y	y	y	y	y		y

RF It is not clear to me what processes are in place for assessing members performance

SB Qu 63: A forward looking business plan on a rolling 3 year basis, presented in each meeting pack as a standing item may assist.

SB Qu 68: However, it feels as though adequate steps are taken. Can Douglas and Shachi comment further?

SB Qu 72: I think so – Not really sure.

SB Qu 74 & 75: I would expect informal feedback, as appropriate.

		AO	SB	DDStP	SP	RF	ME	PC
SECTION III: Committee support:								
Agenda setting								
Does the Audit committee secretariat:								
78	Commission papers as necessary to support agenda items?	y	y	y	y	y		y
79	Circulate meeting documents to all Committee members, Internal Audit and External Auditors in good time before each meeting, to allow members time to study and understand the information e.g. at least one week before the meeting?	y	y	y	n - papers are usually couriered the weekend before the meeting	y		y
80	Arrange for Executives/senior management to be available as necessary to discuss specific agenda items with the Audit Committee during meetings?	y	y	y	y	y		y
81	Keep records of meetings and minutes after they have been approved by the Audit Chair and circulate them to Committee members, Head of Internal Audit, External Auditors, Board, and the Accounting Officer on a timely basis e.g. within one week of the meeting?	y	y	y	y	y		y
82	Ask for confirmation that the minutes are a true and fair representation of a summary of the business taken by the Audit Committee?	y	y	y	y	y		y
83	Ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given from any stakeholders?	y	y	y	y	y		y
84	Ensure action points are being taken forward between meetings?	y	y	y	y	y		y
85	Support the Chair in the preparation of Audit Committee reports to the Board?	y	y	y	y	y		y
86	Arrange the Chair's bilateral meetings with:				?	y		y
a	the Accounting Officer, the Head of Internal Audit, Director of the External Auditors;	y	y	y	?	y		y
b	the Chair of the Board of sponsored NDPBs.	n/a		n/a	?	n/a		n/a
87	Keep the Chair and members in touch with developments and relevant background information about developments in the organisation?	y	y	y	n	y		y
88	Maintain a record of when members' terms of appointment are due for renewal or termination?	y	y	y	y	y		y
89	Ensure that appropriate appointment processes are initiated when required?	y	y	y	sometimes	y		y

SB Qu 86 a: Do these take place? I'm not convinced they are needed given their attendance at meetings.