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The IT University of Copenhagen

Long-form audit report dated
19 April 2013
in respect of the financial
statements for 2012

Confidential

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

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1 Conclusion regarding the audit of the financial statements for 2012

1.1 Introduction

We have been appointed institutional 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 2012 presented by the Board of Directors and Management, prepared in accordance with the Danish Executive Order No. 1281 of 15 December 2011 on Grants and Auditing, 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	2012	2011
Surplus on ordinary activities	3,063	1,522
Surplus for the year	4,752	2,475
Cash flows from operating activities	21,132	6,369
Total assets	121,793	102,261
Equity	44,078	39,326

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 2012 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.

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.

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 entity level controls and controls in significant specific accounting areas.

Based on our discussions with Management and our knowledge of the University's activities and other matters, we identified the following financial statement items and areas which, in our opinion, are of significant importance to the financial statements or are associated with a risk of material misstatement in the financial statements:

Financial statement item/area	Audit objective
<ul style="list-style-type: none"> Externally funded activities in progress 	Completeness, accuracy and correct accrual 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"> Income from government budget appropriations 	Completeness, accuracy and accruals
<ul style="list-style-type: none"> Wages and salaries as well as payroll-related costs 	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 established the overall audit strategy and plan for 2012.

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

3 Cooperation with the Auditor General

The overall audit work of the Auditor General and KPMG is coordinated in such a way that KPMG's factual findings 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 2012, 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 20 December 2012.

During the visit, the Auditor General focussed on the University's new development contract and registration of data and follow-up on the achievement of the targets in the development contract.

The Auditor General assesses that the University's established business procedures and internal control in the audited area essentially work satisfactorily and comply with the requirements of appropriate and reliable administration.

In connection with the visit, the Auditor General also obtained information for an investigation of the equity of the universities requested by the government auditors. This information will be included in a report which will be submitted to the government auditors in the middle of 2013.

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 2012, 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 2012.

4 Comments relating to the audit of the financial statements for 2012

4.1 Development in surplus and equity

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

DKK'000	2010	2011	2012	Budget 2013
Income	199,372	228,845	248,903	258,481
Costs	215,452	226,370	244,151	259,433
Surplus/deficit	-16,080	2,475	4,752	579
Equity at year end	36,851	39,326	44,078	45,033

In 2010, the IT University of Copenhagen realised a deficit of DKK 16.1 million 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 University had budgeted for a deficit of DKK 10.0 million but realised a surplus of DKK 2.5 million primarily as a result of increased income from an increased production of full-time student equivalents and an increased intake of students as well as an increased number of external projects which resulted in increased income. Generally, wages and salaries remained unchanged, which also had a positive effect on the budget.

For 2012, the IT University of Copenhagen had budgeted for a surplus of DKK 1.3 million but realised a surplus of DKK 4.8 million. The budget variance is primarily attributable to the fact that income exceeded budget by DKK 5 million mainly as a result of an increase in the production of full-time student equivalents in the master and bachelor study programmes. At the same time, costs increased by DKK 1.5 million as a result of adjustments of wages and salaries and new staff. In 2012, interest on bank deposits and return on investments

amounted to DKK 1.7 million, which had a positive effect of approximately DKK 1.0 million on the budget variance.

In 2013, the University expects a surplus of DKK 0.6 million.

4.2 Government budget appropriations

In 2012, government budget appropriations amounted to DKK 201.1 million (2011: DKK 183.7 million). We have examined the reconciliations of the recognised government budget appropriations prepared by the University, including reconciliation of appropriations to the government budget.

4.3 Externally funded activities in progress

Externally funded activities in progress comprise 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.

The IT University participates in several projects funded by the EU. Projects carried out in an EU context are subject to special rules on calculation of costs eligible for grants, including registration of hours used for calculating payroll costs.

The IT University is still in the process of developing business procedures to support the ongoing registration of research hours used for projects funded by the EU. The present business procedures are mainly manual, which involves a risk of inadequate audit trails in connection with time registration and an increased risk of errors in the registrations. We recommend that the time registration in relation to EU projects be supported by an electronic process, in which the date of registration of the hours spent on the project and the date of the project manager's approval of the hours are recorded.

The finance department at the University compensates for the increased risk related to EU projects by being involved in the financial reporting to the project coordinator. The reporting follows the project periods indicated in the project agreement which may deviate from the balance sheet date of the annual report.

