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The IT University of Copenhagen

Long-form audit report dated
11 April 2014
in respect of the financial
statements for 2013

Confidential

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1 Conclusion regarding the audit of the financial statements for 2013

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 2013 presented by the Board of Directors and the 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 will provide a statement on the Management's review, performance reporting and financial highlights.

The financial statements show the following key figures:

DKK'000	2013	2012
Surplus on ordinary activities	2,848	3,063
Surplus for the year	4,388	4,752
Cash flows from operating activities	30,008	21,132
Total assets	150,704	121,793
Equity	48,466	44,078

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 2013 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.

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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, whether due to fraud or error:

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 2013.

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

3 Cooperation with the Auditor General

According to section 9 of the Danish Auditor General's Act, the Auditor General is responsible for the overall audit of the IT University of Copenhagen. We have been appointed as internal auditors by the Board of Directors.

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 Auditor General's overall assessment of the financial statements for 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 2013, 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 2013.

4 Comments relating to the audit of the financial statements for 2013

4.1 Government budget appropriations

In 2013, government budget appropriations amounted to DKK 217.3 million (2012: DKK 201.1 million). We have examined the reconciliations of the recognised government budget appropriations prepared by the University, including reconciliation of appropriations to the government budget.

4.2 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.

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.

4.2.1 EU-funded projects

The IT University participates in several EU-funded projects and as coordinator of the project "Evobliss". The project activities regarding "Evobliss" will commence in 2014, and transactions in 2013 were limited to EU project funds of approximately DKK 9.2 million received by the University. We have ensured that the amount received has been deposited in a separate bank account and presented in the financial statements for 2013 under prepaid restricted grants.

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 EU-funded projects. 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. We recommend that the time registration in relation to EU projects be supported by an electronic process, where 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 differ from the balance sheet date of the financial statements.

At 31 December 2013, 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. For the majority of the EU projects, the University has calculated project balances in accordance with the rules applying to EU projects in connection with the reporting of interim financial statements to the project coordinator. Management has informed us that adjustments of project balances in connection with the reporting to the project coordinator 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. Consequently, Management considers any differences between the most recent interim reporting to the coordinator and the balance at 31 December 2013 insignificant.

During 2013, we issued an assurance report on the interim financial statements for the EU projects "Monarca" and "Siren". On the basis of the conclusions from our examination of the projects, we agree that it should be expected that any differences as a result of incomplete examination of EU projects in progress at 31 December 2013 will be insignificant to the financial statements.

4.2.2 Provision for losses on projects

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 2013, no specific write-downs had been made on the projects (31 December 2012: DKK 0). The University's Management has assessed that the project-specific risks are so modest that the financial consequences of onerous projects may be covered by the general provision.

As in 2012, the general provision for 2013 has been determined at three per cent of total income from externally funded research activities, corresponding to DKK 736 thousand (2012: DKK 778 thousand). The percentage has been determined taking into account the number of projects and the complexity of agreements entered into, including special risks associated with projects carried out in an EU context. The general provision is assessed on an annual basis.

Management assesses that the total write-down of DKK 736 thousand is appropriate and adequate to hedge the University's risk of losses on projects in progress at 31 December 2013.

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

4.3 Trade receivables, etc.

At 31 December 2013, trade receivables, etc., amounted to DKK 4,076 thousand (31 December 2012: DKK 1,598 thousand).

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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.

4.4 Cash, including securities

The University's cash, which is deposited in bank accounts, amounted to DKK 43,156 thousand at 31 December 2013 (31 December 2012: DKK 27,735 thousand), and at 31 December 2013, securities amounted to DKK 87,724 thousand (31 December 2012: DKK 50,864). Cash of DKK 43,156 thousand includes DKK 9,216 thousand received from the EU for redistribution to the project partners on the EU project "Evobliiss" for which the IT University is coordinator. In addition to the University's cash in bank accounts at 31 December 2013, an amount of DKK 300 thousand (31 December 2012: DKK 25,657 thousand) has been deposited at the 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 the Management that the placement of excess liquidity should only involve limited risk.

