



Student Union

Imperial College London
Internal Audit 2017-18
—
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Distribution

To (for action):	CC (for information):
— Malcolm Martin – Head of Finance and Resources	— Jarlath O’Hara – Managing Director
	— PEG and Provost Board sponsor: John Neilson – College Secretary

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Executive summary

Conclusion

We have reviewed the process for managing operational risks, the benefits realisation process for the implementation of the Electronic Point of Sales (EPOS) system and controls for the processing of sales in the EPOS system. This review has been provided as a value for money review and therefore no assurance rating has been provided.

Progress has continued to be made in embedding risk management processes for operational risks across the Imperial College Union (the Union). An electronic risk register is established to hold the risks identified to operations that sets out key details to enable effective monitoring, including current and target risk scores, responsible owners and controls to be implemented to mitigate the risk. The risk register is reviewed by the Finance and Risk Committee five times annually to enable oversight of the effectiveness with which risks are being managed.

The use of the risk register has not become fully embedded within teams to help ensure that risk documentation is accurately maintained and that it is a tool for management to support effective management of their risks. Expectations of individual managers for the management of their risks are not formally established, for example the expected frequency with which risks will be reviewed. Risk review dates are therefore set with a frequency based on the judgment of the risk owner. Of the 65 active risks on the risk register 21 were overdue for review, of which eight had a scheduled review date more than a year prior to our fieldwork.

Target risk scores have been established on the risk register to guide the level of mitigation required to be implemented. A conclusion is set to determine whether further action is required to treat risks if the risk score is higher than the target level of risk. There are five risks held on the risk register that have been identified as requiring further treatment but for which no further controls have been identified to be implemented. Of these two have significant gaps between the current and target risk score, relating to filling of finance vacancies and training provision to staff to help ensure they follow the Union's financial policies. We also identified 11 controls awaiting implementation to mitigate current risks that were overdue for implementation by at least one year.

In 2017 a new EPOS was implemented for the processing of sales in the Union's retail and bar functions. The business case for the implementation set out six areas of benefits anticipated to be achieved through the replacement of the predecessor system. Although the areas in which benefits were expected were clearly set out baselines were not clearly established or targets for levels of improvement to support a full assessment of the value for money to be achieved from implementing the system.

Clear milestones were not established for when it was anticipated that benefits would be realised. The business case envisaged improvements in management reporting that were not able to be delivered by the supplier on first implementation of the system. The finance and systems teams have worked closely with the supplier in order to develop the required reporting, which continues to be anticipated, however this has restricted the ability to objectively assess whether the system is delivering the intended benefits.

Reconciliations are undertaken at the end of each shift for retail and bar tills in order to verify that all expected cash is held in the till based on the sales that have been processed. Reporting distinguishes between cash and card sales to enable an expectation to be developed of the level of cash that will be held. The reconciliation is completed by the manager and any variances over £5 are investigated. The EPOS system is not currently able to be interfaced automatically to the general ledger and so transactions are required to be manually entered into the ledger, though an automated solution is expected to be piloted shortly. All staff are assigned unrestricted access to the EPOS system, which provides the ability to make amendments to elements such as prices on the system, formal controls have not been established to review the amendments that have been processed.

For the majority of sales VAT is determined at the point of sale based on coding applied to products within the EPOS. When new products are added these are reviewed by an accountant within the systems team to verify they have been coded correctly. Food sales have VAT apportioned on the basis of ratios for term time and outside of term time sales as the system does not record whether sales are being made to a student. The basis of apportionment was approved in January 2002 by HMRC. Sales within the bar require the finance team to manually calculate the applicable VAT as tax codes are not added to the products within the EPOS.

Executive summary

Background

The Union is a charity which operates in order to give students a voice at the College. It has specific objectives around enhancing the student experience and building a student community. The Union generates approximately £9 million of income per annum and has over 350 clubs, societies and projects. It operates three bars and two retail sites as well running events for local clubs and societies.

In February 2017 the Union implemented a new electronic point of sale system (EPOS) to enhance its control environment and improve customer service. As part of the system roll out it is important that the change process was effectively managed, adequate testing was performed and that clear, measurable, business objectives were established from the outset. In addition it is critical that the Union has adapted its control framework in light of the new system to ensure there are robust controls in place, but also to eliminate any superfluous controls which may no longer be relevant.

As part of our 2016-17 review we assessed the controls implemented following the EPOS installation, focused on treasury and stock management processes. We provided **SIGNIFICANT ASSURANCE WITH MINOR IMPROVEMENT OPPORTUNITIES (AMBER-GREEN)** from our review. We found that these processes were well managed with controls operating effectively. We were able to trace cash received across a sample of four days through to banking for both Union retail outlets and two Union bars (one using the EPOS system one using the College's system). We raised one medium priority recommendation relating to ensuring that variances between expected and actual quantities of stock identified during stock counts were understood and followed up.

