

Meeting of the Audit Committee

4pm* on Thursday, 31 October 2013
in 1B27, Technopark, London Road, London SE1

*Pre meetings between committee members and the Internal Auditors only and committee members and the External Auditors only will take place from 3.30pm in 1B27/1B33

Agenda

	<i>Paper No.</i>	<i>Presenter</i>
1. Welcome and apologies		Chair
2. Declarations of Interest		Chair
3. Minutes of the last meeting (for publication)	AC.54(13)	Chair
4. Matters arising		Chair
4.1 ICT security update	AC.55(13)	CIO
5. Financial Reporting for the year ended 31 July 2013		
5.1 Audit findings (to consider)	AC.56(13)	Grant Thornton
5.2 Internal audit annual report (to note)	AC.57(13)	PwC
5.3 Pension assumptions (to approve)	AC.58(13)	EDF
5.4 Going Concern statement (to approve)	AC.59(13)	EDF
5.5 Draft report and accounts for year to 31 July 2013 (to recommend)	AC.60(13)	EDF
5.6 Letter of representation to auditors (to recommend)	AC.61(13)	Grant Thornton
5.7 Students' Union accounts for year to 31 July 2011 (to note)	AC.62(13)	PVC(A)
6. External Audit		
6.1 External audit performance (to consider)	AC.63(13)	EDF
6.2 Review of non-audit services (to consider)	AC.64(13)	EDF

7.	Risk and control		
7.1	Review of Internal Controls (to approve)	AC.65(13)	EDF
8.	Internal audit		
8.1	Progress Report	AC.66(13)	PwC
8.2	Internal Audit report - Process for academic appeals / OIA	AC.67(13)	PwC
9.	Other matters		
9.1	Annual value for money report (to consider)	AC.68(13)	EDF
9.2	Draft Audit Committee Annual Report to Board (to approve)*	AC.69(13)	Chair
9.3	Anti-fraud, bribery and corruption report (to note)	AC.70(13)	EDF
9.4	Speak up report (to note)	AC.71(13)	Sec
10	Matters to report to the Board following this meeting		Chair
11.	Any other business		Chair
13.	Date of next meeting: Thursday, 6 February 2014 at 4pm		Chair

* to follow

Members:	Andrew Owen (Chair), Steve Balmont, Douglas Denham St Pinnock, and Shachi Patel.
Apologies:	Mee Ling Ng
External Auditors:	David Barnes (Grant Thornton)
Internal Auditors:	Justin Martin (PwC) and David Wildey (PwC).
With:	Vice Chancellor, Pro Vice Chancellor (Academic), Executive Director of Finance, University Secretary and Governance Officer.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 31 October 2013
In room 1B27, Technopark, London Road, London, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	
Shachi Patel	(Independent co-opted member)

External Auditors

David Barnes	Grant Thornton
--------------	----------------

Internal Auditors

David Wildey	PricewaterhouseCoopers
--------------	------------------------

In attendance

Prof Phil Cardew	Pro Vice Chancellor (Academic)
Prof Martin Earwicker	Vice Chancellor and Chief Executive
Natalie Ferer	Financial Controller
Richard Flatman	Executive Director of Finance
Ian Mehrtens	Executive Director of Corporate Services (<i>for minutes 1-6</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Officer

Welcome and apologies

1. Apologies had been received from Mee Ling Ng and Justin Martin (PricewaterhouseCoopers).

Declarations of Interest

2. No interests were declared on any item on the agenda.

Minutes of the last meeting

3. The minutes of the meeting held on 26 September 2013 were approved (paper **AC.54(13)**). The minutes were approved for publication subject to the proposed redactions.

Matters arising

4. There were no other matters arising from the previous minutes which were not picked up elsewhere on the agenda.

ICT security update

5. The committee noted an update on ICT security from the Executive Director of Corporate Services following the internal audit report considered at their meeting of 13 June 2013 (minutes 13-14 refer) (paper **AC.55(13)**).
6. The committee expressed concern about progress and requested an update prior to the next meeting and at the next meeting.

Ian Mehrrens left the meeting

Audit findings

7. The committee discussed the audit findings document prepared by Grant Thornton, external auditors in detail (paper **AC.56(13)**). It was reported that the audit was substantially complete and that no material weaknesses had been identified.

Internal audit annual report

8. The committee noted the final internal audit annual report (paper **AC.57(13)**). The final report was unchanged from the draft which had been considered in detail at the previous meeting.

Pension assumptions

9. The committee discussed the pensions assumptions used for the FRS17 report (paper **AC.58(13)**). It was reported that the assumptions had been agreed in principle at the previous meeting subject to benchmarking analysis. The discount rate had been reviewed against benchmarking produced by Grant Thornton and remained unchanged. The committee approved the assumptions.
10. The committee requested that indicative pensions assumptions are discussed at their June meeting each year.

Going concern review

11. The committee noted the “going concern” review (paper **AC.59(13)**). The review supported the going concern statement in the annual report and accounts. The committee welcomed the review.

Draft report and accounts 2012/13

12. The committee reviewed the draft report and accounts for 2012/13 (paper **AC.60(13)**). It was reported that the University made a surplus of £5.5m for the year after accounting for a £0.6m exceptional item relating to the divestment of the Students’ Union. The underlying surplus of £6.1m was well ahead of the forecast surplus of £2.5m.
13. The preparation of an income and expenditure account for the university (not for publication) as a control to ensure that final adjustments in respect of grant aid are processed correctly would be considered.
14. The note to the accounts on related party transactions would be reviewed.

Letter of representation

15. The committee discussed the letter of representation to the auditors (paper **AC.61(13)**). The committee noted that the letter contained standard representations only and that no items had been inserted specific to LSBU.

Students’ Union accounts 2012/13

16. The committee noted the students’ union (SU) accounts for 2012/13 (paper **AC.62(13)**). As the SU was now a separate entity from the University, their accounts were no longer consolidated into the University accounts.
17. The educational character committee would review the relationship with the SU at a future meeting.

External audit performance

18. The committee noted that Grant Thornton, the external auditors, had achieved all of their agreed key performance indicators (paper **AC.63(13)**).

Review of non-audit services

19. The committee that during the year 2012/13 Grant Thornton had provided corporate tax advisory services with a value of £3,972 (paper **AC.64(13)**). This work was carried out by an engagement team completely separate from the audit team.

Internal controls – annual review of effectiveness

20. The committee noted the annual review of effectiveness of internal controls (paper **AC.65(13)**). The review underpins the statement of internal control in the statutory accounts. The final report was unchanged from the draft which had been considered in detail at the previous meeting.

Internal audit progress report

21. The committee noted a progress report on internal audit work (paper **AC.66(13)**).

Internal audit report – Extenuating circumstances, academic appeals and other processes that could result in a student complaint to the Office of the Independent Adjudicator

22. The committee noted the internal audit report (paper **AC.66(13)**). The report noted that there were areas to improve on to achieve best practice regarding extenuating circumstances, academic appeals and other processes that could result in a student complaint to the Office of the Independent Adjudicator. Overall, no fundamental concerns were raised by the review. The educational character committee would continue to monitor best practice in handling academic appeals, student complaints and OIA issues.

Annual value for money report

23. The committee noted the annual value for money report (paper **AC.67(13)**) which demonstrated that the university had delivered value for money during 2012/13.

Draft audit committee annual report

24. The committee discussed the draft audit committee annual report (paper **AC.68(13)**). The committee's main concern was around ICT security following a high risk internal audit report and progress against this would continue to be monitored.

25. The committee approved the report subject to further assurances being provided on the management and quality assurance of data submitted to HESA and HEFCE.

Anti-fraud, bribery and corruption report

26. The committee noted the anti-fraud, bribery and corruption report (paper **AC.70(13)**). The executive were not aware of any instances of fraud, bribery or corruption since the last meeting.

Speak up report

27. The committee noted the speak up report (paper **AC.71(13)**). No matters had been raised under the speak up policy since the last meeting.

Matters to report to the Board

28. The committee noted that the annual report and accounts and the audit committee annual report would be reported to the Board meeting of 21 November 2013.

Date of next meeting

29. It was noted that the next meeting would be at 4pm on Thursday, 6 February 2014.

There being no further business, the meeting concluded.

Confirmed as a true record:

.....
Chairman

	PAPER NO: AC.54(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Minutes of the meeting of 26 September 2013	
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors	
Board sponsor:	Andrew Owen, Chairman of the Audit Committee	
Recommendation:	That the committee approves the minutes of its last meeting and approves publication subject to the proposed redactions.	
Matter previously considered by:	N/A	N/A
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	Published on the University's website	

Executive Summary

The Committee is asked to approve the minutes of its meeting of 26 September 2013 and the suggested redactions (in grey) for publication.

London South Bank University

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 26 September 2013
In Room DCG12&13, Clarence Centre, St George's Circus,
London, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	

External Auditors

David Barnes	Grant Thornton
--------------	----------------

Internal Auditors

Justin Martin	PricewaterhouseCoopers
David Wildey	PricewaterhouseCoopers

In attendance

Dr Phil Cardew	Pro Vice Chancellor (Academic)
Prof Martin Earwicker	Vice Chancellor and Chief Executive
Richard Flatman	Executive Director of Finance
Ian Mehrtens	Executive Director of Corporate Services (<i>for minutes 1-7</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
David Swayne	Chief Information Officer (<i>for minutes 1-7</i>)
Michael Broadway	Governance Officer

Welcome and apologies

1. Apologies had been received from Mee Ling Ng, Shachi Patel and Natalie Ferer.

Declarations of Interest

2. No interests were declared on any item on the agenda.

Minutes of the last meeting

3. The minutes of the meeting held on 13 June 2013 were approved (paper **AC.01(13)**). The minutes were approved for publication subject to the proposed redactions.

Matters Arising

4. There were no other matters arising from the previous minutes which were not picked up elsewhere on the agenda.

ICT Security update

5. The committee noted an update on ICT security from the Chief Information Officer following the internal audit report considered at their meeting of 13 June 2013 (minutes 13-14 refer) (paper **AC.39(13)**).
6. In response to concerns in the internal audit report on the following areas it was reported that:
 - a. *physical security* - a business case was being developed for approval by the Board in November 2013 to outsource the data centre;
 - b. *user administration* - a business case to replace the CAMS system would be submitted to the Executive for approval. It was anticipated that it would take up to three months to implement the new system;
 - c. *logical security* - the Managed Security Service tender had been completed and a logical security policy was being developed in conjunction with the supplier;
 - d. *phishing* - an online training module was available to all staff
7. The committee requested the actions to be expediated urgently and requested a further update at the November meeting.

Ian Mehrtens and David Swayne left the meeting

Halls Debtors Reconciliation Process Update

8. The committee noted an update on the process for managing halls of residence debtors (paper **AC.40(13)**) (minutes 9-11 of 7 February 2013 and minutes 5-6 of 13 June 2013 refer). It was reported that the Agresso financial system now reconciled with the KX accommodation system and that continuous auditing would test reconciliation and flag any trends in the underlying data.

Internal Audit Progress Report

9. The committee noted the Internal Audit progress report (paper **AC.41(13)**). It was noted that the 2012/13 had been completed and that work had begun on the 2013/14 plan.

Quarter 4 Continuous Auditing report, 2012/13

10. The committee discussed the quarter 4 continuous auditing report for 2012/13 (paper **AC.42(13)**). The committee welcomed the report which showed that all tested areas were now rated green and operating effectively. The set of tests would be continued quarterly.

Update on Process for Academic Appeals / OIA report

11. The committee noted a verbal update on the internal audit work on the process for academic appeals and OIA. It was reported that there were no fundamental concerns around the process and that the final report would be presented at the next meeting.

Draft Internal Audit Annual Report, 2012/13

12. The committee discussed the draft internal audit annual report for 2012/13 (paper **AC.43(13)**). It was noted that subject to control design and operating effectiveness issues around IT security, the internal audit opinion is that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of both risk management, control and governance and for economy, efficiency and effectiveness (value for money) arrangements.
13. The committee noted that the draft internal audit opinion makes specific reference to issues around ICT security. The committee requested the internal auditors to review the ICT strategy which had been presented to the Executive.

External Audit Progress Report, 2012/13

14. The committee noted a verbal update on the progress of the external audit for 2012/13. Grant Thornton reported no issues had arisen to date.

FRS17 Assumptions

15. The committee discussed the FRS17 assumptions in relation to the pension scheme used for the annual report (paper **AC.44(13)**), which the external auditors considered to be reasonable. The committee requested the executive to review the discount rate due to the volatility in the bonds market. The external auditors would provide comparators.

Internal Controls – Annual Review of Effectiveness

16. The committee noted the annual review of effectiveness of internal controls (paper **AC.45(13)**). The committee approved the full compliance statement to be included in the annual report.

Corporate Risk Register

17. The committee discussed the corporate risk register (paper **AC.46(13)**). The Vice Chancellor drew attention to uncertainties around government policy for higher education. The committee noted that there would be a detailed discussion of the corporate risk register at the Board meeting on 22 October 2013.

Progress on External Reporting

18. The committee noted an update on improvements to external reporting of student data (paper **AC.47(13)**). The actions were on target.

Audit Committee self-assessment

19. The committee noted the outcomes and actions of its recent self-assessment exercise (paper **AC.48(13)**). The committee welcomed the proposed actions, including a formal letter of appointment; informal appraisal; and an induction plan for new members.
20. It was reported that the letter of appointment would be issued retrospectively to current members of the committee. The committee agreed that the proposed skills matrix is used as an informal guide to assessing the members.

Committee terms of reference

21. The committee recommended their amended terms of reference to the Board for approval (paper **AC.49(13)**).

Anti-fraud, bribery and corruption report

22. The committee noted the anti-fraud, bribery and corruption report (paper **AC.50(13)**). One matter of suspected fraud around improper procurement card use had been reported since the last meeting which was not considered “significant” for the purposes of reporting further. The member of staff had been dismissed. The committee expressed concern that it had taken too long

to dismiss the member of staff and requested that the relevant HR procedures are reviewed.

Speak up report

23. The committee noted the speak up report (paper **AC.51(13)**). One matter had been raised with the University Secretary and it was decided that it should be dealt with under the staff grievance and probation procedures.

Higher Education Proposed Regulatory Reforms

24. The committee noted the update on the proposed higher education regulatory reforms, including proposals to amend the financial memorandum between HEFCE and institutions (paper **AC.52(13)**). The executive would monitor developments.

Annual Committee Plan

25. The committee noted its annual committee plan (paper **AC.53(13)**). It was noted that this would become a standing item on the agenda.

Matters to report to the Board

26. The committee noted that the matters to report to the Board were the update on ICT security, the risk register and the update on the external audit process.

Date of next meeting

27. It was noted that the next meeting would be at 4pm on Thursday, 31 October 2013.

There being no further business, the meeting concluded.

Confirmed as a true record:

.....
Chairman



Committee Action Points

24 October 2013

11:59:33

Committee	Date	Minute	Action	Person Res	Status	
Audit	26/09/2013	3	Publication of minutes	Secretary		<input checked="" type="checkbox"/> Completed
Audit	26/09/2013	7	Update on ICT security to next meeting	EDCS	On agenda	<input checked="" type="checkbox"/> Completed
Audit	26/09/2013	13	Internal auditors to review ICT Strategy	EDCS		<input type="checkbox"/> Completed
Audit	26/09/2013	20	Implement actions from self-assessment review	Secretary	Letters of appointment sent out - 7th October 2013. Other actions ongoing.	<input checked="" type="checkbox"/> Completed
Audit	26/09/2013	21	Committee terms of reference to Board for approval	Secretary	Approved by Board - 17th October 2013	<input checked="" type="checkbox"/> Completed
Audit	26/09/2013	22	Review disciplinary procedures	Director of HR	Reviewed by HR - Although the individual admitted to 9 instances of misuse of his credit card other suspicious payments had to be investigated. He still had to be subject to the Disciplinary Procedure to effect a legally fair dismissal.	<input checked="" type="checkbox"/> Completed

Committee	Date	Minute	Action	Person Res	Status	
Audit	26/09/2013	26	Matters to report to Board - update on ICT Security; risk register; update on external audit process	Secretary	In Board paper for 17th October 2013	<input checked="" type="checkbox"/> Completed

	PAPER NO: AC.55(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	ICT Security Update	
Author:	David Swayne (Chief Information Officer)	
Executive sponsor:	Ian Mehrtens, Executive Director of Corporate Services	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability. 	
Matter previously considered by:	Audit Committee	On: 13 th June 2013 and 12 th September 2013
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive Summary

This paper has been requested by the Audit Committee following the presentation of progress to address the internal audit findings on IT. The paper provides an update on the actions being taken to rectify the issues identified by the internal.

Physical Security

Actions a) and b) – ICT has agreed that the Operations and Customer Service Manager will be the ‘owner’ for each restricted space. A list of people who should have access to the spaces has been identified and ICT has worked with Security to implement the changes requested. [These actions are complete.](#)

Action c) – The locks on the network rooms are being reviewed to ensure that they provide the appropriate level of security. [The installation of Salto locks on these rooms has commenced and access is being restricted to necessary ICT personnel only.](#)

London South Bank University

Action d) – The lock on the network equipment rack has been repaired. [Complete](#).

Action e) – A quote has been obtained to change to an electronic lock. This will be progressed and access restricted to ICT network staff. [Installation of Salto locks has commenced](#).

User Administration

Action a) and b) – Discussions have been held with IBM and Dell Software regarding the provision of an identity and access management solution to replace the CAMS system and a business case will be ready for discussion in the next approval round. The likely cost of an appropriate solution is circa £400k. [Initial project meetings have been held and Procurement meetings are scheduled to move this forward](#).

Action c) – The review of accounts has been completed and 350 erroneous user accounts identified that are in the process of being removed. These records retained access to LSBU systems because the phone book entry was deleted prior to the record termination date being reached. The practise of deleting phone book records is being stopped and monthly checks will be completed until a replacement solution is implemented. [Monthly checks are now in place and all erroneous accounts have been terminated. Complete](#)

Logical Security

Action a) – The Managed Security Service tender has been completed and an initial meeting scheduled for 24th September. The service will cost £100k per year and is contracted for 3 years. The logical security policy will be developed in conjunction with the supplier. This action is now scheduled to be completed by 30th November rather than 30th September. [The Managed Security Service is in the process of being implemented](#).