According to the applicable investment policy dated 27 June 2013, the investments of the University must be made in an investment framework with the following limits:

- 0-100% of the investment is made in Danish government and mortgage bonds
- 0-20% of the investment is made in corporate bonds
- 0-15% of the investment is made in shares
- Cash funds must not exceed EUR 100 thousand.

The University has entered into an investment management agreement with Danske Capital. We have been informed that, in the agreement with Danske Capital, it has been agreed that the placement requirements of the Danish Ministry of Justice must be complied with.

We have ensured that the investments made by Danske Capital at 31 December 2013 comply with the investment policy of the University.

Financial income from cash as well as securities amounted to DKK 1,585 thousand in 2013 (2012: DKK 1,694 thousand).

4.5 Provisions

The provisions of the University at 31 December 2013 comprised:

DKK'000	2013	2012
Improvements, Rued Langgaards Vej	2,829	1,844
Improvements, Mikado House	0	1,940
	2,829	3,784

As in previous years, the University has recognised a provision for leasehold improvements regarding the building leased by the University at Rued Langgaards Vej. The liability will be released on vacation of the premises. The provision has been calculated on the basis of estimated costs for improvements per sqm and is indexed by 2.5 per cent on an annual basis. At 31 December 2013, total provisions amounted to DKK 2,829 thousand (31 December 2012: DKK 2,076 thousand). Apart from the indexation, the increase in provisions is attributable to the fact that, as from 1 January 2013, the University has used the fifth floor of the lease, which has increased the total floor area.

During 2013, the University moved from the premises in Mikado House. Costs for improvements on vacation of Mikado House amounted to DKK 1,107 thousand, which were covered by the provision at 31 December 2012 of DKK 1,940 thousand.

We concur with the accounting treatment.

4.6 Holiday allowance

At 31 December 2013, the holiday allowance of the University amounted to DKK 20,021 thousand (31 December 2012: DKK 17,968 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, which did not give rise to any comments.

4.7 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.

4.8 Remuneration of the Board of Directors and the Management

In 2013, remuneration of the Management of DKK 3.6 million (2012: 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 the Management of DKK 361 thousand regarding the financial year 2013 (2012: DKK 334 thousand regarding the financial year 2012).

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

We have ensured that the remuneration of the Board of Directors of DKK 359 thousand (2012: DKK 336 thousand) is in accordance with the remuneration approved by the Danish Ministry of Higher Education and Science.

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4.9 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.

The University has established a backup policy which facilitates backup of data at the University, including research data. A storage environment has been created for preserving research data, and we have ensured that backup procedures are carried out on a daily basis. According to the IT security policy, the individual users are responsible for ensuring that data is filed on the servers so that it will be backed up. However, this does not prevent researchers from storing research data on local drives that are not backed up.

At year end 2013, ISO 27001 was approved. The University will adapt its procedures and rules so that it will comply with the standard. The timeframe for adapting procedures and rules will be decided at the IT security committee meeting in April 2014. The University expects no significant challenges in connection with the implementation of ISO 27001.

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 support our financial audit.

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

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 therein to the information in the financial statements,
- compared the information therein 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.

7 Miscellaneous

7.1 Representation letter

In connection with the financial reporting, we have obtained a representation letter signed by the 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, uncorrected misstatements 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 the 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 the Management, are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

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.

The 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.

Moreover, the Management has confirmed to us that:

- it is responsible for the design, implementation and operation of accounting and internal control systems 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 International Standards on Auditing, at the board meeting on 11 April 2014, 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 the 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. The 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

The 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 the 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, the 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.

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 11 April 2013, we have upon request assisted the University with the following:

Assurance engagements

- Issue of assurance reports on EU projects.

Other services

- Assistance regarding allocation to purposes
- Preparation of annual report for 2013 and translation of the annual report 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.

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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 22 November 2013. 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, 11 April 2014

KPMG

Statsautoriseret Revisionspartnerselskab

Peter Gath
State Authorised
Public Accountant

Charlotte Formsgaard
State Authorised
Public Accountant

The long-form audit report, pp. 135-146, has been presented at the meeting on

Board of Directors:

Jørgen Lindegaard
Chairman

Sebastian Büttrich

Annette Stausholm

Jay David Bolter

Thomas Hildebrandt

Mark Gray

Maria Rørbye Rønn

Per Ladegaard

Vytautas Davidavicius