The Union has transitioned to utilising the College's risk management system (Impirical) for the management of its risk registers. Focus has been placed on embedding consistent risk management processes across each of the areas that are required to maintain an operational risk register. In 2016-17 we reviewed the Union's strategic risk register and the processes for reviewing local risk registers. We raised two medium priority recommendations relating to reviewing the strategic risk register to ensure it reflects the current strategy and monitoring the completion of annual risk assessments by clubs and societies.

Objectives

The objective of our review were:

Objective	Description of work undertaken
Objective One EPOS benefits realisation	We have assessed the process in place to monitor and evaluate whether the EPOS implementation has achieved its intended benefits. We have considered whether clear targets were established at the outset of the project to enable objective evaluation of whether the implementation achieved its intended targets and whether these have been evaluated following the finalisation of the project.
Objective Two Financial control	We reviewed the design of key controls that provide assurance that transactions entered into are appropriate and that they have been accurately recorded within the Union's accounting records. We considered the following areas as part of our review: <ul style="list-style-type: none"> ▪ Sales processing for the Union's key revenue streams; and ▪ VAT management, including the processing of VAT on sales made.
Objective Three Risk management	We reviewed the risk management arrangements in place and the process for developing operational risk registers. We have completed data and analytics (D&A) across the operational risk registers to consider: <ul style="list-style-type: none"> ▪ The completeness of information recorded on risk registers; ▪ The ageing of risks recorded on the risk register and the extent to which risk scores have reduced towards the target; ▪ Whether risks have been reviewed sufficiently frequently; and ▪ Whether sufficient mitigations have been identified to achieve the target level of risk.

Executive summary

Areas of good practice

- ✓ Sales have correctly been captured by the EPOS system and correctly recorded on the Union’s accounting system.
- ✓ Daily cashing up reconciliations are performed and agreed to till reports. Any differences of £5 or more are explained.
- ✓ The business case for the implementation of the new EPOS system set out six clear benefits that were anticipated to be achieved from its implementation.
- ✓ There has been ongoing engagement with the EPOS supplier to consider how the system can continue to be developed in order to deliver the anticipated benefits from the tender and procurement process.

Areas for improvement

- Formal expectations have not been established for the frequency with which risks on the risk register should be reviewed. 12 of the 21 risks scored as extreme had not been reviewed within the last three months, with the oldest not having been reviewed for over 1,000 days. **See recommendation one.**
- The risk register documents the controls that have been established for the management of the risk, however five of the 80 risks recorded had no controls identified and for 31 of the 80 risks controls were either overdue for implementation or had no timescales established for their implementation. **See recommendation two.**
- Milestones were not clearly established for the delivery of the anticipated benefits from the EPOS implementation to set out when they were expected to be delivered. Some elements of the objectives, such as improved management information, were not available at the time of implementation. **See recommendation three.**
- Although six areas of benefits were identified to be achieved from the implementation of the EPOS the baseline performance and anticipated level of improvement were not formally set out to support the assessment of the value for money to be achieved from implementing the new system. **See recommendation four.**
- All retail staff are provided with full access to the EPOS system, which enables changes to be made in areas such as prices being charged without formal mechanisms to monitor and review the changes that have been made. **See recommendation five.**

We also raised two low priority recommendations relating to VAT recording in the EPOS system and review of risk tolerances.

Recommendations

We summarise below the recommendations raised as a result of our review:

	High	Medium	Low	Total
Made	-	5	2	7
Accepted	-	5	2	7

Acknowledgement

We thank the staff involved in this review who helped us complete our work.

Section two

Recommendations

This section summarises the recommendations that we have identified as a result of this review. We have attached a risk rating to these recommendations as per the following table:

Risk rating for recommendations raised			
<p>1 High priority (one): A significant weakness in the system or process which is putting you at serious risk of not achieving your strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of the Trust's strategic risks will occur. Any recommendations in this category would require immediate attention.</p>	<p>2 Medium priority (two): A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving your strategic aims and objectives. In particular, having the potential for adverse impact on the Trust's reputation or for raising the likelihood of the Trust's strategic risks occurring.</p>	<p>3 Low priority (three): Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving the Trust's strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.</p>	
No.	Risk	Recommendation	Management response, officer responsible and deadline
1	2	<p>Review of risks</p> <p>Expected frequencies for reviewing risks held on the operational risk registers have not been formally defined to provide assurance that the information reviewed by management remains current and appropriate. An expected review date is incorporated into the risk register, though there is not a consistent basis on which this is set.</p> <p>21 of the 80 risks held on the operational risk register were overdue for review based on the scheduled review date, 12 of these were overdue by at least three months. A further 18 risks did not have a planned review date set.</p> <p>As part of the risk management policy a formal frequency for review of risks should be established. The union may want to consider setting different frequencies depending on the level of risk, with higher rated risks requiring more frequent review. At defined intervals, such as every six months, a holistic review should be undertaken to also consider the completeness of the risk register in each area.</p> <p>Scheduled review dates entered into the risk register should be set in line with this policy and reports circulated to risk owners on a monthly basis of those risks that are overdue for review.</p>	<p>Agreed</p> <p>A formal operational risk management procedure is to be circulated to all risk owners by 31 October which will set out the varied approach to reviewing risks which will be dependent on the level of risk. Risks with a score of 25 or above (where the probability is very likely and impact serious) will be reviewed more frequently than low rated risks. Risk owners are to review such risk monthly, discuss with their SMG lead bi-monthly, met with the Head of Finance and Resources termly and any exceptions reported to Finance and Risk Committee (board sub-committee) annually.</p> <p>Risk owners' attention will be drawn to the importance of updating the online risk register accordingly. Risk owners will ensure that controls and pending controls are in place which will be reviewed by their respective Strategic Manager at least bi-monthly. The Head of Finance and Resource (Risk Lead) will review risks at least on a termly basis and the Finance & Risk Committee (board sub-committee) will receive exception reports annually.</p> <p>This process will be rolled out during October and November 2018 and be embedded by June 2019.</p> <p><i>Responsible officer:</i> Head of Finance and Resources</p> <p><i>Due date:</i> 30 June 2019</p>

Recommendations

No.	Risk	Recommendation	Management response, officer responsible and deadline
2	2	<p>Identification of risk controls</p> <p>The risk register includes a section to document the controls being implemented to mitigate risks that have been identified. Each control is marked as implemented or pending implementation and expected to have a due date attached to it where implementation is pending.</p> <p>Five of the 80 risks on the risk register have been identified as requiring treatment but do not have any controls established against them. A further 31 risks had pending controls either with no due date set or overdue for implementation.</p> <p>As the Union implements formal reviews of the risk register a review of the status of pending controls should be incorporated. Where controls are overdue for implementation this should be set out as part of exception reporting to the Finance and Risk Committee to enable oversight of any bottlenecks preventing implementation.</p>	<p>Agreed</p> <p>Action plan as per response to recommendation one.</p>
3	2	<p>Project milestones</p> <p>The business case for the EPOS system set out benefits that were anticipated to be achieved from its implementation, however timescales had not been set out for how long it was expected to take for these to be realised following the initial implementation of the system.</p> <p>Some key elements of the expected benefits, relating to improved management reporting and connectivity with other systems, have taken over a year to deliver following initial implementation due to requiring supplier development. A formal assessment of the achievement of the project's benefits has not been undertaken to date while issues with management reporting are resolved.</p> <p>In setting future business cases timescales should be defined for when benefits are expected to be realised. This should also be factored into procurement undertaken as part of implementing solutions. Reporting should be undertaken at key milestones of the project as to whether it remains on course to achieve the anticipated benefits and any actions required to deliver them, followed by a full evaluation following the closure of the project.</p>	<p>Agreed</p> <p>The initial implementation of the new EPOS system in February 2017 was successful and provided a welcome change from the aging and failing hardware in place and also provided a single solution for the diverse activities of Retail and Licensed trade. The agreed additional expected benefits relied on Orbis development of their core systems. The management reporting dashboard and integrated bank reconciliation module were only recently developed and tested.</p> <p>A full evaluation report will be presented to the March 2019 board sub-committee once these additional modules have been established.</p> <p>The Union is currently reviewing its approach to major projects and is looking to improve how business case are constructed to ensure that all objectives are robust, how milestones are identified and what levers can be pulled to ensure projects remain on track.</p> <p><i>Responsible officer:</i> Head of Finance and Resources</p> <p><i>Due date:</i> 31 March 2019</p>