Action b) – The password strength is still set to basic but the guidance has been changed to tell people to use stronger passwords. The password length has been adjusted to insist on 8 “characters”. The password cycle prevents any of the last 5 being re-used. Further changes are dependent upon us implementing a new identity and access control system.

Action c) – The collection of security logs is included in the scope of the Managed Security Service and implementation will commence in September. It is anticipated that the service will be fully operational by the end of the calendar year but this will not be confirmed until the meeting on 24th September. [It has been confirmed that the new service will keep the required logs](#).

Action d) – Usage of the “install” account has been stopped. The other privileged accounts are being reviewed and expiration dates set where this is practicable. The

London South Bank University

Managed Security Service will report on the use of these accounts and further advice will be obtained from the provider.

Phishing

Action a) – An online training module has been made available to all staff. [Complete](#)

Action b) – All of the people who replied to the 'phishing' email will be spoken to by the end of September. Holidays prevented this being completed by end of August. [Complete](#)

Action c) – The delegated letter of authority wording has been updated and all managers are therefore aware of (and agree to) the responsibility to keep data and systems secure. [Complete](#)

Action d) – The ability to prevent users accessing the site that a specific attack is using to capture account details is in place and has been tested. [Complete](#)

Summary

16 actions of which 7 are complete and 9 are in progress.

	PAPER NO: AC.56(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Audit Findings	
Author:	Grant Thornton, External Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note and consider the attached Audit Findings from Grant Thornton, which will be submitted to HEFCE.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability	
Matter previously considered by:	N/A	
Further approval required?	Board of Governors	On: 21/11/2013
Communications – who should be made aware of the decision?	HEFCE	

Executive Summary

See attached Audit Findings from Grant Thornton a copy of which will be submitted to HEFCE. No material weaknesses have been identified.

Attachments: Audit Findings



DRAFT

This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Audit Findings for London South Bank University and its subsidiary undertaking

Year ended 31 July 2013

October 2013

David Barnes

Engagement Partner

T 020 7728 2026

E david.barnes@uk.gt.com

Amanda Tilley

Senior Manager

T 020 7728 3143

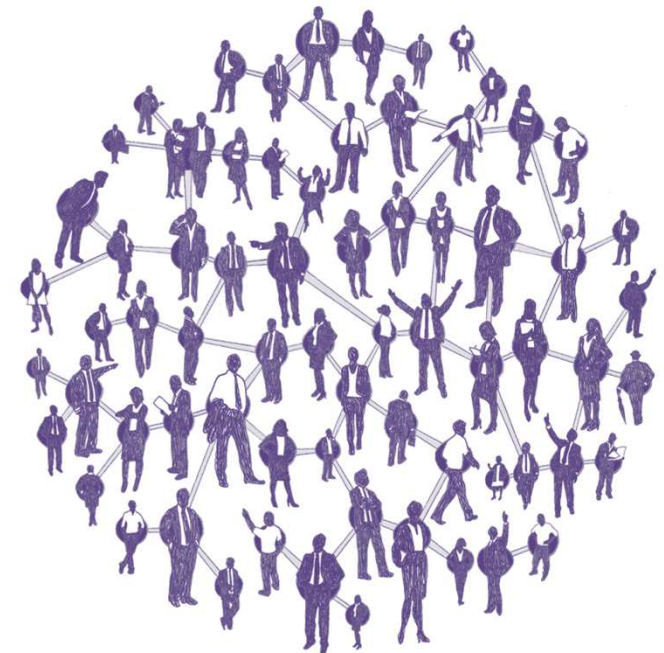
E amanda.l.tilley@uk.gt.com

Omadevi Jani

Executive

T 020 7728 2630

E omadevi.jani@uk.gt.com



The Audit Committee
London South Bank University
103 Borough Road
London
SE1 0AA

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP
T +44 (0)20 7383 5100
www.grant-thornton.co.uk

31 October 2013

Audit Findings for London South Bank University and its subsidiary undertakings for the year ended 31 July 2013

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

Grant Thornton UK LLP

Chartered Accountants

Member firm within Grant Thornton International Ltd
Grant Thornton UK LLP is a limited liability partnership registered in England and Wales No: OC307742.
Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP.
A list of members is available from our registered office.
Grant Thornton UK LLP is authorised and regulated by the Financial Services Authority for investment business.

Contents

Section	Page
1. Status of the audit and opinion	4
2. Performance summary	5
3. Audit findings	7
4. Internal control findings	15
5. Adjusted and unadjusted misstatements	20
6. Fees, non audit services and independence	22
7. Pension	23
8. VAT	25
9. Financial reporting and other developments	26
10. Communication of audit matters	28

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify.

We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

1. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware which would require modification of our audit opinion, subject to the outstanding matters detailed below.



Update on September 2013 Tuition fees cash recovery
Revenue/debtors queries on SBUEL
Review of the lease agreement between SBUEL and LSBU
Updated financial statements for LSBU and SBUEL and technical review of the accounts
Finalisation of the tax review for SBUEL
Bank letters outstanding for Scottish Widows and HSBC Euro Liquidity Fund
HESA data collection report
Post balance sheet events review
Review of going concern and budgets and forecasts
Signed letter of representation

Status

- Potential to result in material adjustment or significant change in disclosures
- Not considered likely to result in material adjustment or change in disclosures

Audit opinion

Our anticipated audit report will be unmodified for the following entities:

- London South Bank University
- London South Bank University Enterprises Limited

1. Review of financial statements

Balance sheet

Account	Current year balance £'000	Prior year balance £'000	Variance %
Tangible assets	174,292	163,626	6.5%
Investments	38	38	0.0%
Endowment fixed assets	729	641	13.7%
Stock	18	46	-61%
Debtors	7,823	9,101	-14%
Bank deposits	5,206	5,145	1%
Cash at bank and in hand	54,750	64,001	-14%
Creditors:amounts falling due within one year	(38,137)	(40,746)	-6%
Creditors:amounts falling due after one year excluding pension liability	(29,592)	(31,062)	-5%
Provisions for liabilities	-	(1,179)	-100%
Pension liability	(62,211)	(74,664)	-17%
Reserves	112,916	94,947	19%

The prior year **provision** relates to over recruitment in 2010/11 plus the dilapidation provision on the temporary Student Union building. The over recruitment provision has now been paid and has therefore been reduced to nil. The Student Union dilapidations provision is no longer included in the consolidated position as the Student Union is no longer under the control of the University.

The **pension liability** has fallen primarily because of the increase in the discount rate and the gain on assets held within the pension scheme

Income and Expenditure

Account	Current year balance £'000	Prior year balance £'000	Variance %
Income			
Funding council grants	34,750	45,450	-24%
Academic fees and support grants	83,282	73,959	13%
Research grants and contracts	3,255	4,068	-20%
Other operating income	16,001	14,094	14%
Endowment and investment income	566	697	-19%
Expenditure			
Staff costs	73,619	72,725	1%
Depreciation and impairment	7,870	10,989	-28%
Other operating expenses	46,876	44,020	6%
Interest payable	3,433	4,019	-15%

Funding council grants and academic fees The HEFCE income has been significantly reduced in the current period due to the new funding arrangements in 2012/13 for new students. This has been offset by the increase in income for academic fees and support grants under the new funding regime.

Depreciation and impairment

The prior year depreciation charge included an impairment charge of £2,944k in relation to the Enterprise Centre. The depreciation charge remains similar year on year at approximately £8,000k.

3. Audit findings – Significant risks identified in our audit plan

	Risks identified in our audit plan	Audit findings and conclusions
1.	<p>Improper revenue recognition</p> <ul style="list-style-type: none"> Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue 	<p>In addition to the testing detailed in the individual revenue streams below, we have:</p> <ul style="list-style-type: none"> Reviewed and tested revenue recognition policies for all revenue streams; Tested key controls and significant revenue streams <p>Please refer to individual revenue streams discussed as noted below.</p>
2.	<p>Management override of controls</p> <ul style="list-style-type: none"> Under ISA 240 it is presumed that that the risk of management over-ride of controls is present in all entities. 	<p>To ensure that we have gained reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, we have performed the following work in this area:</p> <ul style="list-style-type: none"> Reviewed of accounting estimates, judgements and decisions made by management; Tested a sample of journals entries which have been determined through the use of our data interrogation software (IDEA) and focused on the higher risk journal postings; Identified the related parties of the University and a reviewed the procedures in place to ensure that any related party transactions are approved, captured and correctly presented within the financial statements; Reviewed unusual significant transactions as part of the journals testing. <p>We have identified some internal control findings in relation to journals authorisation and documentation which are discussed further in Section 4 Internal controls of this report.</p>

3. Audit findings – Other risks identified in our audit plan

	Risks identified in our audit plan	Audit findings and conclusions
3.	Valuation of properties	<p>We note that during the year the University had carried out the development of the Terraces into an Enterprise Centre which was completed in September 2013. In the prior year an impairment review resulted in a reduction in the carrying value of the development.</p> <p>For the current year, we have tested a sample of costs incurred to date which have included as part of the Assets Under Construction in the financial statements, checked that these appear reasonable and agreed these back to invoices.</p> <p>Conclusion</p> <p>We gained assurance over the valuation of properties. No issues were noted during the testing.</p>
4.	Risk that income from tuition fees and educational contracts has not been correctly recognised	<p>We have carried out substantive testing and analytical review of tuition fee income and we are pleased to report that no issues were identified. Income recognised in the year is in line with our expectation, which was based on actual student numbers and standard fees set by the Board for 2012/13.</p> <p>In addition to this, we have performed detailed testing on a sample basis in the period and agreed these back to student enrolment forms, SLC remittances, bank statements for self payers and sponsored students and agreed back to the QLS database records. No issues were noted on this testing carried out.</p> <p>We have reviewed the treatment of income from the Strategic Health Authority and agreed this back to the contracts and agreements where appropriate.</p> <p>Conclusion</p> <p>We gained assurance over the tuition fee and educational contracts income has been correctly recognised.</p>

3. Audit findings – Other risks identified in our audit plan

	Risks identified in our audit plan	Audit findings and conclusions
5.	Student numbers and the existence of HEFCE income	<p>We have agreed amounts recognised to remittance statements provided by HEFCE and reconciled these payments back to the most recent grant letter provided by HEFCE in March 2013.</p> <p>We have reviewed the HESES reconciliation and discussed this with appropriate personnel in Registry and Admissions. We have reviewed the provision from the previous year end and the movement in the year. We have also considered whether a provision is required for 2012-13 and discussed this with appropriate personnel in Registry, who compile the HESES report, to understand why they believe there will be no discrepancies.</p> <p>During the fieldwork it has been brought to our attention that an additional claw back of £124,408 in expected in respect of Widen Participation Funding and Teaching Enhancement and Student Success funding allocation due to adjustments made as part of the reconciliation process that was completed in April 2013. Although the amount is not considered to be significant to the financial statements, management has increased the year end provision to account for the above and we agree with this adjustment.</p> <p>Conclusion</p> <p>We are yet to review your HESA reconciliation, that is to be submitted in October 2013. All other testing in this area proved satisfactory.</p>
6.	Existence of accommodation income	<ul style="list-style-type: none"> We have carried out an analytical review of accommodation and other income for the year and perform "proof in total" testing where appropriate. <p>Conclusion</p> <p>No issues were noted from our work carried out in this area.</p>
7.	Recoverability of debtors	<ul style="list-style-type: none"> We have reviewed the recoverability of the debtors in respect of tuition fees, halls accommodation fees and sales ledger debtors. The policy for providing against student debts has broadly been applied consistently year on year at 90% with the exception that no bad debt provision has been made on SLC and Sponsors related fees debtors. No provision has been made against these debtors as there is not considered to be a risk of non-recovery and there are also creditor balances with the SLC and Sponsors. Management have concluded that as the overall position with SLC and Sponsors is a credit no bad debt provision is required. We note that management have increased the bad debt provision from £1,965,852 in 2012 to £3,321,581 against the tuition fees debtors. This increase is due to the fact that in the current year the bad debt provision has been calculated on the gross self funded students, before taking into account any credit balances. This is a change from the previous year as management believe this to be a reasonable estimate and methodology. We concur with management's treatment given that the risk exposure is considered to be on self funded students and there this appears to be reasonable. Based on our reviewing the ageing of the debtors profile and the looking at historic cash recoveries, the bad debt provision appears to be reasonable.

3. Audit findings - Other risks identified in our audit plan

	Risks identified in our audit plan	Audit findings and conclusions
8.	Risk that creditors and operating expenses are understated	<ul style="list-style-type: none"> We have enquired of accounting staff as to the possibility of unrecorded liabilities and examined any unprocessed invoices for unrecorded creditors. We have searched for unrecorded liabilities by reviewing the payments journal subsequent to the year end for large or unusual entries. We have reviewed all significant balance sheet items and compare to prior year and expectations and investigated any significant differences. We have reviewed expenditure streams for the year and verify significant items to supporting documentation. <p>Conclusion No issues have been noted during this work.</p>
9.	Risk that employee remuneration is overstated	<ul style="list-style-type: none"> We have analytically reviewed payroll expenses in comparison to prior years and budgets and investigated any significant or unexpected variances. We have also gained an understanding of procedures and controls in place to record and process employee remuneration. In addition to this we have performed tests (using data interrogation software) to identify exceptions such as duplicate employee names, NI numbers, monthly significant fluctuations in pay and investigated the results. We noted during our testing some control issues which has been discussed in further details in Section 4 Internal controls. We do not consider these to be material to the financial statements. <p>Conclusion Other than the control points addressed below, testing in this area proved satisfactory.</p>
10.	Loan covenants	<ul style="list-style-type: none"> We have reviewed the calculations in relation to all financial covenants to ensure these have been appropriately calculated and have reviewed compliance with non-financial covenants and obtained a direct email confirmation from the lenders, Barclays Bank Plc which confirms that there were no breaches in the covenants. <p>Conclusion All testing in this area proved satisfactory.</p>

3. Audit findings - Other risks identified in our audit plan

	Risks identified in our audit plan	Audit findings and conclusions
11.	Student Union	<p>We note that because of a change in the constitution of London South Bank University Student Union from July 2013, the University no longer exercised control over the Student Union and it has not longer been included in the consolidation of the University.</p> <p>We have reviewed the amended constitution to ensure that this conclusion is correct and the Union has been excluded from the results of the Group for the year ended 31 July 2013.</p> <p>The loss of control of the Student Union has been shown as a derecognition of the net assets of the Group and included as an exceptional item in the income and expenditure account.</p> <p>Conclusion We concur with the treatment of the loss of control of the Student Union</p>
12.	Pension liability	<p>We have reviewed the actuarial assumptions suggested by Barnett Waddingham and agree that these assumptions appear reasonable. For further details of benchmarking of the assumptions compared to other educational institutions please see Section 7.</p>
13.	Going Concern	<p>We have reviewed the five year forecast and the paper the Executive Director of Finance has prepared for the Audit Committee on the going concern status of the University.</p> <p>Conclusion This review has not highlighted any issues which require reporting to the Board.</p>

3. Audit findings – Risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan

	Issue arising	Audit findings and conclusions
1.	Large SLC credit balances on the debtors ledger	<p>We have reviewed the reconciliation of the balance due from the Student Loans Company (SLC) and compared this to the amount that has been accrued for at the period end. Management have accrued for £1,899,400 at the year end; however the report from the SLC website shows that £1,029,000 is due. It appears that the accrual at the period end is higher by £870,347. Per discussions with management we note that this is due to a timing difference between the University's records and the information being updated on the SLC website portal as a result of fee waivers processed towards the end of the year. Management expect the SLC to recover this money in their first remittance for 2013/14. On this basis we have not proposed an adjustment to reduce the year end liability and do not consider it to be material to the financial statements.</p> <p>We have reviewed a sample of NSP transactions to which this timing differences relates to verify this explanation.</p> <p>Conclusion</p> <p>We conclude that no adjustment is required in respect of this difference.</p>
2.	Legal cases in the year/pending	<p>A solicitors letter was obtained from Muckle and reviewed during the audit fieldwork.</p> <p>We noted that there are two employment tribunal related cases on-going and pending a final outcome as at the audit fieldwork date.</p> <p>In total the two cases are expected to result in a maximum pay out of £144,000 with solicitors fees of approximately £26,000. We understand that management have currently not provided or disclosed for these amounts in the financial statements.</p> <p>Conclusion</p> <p>We conclude that the amount is not material to the financial statements no disclosure is made in the financial statements in respect of the above contingent liabilities.</p>

3. Audit findings – Risks identified during the course of the audit

This section provides commentary on new issues and risks which were identified during the course of the audit and were not previously communicated in the Audit Plan


	Issue arising	Audit findings and conclusions
3.	Halls Debtor Reconciliation	<p>A long standing problem with the financial transactional data transferred from the Kinetics Accommodation system (KX) to Agresso has resulted in a credit balance accruing on the control accounts within bank and cash which management had historically been unable to reconcile. For our audit year, we understand that management has taken the total Agresso balance as at the end of July 2013 and compared this to the balance held in KX. The difference of £701,830 is considered to be the write off as the balance in KX is accurate as this is where the data in relation to the student halls debtor is processed and managed. We note that there remains an insignificant difference of £18,000 between what KX reports as the debtors balance and what is recorded in Agresso.</p> <p>From May 2013 management have carried out monthly reconciliation to ensure that this difference does not increase significantly and it s reconciled to payments made in advance.</p> <p>In addition to this, we have reviewed the halls debtor reconciliation for the year end period and tested a sample of 25 transactions (payments and invoices raised in the period) posted through Agresso and agreed these back to the KX system and also the cash recovery through the bank statement to follow the process through from initiation to completion.</p> <p>Conclusion</p> <p>We conclude that the halls debtor balance is materially correct.</p>
4.	Difference on the opening reserves	<p>During our review of the reserves, we noted a difference of approximately £651,000 on the opening reserves within the University. Management has reconciled this difference and noted that majority of this balance for £559,886 was due to the Gift Aid donation in 2011 had not been put through the statutory accounts. Management had put the transaction through Agresso, the accounting system but not the Reserves note or Intercompany in the financial statements.</p> <p>The remaining difference of approximately £92,000 is believed to be due to intercompany transactions that had not been correctly stated in the intercompany debtor balance within the University accounts.</p> <p>There is no impact on the consolidated position rising from the above error; however it will impact the University's balance sheet and its reserves note comparative for the prior (2012) year.</p> <p>Conclusion</p> <p>We conclude that this is the correct treatment.</p>

Audit findings – Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee and instances of fraud in the year, which are immaterial for audit purposes. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures. We have also discussed fraud with the internal audit team.
2.	Matters in relation to related parties	We are not aware of any related party transactions which have not been disclosed.
3.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations Comment on regularity of use of funds (re Regularity opinion)
4.	Written representations	As in previous years we will include a representation on data assurance in addition to our standard representations
5.	Disclosures	We are yet to carry out a detailed technical review of the financial statements and our work in this area is pending. These will be communicated to the finance team and their resolution will be discussed and reviewed in the final set of financial statements.

