



KPMG
Statsautoriseret Revisionspartnerselskab
AUDIT
Osvald Helmuths Vej 4
P.O. Box 250
2000 Frederiksberg
Denmark

Telephone +45 73 23 30 00
Fax +45 72 29 30 30
www.kpmg.dk

DRAFT

The IT University of Copenhagen

Long-form audit report dated
20 April 2012
in respect of the financial
statements for 2011

Confidential

The English text is a translation of the original Danish text. The original Danish text is the governing text for all purposes, and in case of any discrepancy, the Danish wording will be applicable.

001190 / 1267863_1

DRAFT

Contents

1	Conclusion regarding the audit of the financial statements for 2011	111
1.1	Introduction	111
1.2	Conclusion regarding the audit	111
2	Risk assessment	112
2.1	Risk of material misstatement in the financial statements	112
3	Cooperation with the Auditor General	113
4	Comments relating to the audit of the financial statements for 2011	113
4.1	Development in results, equity and liquidity	113
4.2	Income from government budget appropriations	114
4.3	Externally funded activities in progress	114
4.4	Trade receivables	114
4.5	Cash at bank and in hand	115
4.6	Provisions	115
4.7	Holiday allowance	115
4.8	Related parties	116
4.9	Remuneration of the Board of Directors and Management	116
4.10	IT	116
5	The Management's review, performance reporting and financial highlights	117
6	Performance audit	117
7	Miscellaneous	118
7.1	Representation letter	118
7.2	Uncorrected misstatements	118
7.3	Material misstatement in the financial statements due to fraud	119
7.4	Compliance with legislation	119
7.5	Events after the balance sheet date	119
7.6	Insurance	120
7.7	Financial information on the Internet	120
8	Other disclosures	120
8.1	Non-audit services	120
8.2	The Board of Directors' duties	120
8.3	Statutory disclosures	121

1 Conclusion regarding the audit of the financial statements for 2011

1.1 Introduction

We have been appointed auditors of the IT University of Copenhagen by the Board of Directors and therefore perform the internal audit at the University. We are responsible to the Board of Directors for the overall internal audit work at the IT University of Copenhagen.

As internal auditors of the University, we have audited the draft financial statements for 2011 presented by the Board of Directors and Management prepared in accordance with the Danish Executive Order No. 1373 of 10 December 2007 on the Funding and Financial Statements, etc., of Universities. In addition to our audit, we have provided a statement on the Management's review, performance reporting and financial highlights.

The financial statements show the following key figures:

DKK'000	2011	2010
Profit/loss on ordinary activities	1,522	-16,668
Profit/loss for the year	2,475	-16,080
Cash flows from operating activities	6,369	-6,980
Total assets	102,261	92,451
Equity	39,326	36,851

Our long-form audit report has been prepared solely for the use of the Board of Directors and is not to be used by any other party or for any other purpose.

1.2 Conclusion regarding the audit

The objective and scope of the audit and the responsibility for the financial reporting are outlined in our long-form audit report dated 15 April 2011.

Our audit of the financial statements for 2011 has been performed accordingly and in accordance with International Standards on Auditing, generally accepted public auditing standards and additional requirements in accordance with Danish audit regulation.

Our audit of the financial statements and our reading of the Management's review, performance reporting and financial highlights have not given rise to any comments of such significance or nature that it leads us to modify our auditors' report on the financial statements and our statement on the Management's review, performance reporting and financial highlights.

If the Board of Directors approves the annual report in its present form, and provided no new material information is brought to our attention during the Board of Directors' discussion and approval of the annual report, we will issue an unqualified auditors' report with no emphasis of matter on the financial statements and a statement with no comments on the Management's review, performance reporting and financial highlights.

DRAFT

2 Risk assessment

2.1 Risk of material misstatement in the financial statements

We discussed with Management the risk of material misstatement in the financial statements and the measures taken by Management to manage these risks, including measures to prevent, detect and correct misstatements.

In this connection, we assessed general controls and controls in significant specific accounting areas.