Recommendations

No.	Risk	Recommendation	Management response, officer responsible and deadline
4	2	<p>Defining benefits to be achieved</p> <p>Six areas were identified as part of the EPOS business case where non-financial benefits had been anticipated to be delivered from the implementation. However, for each of these the baseline and expected level of improvement were not identified to support effective consideration of the value for money to be achieved.</p> <p>While the expected recurrent costs of the new EPOS were set out there was no modelling undertaken of potential financial benefits to be delivered.</p> <p>The financial information element of the business case template should be revised to include revenues as well as expenditure. The benefits section of the template should have a table included within the template to prompt completion of a description of the benefit, how it will be measured, the baseline and the anticipated achievement.</p>	<p>Agreed</p> <p>Action plan as per response to recommendation three.</p>
5	2	<p>EPOS access permissions</p> <p>All staff with access to the EPOS system are provided with the same access levels. These allow changes to be made to system parameters, such as the prices set on tills. Reviews are not undertaken to verify whether changes that have been processed are appropriate.</p> <p>Separate role profiles should be established for different levels of staff so that the ability to make amendments to standing data such as prices is restricted only to managers. In the meantime monthly reports should be produced to review changes to standing data to verify any amendments processed are appropriate.</p>	<p>Agreed</p> <p>Different access levels have been established for the various users across Retail and Licensed Trade teams however there is some overlap of responsibilities within the small teams. Further configuration is needed to fine tune the respective permissions.</p> <p>A request is to be made for the development of the audit review report indicated.</p> <p><i>Responsible officer:</i> Head of Finance and Resources</p> <p><i>Due date:</i> 31 December 2018</p>
6	3	<p>VAT on bar sales</p> <p>Products sold in the Union's bars are currently set up on the EPOS without tax coding to enable automated analysis of the level of output tax charged. This therefore requires a manual calculation to be performed by the finance team on a monthly basis to determine the level of sales VAT.</p> <p>Tax coding should be added to products sold in the bar as part of the price lists held on the EPOS to enable automated calculation of the level of VAT charged and more timely reporting of actual sales attributable to the Union.</p>	<p>Agreed</p> <p>Our current VAT partial recovery method has been independently reviewed within the last 18 months.</p> <p>A change to the EPOS systems will require developmental resources from Orbis and also involve a level of investment. A tentative change is planned for the start of the next academic year.</p> <p><i>Responsible officer:</i> Head of Finance and Resources</p> <p><i>Due date:</i> 30 August 2019</p>