4. Internal controls


- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.
- During our work we have met with the internal auditors and held independent discussions to make sure we are aware of any issues they may have that might be relevant for our external audit, or where we believe we should make them aware of any concerns arising from our work. Although we do not place direct reliance on the work of the internal auditors, we take into account their findings, and if necessary amend our audit approach as may be required.

	Assessment	Issue and risk	Recommendations
1.		<p>Journals authorisation</p> <p>There are currently two journal posting systems in operation: one system (J5) is primarily used by the financial accounting team while the other (G6) is primarily used by the business support management team. J5 journals are uploaded and require an electronic authorisation of each journal posted. The old G6 system is where journals are manually input in to Agresso. The G6 system does not require any electronic authorisation of any journals before they are posted and there is no manual authorisation process in place as the numbers of journals are significant.</p> <p>We noted that all journals had supporting documentation however this documentation was not always uploaded onto the Agresso system.</p> <p>In addition to this, we also noted that journals posted in the period without any descriptions as to what the journal related to.</p>	<p>We understand that there are practical reasons why two systems are currently in operation: the J5 system being used for large multi-line journals and the G6 system for short corrections and adjustments. We also note that manual G6 journals posted by the Financial accountant are not reviewed or approved by the financial controller until the end of month process. We do, however, appreciate the fact that risk of misstatements through journals is mitigated through the preparation and review of month end management accounts, including the reconciliation of balance sheet accounts.</p> <p>We recommend that all journals posted have a description of what the posting relates to. This will aid the reviewer and approver as part of the authorisation and monitoring control over journal postings. Poorly-controlled journal posting processes mean that errors or fraud can occur and go undetected. With the heightened risk of fraud caused by the current economic conditions, improving controls over journals should be an area of focus for the Board.</p> <p>We recommend that all supporting documentation in relation to a journal is uploaded onto Agresso by the team.</p> <p>Management response</p> <p>1. We agree that all journals should have a description of what the posting relates to. A description convention is being agreed.</p>


Assessment

- Significant deficiency – risk of significant misstatement
- Deficiency – risk of inconsequential misstatement



4. Internal controls

	Assessment	Issue and risk	Recommendations
			<p>Management response</p> <p>2. Supporting documentation will always be available on Agresso. There are specific circumstances where documentation is held elsewhere on Agresso and therefore it is not necessary for this to be attached to the journal itself. For example a journal to recode purchase invoices, where the purchase invoices is stored electronically in the purchase ledger. These types of journals will be identified in the journal description which will also include the transaction number so the source documentation can be located on Agresso. All other journals will have their own supporting documentation uploaded onto Agresso.</p> <p>3. A review of the reason for correcting journals is being undertaken and a plan put in place to reduce the number of errors and therefore correcting journals.</p> <p>Timescale for action November 2013</p> <p>Person responsible Financial Controller and Financial Planning Manager</p>
2.		<p>Suspense account</p> <p>Although the use of the suspense account has reduced overall this year, we still noted there were several old balances on the creditors.</p>	<p>We recommend that all suspense accounts are cleared on a timely basis and allocated to the appropriate areas.</p> <p>Management response</p> <p>This account will be allocated against the correct posting string in 2013/14 and going forward it will be cleared as part of each month end process – in line with other suspense accounts that are in use.</p> <p>Timescale for action December 2013</p> <p>Person responsible Financial controller</p>

4. Internal controls

	Assessment	Issue and risk	Recommendations
3.		<p>Payroll controls</p> <p>From this testing we noted that there was no contract available for one member of staff in our starters and leavers testing.</p> <p>In addition to this we noted that currently management carry out a monthly reconciliation between the payroll records and the bank statements and a variance is noted each month which is reconciled by the assistant financial accountant and reviewed by the financial accountant. However we noted that this review process was not formally documented.</p> <p>Our understanding is that this difference is due to the fact that each month, a BACS recall has been carried out for some employees whose pay has been incorrectly calculated as negative net pay by the payroll system currently used by the University. We have reviewed the payroll reconciliation as part of our audit work and have no other issues to report on this.</p>	<p>We recommend that signed employment contracts are place for all members of staff.</p> <p>We recommend that existing procedures are tightened whereby any changes in relation to secondee employees are informed to the finance team by HR on a timely basis with information provided on the start and end dates/agreed payments to these employees. Thus, this will effectively ensure all accruals and liabilities in relation to secondee employees are captured appropriately and matched to the invoice received from the NHS trusts.</p> <p>We understand that management are currently in process of implementing a new payroll so that such errors are avoided in the future. In the mean time, we would continue to recommend that any negative pay is immediately flagged up prior to the payroll being sent out to the outsourced payroll bureau.</p> <p>In addition to this, we recommend to management that the monthly reconciliation of the payroll report to the bank statements together with any reconciling items once investigated by the finance team, are formally approved by the Financial Controller and that this is a documented process.</p> <p>Management response</p> <p>There is usually a difference between net pay reported from the payroll compared to net pay that is paid out and is therefore recorded on the bank account. This is because once the payroll is run, a number of payments will be recalled due to errors being spotted or late notifications of changes to salary. In these cases payments to these staff will be made outside the main payroll and processed through the payroll in the following month. A monthly reconciliation of the net pay control account is undertaken by the Financial Accounting team to ensure that all reconciling items are processed in the following month. Going forward a copy of this reconciliation will be reviewed and signed off by the Financial Controller and will be filed with the monthly payroll so the differences are clearly recorded in payroll files.</p> <p>Regarding the contract of employment, the member of staff did receive a contract but a copy was not retained on file. HR will put in place a checking process to ensure that all contracts are put on file.</p> <p>Timescale for action November 2013</p> <p>Person responsible Financial controller (in respect of payroll) Katie Boyce (employment contract)</p>

4. Internal controls – Actions taken on issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.		<p>Oracle database management</p> <p>We recommended that IT establishes named user accounts at the Oracle database level. IT should also review the audit logging capability of the Oracle database to ensure that data and system changes are logged. Such audit logs should be monitored periodically, preferably by an individual independent of IT within the business who does not have direct access to the database.</p> <p>As a minimum, critical tables within the system such as bank details and supplier and customer master files should be restricted and any alterations made to fields within these logged and reviewed periodically.</p>	<p>Management commentary</p> <p>The Oracle DBAs have no knowledge of the Agresso system and its data structures. The potential that a DBA could successfully apply changes at the database level with the consistency required to be valid is very small. It is possible to run reports to determine which tables have been accessed using the DBA accounts. In the opinion of ICT it is highly unlikely that the DBAs could successfully complete a fraudulent act on the Agresso Business World system.</p>
2.		<p>IT - Business continuity</p> <p>We recommended that LSBU documented and formally communicated the Disaster Recovery plan/ arrangements over the organisation's IT infrastructure. The plan should ensure that offsite back-up arrangements are established. Once the plan is in place we also recommend that the plan is periodically tested at least once a year.</p>	<p>Management commentary</p> <p>The ICT disaster recovery plan / arrangements have been documented and are being progressed in conjunction with the LSBU Business Continuity Steering Group. At this point no data is held off-site. Two potential solutions are being progressed and business cases are currently being considered by the University.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

4. Internal controls – Actions taken on issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3.	X	<p>Logical access parameters</p> <p>We recommended that the following best practice password parameters be enforced on the network, Agresso Web and the core Agresso system:</p> <ul style="list-style-type: none"> • minimum password length of 6-8 characters • minimum password age of at least 1 day • maximum password age of 30-60 days • alphanumeric passwords (complexity) enabled • account lockout set to 3-5 invalid lockout attempts • inactivity lockout set to 10-20 minutes • lockout period should be set to indefinite, with access only • reinstated by an administrator 	<p>Management commentary</p> <p>Guidance has been changed to recommend that strong passwords be used ;however until the core identity management system is changed these cannot be enforced. The LSBU Executive has recently agreed a business case for Identity and Access Management that will enable a new solution to be procured.</p>
4.	✓	<p>Credit control – SBUEL</p> <p>In the prior year we had noted some credit control issues where old debts were not being chased up effectively. The management of SBUEL were working with LKIC to recover the outstanding debts and to modify future letting arrangements to avoid such difficulties arising going forward.</p>	<p>Management commentary</p> <p>We are yet to complete our work on this area as part of the revenue testing on SBUEL, and are currently awaiting for information from management to complete this testing.</p>

Assessment

- ✓ Action completed
- X Not yet addressed

5. Adjusted misstatements

London South Bank University

Journal reference	Detail	Income Statement		Balance sheet		Surplus effect
		Debit	Credit	Debit	Credit	
1	DR Other debtors CR Other creditors Being a reclassification of the bursary underspend, which is reclaimable.			282,485	282,485	-
2	DR Sales aged debtors CR Other creditors Being the reclassification of credit balances on the debtors ledger			153,719	153,719	-
3	DR Short term investments CR Cash Being the Bank of Scotland deposit account reclassification in line with FRS 1			5,205,968	5,205,968	-
4	DR Cash CR Other creditors Being the reclassification of amounts payable to SLC creditors			64,153	64,153	-
5	DR Short term investments CR Cash Being the reclassification of deposits from cash to short term investments			15,579,843	15,579,843	-
6	DR Intercompany debtor CR Retained earning brought forward Being the prior year adjustment to correct the opening reserves			651,000	651,000	-
7	Dr Funding council grants Dr Provision for liabilities Cr Accruals and deferred income Being adjustment to funding income (see section 3.5)	107,247		14,814	122,061	(107,247)

South Bank University Enterprise Limited

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
1	DR Bad debt provision CR Bad debt expense account Being the amount from Red Hat Inc. post year end and as a result no bad debt provision is required.		6,110	6,110		6,110
2	DR Accrued income CR Revenue Being the correction of the understatement of accrued income		8,230	8,230		8,230

5. Unadjusted misstatements

No unadjusted misstatements have been noted.

6. Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Tax compliance services	£2,460	• Yes	Use of separate teams
iXBRL tagging	£850	• No	Use of separate teams
Total non-audit services	£3,310		

- The above non-audit services are consistent with the University's policy on the allotment of non-audit work to your auditors.

Independence and ethics:

Ethical standards and ISA UK 260 requires us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- we confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements
- we confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

7. Pension

The following table shows the key mortality assumptions used by the actuaries.

Mortality (based on future life expectancies at the age of 65)	2013	Benchmark* (years)
Current pensioners - male	20.9	17.00-23.80
Current pensioners - female	23.9	19.00-25.20
Future pensioners – male	22.9	18.00-25.10
Future pensioners - female	25.8	20.00-27.20
* Benchmark has been obtained from various other Educational institutions		

Mortality / life expectancy

The derivation of the assumption for future mortality is one of the most subjective areas of the actuarial basis. The assumption for mortality before retirement has a relatively minor impact on the liabilities and this section therefore considers only the assumptions made for mortality after retirement.

The Base Table

The base table that has been used in the calculations is the Club Vita tables, which is based on the mortality experience of life insurers. This table is in common use for UK defined benefit pension plans and so the base table that has been used by the Actuary is acceptable.

Projected Improvements

The method used to allow for future improvements in mortality is critical in the assessment of the liabilities. The mortality assumptions has been set using Club Vita mortality analysis. This has then been projected using a medium cohort projection with a minimum rate of improvement of 1%.

The benchmarking shows that the figures for London South Bank University are mid-range for the other educational institutions reviewed. Please note that we do tend to observe lower mortality assumptions associated with Local Government Pension Schemes.

In summary the mortality assumptions produce life expectancies within a reasonable range and are therefore acceptable.

7. Pension

The following table shows the key assumptions used by the actuaries.

Actuarial assumptions	2013	2012	Benchmark*
Pension increases	2.5%	1.8%	1.9%-3.25%
Salary increases	4.2%	3.5%	1.9%-5.1%
Discount rate	4.7%	3.9%	3.6%-5.6%
CPI increases	2.5%	1.8%	2.1%-3.25%
* Benchmark has been obtained from various other Educational institutions			

Pension increases

The assumptions for pension increases are based on (CPI) inflation. These assumptions should be based on the inflation assumption but adjusted to allow for the relevant cap and floor (if applicable) to the extent that inflation is expected to vary in future years. Given our expectations of future inflation volatility (based on past experience), we are happy that the proposed assumptions for pension increases are appropriate.

Salary increases

The rate assumed, 4.20% pa, represents a 0.90% pa real salary increase above the (RPI) inflation rate assumption adopted. In the past the usual range above inflation was between 0.5% and 1.5% pa. However, due to changing economic conditions, the typical margin we have observed over recent periods has reduced to, in some cases, zero.

The rate proposed can therefore be considered to be fairly conservative.

Discount rate

The discount rate should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. For this purpose, in the UK, the universal approach is to base the discount rate on the yields available on AA-rated corporate bonds of appropriate term and currency to the liabilities.

The yield on the iBoxx AA-rated Corporate Bond Index (for terms of over 15 years) (the "iBoxx index") as at 31 July 2013 was 4.33% pa. The Actuary has adopted a discount rate of 4.70% pa as at 31 July 2013.

We have recently seen a trend in alternative methods being used to derive the discount rate, where spot yields of the bond universe are combined with the scheme's expected future cashflows to determine a scheme specific discount rate. It can be argued that using these methods the rate more accurately reflects the duration of the scheme's liabilities.

CPI increase

Standard practice is to derive the CPI assumption based on the RPI assumption. Based on our RPI assumption a downward adjustment of 0.80% has been made to RPI inflation in this case.

Since the introduction of the CPI measure in 2010, we have been observing downward adjustments of between 0.50% and 1.00%, from the RPI to produce estimates of CPI.

There was the suggestion that the way RPI is calculated would be changed to produce an index closer to the CPI. However, the Office for National Statistics (ONS) announced on 10 January 2013 that it would not be changing the index (as expected), but instead introducing a new index (RPIJ) from March 2013. This will not affect pension schemes unless trustees specifically choose to adopt RPIJ. We expect the RPI/CPI wedge to remain between 0.50% and 1.00% and therefore this assumption is reasonable.

8. VAT

As part of our audit work, we carried out a review of the VAT status of the University and we would like to draw management's attention to a number of areas:

Potential risks

The issues raised last year regarding overseas recruitment fees and grant income remain risks, although given the HMRC visit in 2012 and no concerns being identified last year these would not appear to be of significance. Depending on when the University registered for VAT there may be a four year limit on HMRC assessing for VAT on overseas agents fees and we understand that the University has been correctly accounting for the VAT since 1 January 2010.

The only additional risk which may have arisen from 1 August 2013 (after the period end) is that the VAT exemption for supplies of research between eligible bodies has been withdrawn, therefore if the University makes or receives supplies of research these should now be standard rated for VAT purposes.

Potential opportunities

There are a number of universities submitting claims to recover VAT overcharged on light, heat and power costs where this correctly qualifies for the reduced rate of VAT as domestic or non-business (particularly where there are non-business research activities). If the University has not considered its position to maximise the eligibility for reduced rate relief we would be more than happy to discuss this further with you.

We are able to refer you to a member of our VAT team should you require further assistance on the above matters or wish to discuss them in more detail.

9. Financial reporting and other developments

Alignment of International and UK Accounting

The new accounting requirements, included in Financial Reporting Standard 102 (the Standard) will apply to the financial statements of the University for 2015-16 but earlier work will be needed to provide comparative data, including restatement of opening balances at 1 August 2014. The draft HE/FE SORP, which supports the new accounting framework in FRS 102, has been released for consultation. The aim of the revised SORP is to interpret the Standard to aid consistency and comparability of financial reporting across the sector. The consultation is open until 17 November 2013 and responses to the consultation from Universities are encouraged. The key proposed differences between the existing UK GAAP reporting framework and the new reporting framework are summarised below:

- **Capital grants**-Most capital grants will be credited to the income statement under the performance model rather than being deferred on the balance sheet. This will result in more volatility in the income and expenditure account.
- **Deficit recovery plans for defined benefit pension schemes accounted for as a defined contribution scheme**- Any agreed deficit recovery plan will be recognised as a liability on the balance sheet and unwound over time as the liability is discharged.
- **Holiday pay accruals**- Accruals will be required for any annual leave incurred but not taken where the holiday year end is non-coterminous with the financial year.
- **Service concession arrangements**- Any arrangements entered into with third party student accommodation providers are likely to be brought onto the balance sheet if a university, as grantor, retains control over the arrangement.
- **Fair values**- The value of a number of assets and liabilities will now be recorded at fair value with changes in value taken to the income statement for example, endowments, other investments, some loans with more complex terms and other financial instruments such as interest rate swaps.
- **Classification of tangible fixed assets**-Some fixed assets may be reclassified as investment properties.

Company law

At present companies are required to prepare a directors' report in their financial statements. For years ending on or after 30 September 2013, companies, including companies limited by guarantee, such as London South Bank University, will be required to prepare two reports contained within the financial statements being, 'The annual report' and 'The strategic report'.

The annual report is much like the current operating and financial review, and should contain a fair, balanced and understandable assessment of the company. The strategic report should contain information about risks, uncertainties, key performance indicators and future developments. The content is not significantly different from current reporting requirements and will be required for the year ended 31 July 2014 onwards.

9. Financial reporting and other developments

HEFCE Financial Memorandum Consultation

HEFCE are currently consulting on the proposed changes to the Financial Memorandum which will take effect on 1 August 2014 (consultation closes 6 December 2013). The changes proposed in the consultation take account of the Government's recent reforms to the funding and regulation of HE as well as changes in how banks lend money to universities and colleges.