Based on our discussions with Management and our knowledge of the University's operations and other matters, we identified the following financial statement items which in our opinion are associated with a risk of material misstatement in the financial statements, whether due to fraud or error:

Financial statement item	Audit objectives
<ul style="list-style-type: none"> Income from government budget appropriations 	Completeness, accuracy and cut-off
<ul style="list-style-type: none"> Externally funded activities in progress 	Completeness, accuracy and correct accruals of income and costs in the income statement as well as correct valuation of externally funded activities in progress
<ul style="list-style-type: none"> External costs/payables 	Completeness and accuracy
<ul style="list-style-type: none"> Wages and salaries 	Completeness and accuracy
<ul style="list-style-type: none"> Performance reporting 	Correct follow-up on performance
<ul style="list-style-type: none"> Use of IT and general IT controls 	Data confidentiality and reliability

Based on the assessed risks of material misstatements in the financial statements, we have developed the overall audit strategy and plan for 2011.

We performed our audit in accordance with the established audit strategy and plan.

DRAFT

3 Cooperation with the Auditor General

The overall audit work of the Auditor General and KPMG is coordinated in such a way that the factual findings of KPMG's work may be included in the reporting of the Auditor General on the audit of the annual report of the IT University of Copenhagen.

In October 2011, the Auditor General performed an interim audit. We have received and examined the Auditor General's letter on "Audit of the IT University of Copenhagen" and the related "Report on the audit of the IT University of Copenhagen" dated 19 December 2011.

During the visit, the Auditor General focussed on the administration of private funds for externally funded research activities.

The Auditor General assesses that the IT University of Copenhagen has generally established appropriate organisational support and system support of the externally funded research activities. The Auditor General also assesses that the rules of the University on preservation of documentation in relation to the externally funded research activities are in accordance with the provisions of the Danish Archives Act.

In connection with our interim audit, we have presented our audit plan to the Auditor General. In connection with the completion of the audit of the financial statements for 2011, we also held a meeting with the Auditor General for the purpose of examining significant findings in respect of the financial statements of the University for 2011.

4 Comments relating to the audit of the financial statements for 2011

4.1 Development in results, equity and liquidity

The results and equity of the University have developed as follows:

DKK'000	2009	2010	2011	Budget 2012
Income	191,520	199,372	228,845	243,936
Costs	193,628	215,452	226,370	242,626
Profit/loss	-2,108	-16,080	2,475	1,310
Equity at year end	52,931	36,851	39,326	40,636
Cash at hand and in bank at year end	87,705	79,110	84,860	

In 2009 and 2010, the IT University of Copenhagen realised a loss of DKK 2.1 million and DKK 16.1 million, respectively, in accordance with the budgets as the University increased the number of employees as part of its strategy to offer more bachelor programmes within IT and to strengthen research activities.

For 2011, the IT University of Copenhagen had budgeted a loss of DKK 10.0 million but realised a profit of DKK 2.5 million primarily as a result of increased income from an increase in years of full-time study and increased intake as well as an increased number of

external projects which resulted in increased income. The general rate of pay increase was 0%, which has also had a positive effect on the budget.

In 2012, the University expects a profit of DKK 1.3 million.

4.2 Income from government budget appropriations

In 2011, income from government budget appropriations amounted to DKK 183.7 million (2010: DKK 152.9 million). We have examined the reconciliations prepared by the University of the recognised income from government budget appropriations, including reconciliation of the income to the government budget.

4.3 Externally funded activities in progress

Externally funded activities in progress concern research activities for which the University receives private or public funds.

Costs incurred for the projects primarily relate to payroll costs paid by the University. If the University is entitled under the contract to include overheads for costs incurred, overheads are recognised as externally funded activities in progress.

In connection with our audit, we examined selected contracts and ensured that overheads are only included if this is indicated in the contract. Moreover, we ensured on a sample basis that the University has received the prepayments and that the payroll costs attributable to the projects correspond to the registrations in the payroll system.

In 2011, the IT University of Copenhagen implemented a new procedure for write-down of externally funded activities in progress. According to this procedure, the write-down consists of a specific write-down on projects and a general provision.

The specific write-down at 31 December 2011 amounted to DKK 327 thousand and is based on the University's examination of the project portfolio where a few onerous projects have been identified. The general provision for 2011 is determined at 3% of total income from externally funded research activities, corresponding to DKK 666 thousand. The percentage has been determined based on experiences from prior years and taking into account the increased number of projects and the complexity of agreements entered into. Under the new procedure, the general provision will be reassessed on an annual basis.

