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# The IT University of Copenhagen

CVR no. 29 05 77 53



## Long-form audit report

dated 16 April 2015  
in respect of the financial statements for 2014

**Confidential**

## Contents

<b>1</b>	<b>Conclusion regarding the audit of the financial statements for 2014</b>	<b>148</b>
1.1	Introduction	148
1.2	Conclusion regarding the audit	148
<b>2</b>	<b>Risk assessment</b>	<b>148</b>
2.1	Risk of material misstatement in the financial statements	148
<b>3</b>	<b>Cooperation with the Auditor General</b>	<b>149</b>
<b>4</b>	<b>Comments relating to the audit of the financial statements for 2014</b>	<b>149</b>
4.1	Government budget appropriations	149
4.2	Externally funded activities in progress	149
4.3	Trade receivables, etc.	150
4.4	Cash and securities	151
4.5	Investments in subsidiaries	151
4.6	Provisions	151
4.7	Holiday allowance	152
4.8	Related parties	152
4.9	Remuneration of the Board of Directors and the Management	152
4.10	Use of IT	152
<b>5</b>	<b>The Management's review, performance reporting and financial highlights</b>	<b>153</b>
<b>6</b>	<b>Performance audit</b>	<b>153</b>
<b>7</b>	<b>Miscellaneous</b>	<b>153</b>
7.1	Representation letter	153
7.2	Uncorrected misstatements	154
7.3	Material misstatement in the financial statements due to fraud	154
7.4	Compliance with legislation	154
7.5	Events after the balance sheet date	154
7.6	Insurance	154
<b>8</b>	<b>Other statements and confirmations</b>	<b>155</b>
8.1	Statements and confirmations obtained	155
<b>9</b>	<b>Other disclosures</b>	<b>155</b>
9.1	Non-audit services	155
9.2	The Board of Directors' duties	155
9.3	Statutory disclosures	156

## 1 Conclusion regarding the audit of the financial statements for 2014

### 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 2014 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	2014	2013
Surplus on ordinary activities	-2,165	2,849
Surplus for the year	97	4,388
Cash flows from operating activities	-14,366	30,008
Total assets	134,442	150,704
Equity	48,563	48,466

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 2014 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 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 objective
▶ Externally funded activities in progress and prepaid restricted grants	Completeness, accuracy and correct accrual of income and costs in the income statement as well as correct valuation of externally funded activities in progress

The financial statement items externally funded activities in progress and prepaid restricted grants are subject to significant estimates. An audit also includes assessing the reasonableness of the accounting estimates made. We focused on the estimates made in the financial statements for 2014.

Apart from the above-mentioned items associated with significant risk, we identified the following critical accounting and auditing matters that require special attention:

Financial statement item	Audit objective
▶ Income from government budget appropriations	Completeness, accuracy and accrual
▶ Wages and salaries as well as payroll-related costs	Completeness and accuracy
▶ Performance reporting	Correct follow-up on performance
▶ Use of IT and general IT controls	Data confidentiality and reliability

Our risk assessment and the assessment of the risk of material misstatement in the financial statements remain unchanged compared to last year.

Based on the assessed risks of material misstatements in the financial statements, we have established the overall audit strategy and plan for 2014.

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.

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 2014, the Auditor General has examined our long-form audit report.

## 4 Comments relating to the audit of the financial statements for 2014

### 4.1 Government budget appropriations

In 2014, government budget appropriations amounted to DKK 21.3 million (2013: DKK 217.3 million). We have examined the reconciliations of the recognised government budget appropriations prepared by the University, including reconciliation of appropriations to the government budget.

In addition to income from government budget appropriations, the IT University annually receives grants earmarked for students admitted for free university places and scholarships. The amount received is recognised in the balance sheet as a liability and is reduced as costs regarding free university places and scholarships are paid. For the financial year 2014, the IT University received DKK 1.7 million (2013: DKK 1.7 million) and paid costs regarding free university places and scholarships of approx. DKK 0.5 million. Total unspent funds regarding free university places and scholarships amounted to a total of DKK 4.9 million at 31 December 2014, which have been earned in recent years. The day-to-day management has informed us that they have focus on the matter and will decide to increase the intake of students in free university places as soon as possible.

### 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 of Copenhagen participates in several EU-funded projects, the most significant ones being "Evobliss" and "SSS", on which the IT University has been appointed as coordinator.

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 has set up a steering group responsible for purchasing and implementing an IT system to support the ongoing time registration. During 2014, the steering group prepared process descriptions and performance specifications and had a dialogue with different suppliers and subsequently chose the IT system "mTime" for time registration. The implementation of the IT system has not yet been completed, and therefore, the present procedures continue to be manual.

The finance department 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 2014, 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 2014 insignificant.

During 2014, we issued an assurance report on the interim financial statements for the EU project "iCareNet". 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 2014 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 2014, no specific write-downs had been made on the projects (31 December 2013: 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 2013, the general provision for 2014 has been determined at three per cent of total income from externally funded research activities, corresponding to DKK 820 thousand (2013: DKK 736 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 820 thousand is appropriate and adequate to hedge the University's risk of losses on projects in progress at 31 December 2014.