The key proposed changes are:

- Changes to the thresholds for approval from HEFCE to take out additional borrowing. This is to ensure HEIs are not taking on financial commitments that are unaffordable.
- A register of HE providers- this will provide information to prospective and current students on corporate form, quality assurance and student complaints and also highlight any issues that HEFCE feel is necessary to bring to the student's attention. The information in this register could influence a student's decision about where to study.
- Consideration of an Institutional sustainability assessment and report- Adoption will be of benefit to governing bodies, provide valuable assurance to HEFCE and research councils and could serve multiple purposes including the institution's own going concern assessments.

HEFCE Accounts Direction

The HEFCE Accounts direction for 2013-14 has now been released and includes disclosure requirements for the next financial year end. There are only minor changes to the Direction in relation to remuneration and governance disclosures. We are expecting further guidance to be issued in respect of going concern disclosures but are still awaiting the outcome of the Lord Sharman enquiry before this is finalised.

Audit reporting

The Financial Reporting Council has issued ISA (UK & Ireland) 700 (Revised) 'Auditor's report on the financial statements'. The effective date is for audits of financial statements for periods commencing on or after 1 October 2012, which for Universities is the year ended 31 July 2014. The revised standard is designed to complement changes made to the UK Corporate Governance Code in October 2012.

This change applies to entities that are required (i.e. listed companies), and those that choose voluntarily, to report on how they have applied the UK Corporate Governance Code. Therefore, if a University includes a statement in their Corporate Governance report stating that they comply, even in part, with the UK Corporate Governance Code, there will be additional requirements on us, as auditors, to report on the scope of the audit, the key risks and the application of the concept of materiality. This is likely to have an impact on the level of our fees.

As a result, the governing body should consider whether the statement should state compliance with the UK Code of Governance, given it is not mandatory in the sector. Other wording may be more appropriate and avoid additional audit requirements.

10. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Group's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓
<i>INCLUDE AS APPROPRIATE</i> Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

International Auditing Standard (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the governing body and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

DRAFT



© 2013 Grant Thornton UK LLP. All rights reserved.

'Grant Thornton' means Grant Thornton UK LLP, a limited liability partnership.

Grant Thornton is a member firm of Grant Thornton International Ltd (Grant Thornton International). References to 'Grant Thornton' are to the brand under which the Grant Thornton member firms operate and refer to one or more member firms, as the context requires. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by member firms, which are not responsible for the services or activities of one another. Grant Thornton International does not provide services to clients.

grant-thornton.co.uk

	PAPER NO: AC.57(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Final Internal Audit Annual Report 2012/13	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	Audit Committee	On: Annually
Further approval required?	n/a	n/a
Communications – decision notice?	n/a	

Executive summary

The conclusions from the internal audit work programme for 2012/13 are discussed in more detail in the attached report. Subject to some control design and operating effectiveness issues surrounding IT security for which responses are in hand, the internal audit opinion is that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of both risk management, control and governance; and for economy, efficiency and effectiveness (value for money) arrangements.

The Executive recommends that the Audit Committee note the attached report, now presented in final format.

Internal Audit
Annual Report
2012/2013
FINAL

**London South
Bank University**

October 2013

Contents

1. Executive summary	1
2. Summary of findings	3
3. Internal Audit work conducted	7
4. Follow up work conducted	10
Appendix 1: Limitations and responsibilities	12
Appendix 2: Basis of our opinion and classifications	13
Appendix 3: Partially implemented agreed actions	15
Appendix 4: Mapping of internal audit work	17
Appendix 5: Performance of internal audit	18

Distribution List

For action	Richard Flatman, Executive Director of Finance Audit Committee
For information	James Stevenson, University Secretary

This document has been prepared for the intended recipients only. To the extent permitted by law, PricewaterhouseCoopers LLP does not accept or assume any liability, responsibility or duty of care for any use of or reliance on this document by anyone, other than (i) the intended recipient to the extent agreed in the relevant contract for the matter to which this document relates (if any), or (ii) as expressly agreed by PricewaterhouseCoopers LLP at its sole discretion in writing in advance.

1. *Executive summary*

Background

The Model Financial Memorandum between the Higher Education Funding Council for England (HEFCE) and institutions requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Audit Committee. As such, the purpose of this report is to present our view on the adequacy and effectiveness of:

- Risk management, control and governance; and
- Economy, efficiency and effectiveness (value for money) arrangements.

Whilst this report is a key element of the framework designed to inform Audit Committee's Annual Report to HEFCE, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee's responsibility for forming their own view on governance, risk management, control and value for money arrangements.

This report covers the period to the financial year ended 31 July 2013.

Scope

Our findings are based on the results of the internal audit work performed as set out in the Internal Audit Risk Assessment and Internal Audit Plan 2012/13 approved by the Audit Committee in June 2012. Our report also includes reference to the following additional audits:

- Payroll Implementation Review; and
- Payroll Implementation Follow Up Review.

Our opinion is subject to the inherent limitations of internal audit (covering both the control environment and the assurance over controls) as set out in Appendix One.

Our internal audit work is designed to comply with the Model Financial Memorandum between HEFCE and other institutions. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

Opinion

Our opinion is based on our assessment of whether the controls in place support the achievement of management's objectives as set out in our Internal Audit Risk Assessment and Internal Audit Plan 2012/13. We have completed the program of internal audit work for the financial year ended 31 July 2013.

Our work in relation to Risk Management, Control and Governance indicates that London South Bank University's overarching mechanisms for ensuring the regularity and propriety of activity are largely sound.

The core control environment has remained robust overall. Our continuous auditing fieldwork during the year had identified some recurrent control deficiencies over payroll processing which required additional focus. However, our most recent continuous audit work for the period 1 May to 31 July 2013 has identified no issues within this cycle which provides some assurance that this control environment had stabilised by year end.

We have been made aware of some control design and operating effectiveness issues surrounding IT security which we believe has implications with respect to London South Bank University's control framework. These matters are described further in Section Two of this report.

Except for the areas noted in Section Two, we believe London South Bank University has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of:

- Risk management, control and governance; and
- Economy, efficiency and effectiveness (value for money) arrangements.

Acknowledgement

We would like to take this opportunity to thank London South Bank University staff, for their co-operation and assistance provided during the year.

2. Summary of findings

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below. We have also mapped our key findings to each area of Audit Committee responsibility.

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 14 internal audits. This resulted in the identification of 0 critical, 5 high, 13 medium and 11 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness of these controls.</p> <p>The results of our trend analysis indicate that the control environment has remained consistent with the previous year. The number of high risk and critical risk issues identified has remained consistent with the previous year and the number of low risk issues has reduced. While the number of medium risk issues has increased, overall the volume of recommendations has reduced.</p>	<p>Our audit plan was scoped to address London South Bank University's key risks and strategic objectives. We mapped each review to these areas in our 2012/13 Internal Audit plan.</p> <p>We have completed our internal audit plan in line with the set timescales.</p> <p>We have delivered two additional 'value enhancement reviews' to support London South Bank University with the implementation of their new payroll system and we have mobilised specialists in the areas of ICT and finance in year.</p>
<p>Risk Management, Control and Governance</p> <p>Our work in relation to Risk Management, Control and Governance indicates that London South Bank University's overarching mechanisms for ensuring the regularity and propriety of activity are largely sound.</p> <p>Control:</p> <p>There remain opportunities for management to improve this framework and provide more robust assurance.</p> <p>As noted in our overall opinion, the core control environment has remained robust overall. Our continuous auditing fieldwork during the year had identified some recurrent control deficiencies particularly over payroll processing which required additional focus. However, we are pleased that our most recent continuous audit work for the period 1 May to 31 July 2013 has identified no issues within the payroll cycle which provides some assurance that the control environment over this cycle had stabilised by year end. By the end of the year our continuous audit report was showing all cycles as green and operating effectively. A summary of continuous auditing performance and results of individual reviews is included in Section Three.</p> <p>We have been made aware of some control design and operating effectiveness issues surrounding IT security which we believe has implications with respect to London South Bank University's control framework. These key findings are summarised opposite.</p>	<p>Our review of IT Controls and Phishing identified three high risk issues:</p> <ul style="list-style-type: none"> • We identified weak controls surrounding the allocation of access to restricted areas and a lack of formal 'area owners'. Weak security controls resulted in over 500 people being able to access one server room (K2) and 180 individuals being able to access the University's other server room (G70). • There was a lack of management authorisation for the creation or definition of new 'Phonebook' administrators. There was an absence of a formalised process or retained evidence of requests to add new staff into the phonebook. We identified 22 network accounts (from a sample of 30) of leavers that were still active. • There were weak security settings within staff network accounts and we identified a number of administrator accounts which had been set to 'password never expires'. We also identified that systems are configured to log activities to a maximum size of entries (130Mb) and to overwrite the entries should the log become full. At the time of testing, the security log only contained the previous four hours of entries. <p>Our Phishing exercise was also responded to by a significant number of employees.</p>

Risk management:

Our work surrounding risk management was limited to a follow up of prior year findings - these are reviewed as part of our quarterly updates to Audit Committee. Overall risk management processes and controls have improved; three of four recommendations from 2011/12 were implemented in 2012/13. To ensure implementation of the final recommendation, further work is needed to ensure that departmental registers are complete, updated and reviewed on a timely basis.

Governance:

Overall governance arrangements appear to be reasonable. Our core financial systems work has identified appropriate segregation of duties and reporting/documenting of key processes.

Another indicator of a strong compliance culture is managements prompt implementation of audit recommendations.

Two other high risk control findings from our planned work were:

- Financial Forecasting - At the time of audit, quarterly capital reports did not provide a complete overview of all the capital expenditure and only included financial information on Estates and Facilities. We also noted that there is no formal communication channel to discuss this with the Executive team and that the Q2 capital report was not produced due to staff sickness and limited resources; and
- Continuous Auditing Q2 - During our continuous auditing fieldwork we identified that the aged debt listing included a number of credit balances. The current practice is to net these off against future transactions made by the customer. These are not refunded unless the customer claims these in writing. If the University does not make appropriate attempts to return overpayments to customers, the University may be breaking the law.

Value for Money

Institutions have a duty of care to ensure the proper use of public funds and the achievement of value for money. Accordingly, our audit approach considers value for money as an integral objective of the University’s systems of internal control. Our work indicates that the processes in place to ensure value for money is achieved are in accordance with good practice.

In the current year our audit work has considered value for money across a range of areas. These include:

University Enterprise

We reviewed the operations and responsibilities of University enterprise. This included ensuring that there is a clear line of sight with regard to the activities that are managed through University Enterprises, SBUEL and the University and ensuring that for all appropriate commercial activities to be managed through the appropriate University entity in order to create efficiencies and maximise opportunities associated with economies of scale, VAT and tax.

We also confirmed that there are policies and procedures in place to ensure that contracts linked to commercial activities are actively managed with an appropriate control environment supporting them such as robust systems.

We also reviewed the process for budget setting, monitoring and management reporting of commercial enterprise. This included ensuring that:

- Projects are entered into once a business case, budget and project plan have been prepared, reviewed and approved.
- Projects are monitored on a timely basis with performance monitored against approved budgets and project plans and actions taken as a result.
- The financial performance of Commercial Enterprise is subject to appropriate and timely

	<p>scrutiny.</p> <ul style="list-style-type: none"> Processes and procedures are consistent across the organisation. <p>Our work concluded that the Commercial Enterprise vision is in line with expectation for a forward-looking higher education institution and supports the University's objectives to maximise its revenue-generating capacity from Commercial Activity. However, a lack of 'buy-in' across the University could hinder the achievement of these objectives: we noted that some individuals do not understand the rationale behind Enterprise and some Faculties do not see the benefit of the structure to them.</p> <p><i>Capital Projects</i></p> <p>We reviewed the University's Capital Programme to ensure it is clearly aligned to corporate priorities and considered the business case development and appraisal to ensure there is a clear and transparent process governing the development and approval of proposed capital projects, which facilitates the achievement of value for money. Our work concluded that a new system has been put in place which has been seen as a positive development. The new processes have ensured consistency of business cases submitted that proper approvals are sought for these projects. We noted some opportunities to further improve this process framework and ensure that those responsible for preparing business cases have appropriate training and guidance to properly undertake this role.</p> <p><i>Financial Controls</i></p> <p>In the course of our continuous audit work we test the operating effectiveness of controls in place designed to ensure transactions are approved and reviewed in accordance with the University's delegated authority framework. Our work concluded that the majority of London South Bank University's financial controls appear to be operating effectively however there are opportunities to improve compliance in this area (see internal control section above).</p>
<p>Data Quality</p> <p>The Financial Memorandum includes a mandatory requirement for quality assurances to be provided by Institutions over the data submitted to the Higher Education Statistics Agency (HESA) and HEFCE.</p> <p>Whilst there is no requirement for our internal audit programme to provide a conclusion in respect of data quality, our internal audit programme in 2012/13 has been designed to support the Audit Committee in forming its conclusion in respect of such matters.</p>	<p>TRAC</p> <p>Procedure notes are in place outlining the timeline for compilation of the TRAC return and there is an established review process to confirm the accuracy and completeness of data. Compilation and review of the return is restricted to a limited number of individuals. London South Bank University may wish to consider training additional staff or delegating some tasks to avoid knowledge gaps and for contingency planning purposes. London South Bank University also needs to ensure that review processes are documented and retained to evidence the work performed. Review structures should also be reassessed to ensure they are compliant with JCPSG guidance. The University encountered delays in receipt of data which meant that the 2011/12 return</p>

was not authorised by the Vice Chancellor until 02/02/2012. This is after the formal submission date to HEFCE (31/01/2012).

Key Information Sets

London South Bank University adopted a logical approach to compiling data and our re-performance of a sample of calculations found data was calculated accurately. However, testing identified a number of instances where Management could not locate the original source documentation to validate the results.

Data was submitted to HEFCE on time but there were a number of examples of non-compliance with internal deadlines which threatened this being achieved. We also noted that there are no procedure notes for four of the indicators.

3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work and implications for next year's plan. We have also provided an analysis of findings identified year on year to provide an indicative direction of travel.

The criteria for our report classifications and the definitions applied in the assessment of our individual findings are included at Appendix Two. We also include a comparison between planned internal audit activity and actual activity, to assist with budgeting and forward planning.

Results of individual assignments

Audit unit	Report status	Report classification	Number of findings				
			Critical	High	Medium	Low	Advisory
Continuous Auditing Q4 2011/12	Final	No classification	-	-	-	1	-
Continuous Auditing Q1 2012/13	Final	No classification	-	-	-	1	-
Continuous Auditing Q2 2012/13	Final	No classification	-	1	3	-	-
Continuous Auditing Q3 2012/13	Final	No classification	-	-	-	-	-
IT controls and phishing	Final	High	-	3	-	-	-
Review of Capital Programme	Final	Low	-	-	-	1	-
Management of Fraud Risk	Final	Low	-	-	1	2	2
TRAC	Final	Medium	-	-	3	1	-
Key Information Sets	Final	Low	-	-	1	3	1
Enterprise	Final	Medium	-	-	4	1	1
Financial Forecasting	Final	Medium	-	1	1	1	-
Risk Management	Final	N/a – follow up	-	-	-	-	-
Payroll Implementation	Final	N/a – value enhancement	-	-	-	-	-
Payroll Implementation Follow Up	Final	N/a – value enhancement	-	-	-	-	-
Total			-	5	13	11	4

To assist the Audit Committee in understanding how our work corresponds to their reporting responsibilities, we have mapped our work against these areas in Appendix Four.

Audit Findings - Direction of travel

Finding rating	Trend between current and prior year	Number of findings	
		2012/13	2011/12
Critical		0	0
High		5	5
Medium		13	9
Low		11	18
Total		29	32

Implications for management

The results of our trend analysis indicate that the control environment has remained consistent with the previous year. The number of high risk and critical risk issues identified has remained consistent with the previous year and the number of low risk issues has reduced. While the number of medium risk issues has increased, overall the volume of recommendations has reduced.

Whilst acknowledging that the direction of travel is positive overall, it should be noted that tangible improvements will only be achieved if timely actions are taken to address the findings identified in the course of our work.

Further analysis of the continuous auditing programme

Whilst no overarching classification is assigned in respect of our continuous auditing reports, we have below summarised the systems ratings assigned and number of operating effectiveness exceptions identified in each financial quarter under consideration as part of the 2012/13 audit programme.

System / Rating	Trend	Q4 2012/13	Q3 2012/13	Q2 2012/13	Q1 2012/13
Payroll		Green (0)	Amber (4)	Amber (2)	Amber (2)
Accounts payable		Green (1)	Green (1)	Amber (1)	Green (0)
Accounts receivable		Green (1)	Green (0)	Amber (2)	Amber (3)
Cash		Green (0)	Green (1)	Green (0)	Amber (1)
General Ledger		Green (1)	Amber (2)	Amber (0)	Green (0)
Student financial data		Green (0)	Green (1)	Green (0)	Green (0)

Implications for next year's plan

We have increased the number of days assigned to our continuous auditing programme to reflect additional assurance needed over the payroll system and as a result of recurrent control issues identified during continuous auditing.

We will review IT security findings as part of quarterly reporting and have included a review of Disaster Recovery and Business Continuity for 2013/14.

Comparison of planned and actual activity

<i>Audit</i>	<i>Audit Type</i>	<i>Budgeted days</i>	<i>Actual days</i>
Continuous Auditing Q4 2011/12	Value protection	11	11
Continuous Auditing Q1 2012/13	Value protection	11	11
Continuous Auditing Q2 2012/13	Value protection	10	10
Continuous Auditing Q3 2012/13	Value protection	11	11
IT controls and phishing	Value protection	15	15
Review of Capital Programme	Value protection	8	8
Management of Fraud Risk	Value protection	5	5
Risk Management	Value protection	2	2
TRAC	Value protection	3	3
Key Information Sets	Value protection	10	10
Enterprise	Value protection	10	10
Financial Forecasting	Value protection	5	5
Payroll Implementation	Value enhancement	7	7
Payroll Implementation Follow Up	Value enhancement	4	4
Audit Management and Value for Money	N/a	16	16
	Total	128	128

Appendix Five provides further details on the performance of internal audit.

4. Follow up work conducted

Introduction

Within the Internal Audit Risk Assessment and Internal Audit Plan 2012/13, five days were assigned for following up recommendations previously raised and falling due for implementation.

To provide regular and timely insight with regards to management's progress in this area, we reported on the results of our follow up work on a quarterly basis.