Management assesses that the total write-down of DKK 993 thousand is appropriate and adequate to hedge the University's risk of losses on projects in progress at 31 December 2011. We concur with the accounting treatment of externally funded activities in progress.

4.4 Trade receivables

At 31 December 2011, trade receivables amounted to DKK 2,230 thousand (31 December 2010: DKK 1,518 thousand).

In connection with our audit of trade receivables, we examined the aged debtors' listing and on a test basis verified documentation of subsequent payments. We also examined the University's specification of write-down in respect of bad debt losses.

DRAFT

We concur with the accounting treatment of trade receivables.

4.5 Cash at bank and in hand

The University's cash at bank and in hand, which is deposited in bank accounts, amounted to DKK 84,860 thousand at 31 December 2011 (31 December 2010: DKK 79,110 thousand), and interest income for the year amounted to DKK 957 thousand (2010: DKK 599 thousand).

At its meeting on 25 November 2011, the Board of Directors discussed the placement of excess liquidity, and the Board of Directors instructed Management that only low risks should be accepted in connection with the placement of excess liquidity. In 2012, the University entered into an agreement with Danske Capital according to which Danske Capital invests DKK 50.0 million on behalf of the IT University of Copenhagen. We have been informed that the securities approved in the agreement with Danske Capital comply with the placement requirements of the Danish Ministry of Justice's Executive Order on Placement.

4.6 Provisions

As in previous years, the University has recognised a provision for leasehold improvements regarding the building leased by the University at Rued Langgaards Vej in connection with the expiry of the lease in 2014. The provision is based on the assumption that the lease is not extended. Based on the leasehold improvements, the IT University of Copenhagen reassessed the provision in 2011, which amounted to DKK 3,046 thousand at 31 December 2011 (31 December 2010: DKK 1,433 thousand).

Moreover, the University has recognised a liability regarding leasehold improvements in respect of the lease of Mikado House entered into in 2010. The lease expires on 1 June 2013. The University's liability regarding leasehold improvements in respect of Mikado House was calculated at DKK 1,990 thousand at 31 December 2011 based on a memorandum from the former Agency for Palaces & Cultural Properties, "Termination and vacation of leased premises", from which it appears that the leasehold improvements typically amounted to DKK 500-1,200 per m². The University estimates that the leasehold improvements regarding Mikado House amount to DKK 915 per m². In addition, costs for two months' rent have been recognised, corresponding to the renovation period during which the University expects not to be able to use Mikado House.

We concur with the accounting treatment.

4.7 Holiday allowance

At 31 December 2011, the holiday allowance amounted to DKK 15,369 thousand (31 December 2010: DKK 14,327 thousand). The holiday allowance has been calculated in accordance with the guidelines of the Danish Agency for the Governmental Management under the Ministry of Finance from October 2010.

We have examined the University's calculation of the holiday allowance and the documentation prepared, which has not given rise to any comments.

DRAFT

4.8 Related parties

As part of our audit, we ensured that Management as required has implemented accounting and internal control systems that ensure identification and proper presentation of related party transactions in the financial statements.

Management has confirmed to us that realised related party transactions have been appropriately disclosed and have been carried out on an arm's length basis.

We refer to note 14 to the financial statements which describes related party transactions.

4.9 Remuneration of the Board of Directors and Management

In 2011, remuneration of Management of DKK 3.6 million (2010: DKK 3.3 million) was recognised, including Vice Chancellor Mads Tofte, Provost Jørgen Staunstrup and Head of Administration Georg Dam Steffensen. The remuneration includes bonuses to Management for the financial year 2010 of DKK 302 thousand (2010: DKK 127 thousand for the financial year 2009).

We have ensured that the remuneration of Management is in accordance with existing contracts and separate agreements.

We have ensured that the remuneration of the Board of Directors of DKK 378 thousand is in accordance with the remuneration approved by the Danish Ministry of Science, Innovation and Higher Education.

4.10 IT

As part of the audit, we conducted an IT audit of the IT University of Copenhagen. Our IT audit comprised an examination of the University's implementation of Danish Standard 484 (DS 484), use of IT as well as procedures and controls supporting the use of IT. We focussed on management and operation of IT infrastructure, Navision Stat and the STADS systems.