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

#### 4.3 Trade receivables, etc.

At 31 December 2014, trade receivables, etc., amounted to DKK 3.410 thousand in total (31 December 2013: DKK 4,076 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.

#### 4.4 Cash and securities

The University's cash, which is deposited in bank accounts, amounted to a balance of DKK 18,599 thousand at 31 December 2014 (31 December 2013: DKK 43,156 thousand), and at 31 December 2014, securities amounted to DKK 89,943 thousand (31 December 2013: DKK 87,724 thousand). In addition to the University's cash in bank accounts at 31 December 2014, an amount of DKK 293 thousand (31 December 2013: DKK 300 thousand) has been deposited at the fund manager.

According to the applicable investment policy of 31 August 2014, 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 2014 comply with the investment policy of the University.

Financial income from cash as well as securities amounted to a total of DKK 2,262 thousand in 2014 (2013: DKK 1,585 thousand).

#### 4.5 Investments in subsidiaries

During 2014, in accordance with the Danish act to consolidate the law on the commercial activities of public research institutions and cooperation with foundations, the IT University formed the subsidiary ITU Business Development A/S. The purpose of the subsidiary is with a commercial aim and on market conditions to manage activities in connection with technology transfer, including to form companies or acquire shares in other companies.

The company has a share capital of nom. DKK 1,000,000, consisting of shares of DKK 1,000 each issued at a price of 500, corresponding to a total contributed capital at formation of DKK 5 million which has been recognised in the balance sheet as an investment.

In 2014, the company's activities solely comprised activities related to the start-up phase, and the realised loss for 2014 amounted to DKK 137 thousand, which is attributable to expected start-up costs. The day-to-day management considers the loss a natural consequence of the start-up phase, and therefore, there is no indication of impairment of the investment in the subsidiary.

We concur with the accounting treatment and also refer to note 7 to the financial statements.

#### 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. 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 2014, total provisions amounted to DKK 2,781 thousand (31 December 2013: DKK 22,829 thousand).

We concur with the accounting treatment.

#### 4.7 Holiday allowance

At 31 December 2014, the holiday allowance of the University amounted to DKK 21,570 thousand (31 December 2013: DKK 20,021 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.

#### 4.8 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 16 to the financial statements, which describes related party transactions.

#### 4.9 Remuneration of the Board of Directors and the Management

In 2014, remuneration of the Management of DKK 3.5 million (2013: DKK 3.6 million) was recognised, including Vice Chancellor Mads Tofte, Provost Jørgen Staunstrup and Head of Administration Georg Dam Steffensen. The remuneration includes a provision for bonus to the Management of DKK 382 thousand regarding the financial year 2014(2013: DKK 361 thousand regarding the financial year 2013).

In addition, in 2014, a fixed-term employment bonus of DKK 393 thousand has been paid, which has been earned over a six-year period.

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 360 thousand (2013: DKK 359 thousand) is in accordance with the remuneration approved by the Danish Ministry of Higher Education and Science.

#### 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 use, including the IT organisation, 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.

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.

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 16 April 2015, 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 statements and confirmations

### 8.1 Statements and confirmations obtained

We have obtained a representation letter signed by the University's Management. Moreover, the Management has informed us that the IT University continues its negotiations with BYGST concerning an adjustment of the rent and the lease agreement, including partial repayment of rent from 1 July 2013 and reduction of the present rent. If the parties are unable to reach an agreement, the dispute will be referred to and finally determined by arbitration.

Moreover, we have obtained attorney's letters and bank statements from the University's attorneys and banks.

Our examination of the statements and confirmations obtained did not give rise to any comments.

## 9 Other disclosures

### 9.1 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 2014, we have upon request assisted the University with the following:

#### *Assurance engagements*

- ▶ Issue of assurance report on EU project.

#### *Other services*

- ▶ Translation of the annual report into English
- ▶ Assistance to steering group regarding guidelines for approval of time registration regarding EU-funded projects
- ▶ Advisory services regarding establishment of files for administration of investments in securities.

#### *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.

### 9.2 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 21 November 2014. We are not aware of any matters which have not been properly disclosed in the financial statements.

### 9.3 Statutory disclosures

In accordance with the Danish Act on Approved Auditors and Audit Firms and the Code of Ethics for Professional Accountants, we represent

that we comply with the independence requirements of Danish legislation, and

that we have received all the information we requested.

Copenhagen, 16 April 2015  
ERNST & YOUNG  
Godkendt Revisionspartnerselskab

Peter Gath  
State Authorised  
Public Accountant

Pages 147-156 were presented at the meeting on 16 April 2015.

Board of Directors:

\_\_\_\_\_  
Jørgen Lindegaard  
Chairman

\_\_\_\_\_  
Jay David Bolter

\_\_\_\_\_  
Per Ladegaard

\_\_\_\_\_  
Annette Stausholm

\_\_\_\_\_  
Maria Rørbye Rønn

\_\_\_\_\_  
Sebastian Büttrich

\_\_\_\_\_  
Thomas Hildebrandt

\_\_\_\_\_  
Gabriele Zeizyte

\_\_\_\_\_  
Vytautas Davidavicius