Where recommendations were classified as critical, high or medium risk, we have validated that management's actions have been implemented. Where recommendations were classified as low risk, our follow up was limited to discussing progress with management and accepting their assurances with regards to the implementation status.

If some action has been taken to implement a recommendation then the action has been classified as 'partially implemented'. If no action has been taken, the recommendation has been classified as 'outstanding'.

Please note follow up work was not undertaken on findings from our continuous auditing programme. This is because issues noted as part of continuous auditing are followed up each quarter.

Summary

The majority of agreed actions have been implemented throughout the year (90% implementation rate) and at 31 July 2013 only three actions that were due to have been resolved by year end remain open. These three actions have been partially implemented and all relate to our review of Enterprise. These have all been classified as medium risk and had a target completion date of 31 July 2013. We have included a breakdown of these findings in Appendix Three.

We will continue to work collaboratively with management in 2013/14 to ensure that implementation timescales agreed in respect of recommendations raised in year are achievable, taking in to account any known or expected changes in London South Bank University's processes or regulatory requirements.

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have prepared the Internal Audit Annual Report and undertaken the agreed programme of work as agreed with management and the Audit Committee, subject to the limitations outlined below.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound arrangements and systems for risk management, internal control and governance. Additionally, management is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance. Management is responsible for review regularly the adequacy and effectiveness of these arrangements.

Management is responsible for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibility for the design and operation of these controls.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Opinion

The opinion is based on the work undertaken as part of the Internal Audit Risk Assessment and Internal Audit Plan 2012/13. The work addressed the control objectives agreed for each individual internal audit assignments as set out in our Internal Audit Risk Assessment and Internal Audit Plan 2012/13.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual audits was extended or other relevant matters were brought to our attention.

Internal control:

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods:

Our assessment of controls relating to London South Bank University is for the year ended 31 July 2013. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Appendix 2: Basis of our opinion and classifications

Assignment Report classifications

Assignment report classifications are determined by allocating points to each of the findings included in the report:

Findings rating		Points
Critical		40 points per finding
High		10 points per finding
Medium		3 points per finding
Low		1 point per finding
Report classification		Points
●	Critical risk	40 points and over
●	High risk	16– 39 points
●	Medium risk	7– 15 points
●	Low risk	6 points or less

Individual finding ratings.

Finding rating	Assessment rationale
Critical	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Critical impact on operational performance resulting in inability to continue core activities for more than two days; or • Critical monetary or financial statement impact of £5m; or • Critical breach in laws and regulations that could result in material fines or consequences over £500k; or • Critical impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.
High	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Significant impact on operational performance resulting in significant disruption to core activities; or • Significant monetary or financial statement impact of £2m; or • Significant breach in laws and regulations resulting in significant fines and consequences over £250k; or • Significant impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.

Medium	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Moderate impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or • Moderate monetary or financial statement impact of £1m; or • Moderate breach in laws and regulations resulting in fines and consequences over £100k; or • Moderate impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.
Low	<p>A finding that could have a:</p> <ul style="list-style-type: none"> • Minor impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or • Minor monetary or financial statement impact £500k; or • Minor breach in laws and regulations with limited consequences over £50k; or • Minor impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.
Advisory	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>

Appendix 3: Partially implemented agreed actions

Breakdown of partially implemented agreed actions

Three agreed actions which were due to be implemented by 31 July 2013 are still ongoing at year end. All actions relate to our 2012/13 review of Enterprise. We have provided a breakdown of the original finding raised, risk rating, agreed action, target implementation date and progress against these items below.

Finding	Agreed action	Status
<p>There is a lack of clarity surrounding what constitutes activities are defined as ‘Enterprise activities’ and ‘University activities’. For example, commercial lettings are run by both Enterprise and Estates. Similarly, commercial projects may be run by Enterprise or Faculties.</p> <p>There is currently no formal policy outlining whether projects should be run through SBUEL or London South Bank University. We recognise that in practice this rarely presents an issue, as most types of project have historical precedent and so treatment is not ambiguous. However, it will become more difficult to rely on ‘precedent’ as more complicated projects are adopted.</p>	<p>Risk Rating: Medium</p> <p>Agreed Action: The Enterprise team, working with colleagues in Finance will develop a straightforward checklist to enable non-financial experts to allocate projects correctly, in the context of taxation and other compliance considerations.</p> <p>Due date: 31 July 2013</p>	<p>The LSBUEL accountant has produced a set of guidelines, “Allocation of projects to SBUEL or the University”, which are currently being reviewed by the Director of Enterprise, and will be taken to the executive for approval in due course. However, a straightforward and universal checklist is impossible to produce, as the question of whether a new project should be routed through LSBUEL or the University is not absolutely clear cut – and can sometimes involve an element of judgement from the staff within the enterprise team.</p>

<p>There are no procedures outlining the approval limits for entering contracts for the supply of products or services (i.e. sales) at an Enterprise level. London South Bank University's Financial Regulations do not include any delegation limits in respect of sales.</p>	<p>Risk Rating: Medium</p> <p>Agreed Action: Procedures will be developed to formalise approval limits. This will be developed to be consistent with London South Bank University's Financial Regulations and will include due diligence checks on contracting parties, consultation with legal and analysis of budgets.</p> <p>It is noted that the Financial Regulations are not specific on the controls that must be applied beyond those imposed by the FEC form (i.e. they specify no value constraints).</p> <p>Values for each level should be set based on a review and discussion of the capacity of the University to deliver commercial contracts and will be agreed by the SBUEL Board of Directors.</p> <p>Due date: 31 July 2013</p>	<p>Progress has been made in implementing a process of approval limits but this has not yet been implemented. A paper has been written which will be presented to SBUEL board on 25 September 2013 recommending a specific scheme of delegation for commercial sales and recommending that it is adopted as an addendum to the financial regulations.</p>
<p>There is a lack of goal congruence between the Enterprise vision and the reality of managing commercial activity at a Faculty level. Our interviews with Faculties identified that some individuals are sceptical about the new approach to Enterprise being taken by the University Enterprise team, do not see its relevance to their own work and are unclear that engagement with Enterprise will lead to any 'value'. There is a perception that the engagement imposes an additional administrative burden on them. Overall, this leads to a lack of buy-in to the goals of the Enterprise teams in some Faculty areas and can mean opportunities to maximise income for Enterprise are not seized.</p>	<p>Risk Rating: Medium</p> <p>Agreed Action: We have performed multiple exercises with Faculties to explain the purpose of University Enterprise. However, there remains an issue regarding 'buy-in' within some Faculties to the work we are trying to do. This is largely centred on the lack of strategic goals and incentives which are aligned across University Enterprise and Faculty. There are a number of perceived 'perverse' incentives (often around financial control and targets) which continue to act as barriers to more aligned working.</p> <p>We will share findings from this report with the University Executive team to establish a formal route to securing better alignment of objectives and incentives with Faculties. In parallel, we will continue to perform formal exercises to engage with key stakeholders at Faculty level to build buy-in from individuals into the nature of the Enterprise offering, the resources available and the potential for 'value-add' in their own work.</p> <p>Due date: 31 July 2013</p>	<p>University Enterprise has continued to make incremental improvements. Enterprise's approach has been to demonstrate the value of what they can do for faculties through operational delivery. This creates a track record of adding value and fosters alignment between the Enterprise team and academics in the Faculties. There is a growing portfolio of projects that can be used to demonstrate Enterprise's value to faculties and a growing recognition of this. However, there remains a long way to go to achieve true and complete alignment in some faculty areas where significant culture change is required. Enterprise continues actively to engage with Faculty staff at all levels to make progress on this action but do not expect a quick step change. This action is jointly assigned to University Enterprise and the University Executive.</p>

Appendix 4: Mapping of internal audit work

Reporting responsibilities

The table below maps our internal audit work against the Audit Committee's reporting responsibilities.

<i>Audit</i>	<i>Governance</i>	<i>Risk management</i>	<i>Control</i>	<i>Value for money</i>	<i>Data submission</i>
Continuous Auditing	-	x	x	x	x
IT controls and phishing	-	-	x	-	-
Review of Capital Programme	<i>X</i>	-	x	x	-
Management of Fraud Risk	-	x	x	-	-
Risk Management	-	x	-	-	-
TRAC	-	-	x	-	x
Key Information Sets	-	x	-	-	x
Enterprise	<i>X</i>	-	x	x	-
Financial Forecasting	-	x	x	-	x
Payroll Implementation	-	-	x	-	x
Payroll Implementation Follow Up	-	-	x	-	x

Key

- x** Testing focused on this area
- x** Testing was peripheral
- Not tested

Data submission

The Audit Committee's Annual Report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of data submissions to HESA, HEFCE and other funding bodies. To assist the Audit Committee prepare its Annual Report, we have outlined where our work assessed the arrangements for the management and quality assurance of data submissions (see the table on this page). We provide no conclusions or opinion on data quality.

Appendix 5: Performance of internal audit

Key Performance Indicators

We agreed a suite of Key Performance Indicators (KPIs) with management and the Audit Committee. Our performance and that of management against each KPI as at 31 July 2013 is shown in the table below.

Audit Stage	KPI	Achieved/Not Achieved	Narrative
Production of Internal Audit Plan	The annual internal audit plan will be produced for the June Audit Committee. The plan will be risk based and linked to the University's Risk Register. Once the plan is approved by the Audit Committee any further material changes must be approved by the Committee.	Achieved	The 2013/14 internal audit plan was approved at the June Audit Committee. This was compiled following a risk based approach and was linked to the University's risk register.
Terms of reference	All internal audit ToRs will be agreed with the audit sponsor at least 1 week before the fieldwork start date.	Achieved	The Capital projects final ToR was agreed prior to the fieldwork starting but within a week. However, the content of the ToR had been agreed with management well in advance of this.
Fieldwork	All audit fieldwork will be recorded on our electronic working paper system.	Achieved	-
Exit Meeting	An exit meeting will be held at the end of each audit to discuss the audit findings and recommendations with the audit sponsor.	Achieved	-
Draft Report	The draft report will be issued to the audit sponsor and Executive Director of Finance within 10 working days of the completion of fieldwork.	Achieved	-
Management Response	The audit sponsor will provide the engagement manager with a complete written response to the internal audit report within 10 days of receipt of the draft report.	Achieved	Late response for four reports.
Final Report	The final report will be issued to the audit sponsor and Executive Director of Finance within 5 working days of receiving the management response. The final report will include a schedule identifying responsibility and a timescale for implementation of the recommendations.	Achieved	-

<i>Audit Stage</i>	<i>KPI</i>	<i>Achieved/ Not Achieved</i>	<i>Narrative</i>
Audit Committee	The engagement manager or Head of Internal Audit will provide an internal audit update report to each Audit Committee (unless requested not to) and an internal audit annual report to the Audit Committee each year.	Achieved	Update reports provided at September, October, February and June Committees. Our internal audit annual report 2011/12 was presented at the September Committee and the 2012/13 report will be presented at the September 2013 Committee meeting.
Pre Audit Committee Meetings	The engagement manager will meet with the Executive Director of Finance a minimum of 3 weeks before each Audit Committee to discuss progress and reports to be presented to the Audit Committee.	Achieved	-
100% of audits delivered against the plan	Progress against plan detailed in the Annual Internal Audit report. Any changes to the Internal Audit plan will be agreed with Executive Director of Finance (and the Audit Committee, where material) prior to action.	Achieved	-
Management feedback >7 or above	A client satisfaction survey will be issued annually. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	Achieved	-
Audit Committee feedback >7 or above issues promptly	A client satisfaction survey will be issued annually to the Chair of the Audit Committee. Results will be shared with the Audit Committee, Executive Director of Finance and any results < 7 discussed and remedied.	TBC	Issued.



In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, London South Bank University discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

	PAPER NO: AC.58(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Assumptions used for the LSBU FRS17 report at 31/7/13	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommend that the committee approves the assumptions made by the LPFA scheme actuaries, Barnett Waddington, for FRS17 disclosures.	
Aspect of the Corporate Plan to which this will help deliver?	Statutory financial reporting.	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	N/A	

1. Executive summary

Assumptions for the LSBU FRS17 report at 31/7/13 have been received and are attached. This paper is presented to Committee because the assumptions used by the actuaries in respect of the Local Government Pension scheme (LGPS) have a significant impact on our reported financial result including the reported scheme deficit. It is important therefore that the assumptions are reviewed and approved.

We have taken advice from Grant Thornton, the University's auditors, and they have confirmed that the assumptions used are acceptable for use when preparing the FRS17 report as a basis for inclusion in the University's statutory financial statements.

2. Assumptions

Barnett Waddingham, the scheme actuary, has provided the rates they have used for LSBU for 2013. These are linked to the agreed inflation and discount rate curves. The specific rates for London South Bank University, as set out in the table below, are based on our profile as an individual employer given the duration of our liabilities. This focus on the duration of individual employer liabilities is welcomed and represents a key change in approach from previous years where the annualised yield on the iBoxx AA rated over 15 year corporate bond index was used as the discount rate (and deemed to be appropriate for all employers regardless of liability duration).

The rates for 2013 are as follows and have been shown alongside the actual LSBU assumptions last year, the ranges that Barnett Waddington has set for all employers in the scheme and benchmark data.

	31/7/13	31/7/12	31/7/13	31/7/13
	LSBU		Range for all employers	Benchmark*
RPI increases	3.3%	2.6%	2.9%-3.4%	-
CPI increases	2.5%	1.8%	2.1%-2.6%	2.1%-3.25%
Salary increases	4.2%	3.5%	3.8%-4.3%	1.9%-5.1%
Pension increases	2.5%	1.8%	2.1%-2.6%	1.9%-3.25%
Discount rate	4.7%	3.9%	3.6%-4.8%	3.6%-5.6%

Mortality (based on future life expectancies at the age of 65)	31/7/13	
	LSBU	Benchmark*
Current pensioners – male	20.9	17.0-23.8
Current pensioners – female	23.9	19.0-25.2
Future pensioners - male	22.9	18.0-25.1
Future pensioners – female	25.8	20.0-27.2

*The Benchmark has been provided by Grant Thornton from various educational institutions

The key assumption in terms of the value of liabilities is neither the discount rate nor the inflation rate (CPI) but the difference between the two – the “real discount rate” which drives the valuation of the liabilities. The higher/lower the real discount rate the lower/higher the valuation of the pension liabilities on the face of the balance sheet and the higher/lower the cost of the FRS17 charge in the I&E account.

The real discount rate at 31/7/13 is 2.2% (4.7-2.5) compared with 2.1% in the previous year. Therefore the discount rate applied to our liabilities will be greater and this has contributed to the reduction in our FRS17 deficit as shown on the balance sheet at 31 July 2013.

These assumptions were reported to the September 2013 meeting of Audit Committee. Final approval was deferred pending review of the benchmarking analysis provided each year by Grant Thornton.

3. Benchmarking analysis

The benchmarking data for mortality assumptions shows that the figures for LSBU are mid-range compared to the other educational institutions that Grant Thornton reviewed. Other assumptions for Pension increases, salary increases, discount rate and CPI increase are reasonable compared with the benchmark.

Benchmarking data and a full commentary on the assumptions used has been provided by Grant Thornton and is shown on pages 23 and 24 of their Audit Findings document.

4. Recommendation

The Committee is asked to note and approve the assumptions.

	PAPER NO: AC.59(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Going concern review	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that Audit committee note and recommend approval by the Board of the going concern statement in the statutory accounts.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability.	
Matter previously considered by:	N/A	
Further approval required?	Policy and Resources Board of Governors	12 November 2013 21 November 2013
Communications – who should be made aware of the decision?	Grant Thornton	

Executive summary

The financial statements set out the responsibilities of the Board of Governors. One of those responsibilities is to ensure that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the University will continue in operation. In ensuring the applicability of the going concern basis, the Board must be satisfied that the University has adequate resources to continue in operation for the foreseeable future.

This paper is presented to the Board and its committees to summarise the assurance sources regarding the future sustainability of LSBU which underpin the going concern statement in the annual financial accounts.

The Going Concern statement in the annual accounts reads as follows:

“Governors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. 2012/13 has been another year of continued strong financial performance. A reduced budget surplus for 2013/14 of £2.5m has been approved, but this is after accounting for a revenue investment pool of £2m which therefore allows for some flexibility in terms of actual spend. The next few years however will remain challenging in financial terms and the levels of surplus are expected to remain lower than the recent past whilst we are in the process of investing for growth, delivering new income streams and improving progression. This is entirely consistent with the University’s financial model and approved 5 year forecasts. Whilst financial performance is expected to remain challenging, the University will continue to deliver annual surpluses and generate positive cash inflows from operating activities. This, together with the strong cash position (the University has £60m in the bank at 31 July 2013) supports the Universities ambitious investment plans.”

The key elements that give us assurance regarding institutional sustainability, and which support the going concern statement, are set out below.

1. KPI reporting

- We review the institution’s performance continually using a number of KPIs in areas relevant to the sustainability of the institution. In these areas, we have set long term targets against which the Board of Governors and its committees and our Executive team monitor performance. We are satisfied that our strategies will help us move towards achieving these targets. The latest KPI report is attached as Appendix 1.
- We are satisfied that our process of the selection of KPIs, and of data collection and analysis in setting targets and making assessments is appropriate and rigorous and can be reconciled with other information including the statutory financial accounts.

2. Risk management

- We have an effective risk management process linked to the achievement of institutional objectives and designed to identify, evaluate and effectively manage

risk. Where there are serious issues or risks, this process helps ensure that appropriate controls are in place and/or remedial actions taken as appropriate.