In 2011, the IT University of Copenhagen focussed on the completion and implementation of DS 484. As a consequence, the IT security policy and IT risk assessment have been prepared and approved. We have ensured that meetings are regularly held in the IT security committee at which the implementation of DS 484 has been discussed on a regular basis. We have received copy of the IT risk assessment which forms the basis of the preparation of the general contingency plan. We have been informed that detail plans for the IT contingency area will be prepared in 2012, and these will be tested subsequently.

Originally, the IT University of Copenhagen expected that procedures and guidelines for access control and change management supporting the IT security policy would be completed by the end of 2011; however, there is still some work to be done in respect of the preparation and implementation of these procedures and guidelines. We have received an updated timetable which shows that the procedures and guidelines for access control and change management are expected to be completed by the end of 2012.

In connection with the audit, we have reported comments regarding user administration, change management and IT operation to the IT management.

In connection with our audit of user accounts with extended rights, we ascertained in 2010 that the system owners could not in all cases identify who can use the accounts and for which purposes the accounts can be used. In 2011, these user accounts were identified, and the matter has been settled.

In 2010, a backup policy was prepared and implemented for the purpose of strengthening backup procedures for administrative data as well as research data. A locked room has been established where researchers may place IT equipment. However, the individual researcher is still responsible for asking the IT department to make a backup of research data. In our opinion, the IT department cannot prevent researchers from keeping research data on local drives that are not backed up. We recommend that formal guidelines be prepared according to which researchers must keep research data on drives that are backed up.

In our opinion, the IT University of Copenhagen addressed a number of our observations in connection with the DS 484 implementation. DS 484 has been effective since January 2007. We therefore recommend that the IT University of Copenhagen complete the implementation of the relevant parts of DS 484.

We also recommend that Management maintain its focus on the preparation and implementation of procedures and guidelines for access control, change management and backup of research data. Based on the work performed, we assess that the selected general IT controls that have been examined are at a satisfactory level in relation to the risk and materiality of the use of IT.

5 The Management's review, performance reporting and financial highlights

In addition to our audit of the financial statements, we have read the Management's review, performance reporting and financial highlights and

- compared the information herein to the information in the financial statements
- compared the information herein to the knowledge and the matters that we became aware of during our audit
- based on our knowledge of rules and regulations, considered whether there are errors or omissions in the Management's review and financial highlights.

We did not perform new specific procedures in connection with our statement on the Management's review and financial highlights. Performance reporting is comprised by the performance audit, see Section 6 below.

The work performed has not given rise to any comments.

6 Performance audit

According to "Agreement pursuant to section 9(1a) of the Danish Auditor General's Act on Internal Auditors at Universities" (section 9 agreement), we are to perform our audit in accordance with generally accepted public auditing standards. Accordingly, we are to

conduct a performance audit that includes our assessment of the economy, productivity and efficiency of the University.

In connection with our audit, we examined vouchers on a sample basis for the purpose of assessing the reasonableness of the costs incurred. Our examination has not given rise to any comments.

The productivity and efficiency performance of the University are set out in the development contract effective for 2010. As part of our performance audit, we examined the procedures of the University for data gathering and processing for the University's assessment as to whether the productivity and efficiency performance set out has been complied with. We examined the University's guidelines for data gathering and processing and examined the documentation for selected performance goals on a sample basis.

Our examination has not given rise to any comments.

In 2011, a new agreement on the design of assurance reports was entered into between the Auditor General and the Institute of State Authorised Public Accountants in Denmark. The agreement among other things provides that a statement on performance audit is only to be prepared if we have comments to the performance audit. For 2011, the performance audit was therefore not described in our report as we did not have any comments.

7 Miscellaneous

7.1 Representation letter

In connection with the financial reporting, we have obtained a representation letter signed by Management on matters that materially affect the financial statements, the Management's review, performance reporting and financial highlights.

The representation letter covers the contents of the financial statements, including capital resources, information about charges and security, guarantees, legal proceedings, fraud, related party transactions, events after the balance sheet date and other audit areas where sufficient appropriate audit evidence is difficult to obtain. In addition, the representation letter covers the matters that the Management's review deals with.

We have no comments on the representation letter obtained from Management.

7.2 Uncorrected misstatements

In accordance with International Standards on Auditing, it is our duty to inform the Board of Directors of any misstatements which have not been corrected in the draft financial statements, as the effects of these, in the opinion of Management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

The purpose of this information is to ensure that the Board of Directors is aware of and concurs with Management's assessment.