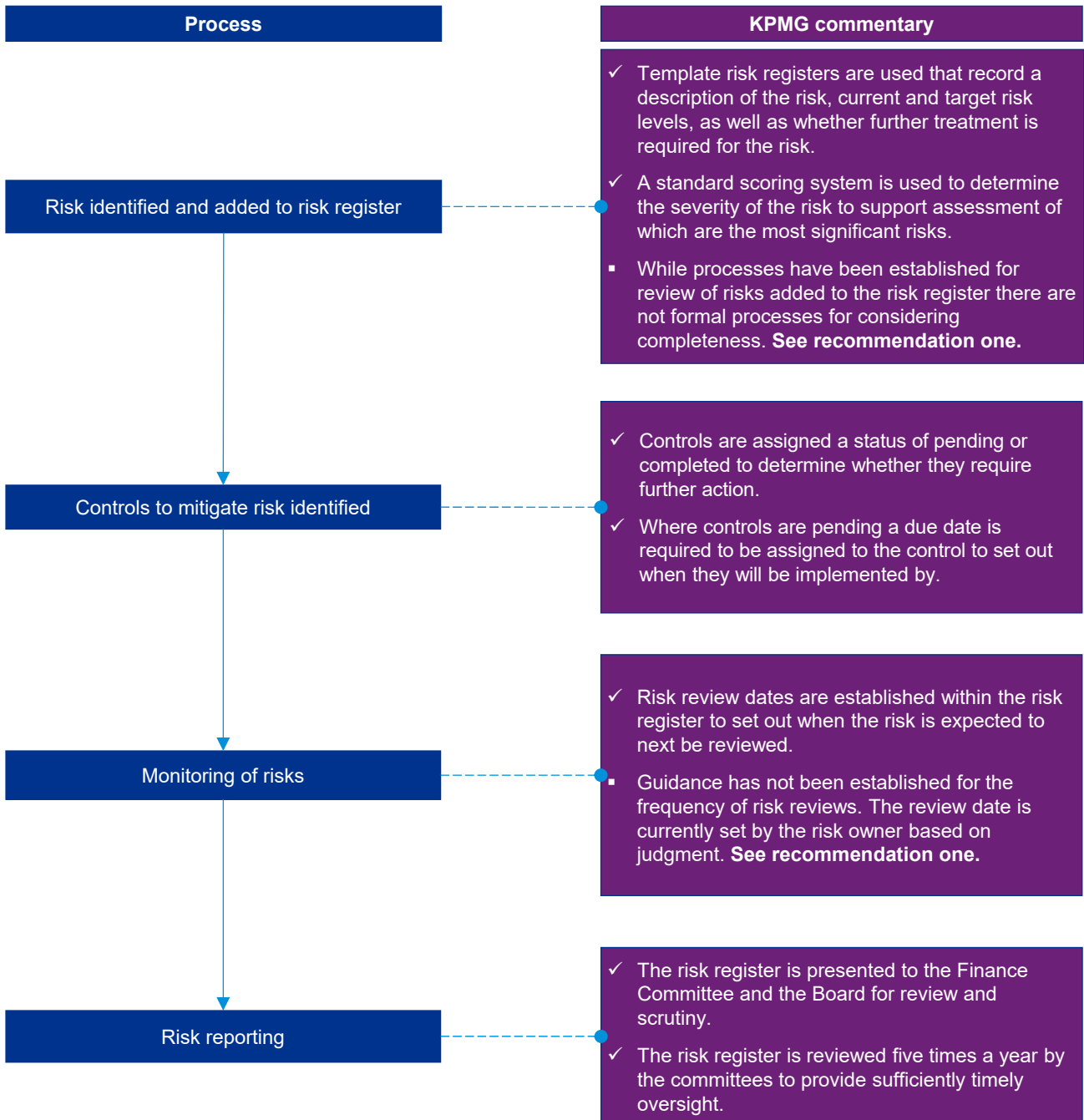
Section two

Recommendations

No.	Risk	Recommendation	Management response, officer responsible and deadline
7	3	<p>Review of risk tolerance</p> <p>The risk register includes two risks where the target risk score has been set at 80, for which current risk scores are significantly lower and further actions have been identified as required to manage the risk.</p> <p>A review should be undertaken to identify risks where the risk conclusion is that further treatment is required but the current risk score is at or below the target to assess whether further controls are required and if so whether the target and current risk scores have been set appropriately.</p>	<p>Agreed</p> <p>Action plan as per response to recommendation one.</p>

Risk management

We reviewed the Union’s process for the management and monitoring of operational risks. We set out below our understanding of the process and commentary on its design.



Risk management

We obtained a download of the Union risk register and utilised data and analytics to assess the extent to which risk management processes had been embedded. We have set out on the following pages a summary of our findings.


Review of risks

The Union has not formally defined an expectation for how frequently risks should be reviewed, however dates for the next review of the risk are set within the risk register by the risk owner.

In order to assess the extent to which risks had been reviewed within the timeframe set by the risk owner we determined whether the scheduled review date had passed for each of the risks on the register. The chart to the right provides a summary of our findings.

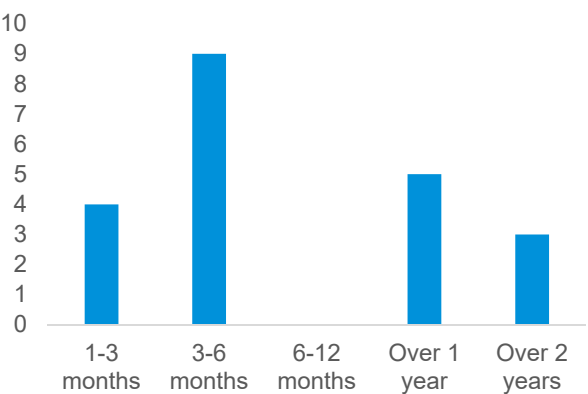
Of the 65 risks recorded on the risk register 21 were overdue for review. A further three did not have a review date set within the risk register to enable verification of the length of time since they were reviewed. **See recommendation one.**

Risks overdue for review



■ Overdue
 ■ No date set
 ■ Within date

Ageing of risks overdue for review



Ageing Category	Number of Risks
1-3 months	4
3-6 months	9
6-12 months	0
Over 1 year	5
Over 2 years	3

For those risks that were overdue for review we assessed the ageing of the date from which they were due to have been reviewed in order to consider the extent to which they were overdue.

We have set out to the left an ageing analysis of the delay from the expected date of review.

There are eight risks on the risk register that have a recorded due date that is at least one year prior to the date of our review. Six of these have a status saying they require further treatment. **See recommendation one.**

The table below provides a summary of those risks that are at least one year overdue for review and require treatment:

Reference	Risk description	Scheduled review date
Systems 004-2015	Unauthorised access to ICU systems and databases results in unauthorised actions or theft of data.	1 December 2016
Systems 013-2015	Departure of staff from systems team may significantly compromise effectiveness of the team.	1 December 2016
Lictrade 007-2015	Stewarding for the Reynolds Bar	24 October 2016
Lictrade 008-2015	Closure of Charing Cross Hospital would mean the closure or relocation of the Medics Union.	24 October 2016
Lictrade 009-2015	Pressures on the marketing team grow as the organisation grows	4 April 2016
Lictrade 010-2015	Reliance on casual staff increases as the Union offers better services to members	1 April 2015

Risk management

Completeness of documentation

We reviewed the information recorded on the risk register for live risks to assess whether key fields had been populated fully to enable appropriate management of the risks. We verified that each of the risks had a description applied to it, a risk owner documented responsible for its management and had been assigned a risk score.

While all risks had a risk tolerance assigned to them we noted that two risks had a risk tolerance of 80 and set out that they required further treatment despite their current risk scores being 32 and 49. **See recommendation seven.**

Risk controls

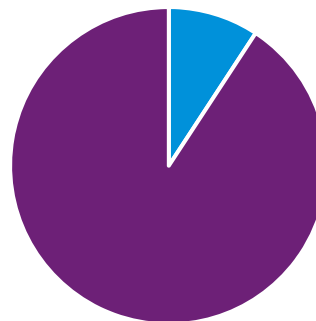
We reviewed the risks recorded on the risk register to assess whether appropriate controls had been implemented to support management of the risks towards the tolerated risk level.

The chart to the right shows the proportion of risks that were considered to require further treatment.