3. Financial sustainability

Financial strategy and forecasts

- The University's financial strategy is expressed through its rolling five year financial forecasts. Those forecasts are kept under constant review and have been thoroughly revised in 2013 to reflect latest assumptions.
- The key elements of the financial strategy are to:
 - aim for a surplus of 5% of income. This will not be achievable each year over the next 5 years although it remains our agreed target. However, the approved average annual surplus over the next 5 years will generate sufficient cash reserves both to increase investment and manage the financial position in the short term until the surplus returns to 5%.
 - ensure that all aspects of the University's operation are as lean and efficient as possible without compromising quality or student success
 - ensure flexibility, to allow management to respond as necessary to changes as they arise. The revenue budget each year includes an investment pool which can be flexed as required in response to changing circumstances
 - deliver growth in income, with a particular focus on enterprise, income from international students and non SNC post graduate and part-time provision
 - manage staff costs, including agency costs, to an agreed maximum percentage of income
 - invest at an appropriate level to provide for future sustainability in buildings and infrastructure
 - maintain cash balances at agreed levels (minimum £20m).
- As stated above, the revised forecasts reflect the continued challenging financial environment over the next few years. However, the forecasts provide:
 - Financial surpluses over the forecast period

- A clear path to toward delivery of 5% surplus target by the end of the forecast period, and
 - sufficient operating cash to enable the University to meet its stated investment need without additional bank borrowing.
- Within our monitoring framework we have set targets for a small number of leading KPIs linked closely to delivery of the financial forecasts and which are monitored closely by the Board. The key targets are:
 - minimum SNC of 2,750 from 2013/14 (with fees moving to £9k from 2014/15)
 - improving YR1/YR2 progression to 65% by 2015/16
 - Additional income of £16m pa (at surplus of 20%) by 2017/18
 - Investment of £107m over the life of the forecasts to 2017/18
 - Maintaining income in the Health and Social Care (HSC) at forecast levels.

2013/14 budget

- The detailed budget planning process for 2013/14 is complete and a budget surplus of £2.5m (1.8%) has been approved by Board. This is in line with the agreed 5 year forecasts. To mitigate for the financial impact of the principal risk around recruitment, the budget contains an explicit contingency of £0.5M as well as an investment pool of £2.0m which can be flexed if required. The budget also contains a provision of £1.5M for restructuring costs and exceptional items.

Student recruitment

- An update on recruitment was recently provided to Policy and Resources Committee. It was reported that the university is on track to recruit its target of 2,750 full time home/EU undergraduate students and that part time undergraduate recruitment is also on target. Postgraduate (both full and part time) and international recruitment are ahead of last year. Overall it is expected that recruitment will be in line with budget.

Cashflow

- Capital expenditure plans have been analysed in detail and a detailed cashflow model has been prepared as an integral part of the 5 year financial forecasts which reflect those agreed spending plans. The approved forecasts provide for sufficient annual net cash inflows to enable the University to meet its increased investment plans and retain sufficient internal cash reserves without additional bank borrowing.

4. Sustainability of quality teaching and research

- LSBU is committed to delivering an excellent student experience, delivered through high-quality teaching, supported through relevant applied research.
- Our focus on the quality of teaching is underpinned by regular monitoring and review, informed by appropriate and recent data, and focused both on the standards of academic awards and the quality of systems to support learning. All modules and courses are subject to evaluation by students, and all Course Directors receive a standard data set which includes information on student progression and achievement, module evaluation, feedback from the National Student Survey and the Survey of Destinations of Leavers in Higher Education. These data inform annual reporting and action planning, as well as providing a context for Heads of Academic Departments in their annual appraisals of academic staff.
- Annual monitoring, in its turn, informs periodic review, usually focused at subject level (and including appropriate levels of external engagement - both academic and professional) which allows for a wider discussion of both teaching and research within the context of the whole operation of the subject or department. As with annual monitoring, this is focused upon the development of an action plan in response to the review, and includes input from both students and graduates. The University has piloted the inclusion of students as members of review panels and is seeking to embed this more widely in our processes. Both annual monitoring and periodic review include the work of the University with collaborative partner organisations (both within the UK and internationally). Reports from periodic review activity are received by Quality and Standards Committee, and their outcomes reported to Academic Board.

- All faculties also engage in quarterly meetings with the Vice Chancellor, Pro Vice Chancellors and Director of Finance. These meetings offer an opportunity to reflect upon performance (again, within the context of a standard data set which includes module evaluation, NSS, DLHE and progression statistics, at a higher level than that used for annual monitoring) and include discussion of the research environment.
- The University's Research Committee, and Research Degrees Committee, also receive regular reports at faculty level, which reflect upon the development of research strategy, progress against delivery of that strategy and the key risks relating to delivery. Research Degrees Committee directly reflects upon the experience of research students and includes representatives from the research student body. Both are direct sub-committees of Academic Board, which receives their minutes, as well as discussing items which derive from these committees and are of wide University interest.
- In the past year, the University has established an Academic Staff Development Unit, which is dedicated to the delivery of the Postgraduate Certificate in Higher Education, both to new staff who have limited experience of teaching in higher education (and for whom participation is made a condition of employment) and for existing staff who wish to develop their professional practice in teaching. The Academic Staff Development Unit is in the process of developing a Professional Development Framework across the University, which is benchmarked to the Higher Education Academy's Professional Standards Framework. The University is working in collaboration with the HEA to seek accreditation of this Framework.

5. Sustainability in estates & infrastructure investment

- The University is continuing with the implementation of its 25 year estates strategy vision to transform the estate to support the delivery of academic services and enhance the student learning experience. Projects undertaken are prioritised based on business needs, criticality of service and cost reduction.
- Following the recent completion of the two 'anchor' projects, plans are in process for the redevelopment of the remaining site with a proposal to invest up to £90m over the next ten years funded from cash reserves and operating

cash flows generated over that period. As before, we are not placing reliance on new loan funding or overreliance on HEFCE capital funding. This investment in the estate will allow us to align and coordinate the interventions and investments, thus saving resources and achieving an improved cost-benefit ratio.

Attachments

1. Latest KPI report

Financial Sustainability					
KPI	2010/11	2011/12	2012/13		YoY
	Actual	Actual	(Target)	Current Performance	up down
Student Numbers & Contracts					
1	Recruitment against HEFCE contract	Within tolerance	Within tolerance	Within tolerance band Within tolerance (prediction)	↔
2	Recruitment against NHS contract	Within 5%	On target	+/-5% On target	↔
Income					
3	Total Income (£)	£144.0m	£138.3m <i>(year end result)</i>	£136.4m £137.9 <i>(year end forecast)</i>	↓
4	International student income	£10.2m	£9.6m <i>(year end result)</i>	£9.2m £8.8m <i>(year end forecast)</i>	↓
5	Research (non-HEFCE) income (£)	£3.4m	£2.4m <i>(year end result)</i>	£2.0m £2.2m <i>(year end forecast)</i>	↓
6	Enterprise income (£)	£8.5m	£10.0m <i>(year end result)</i>	£8.3m £8.4m <i>(year end forecast)</i>	↓
Surplus					
7	Total Surplus (% of income)	7.0%	4.7% <i>(year end result)</i>	1.8% 4.0% <i>(year end forecast)</i>	↓
Other Financial Indicators					
8	Cash Balance (£)	£62.6m	£69.1m <i>(Year end result)</i>	£59.1m £60.0 m <i>(year end forecast)</i>	↓
9	Gearing Ratio	0.34	0.35 <i>(Comparative y-end result)</i>	0.37 0.27 <i>(year end forecast)</i>	↑
10	Days liquidity	179	193.4 <i>(Comparative y-end result)</i>	137 176 <i>(year end forecast)</i>	↓

The Student Experience					
KPI	2010/11 (Actual)	2011/12 (Actual)	2012/13 (Target)	Current Performance	YoY
Student Satisfaction					
11	Overall Student Satisfaction - UG (NSS) *	77%	80% <i>(2011/12)</i>	90% 82%	↑
12	Overall Student Satisfaction - PG	75%	78% <i>(2011/12)</i>	90% 76%	↓
Student Retention & Progression					
13	FTUG Year 1 Progression (%)	60%	63% <i>(2011/12)</i>	70% *due Nov	
14	Graduating in intended period (FTUG 3/4yrs) (%)	53%	52% <i>(2011/12)</i>	65% *due Nov	
Value Added					
15	Employment of graduates (DLHE return)* (Employed, or studying, or both)	82.4%	78.1% <i>(2010/11 cohort)</i>	90% 77.4%	↓
16	No. of first degree students obtaining 1st or Upper 2nd class degrees *	52%	56% <i>(2011/12)</i>	60% *due Nov	
17	No. of first degree students obtaining 1st or 2nd class degrees	89%	90% <i>(2011/12)</i>	80% *due Nov	
Resource Measures					
18	Spend per student (£) * (Academic Services)	£841	£940 <i>(Complete UG 2013)</i>	£1,000 £900 <i>(CUG 2014)</i>	↓
19	Spend per student (£) * (Services & Facilities)	£1,021	£1,062 <i>(Times GUG 2012/13)</i>	£1,000 £1,110 <i>(SundayTimes/Times GUG)</i>	↑
20	Staff:student ratio *	23.3:1	22.4:1 <i>(2011 HESA)</i>	21:1 23.7:1	↓

Brand Profile					
KPI	2010/11 (Actual)	2011/12 (Actual)	2012/13 (Target)	Current Performance	YoY
League Table Ranking					
21	The Sunday Times	120 (of 121)	118 (of 122) <i>(2012 Table)</i>	Out of bottom 5 114 (of 122) <i>(2013 Table)</i>	↑
22	The Guardian	100 (of 119)	104 (of 120) <i>(2013 Table)</i>	Out of bottom 5 113 (of 119) <i>(2014 Guide - June 13)</i>	↓
23	The Complete University Guide	116 (of 116)	109 (of 116) <i>(2013 Table)</i>	Out of bottom 5 119 (of 124) <i>(2014 Table - April 13)</i>	↓
24	The Sunday Times / Times	113 (of 116)	111 (of 116) <i>(2012/13 Table)</i>	Out of bottom 5 118 (of 120) <i>(2014 Table)</i>	↓
Subject League Tables (The Guardian)					
25	No. of subjects in top 75% nationally	5 (of 18)	5 (of 17) <i>(2012/13 Tables)</i>	5 (of 15) 3 (of 21)	↓
26	No. of subjects in top 50% of post-1992	4 (of 18)	3 (of 17) <i>(2012/13 Tables)</i>	5 (of 15) 2 (of 21)	↓
27	No. of subjects in top 50% of post-1992, London	6 (of 18)	3 (of 17) <i>(2012/13 Tables)</i>	5 (of 15) 4 (of 21)	↑
Student Perceptions					
28	Early : late applications (% of FTUG enrolments arising from early/late applications)	75:25	74:26 (2011/12)	80:20 *due Nov	
29	Financial support from donors (cash received, £)	£2.5m	£1.5m (2011/12)	£1.6m £1.35m <i>(2012/13 forecast)</i>	↓
Staff Perceptions					
30	Staff Satisfaction survey participation	NEW	62%	70% 52%	↓

* Key league table measure

**London South Bank
University**

	PAPER NO: AC.60(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Draft Report and Accounts 2012/13	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee review the attached report and accounts and recommend approval to the Board.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability	
Matter previously considered by:	N/A	On:
Further approval required?	Policy and Resources Board of Governors	12 November 2013 21 November 2013
Communications – who should be made aware of the decision?	HEFCE Banks (in connection with loan covenants)	

Executive Summary

The audit for the year ended 31 July 2013 has been completed. The report & accounts are enclosed for review by Audit Committee. The accounts will be submitted to the Board of Governors for approval and signing on 21 November.

Subject to satisfactory completion of the matters referred to in section 1, the committee is requested to recommend approval to the Board.

Attachment: Report and Accounts for 2012/13

1. Outstanding steps to completion

- Review by this Committee
- Review by Policy and Resources Committee
- Approval by Board of Governors
- Signing of accounts

2. Key Issues

The attached accounts are for the year ended 31 July 2013. Grant Thornton have now completed their technical review and any changes to the accounts and their presentation have been incorporated into these accounts.

The University made a surplus for the year of £5.5m, after accounting for a £0.6m exceptional item relating to the divestment of the Student Union. The underlying operating surplus of £6.1m is well ahead of the forecast surplus of £2.5m submitted to HEFCE in November 2012. In the context of the recruitment challenges across the sector in 2012/13 this is a considered a strong result.

No clawback of funds by HEFCE relating to 2012/13 is expected. At the date of this report, the annual HESA return is not complete, but early indications are that the University has reached its funding target. Grant Thornton will monitor the position up to the date of signing the accounts. An amount of £124,408 has been included in the accounts as deferred income in respect to HEFCE grant adjustments relating to 2011/12.

Because of a change in the constitution of London South Bank University Students' Union, from July 2013 the University no longer exercises control over the Student Union. It has therefore not been consolidated into these accounts. The de-consolidation of the Students' Union is shown as a disposal of the net assets of the group and is included as an exceptional loss of £556,000 in the income and expenditure account.

The LGPS pension scheme deficit has reduced from £74.7m to £62.2m, mainly as a result of actuarial gains in the year. However, the I&E charge for the year has increased from £6.3m in 2011/12 to £6.9m in 2012/13, mainly as a result of an increase in the current service cost.

The year-end cash balance, including bank deposits, was £60.0m with net cash outflow for the year of £9.2m after accounting for capital expenditure of £18.5m and repayment of loans of £1.9m.

A detailed commentary on the financial results is included on pages 5-10 of the accounts.

Grant Thornton has presented the results of their audit in their Audit Findings document.

3. Recommendation

The Executive recommends that the Audit Committee review the attached report and accounts and recommend approval to the Board.

Company Registration No. 986761

**London South Bank
University**

Report and Financial Statements

31 July 2013

London South Bank University

Report and financial statements 2013

Contents	Page
Officers and professional advisers	1
Members of the Board of Governors	2
Operating and Financial Review	3
Responsibilities of the Board of Governors	18
Statement on internal control	19
Corporate governance statement	20
Independent auditors' report	26
Consolidated income and expenditure account	28
Consolidated statement of total recognised gains and losses	29
Note of consolidated historical cost surplus	29
Balance sheets	30
Consolidated cash flow statement	31
Principal accounting policies	32
Notes to the accounts	37

London South Bank University

Officers and professional advisers

Chancellor

Mr Richard Farleigh

Vice Chancellor

Professor Martin Earwicker

Pro Vice Chancellors

Dr Phil Cardew (Academic)

Ms Beverley Jullien (External)

Executive Director of Finance

Mr Richard Flatman

Secretary and Clerk to the Board of Governors

Mr James Stevenson

Registered Office

103 Borough Road
London
SE1 0AA

Bankers

NatWest
City of London Office
1 Princes Street
London
EC2R 8PA

Solicitors

SGH Martineau
1 Colmore Square
Birmingham
B4 6AA

Muckle LLP
Time Central
32 Gallowgate
Newcastle-Upon-Tyne
NE1 4BF

Auditor

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
London NW1 2EP

Members of the Board of Governors

The following were Governors throughout the year ended 31 July 2013 except as noted:

Mr David Longbottom (*Chair*)

Professor Martin Earwicker (*Vice Chancellor and Chief Executive*)

Ms Barbara Ahland (appointed 7 November 2012)

Ms Anisa Ali (resigned 30 June 2013)

Mr Steve Balmont

Ms Janet Cattini (resigned 30 November 2012)

Mr Douglas Denham St Pinnock

Mr Ken Dytor

Professor Hilary McCallion CBE (appointed 12 March 2013)

Sir David Melville CBE (resigned 31 March 2013)

Ms Anne Montgomery

The Revd Canon Sarah Mullally DBE

Dr Mee Ling Ng (appointed 12 March 2013)

Mr Andrew Owen

Ms Diana Parker

Professor Shushma Patel (appointed 7 November 2012)

Mr James Smith CBE

Professor Jon Warwick

Mr Peter Winbourne (resigned 19 October 2012)

Changes in Governors since 31 July 2013

Ms Louisa Nyandey (appointed 17 October 2013)

Operating and Financial Review

This Operating and Financial Review is that of the University and its subsidiary, London South Bank Enterprises Ltd.

Our mission

Creating professional opportunity for all who can benefit.

We owe our origins to those far sighted people who created the Borough Polytechnic in 1892, an institution that was greatly admired and successful in delivering life-enhancing education relevant to employment. We have inherited, and cherish, the role of welcoming students with potential from all backgrounds and helping them achieve career success. This mission is central to London South Bank University and we remain true to it.

Putting students first

Student success remains as the University's overriding aim and is reflected in all that we do. We have made real progress in improving efficiency and concentrating on our core business, but we can do more. Our Corporate Plan 2011/14, 'Student Success', has responded to the current significant change in higher education by setting our priorities to become more innovative, efficient and financially sustainable. Changes in funding, increased student choice and competition amongst higher educational institutions will ensure that perception of value and quality will be ever more important. Therefore we must ensure that our portfolio is relevant to the student and employment market, that what we deliver is of the highest quality, and that we offer students the support that they need to succeed.

The increasing emergence of new competitive players will challenge us to be as efficient and effective as possible. However, we are taking a measured approach based on continuous improvement and recognising that price alone is not the key driver; other factors including teaching excellence, student-focused delivery modes and continued investment in student support will also be key to ensuring our success as compared to our competitors.

Commitments

We are committed to:

- Delivering success for our students
- Supporting all students who have the potential to succeed academically and professionally, irrespective of their background
- Working with local schools and Further Education colleges to help them prepare students for Higher Education
- Increasing admission selectivity on the basis of potential to succeed
- Increasing additional academic support for students to succeed, particularly in their first year
- Maintaining a sufficiently broad curriculum to enable most local students to study with us
- Investing in part-time and flexible delivery to enable students to balance study, work and personal lives
- Increasing support for employability skills for our students
- Working with staff to help them achieve greater success, satisfaction and reward
- Moving to enterprise-led research
- Excellence and continuous improvement in all that we do to meet the aspirations of our students and deliver ever better value for money.

Financial strategy and performance

As a result of continued financial pressure on public funding, government policy is transferring much of the burden of the cost of higher education to students. The Board decided on a simple pricing structure for our courses in 2012/13 (reflecting both the current commitments to continued funding for strategically important and vulnerable subjects and to maintaining funding for widening participation and teaching enhancement, alongside the fees paid by students) with a range of fees from £5,950 (for students studying for LSBU awards with partner colleges) to £8,450 (for students studying for LSBU awards within the University, or where awards are delivered both within the University and within partner colleges). The headline fee for 2013/14 has been held at £8,450. However, fees for full time, home and EU undergraduate students will increase from 2014/15 to the maximum £9,000, reflecting continued financial challenges and the need to maintain revenues and deliver desired financial outcomes to support the required level of investment. This change in pricing structure also allows us to offer an enhanced package of bursary support providing financial assistance to students at the time they need it most, whilst studying at LSBU. Fees for new international, postgraduate

Operating and Financial Review

and part time students will not increase in 2014/15 and we will seek to grow volume through competitive headline fees and a range of discounts.