At 31 December 2012, no complete examination had been made of the financial consequences, if any, of differences between the special rules for calculating costs eligible for grants under EU projects and calculated project balances. In the opinion of the University, the differences are insignificant as the registrations in the payroll system support the special rules applying to EU projects, and other project costs should be approved and recognised as the project is carried out. We have spot checked project calculations made in 2012 in order to determine the materiality of project adjustments identified by the finance department in connection with reporting of EU projects. Based on this examination, we agree that the differences, if any, will be insignificant for the financial statements.

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 had received the prepayments and that the payroll costs attributable to the projects corresponded to the registrations in the payroll system.

As in prior years, the value of externally funded activities in progress has been written down. The write-down method consists of a specific write-down on projects and a general provision.

At 31 December 2012, no specific write-downs had been made on the projects (2011: DKK 327 thousand). The University's Management has assessed that the project-specific risks are so modest that the financial consequences of onerous projects can be covered by the general provision.

As in 2011, the general provision for 2012 is determined at three per cent of total income from externally funded research activities, corresponding to DKK 778 thousand (2011: DKK 666 thousand). The percentage has been determined taking into account the number of projects and the complexity of agreements entered into. The general provision is assessed on an annual basis.

Management assesses that the total write-down of DKK 778 thousand is appropriate and adequate to hedge the University's risk of losses on projects in progress at 31 December 2012.

We concur with the accounting treatment of externally funded activities in progress.

4.4 Trade receivables, etc.

At 31 December 2012, trade receivables, etc., amounted to DKK 1,598 thousand (31 December 2011: DKK 2,230 thousand).

In connection with our audit of trade receivables, etc., we examined the accounts receivable ageing and, on a test basis, verified documentation of subsequent payments. Write-down for bad debt losses has not been made as the University does not expect a loss on these receivables.

We concur with the accounting treatment of trade receivables, etc.

4.5 Cash, including securities

The University's cash, which is deposited in bank accounts, amounted to DKK 27,735 thousand at 31 December 2012 (31 December 2011: DKK 84,860 thousand), and at 31 December 2012, securities amounted to DKK 50,864 thousand (31 December 2011: DKK 0). In addition to the University's cash in bank accounts at 31 December 2012, an amount of DKK 25,657 thousand is deposited at fund manager.

At the board meeting on 25 November 2011, the Board of Directors discussed the placement of excess liquidity, and the Board of Directors has informed Management that the placement of excess liquidity should only involve limited risk.

In 2012, the University entered into an agreement with Danske Capital, according to which Danske Capital will invest DKK 76.5 million on behalf of the IT University of Copenhagen. We have ensured that the chairman of the Board of Directors has authorised the day-to-day management to make a decision on the investment. 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.

Financial income from cash as well as securities amounted to DKK 1,694 thousand in 2012 (2011: DKK 957 thousand).

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 University's non-cancellable period on 1 July 2013. The provision is based on the assumption that the lease will not be extended. Based on the leasehold improvements, the IT University of Copenhagen reassessed the provision in 2012, which amounted to DKK 2,076 thousand at 31 December 2012 (31 December 2011: DKK 1,843 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 1,708 thousand at 31 December 2012 (2011: DKK 1,203 thousand) based on a memorandum from the former Agency for Palaces & Cultural Properties, "Termination and vacation of leased premises", from which it appears that leasehold improvements typically amount to DKK 500-1,200 per sqm.

The University estimates that the leasehold improvements regarding Mikado House will amount to DKK 915 per sqm. 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. The development in the provision from 31 December 2011 to 31 December 2012 is attributable to the fact that the provision increases during the term of the lease so that, at the time of the vacation of the premises on 1 June 2013, a full provision has been created.

At 31 December 2012, total provisions amounted to DKK 3,784 thousand (31 December 2011: DKK 3,046 thousand).

We concur with the accounting treatment.

4.7 Holiday allowance

At 31 December 2012, holiday allowance amounted to DKK 17,968 thousand (31 December 2011: DKK 15,369 thousand). The holiday allowance has been calculated in accordance with the guidelines of the Danish Agency for the Modernisation of Public Administration under the Ministry of Finance from September 2012.

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

4.8 Related parties

As part of our audit, we ensured that Management as required has implemented business procedures 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 2012, remuneration of Management of DKK 3.6 million (2011: DKK 3.6 million) was recognised, including Vice Chancellor Mads Tofte, Provost Jørgen Staunstrup and Head of Administration Georg Dam Steffensen. The remuneration includes bonus to Management of DKK 334 thousand regarding the financial year 2012 (2011: DKK 495 thousand regarding the financial year 2011).