Of the 80 risks on the risk register 73 have a status setting out that further treatment is required in order to reduce the risk to a tolerable level.

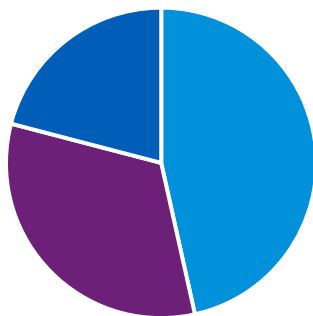
We compared the current risk score to the acceptable risk score for each of these risks and confirmed that each risk was either at or below the acceptable risk score and so considered it appropriate for the risk to be tolerated.

Risks requiring treatment



■ Tolerated risks ■ Risks requiring action

Status of pending controls



■ No due date ■ Within date ■ Overdue

Across the remaining 73 risks there are 54 controls that are pending to be implemented. We analysed these further to assess whether they were overdue for completion. The chart to the left sets out an analysis of the ageing of the controls pending to be implemented.

Eight of the controls had no due date set for when they were expected to be implemented. Seven of these related to risks within student development. **See recommendation two.**

18 of the controls were overdue for implementation. In 11 of the 18 instances the control was more than one year overdue for implementation, including four relating to licensed trade and three relating to systems. **See recommendation two.**

Risk management

Risk mitigation

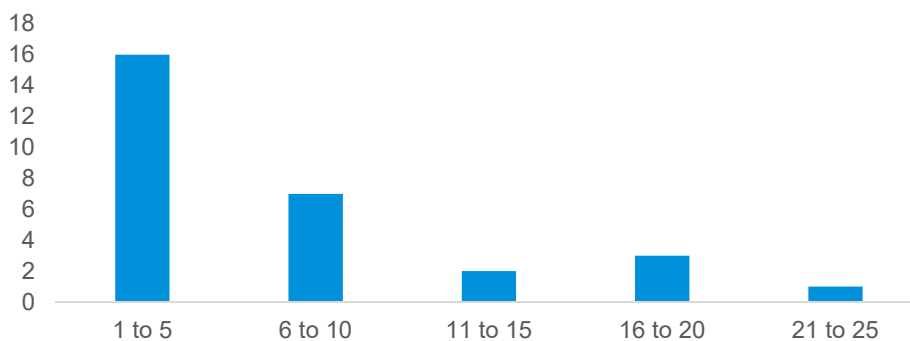
We reviewed the risks recorded on the risk register to determine whether appropriate further actions had been identified where risks were not at a level the Union was willing to tolerate. We identified five risks where the current risk score was above the acceptable risk score but no further controls had been identified to be implemented. The table below provides a summary of these risks. **See recommendation two.**

Reference	Current risk score	Tolerable risk score	Risk description
FIN002-YV1	30	25	Failure to track and report on needs of members could lead to the Union being unresponsive or irrelevant.
FIN006-YD2	30	25	Lack of clear guidelines for buyers making procurement decisions.
FIN008-YU2	42	25	Risk that finance vacancies are not able to be filled ahead of recruitment embargo.
FIN009-YD1	42	25	Ineffective finance oversight or training may lead to CSPs not following the Union's financial procedures.
SMG-002	28	25	Action plan following annual internal audit visit is not fully implemented leading to a reduction in financial governance.

Where further controls are not identified in response to risks that require treatment it is unlikely that risks will be further reduced in score in order to meet the target risk level. **See recommendation two.**

We also assessed the risks that had the largest gap between the current and target risk score to assess those areas where the Union has identified the most significant risk exposure between the level of risk it faces and is willing to tolerate. We have set out below an analysis of the distance from target of the risks that are not at their target risk score.

Gap between current and target risk



There are four risks with a gap greater than 10 between the current risk and the level of risk willing to be accepted. These relate to:

- Staff capacity within the Systems team;
- Finance vacancies not being advertised in advance of a recruitment advertising embargo;
- Ineffective finance oversight and training leading to CSPs not following the Union's financial procedures; and
- Parts of the Student Development Coordinator roles being funded non-recurrently by the College.

As noted above two of these risks currently have no further mitigations identified in order to reduce the risk exposure. **See recommendation two.**

Appendix one

Risk management

Conclusion

While an effective framework has been developed for the recording and monitoring of risks it has not yet become fully embedded within the Union's management processes. Risks are assigned owners responsible for their management, however expectations have yet to be formally defined relating to frequency of review to help ensure the register is an effective tool for management. Review dates are set based on the judgment of the risk owner and a third of risks had not been reviewed within the expected timeframe. **See recommendation one.**

The risk register records the controls expected to be undertaken in order to manage the risk to an acceptable level. In the majority of instances these have been completed, however there are five risks where the risk is not within the tolerance established by the Union and no further actions have been identified, two of which have gaps between the current and target risk score of more than 10. **See recommendation two.**

EPOS benefit realisation

The Union approved the business case for the implementation of a new Electronic Point of Sale (EPOS) system in June 2016. The system was implemented in 2017, however the Union is continuing to work with the supplier in order to implement the full specification as required by the tender specification. We assessed how benefits expected to be realised had been considered during the lifecycle of the project.