Whilst confident that we are effectively managing price risk, there remains considerable financial uncertainty, including uncertainty about the way in which the new fees landscape will continue to unfold and the way in which competitor institutions and prospective students will react to changes. The University's financial strategy is therefore focused not only on future sustainability but also on maintaining financial resilience and flexibility at all times. The days of government bailing out universities are passed, therefore we have to take decisions that are financially robust and ensure academic quality. At times this will mean we have to let go of some worthy but financially unsustainable issues; But it also gives us the spur to become more innovative and efficient so that every penny of our students' fees is used to the maximum benefit of our students as their success will underpin the University's future.

The University's financial strategy is expressed through its rolling five year financial forecasts. The key elements of the financial strategy are to:

- aim for a surplus of 5% of income
- deliver growth in income, with a particular focus on enterprise, income from international students and non SNC post graduate and part-time provision
- improve progression of students
- ensure that all aspects of the University's operation are as lean and efficient as possible without compromising quality or student success
- manage staff costs, including agency costs, to an agreed maximum percentage of income
- increase investment over the plan period to provide for future sustainability in buildings and infrastructure
- maintain cash balances at agreed levels.

We entered 2012/13 in a strong financial position having made real progress streamlining activity and delivering efficiency wherever possible. A record financial surplus of £9.9m was achieved in 2010/11. This was followed by a surplus of £6.5m in 2011/12 after accounting for an impairment charge of £2.9m in respect of building stabilisation costs which made the result even more satisfying. Notwithstanding the record level of recent surpluses, it was always anticipated that 2012/13 would be far more challenging given the continued financial uncertainty, the continued reductions in government funding and the new fees regime. As expected, recruitment proved very challenging and in common with most other universities, LSBU fell short of initial recruitment targets. A revised downward forecast surplus of £2.5m was approved in November 2012 but thanks to strong financial control and leadership, prudent decision making and continued focus on efficiency and value for money, the University has achieved a financial surplus of £6.1m in the current year before the exceptional loss of £0.6m arising on deconsolidation of the Student Union, following a change to their constitution. Total income levels are consistent with previous year at £138m.

This strong track record of financial success has enabled the University to continue with the implementation of its 25 year estates strategy vision to totally transform the estate to support the delivery of academic services and enhance the student learning experience. The projects undertaken were prioritised based on business needs, criticality of service and cost reduction. Major building projects this year included the creation of a new Student Centre which opened in late 2012 and the complete renovation of the Grade II listed Georgian buildings at St George's Circus which opened in September 2013.

The Student Centre brings together many of the University's non-academic student support services and houses our Students' Union. Around £8m was spent on the project. The development takes a prime location under our existing Tower block, with a vibrant and exciting ground floor foyer and a first floor area perfect for meetings, social learning and group working.

In order for us to deliver our mission of creating professional opportunity for all who can benefit, it is fundamental that the University is intimately connected to the professional workplace- whether in public, private or third sectors. In line with this, we are developing a truly enterprising approach across the University in close partnership with key stakeholders. This will enrich course content and credibility, enhance connectivity and career prospects, and bring in funds to further enrich and develop the student experience. The re-developed terraces, completed in September 2013 at a cost of £13.5m, have been transformed to accommodate the University's Enterprise Centre housing incubation space, allied retail units, meeting rooms, an open public reception space, gallery and cafe. The development has

Operating and Financial Review

transformed the local landmark into an open gateway for the campus, making it fit for the 21st century. Following the recent completion of these two ‘anchor’ projects, plans are also in process for the redevelopment of the remaining site with a proposal to invest up to £90m over the next ten years funded from cash reserves and operating cash flows generated over that period. The financial strength of the University means that we do not need to place reliance on new loan funding to support these plans.

This increased investment in the estate will allow us to align and coordinate the interventions and investments, thus saving resources and achieving an improved cost-benefit ratio. For all projects, sustainability considerations are integrated at the design and construction phase to achieve benefits over the lifetime of the asset, and the sustainability team are included in all design development phases. Future plans also include £4m for specific projects to meet the University’s carbon reduction commitment by 2020.

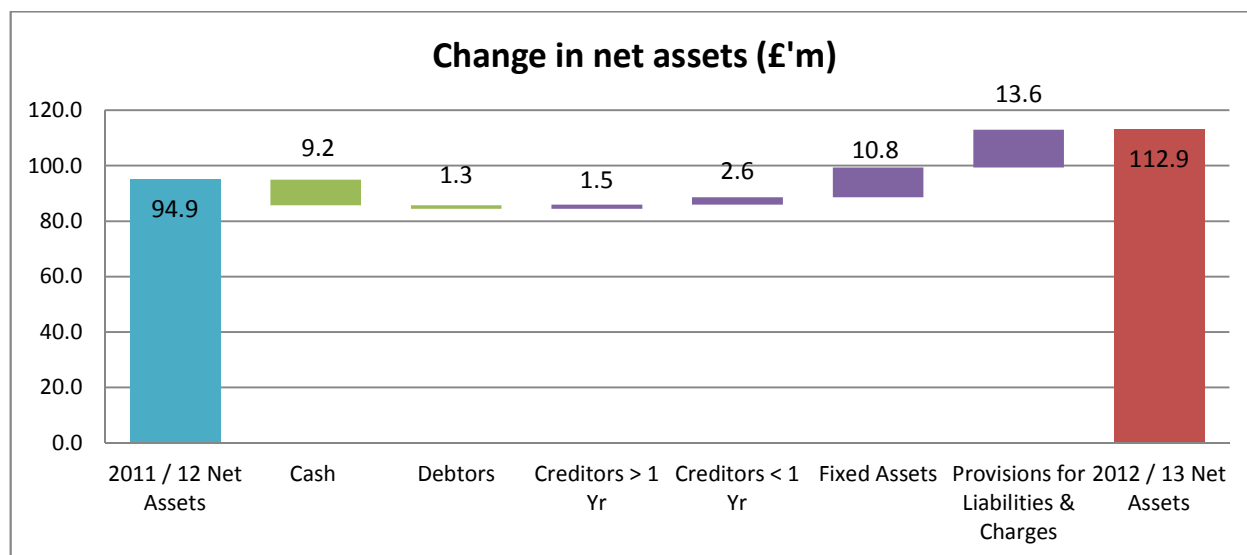
All of our infrastructure providers are procured through European Union processes to achieve full competition, and all suppliers are rigorously assessed from the sustainability aspect, an assessment that figures objectively in the decision whether or not to appoint.

At an operational level we are proud of our sustainability achievements by leading the way to have our energy and environmental management system certified to ISO 50001 and ISO 14001 standards.

Going forward we will seek to implement an asset management system to further optimise the management of our physical assets.

Balance sheet and liquidity

The Group’s net assets increased by 19% during the year moving from £94.9m to £112.9m. The change in assets is driven by three key factors: An increase of almost £11m in tangible assets due to the University’s continued investment in its Estate, a decrease of over £9m in cash at hand to fund these investment plans and a reduction of £13.6m in the provision for liabilities and charges including a reduction in the London Pension Fund Authority (LPFA) pension liability of almost £12.5m.

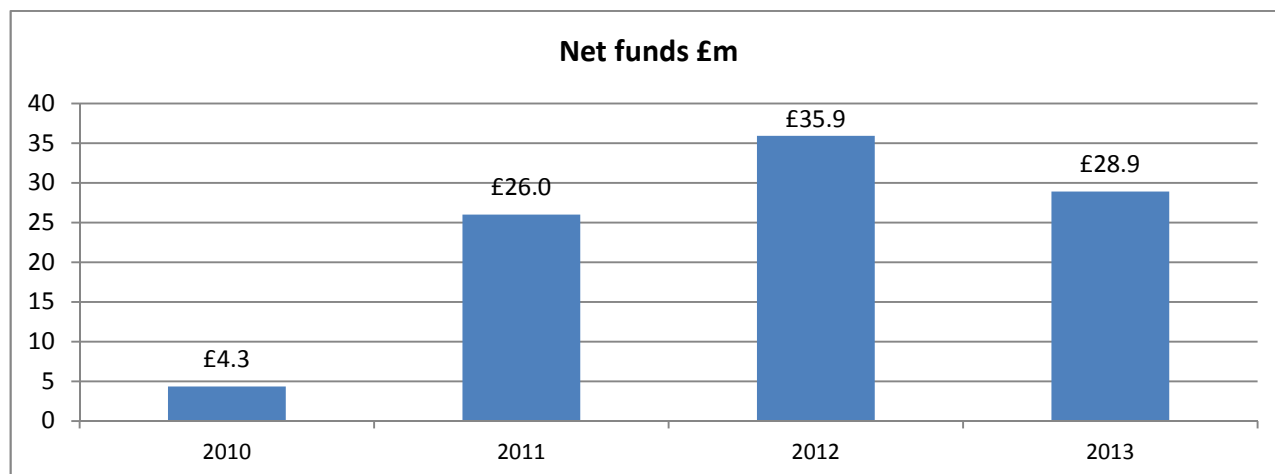


The University plans always to have sufficient liquid assets to meet its liabilities as they fall due. Days liquidity has decreased from 193 days at 31 July 2012 to 177 days at 31 July 2013. This reduction is primarily due to a fall in cash balances from £69.1m at 31 July 2012 to £59.9m at 31 July 2013, which reflects the increased level of capital expenditure in 2012/13. The longest term deposit is 6 months and the maximum overseas exposure is £1.8m through liquidity funds.

Borrowings have reduced from £33.3m at 31 July 2012 to £31.1m at 31 July 2013 reflecting loan repayments made.

Operating and Financial Review

Net funds are summarised below:



Borrowing capacity is reviewed on a regular basis and is considered adequate to meet current plans.

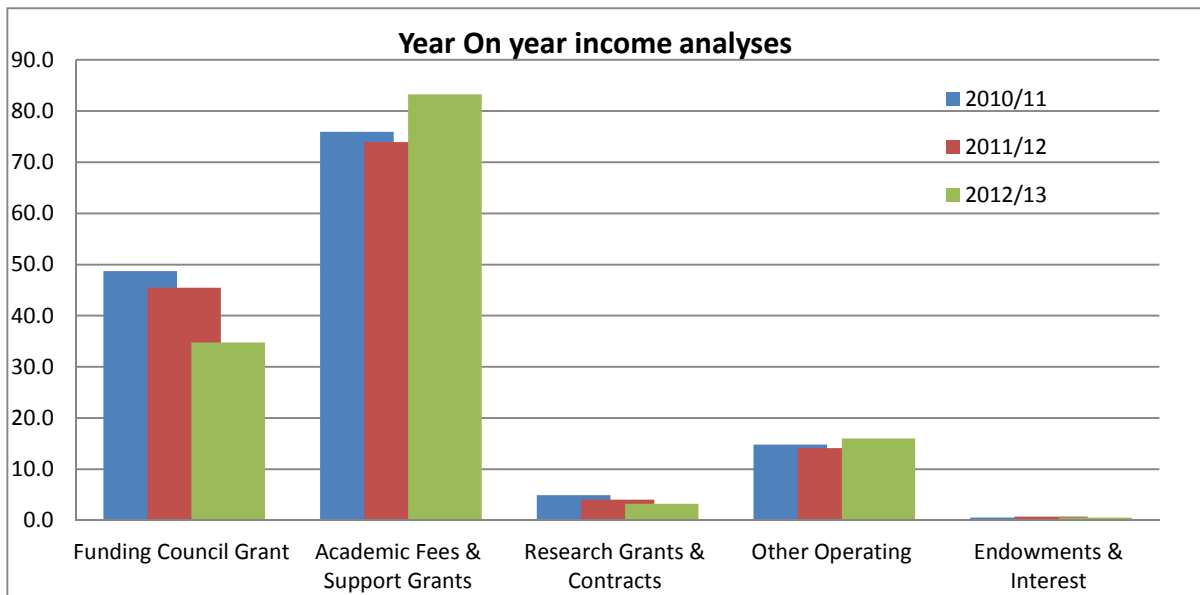
Result for the year

Financial Summary in £m				Variance from 2011 / 12	
	2012/13	2011/12	2010/11		
Income	£137.9	£138.3	£144.9	-\$0.4m	-0.3%
Expenditure	£132.4	£131.8	£135.0	£0.6m	0.5%
Surplus for the year	£5.5	£6.5	£9.9	-\$1.0m	-15.6%
Surplus %	4.0%	4.7%	6.8%		

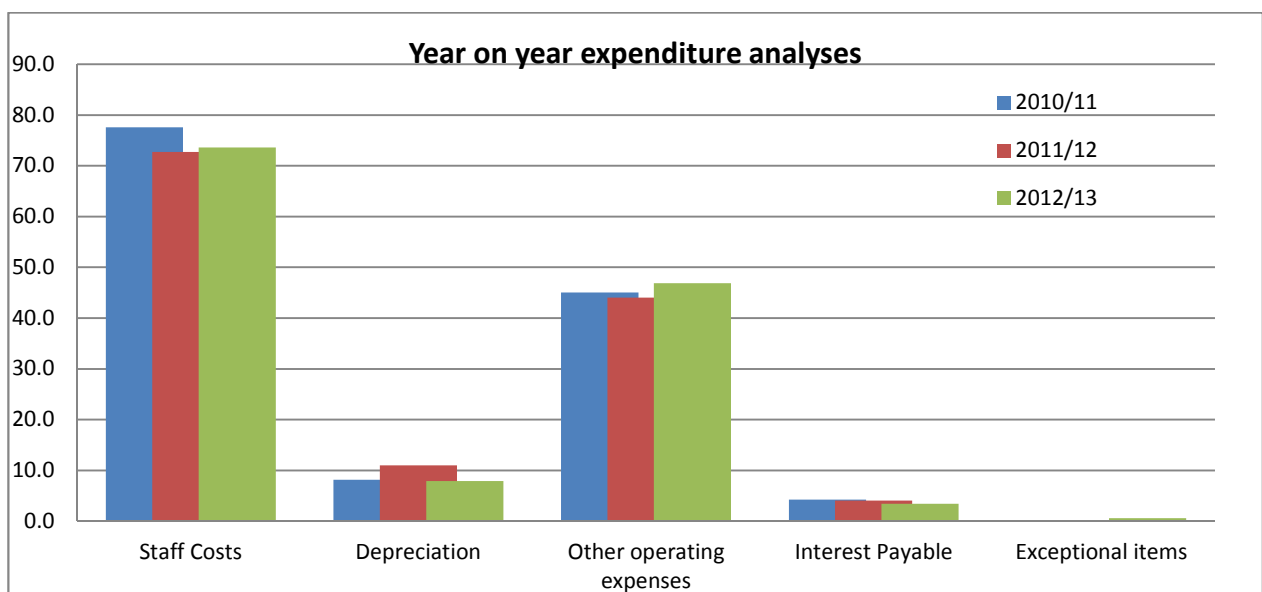
- The £5.5m surplus for the year is after accounting for a £0.6m exceptional item relating to the divestment of the Student Union. The underlying operating surplus of £6.1m is well ahead of the forecast surplus of £2.5m submitted to HEFCE in November 2012. In the context of the recruitment challenges across the sector in 2012/13 this is considered a strong result.
- Total income decreased by 0.3% (£0.4m) to £137.9m (2011/12: £138.3m). There was a reduction in Funding Grant due to the introduction of a new fee regime for both undergraduate (UG) and post graduate (PG) students. This fall, however, was offset by an increase in UG fees and a significant increase in PG fees. The fall in income was primarily due to a further decline in Overseas Income and the change in funding regime with regard to Teacher Training.

Academic fees including NHS contract income and Funding Council grants remain the main sources of income for the University representing 60% and 25% respectively (2011/12 = 53% and 33%). The key driver for the increase in fee income and corresponding decline in grant income is the introduction of the new fee regime for undergraduate students in 2011/12.

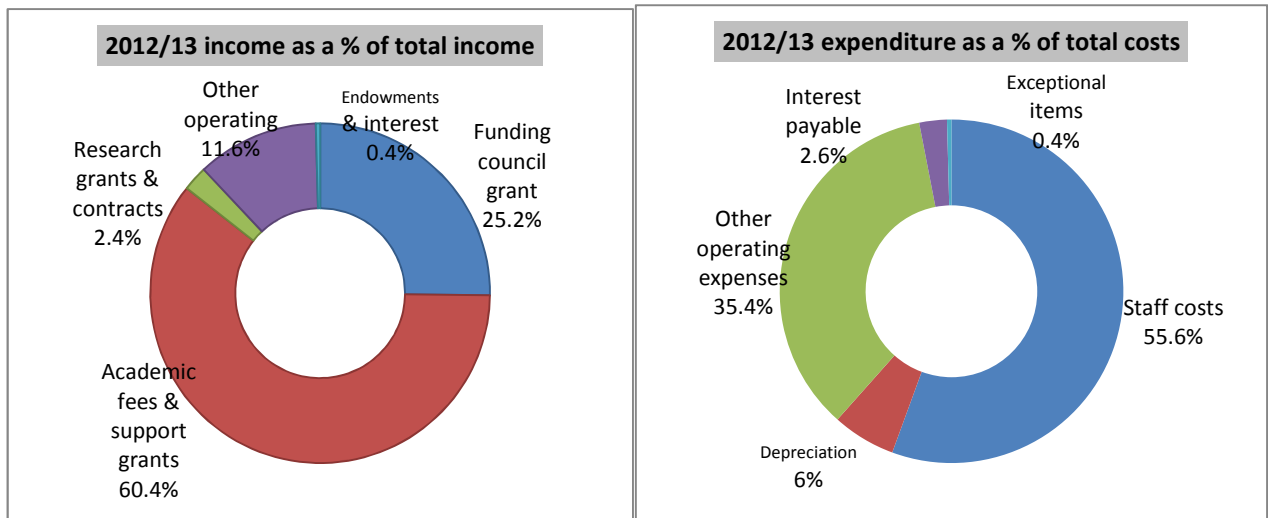
Operating and Financial Review



- Staff costs increased by 1.2% from £72.7m in 2011/12 to £73.6m in 2012/13 representing 53.4% of income (2011/12 = 52.6%) after accounting for Agency Staff costs, which are included in the accounts as operating expenditure. This remains an area of continued focus for the university in 2013/14.
- Other operating expenses increased from £44.0m to £46.9m an increase of 6.5%. This increase was driven by increased expenditure on Agency Staff, an additional provision for debts to cover higher fees due from self-paying and sponsored students, additional expenditure on staff recruitment and increased costs of staff development. This was offset by reductions in Utilities and Rent due to the rationalisation of our estate.