In connection with the financial reporting, no misstatements were identified which have not been corrected in the draft financial statements.

7.3 Material misstatement in the financial statements due to fraud

As auditors, we are required to maintain an attitude of professional scepticism throughout the audit recognising the possibility of misstatement of the financial statements, whether due to fraud or error.

Management has informed us that in its opinion the University's business procedures and internal controls in the identified risk areas are adequate and effective to address the risk of fraud, including that appropriate segregation of duties has been established.

Management has confirmed to us that:

- it is responsible for the design, implementation and maintenance of internal control established to prevent or discover fraud and errors and
- it is neither aware of any fraud, nor has it any suspicion of fraud at the University.

During our audit, we did not become aware of any matters indicating or raising suspicion of material misstatement in the financial statements due to fraud.

According to International Standards on Auditing, we are to inquire the Board of Directors as to whether it has any knowledge of identified or suspected fraud. At the meeting of the Board of Directors on 20 April 2012, at which the annual report is discussed, we will inquire the Board of Directors as to whether it has any knowledge of misstatements in the financial statements due to fraud.

7.4 Compliance with legislation

We made inquiries to Management as to whether it has disclosed to us any actual or possible non-compliance with laws and regulations of importance to the financial statements during the audit and any non-compliance and resulting implications have been adequately recognised and disclosed in the financial statements. Management has declared that it is not aware of any matters of importance to the financial statements.

We are not aware of any non-compliance with Danish accounting legislation and the Danish Bookkeeping Act or other legislation that may materially affect the financial statements.

7.5 Events after the balance sheet date

Management has examined and assessed events after the balance sheet date to ensure that all material events after the balance sheet date have been properly disclosed in the financial statements.

In this connection, we have been informed by Management that in its opinion all events that have arisen after the balance sheet date have been included and properly disclosed in the financial statements.

Apart from the information already included and properly disclosed in the financial statements, we found no evidence of events after the balance sheet date that materially affect the financial statements.

DRAFT

7.6 Insurance

Insurance matters are not covered by our audit obligations. At our request, Management has confirmed that, taking into account the fact that the University is covered by the central government's self-insurance principle, sufficient insurance has been taken out, including liability insurance for the Board of Directors.

7.7 Financial information on the Internet

Financial information on the Internet

The University presents financial information on its website. We have not ensured that the financial information on the University's website corresponds to the financial information which we have audited and on which we have issued an auditors' report. Our statutory audit does not cover control systems to ensure reliable presentation of financial information, whether audited or unaudited, on the Internet.

8 Other disclosures

8.1 Non-audit services

In addition to the work performed in connection with our statutory audit, subsequent to the long-form audit report dated 15 April 2011, we have upon request assisted the University with the following:

- Advisory services regarding ownership of buildings
- Advisory services regarding VAT.

Safeguards

Prior to accepting and providing the above services and assistance, we assessed any conflicts with independence requirements.

In our opinion, the services and assistance, both individually and in the aggregate, have been provided in compliance with applicable independence requirements.

8.2 The Board of Directors' duties

We ensured that:

- an order of business for the Board of Directors has been prepared (last dated 16 September 2011)
- the minutes of the meetings of the Board of Directors are prepared and kept; and
- the long-form audit reports are signed by the Board of Directors.



DRAFT

Minutes of the meetings of the Board of Directors

We have read the minutes of the meetings of the Board of Directors up to the meeting on 25 November 2011.

We are not aware of any matters which have not been properly disclosed in the financial statements.

8.3 Statutory disclosures

In accordance with the Danish Auditors Act, we declare:

that we fulfil the statutory provisions concerning auditors' independence, and

that we have received all the information we requested during the audit.

Copenhagen, 20 April 2012

KPMG

Statsautoriseret Revisionspartnerselskab

Peter Gath
 State Authorised
 Public Accountant

Charlotte Formsgaard
 State Authorised
 Public Accountant

The long-form audit report, pp. 110-121, has been presented at the meeting on

Board of Directors:

 Jørgen Lindegaard
 Chairman

 Sebastian Büttrich

 Annette Stausholm Nielsen

 Jay David Bolter

 Joseph Roland Kiniry

 Kasper Videbæk Nielsen

 Lisbeth Malene Zornig
 Andersen

 Per Ladegaard

 Anders Bech Mellson