Business case

We considered how benefits anticipated to be realised had been defined when setting the business case in a way that was able to be objectively followed up in order to assess if they had been achieved. We set out below a summary of our findings:

Areas of good practice	Areas for development
<ul style="list-style-type: none"> ✓ Non-financial benefits were clearly articulated to enable an assessment of what was expected to be achieved from the implementation of the system. 	<ul style="list-style-type: none"> ▪ Milestones were not clearly established for the period over which it was anticipated that benefits would be realised. From discussions with management we understand it was known that the levels of management reporting desired would require development by the supplier and so may not be available at the date of system implementation. See recommendation three.
<ul style="list-style-type: none"> ✓ Benefits identified considered a range of stakeholders, including efficiency for staff processing and customer experience. 	<ul style="list-style-type: none"> ▪ Analysis was undertaken of non-financial benefits to be achieved, however there was no analysis of financial benefits when considering the recurring financial impact. See recommendation four.
	<ul style="list-style-type: none"> ▪ Baselines were not clearly defined for the extent of improvement that was anticipated for non-financial benefits. As the business case was primarily based on non-financial benefits this would support the analysis of the value for money to be achieved from approving the investment. See recommendation four.

Project delivery

The project specification for the tendering of the project set out requirements that aligned to the benefits anticipated to be required. One of the key benefits required by the Union was an improvement in the level of management reporting able to be produced to support analysis of sales trends and performance, which was a key element of the evaluation of the submissions in the procurement.

The selected supplier was not able to deliver the management reporting at the time of implementation. We note that the Union has continued to work with the supplier in order to implement the required reporting and at the time of our review reporting modules were in the process of being rolled out. We were unable to establish that there had been clear agreement of timescales for the delivery of this as part of the business case or contract agreement. **See recommendation three.**

Project evaluation

A formal assessment of the extent to which the benefits anticipated from the project have been achieved had not been undertaken at the time of our review as it was anticipated that further progress would be made in delivering the benefits through the implementation of management reporting.

We were unable to verify that there had been formal assessments of the extent to which the benefits were forecast to be achieved at key milestones of the project. In future projects this may support a more robust assessment as to whether there will continue to be value for money achieved from implementation of a project. **See recommendation three.**

Appendix two

EPOS benefit realisation

From discussions with management we understand it is considered that following the embedding of the system since its implementation it has been beneficial in progressing the majority of the benefits that were expected to be realised. Management have acknowledged exceptions in the time taken to deliver the level of management reporting anticipated from the system and in the interfaces of the system to the general ledger, for which a solution has had to be developed and is commencing a pilot implementation.

Conclusion

The business case articulated clear goals that were intended to be achieved from the implementation of the new EPOS system. These consisted as a mixture of replacing a system that was no longer fit for purpose and implementing a revised solution that enhanced the ability of the Union to manage its sales and improve the efficiency of processes.

While benefits were clearly set out there was not sufficient information included within the business case to determine the level of improvement anticipated to be achieved and support an objective decision as to whether this would provide value for money to the union for the level of investment required. **See recommendation four.**

Delays have been experienced in the achievement of elements of the system that would deliver some of the projected benefits, most significantly improved management reporting. When the system was procured the supplier had not developed the reporting toolkit to be implemented, while the Union has worked closely with the supplier to achieve implementation as early as possible milestones were not clearly established when undertaking the business case to clarify when it was expected that the benefits would be realised. **See recommendation three.**

Sales

We reviewed the design of processes for the processing and recording of sales on the Electronic Point of Sales (EPOS) system to assess whether there were sufficient controls established to provide assurance that sales were accurately processed. We set out below a summary of the process and commentary on its design.

Process	Controls	KPMG commentary
<p>Sales processed utilising EPOS system within bars and shops.</p>	<ol style="list-style-type: none"> 1. Price lists are maintained within the EPOS system to help ensure consistency in amounts billed. 	<ul style="list-style-type: none"> ▪ All staff are given unrestricted access when set up on the EPOS system, which enables them to make changes to prices held on the system. Formal controls have not been established to review price changes that have been processed to verify their appropriateness. See recommendation five.
<p>At the end of shift cash maintained in the tills is reconciled to the expected level calculated from sales processed on the EPOS.</p>	<ol style="list-style-type: none"> 2. Reconciliation of cash maintained in tills to expected level based on sales processed. 3. All reconciling items over £5 are investigated to understand the cause of the difference. 4. Reconciliations are reviewed by a Finance Assistant. 	<ul style="list-style-type: none"> ✓ Cash reconciliations are undertaken for each till individually. ✓ Reconciliations are completed daily for shops and twice daily for bars. ✓ Reconciliations are completed by a manager who would not generally be operating the tills.
<p>Reports from EPOS system submitted to finance for entry into the general ledger.</p>	<ol style="list-style-type: none"> 5. Daily sales journaled to the general ledger based on sales recorded on EPOS report. 	<ul style="list-style-type: none"> ✓ Sales figures are reviewed by the Finance Manager to assess whether they are in line with expectations, though this is not a formal control and so we have not tested it. ✓ Separate cost centres are maintained for sales in retail shops and the bars to support assessment of sales performance in each area. ▪ An interface from the EPOS to the general ledger has not yet been able to be implemented. We understand that a solution is commencing pilot and so have not raised a recommendation relating to this.