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 336 thousand (2011: DKK 378 thousand) is in accordance with the remuneration approved by the Danish Ministry of Science, Innovation and Higher Education.

4.10 Use of IT

Audit of general IT controls

The audit of the use of IT systems is an integral part of our audit of the financial statements and comprises an audit of the general IT controls that are important to the University's ability to present financial statements that give a true and fair view.

The audit of general IT controls comprises the following:

- IT administration, including IT security policy and IT disaster recovery plan.
- Access to systems and data.
- Development, maintenance and implementation of IT systems.
- Operation, monitoring and backup of IT systems and data.

Management has informed us that it finds the established general IT controls appropriate taking into consideration the activities and risk profile of the University.

In 2012, procedures have been prepared for change handling to support the IT security policy applicable to the IT department, Navision as well as the study administrative system (STADS). The implementation of an identity management system for user administration and follow-up on user rights has still not been completed. In connection with our audit, we

did not identify any matters indicating material weaknesses in the control environment in relation to the user administration.

In connection with our audit of the use of IT systems, we did not identify material weaknesses in the general IT controls established by Management, and we assess that the established controls are appropriate and may support our financial audit.

For some areas, we identified matters that have given rise to comments. These comments are reported separately to Management.

Examination of the University's implementation of Danish Standard 484

We have examined the University's implementation of Danish Standard 484.

The implementation of Danish Standard 484 was commenced in 2010, and in 2012, the University continued the implementation of the final elements of the standard. We have ensured that meetings have been held in the IT security committee in 2012, at which the detailed disaster recovery plan was adopted. It is expected that the disaster recovery plan will be tested in 2013. Our examination did not give rise to any comments in relation to the audit performed.

The IT University awaits the final approval of the new ISO 27001 and the implementation deadline before it will commence the implementation. The University does not expect any considerable challenges in relation to the transition from Danish Standard 484 to ISO 27001.

Examination of policies regarding backup of research data

The IT University has prepared a backup procedure to support the IT security policy, according to which the individual researcher is responsible for ensuring that research data is backed up. In 2012, facilities were established that make it possible for researchers to store their data on servers that are comprised by the University's general backup routines. We have not performed audit procedures to verify that appropriate preservation of data takes place and that adequate backup routines exist for all research data.

In our opinion, the IT department cannot prevent researchers from storing research data on local drives that are not backed up.

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 did not give rise to any comments.

6 Performance audit

According to "Agreement pursuant to section 9(1) 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 did not give rise to any comments.

The productivity and efficiency performance of the University is set out in the development contract effective for 2012-14. 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 of selected performance targets on a sample basis.

Our examination did not give rise to any comments.

In 2011, a new agreement on the design of assurance reports was entered into between the Auditor General and FSR – Danish Auditors. Among other things, the agreement provides that a statement on the performance audit is only to be prepared if we have comments on the performance audit. For 2012, the performance audit has therefore not been described in our report as we do 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 mortgages and collateral, guarantees, litigation, fraud, related party transactions, events after the balance sheet date and other audit areas where sufficient appropriate audit evidence is difficult to obtain.

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 control 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,
- it is neither aware of any fraud, nor has it any suspicion of fraud at the University.

As required by the International Standards on Auditing, at the board meeting on 19 April 2013, we will ask the Board of Directors whether it has any knowledge of identified or suspected fraud.

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.

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.

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.

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 20 April 2012, we have upon request assisted the University with the following:

- Advisory services regarding allocation to purposes
- Translation of accounting instructions and financial statements into English.

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 20 April 2012),
- the minutes of the meetings of the Board of Directors are prepared and kept,

- the long-form audit reports are signed by the Board of Directors.

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 23 November 2012. 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, 19 April 2013

KPMG

Statsautoriseret Revisionspartnerselskab

Peter Gath
State Authorised
Public Accountant

Charlotte Formsgaard
State Authorised
Public Accountant

The long-form audit report, pp. 122-134, has been presented at the meeting on

Board of Directors:

Jørgen Lindegaard
Chairman

Sebastian Büttrich

Annette Stausholm Nielsen

Jay David Bolter

Thomas Hildebrandt

Mark Gray

Maria Rørbye Rønn

Per Ladegaard

Alexander Momtaz Jacobsen