Sales

Operation of controls

We selected a sample of 15 days in order to assess whether the controls identified had operated consistently during the period under review. We did not undertake testing of the pricing controls as the design of the system meant that controls were not in place to confirm prices being charged were accurate.

2) Reconciliations are undertaken at the end of shift between cash held and expected

For our sample of 15 days we verified that evidence was available that a reconciliation had been performed between the amount of cash held and the anticipated level based on the till report. For each shift in our sample we were able to confirm that a reconciliation had been completed confirming the amount of cash that was held within the till and the amount of cash that was expected based on transactions within the EPOS report.

3) Variances over £5 are investigated to confirm the appropriateness

For each of the reconciliations reviewed we determined the level of reconciling items between the two systems. On three of the 15 shifts the value of reconciling items between the cash expected to be in the till and the actual cash counted was over £5. For each of these instances we were able to verify the variance had been investigated to obtain assurance that there was an appropriate cause for the difference. The largest variance was £18.40, which was not considered to be significant.

4) Reconciliations reviewed by finance

For each item in our sample we were able to obtain evidence that the reconciliation had been submitted to the finance team and reviewed.

5) Sales posted to general ledger

For each of the 15 shifts reviewed we agreed the value of sales posted to the general ledger to the value of sales recorded on the reports from the EPOS system to obtain assurance that transactions had been accurately recorded. No exceptions were noted as a result of our testing.

VAT

We reviewed the processes for ensuring that charging of VAT on revenue generated by the Union to assess whether assurance was available that they were being processed accurately. Many of the Union's key revenue streams are exempt from VAT, including the precept from the College, donations and sporting activities. However, sales made by the shops and the bar are potentially subject to VAT.

Catering revenues are VAT exempt where they are made to students, however where sales are to staff or other non-students then VAT is required to be charged. The Union does not have a mechanism for recording as part of processing its sale whether the sale is to a student or non-student. An apportionment is therefore undertaken in order to determine the level of VAT to be charged. During term times 93% of revenue is assumed to have been generated from sales to students and exempt from VAT, outside of term times all revenue is assumed to have been generated from non-students and is therefore treated as subject to VAT. Approval for this methodology was received from HMRC in January 2003 based on a canteen survey that was undertaken and submitted for approval. All individuals utilising catering facilities are charged the same price irrespective of whether they are student or not and the apportionment of sales requiring VAT to be paid is applied subsequently by the finance team.

Sales made in the bar do not have VAT calculated at the time of sale as VAT coding has not been established on the EPOS system for bar sales. On a monthly basis a review of sales is undertaken by the finance team in order to assess the sales that are required to have VAT charged and an adjustment processed to the journal of sales made to reflect the amount relating to sales tax. **See recommendation six.**

Retail sales have VAT coding applied at the point of sale. Tax codes are applied by the Systems team when new products are added to the EPOS system. This team includes a qualified accountant that reviews the tax coding applied to obtain assurance that it is consistent with requirements.

VAT returns are prepared on a quarterly basis using an Excel based template and reviewed by a Finance Manager prior to submission. The VAT to be paid is journaled into an accounts payable ledger code and cleared as part of the following payment run to provide assurance that VAT payments have been made on a prompt basis.

Appendix three

Staff involvement and documents reviewed

We held discussions with the following staff as part of the review:

Name	Job title
Jarlath O'Hara	Managing Director
Malcolm Martin	Head of Finance and Resources
Julia Mattingley	Head of Commercial Services
Paul Gallagher	Licensed Trade and Venues Manager
Paul Buckley	Head of Student Experience
Iain Pullar	Student Activities Manager
Charles Tomlinson	Systems Manager
Julia Mattingley	Head of Commercial Services
Dan Green	Bar and Catering Manager
Fran Hyatt	Education and Welfare Manager
Edmond Burke	Finance Manager

During our testing, we reviewed the following documents:

- Download of Union risk register;
- Business case for implementation of EPOS;
- EPOS reports of daily sales within bars and shops;
- Reconciliations of EPOS reports to cash takings;
- Ledger downloads of bar and shop revenues; and
- Report of EPOS system permissions.



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