Operating and Financial Review

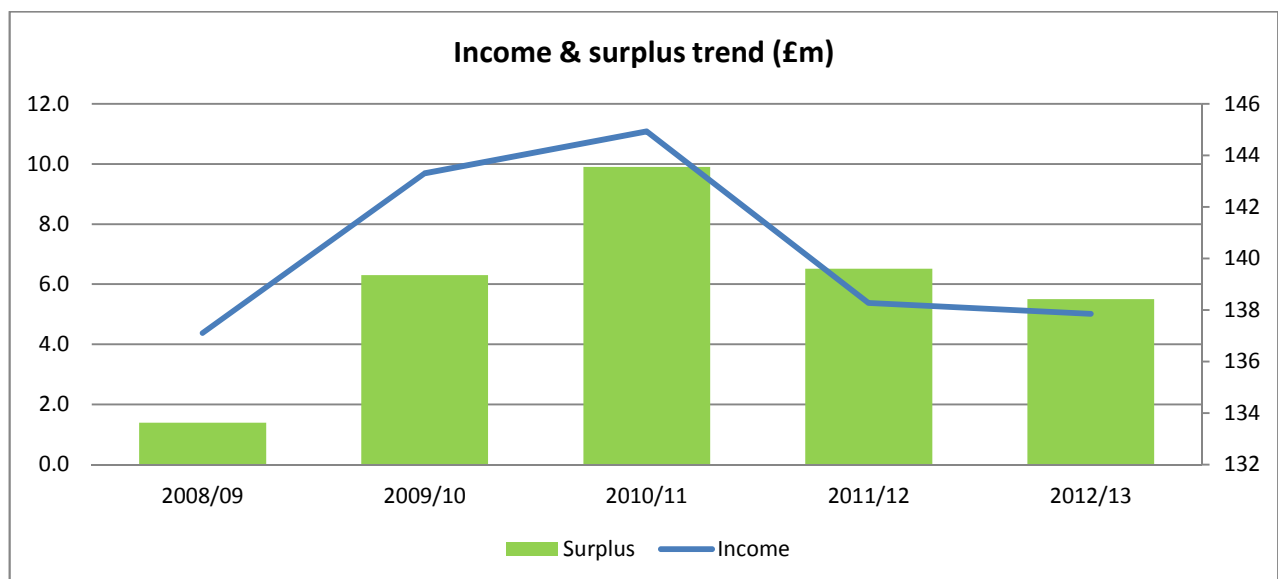


Capital expenditure

Capital expenditure amounted to £18.5m during the year as we continued to implement the Estate Strategy along with some additional investment in computers and other equipment. Major investments include the renovation of the Georgian Terraces which have been reconfigured as the Clarence Centre for Enterprise and Innovation, the completion of the Student Centre and a number of small projects targeting areas of student dis-satisfaction including a new entrance to the Perry Library and investments in the University's WiFi network.

Financial trend analyses

Income & surplus



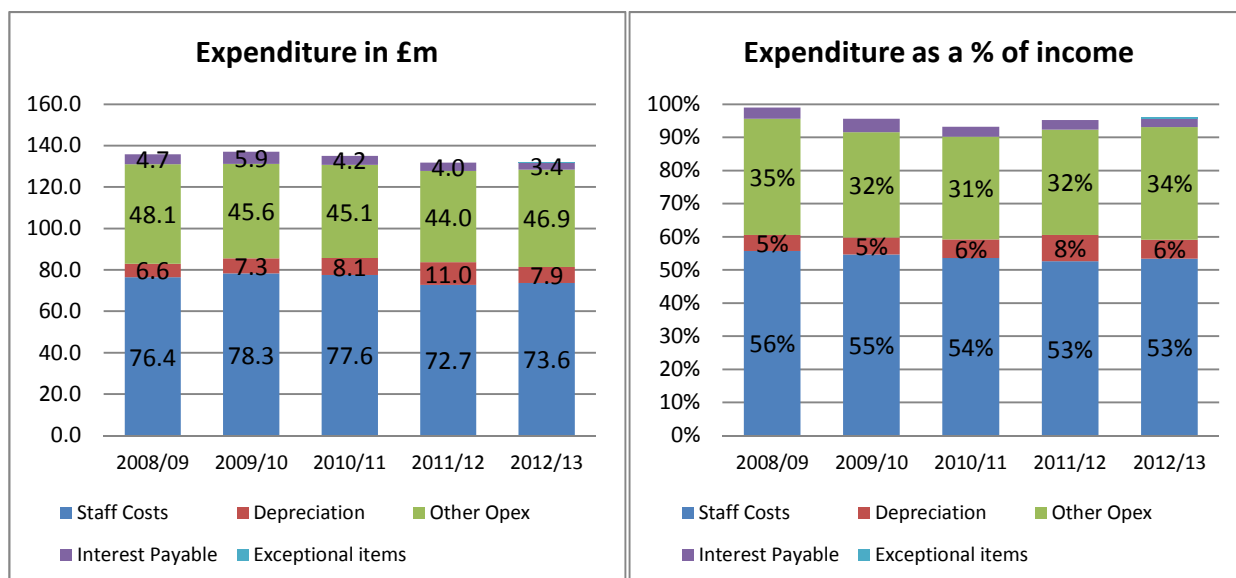
Operating and Financial Review

The increase in 2010/11 income can be explained from the one-off increase in UGFT (Undergraduate Full-Time) Student Numbers by 300. These discontinued in 2011/12 and income was further reduced in 2012/13 by continued cuts to the HEFCE funding grant and by a reduction in the level of income generated from overseas students. There was also an additional change with regard to TTA funding in 2012/13 which further depressed income.

Between 2007/08 and 2010/11 income had grown steadily as a result of the introduction of higher tuition fees for full-time Home & European Union students from 2006. This income growth has been supplemented by better progression. However the number of students enrolling in the first year declined in 2012/13 as a result of the introduction of the new fee regime and is expected to remain below previous levels due to the change in Student Number Controls particularly with reference to students achieving in excess of ABB at A levels.

The surplus has remained relatively constant over the past few years but, excluding exceptional items, has reduced in 2012/13 by approximately £3m, from £9m to £6m. This reflects static income but continued upward pressure on staff costs and operating expenditure.

Expenditure



Staff costs (including restructuring costs) have decreased from £76.4m in 2008/09 to £73.6m in 2012/13. As a % of income, staff cost decreased from 56% to 53% of income by 2012/13.

Operational expenditure

Operating expenditure increased from 2008/09 as a result of the introduction of student bursaries alongside higher tuition fees. This has begun to reverse in 2012/13 with overall student bursaries falling for the first time due to the introduction of fee waivers which impact income rather than expenditure. The reduction in operating expenditure from 35% of income in 2008/09 to 34% in 2012/13 is a result of cost controls and savings made in a number of areas particularly with regard to the rationalisation of the estate.

Interest

Interest payable increased from £4.7m in 2008/09 to £5.9m in 2009/10 due to the increases to the FRS17 pension interest charge but has subsequently reduced to just over £3.4m in 2012/13 reflecting a reduction in borrowings outstanding and a lower charge relating to FRS 17.

Depreciation

Depreciation has increased over the 5-year period as a result of investments in the University's estate, in particular the K2 building which came into use in November 2009 and the Student Centre which came into use in 2012/13. The increase is expected to continue since the University has proposed further investments in the estate, additional

Operating and Financial Review

investments in IT infrastructure and systems and has further plans to improve teaching spaces. Depreciation is less than last year because the impairment write down of £2.9m in 2011/12 was reflected in the depreciation charge.

Cashflows

The University generated a net cash inflow from operating activities of £12.7m in the year. After accounting for the cost of the Capital Investment programme and repayment of loans, the net cash position was reduced by £9.2m.

Pension liability

The pension liability with the London Pension Scheme Authority (LPFA) has reduced from £74.7m to £62.2m, mainly as a result of actuarial gains. The FRS17 charge to the I&E account for the year is £6.9m (interest £1,961k and staff costs £4,985k) and a £14.2m gain is recognised in the statement of total recognised gains and losses (STRGL).

Principal risks and uncertainties

At a corporate level, the principal risks are identified and managed through the University's risk management processes. The major external risks which the University has identified, and the steps being taken to mitigate those risks, are as follows:

- *Failure to meet recruitment targets:* Changes to fee structures, increased competition and league table position may lead to under recruitment of students. We are mitigating this risk by developing detailed financial modelling and scenario analysis around the fees position, developing a sustainable strategy for recruitment, including international students, building on our academic strengths, developing different modes of delivery and ensuring differentiated marketing for undergraduate, part-time and post graduate programmes. The current position is monitored closely through regular reports on student recruitment to both Executive and Board.
- *Potential loss of NHS contract income:* Although NHS London's Contract Performance Management for Education Commissioning Results for 2009/10 revealed LSBU as the best university in London for Adult Nursing, there is a significant risk that meeting the financial challenges of the NHS will lead to a reduction in income to universities. Whilst NHS contract income for 2013/14 is expected to be broadly consistent with previous year, our current five year financial forecast has made allowances for potential reductions in later years. Mitigating actions include contract discussions with newly formed Local Education and Training Boards (LETBs) and a focus on submission of a strong return to the next Research Excellence framework (REF) exercise.

Going Concern

Governors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. 2012/13 has been another year of continued strong financial performance. A reduced budget surplus for 2013/14 of £2.5m has been approved, but this is after accounting for a revenue investment pool of £2m which therefore allows for some flexibility in terms of actual spend. The next few years however will remain challenging in financial terms and the levels of surplus are expected to remain lower than the recent past whilst we are in the process of investing for growth, delivering new income streams and improving progression. This is entirely consistent with the University's financial model and approved five year forecasts. Whilst financial performance is expected to remain challenging, the University will continue to deliver annual surpluses and generate positive cash inflows from operating activities. This, together with the strong cash position (the University has £60m cash and bank deposits at 31 July 2013) supports the University's ambitious investment plans.

Operating and Financial Review

Key performance indicators -

Financial sustainability

	2011/12 (Actual)	2012/13 (Target)	Current Performance (Red, Amber Green)	Year on Year movement
Student numbers and contracts				
Recruitment against HEFCE contract	Within tolerance band	Within tolerance band	Within tolerance (predication)	➔
Recruitment against NHS contract commissions	On target	+/- 5%	On target	➔
Financial indicators				
Total income	£138.3m	£136.4m	£137.9	↓
International student income	£9.6m	£9.2m	£8.8m	↓
Research (non- HEFCE) income	£2.4m	£2.0m	£2.2m	↓
Enterprise income	£10.0m	£8.3m	£8.4m	↓
Total surplus (as % of income)	£4.7%	1.8%	4.0%	↓
Cash balance (including bank deposits)	£69.1m	£59.1m	£60.0m	↓
Gearing ratio	0.35	0.37	0.27	↑
Days liquidity	193.4	137.0	176.6	↓

The student experience

Student satisfaction

Overall student satisfaction – Undergraduate (National Student Survey) *	80%	90%	82%	↑
Overall student satisfaction – post graduate (National Student Survey)	78%	90%	76%	↓

Student retention and progression

Full time undergraduate year 1 progression	60% (2010/11)	70%	63% (2011/12)	↑
Graduating in intended period (Full time undergraduate 3/4 years)	53% (2010/11)	65%	52% (2011/12)	↓

Operating and Financial Review

Value Added	2011/12 (Actual)	2012/13 (Target)	Current Performance (Red, Amber Green)	Year on Year movement
Employment of graduates (employed or studying)	78.1%	90%	77.4%	↓
First degree students obtaining 1 st or upper 2 nd class degrees *	52% (2010/11)	60%	56% (2011/12)	↑
First degree students obtaining 1 st or 2 nd class degrees	89% (2010/11)	80%	90% (2011/12)	↑
Resources				
Academic services spend per student *	£940	£1,000	£900	↓
Services and facilities spend per student	£1,062	£1,000	£1,100	↑
Student: staff ratio	22.4:1	21.0:1	23.7:1	↓
Brand profile				
League table ranking				
The Sunday Times	118 (of 122)	out of bottom 5	114 (of 122)	↑
The Guardian	104 (of 120)	Out of bottom 5	113 (of 119)	↓
The Complete University Guide	109 (of 116)	Out of bottom 5	119 (of 124)	↓
The Times	111 (of 116)	Out of bottom 5	118 (of 120)	↓
Subject league tables (The Guardian)				
Subjects in top 75% nationally	5 (of 17)	5 (of 15)	3 (of 21)	↓
Subjects in top 50% of post 1992 universities	3 (of 17)	5 (of 15)	2 (of 21)	↓
Subjects in top 50% of post 1992 London universities	3 (of 17)	5 (of 15)	4 (of 21)	↑
Student perceptions				
Early: late applications (full time undergraduate)	75:25 (2010/11)	80:20	74:26 (2011/12)	↓
Financial support from doners (cash received)	£1.5m	£1.6m	£1.4m	↓
Staff satisfaction	62%	70%	52%	↓

*Key League Table Measure

Operating and Financial Review

Public benefit statement

The University is an exempt charity within the meaning of the Charities Act 2011 and is regulated by HEFCE on behalf of the Charity Commission. The University's objects are charitable as required by section 3 of the Charities Act 2011. They are set out in the University's Memorandum of Association:

- To establish, carry on and conduct a University;
- To advance learning and knowledge in all their aspects and to provide industrial, commercial, scientific, technological, social, cultural and professional education and training;
- To provide courses of education both full time and part time;
- To provide opportunities and facilities for research and development of any kind including the publication of results, papers, reports, treatises, these or other material in connection with or arising out of such research; and
- To provide for the recreational and social needs and the health and welfare of students of the University.

The members of the Board of Governors are the charitable trustees of the University and they set the strategic direction of the University within these objects and having regard to the Charity Commission's guidance on public benefit. The University has no linked charities.

Benefits of education

The University's objects are applied solely for the public benefit. The University advances education for the public benefit by:

- providing teaching to its students in the form of lectures, seminars, personal tuition and online resources;
- delivering many courses accredited by recognised professional bodies, both full and part time;
- setting and marking assessments and providing evidence of achievement by the awarding of degrees, diplomas and certificates.

The University provides support to students by:

- tutorial guidance, assessment and feedback;
- mentoring and coaching;
- providing student welfare and student accommodation;
- funding some individual students' education through bursaries and fee waivers;
- providing funds to London South Bank University Students' Union.

The University also promotes knowledge and the raising of standards by:

- undertaking academic research and publishing the results;
- publishing articles in peer-reviewed journals;
- maintaining an academic library with access for academics and students;

Benefit to the public

The University's main beneficiaries are its students, which is appropriate to its aims. The main beneficiaries of the University are therefore a section of the public as required under principle 2 of the Commission's General Guidance on Public Benefit. The trustees affirm that the opportunity to benefit is not unreasonably restricted. The benefits of learning at London South Bank University are open to anyone who the University believes has the potential to succeed, irrespective of background or ability to pay tuition fees.

Operating and Financial Review

From its beginnings as the Borough Polytechnic Institute, in 1892, to the present day, London South Bank University has stayed close to its founding mission of opening access to education. Schedule A of the ‘Scheme of the Charity Commissioners’ for the Borough Road Polytechnic Institute, of 23 June 1891 states that: ‘The object of the Institute is the promotion of industrial skill, general knowledge, health and well-being of young men and women belonging to the poorer classes ...’. This is still reflected in our current mission statement: “Creating professional opportunity for all who can benefit”. The University’s overriding aim as set out in its Corporate Plan, 2011-14 is student success.

Our student body is diverse and reflects our outreach to the wider community. 54.5% (2011/12: 54.1%) of our students are non-white in origin and 80.8% (2011/12: 83.8%) are over the age of 21 on entry to the University. 34.2% (2011/12: 36.2%) study part-time. 4478 undergraduates (2011/12: 4648) and 1567 taught postgraduate students (2011/12: 1847) graduated in 2012-13.

Our School and Colleges’ Liaison team has received a number of accolades for their work in widening participation and in particular were the winner of a Times Higher Education Award 2012 for Widening Participation Initiative of the Year. This innovative scheme provides care leavers with a first-hand taster of University life and demonstrates that a career in the City is an attainable goal. Overall, the team encourage under-represented groups, such as care leavers, people with disabilities and those from other minority groups, to consider higher education. Through a number of workshops, mentoring and careers advice, along with visits to City firms such as UBS, PriceWaterhouseCoopers and Lloyds of London, participants leave with a set of transferable skills to utilise throughout the remainder of their education, along with defined pathways to their desired objective.

We were awarded the Frank Buttle Trust Quality Mark in 2008 for our processes in support of care leavers, and we offer all care leavers a bursary of £750 at the beginning of each academic year, up to £1,000 travel allowance, a dedicated link person to deal with their local authority, help accessing all the University’s support services and support in finding accommodation appropriate to their needs and preferences, including year-round accommodation available outside term time.

Like other universities, we must charge tuition fees. Maintenance grants are of course available to those with restricted means, especially students from families on low incomes. In addition, the University offers financial assistance in the form of scholarships, bursaries and charitable funds to students in need.

Our fee structure for part-time students reflects the bursary/scholarship paid to full-time students thus ensuring that they are not disadvantaged by studying part-time. We continue to benchmark our non-regulated fees against similar institutions and maintain close links with a number of local partner Further Education colleges through the validation and franchise of higher education courses taught by those partners.

The University’s beneficiaries are not restricted to its students. There are also wider public benefits provided by higher education to which the University contributes. The University’s portfolio is firmly rooted in professional courses that enhance employability and career success. The University continues to offer professional and vocational courses, supported by a high level of accreditation from professional, statutory and regulatory bodies.

A key role of universities is knowledge creation and transfer. Knowledge is transferred to our students through formal teaching programme and access to academic resources. The University’s research activities also contribute to a wider public benefit through the publication of technological advances, scientific knowledge and innovation. The University has undertaken and published research in 2012-13 which will benefit the wider public, examples follow.

- In the field of health the University is working on a project funded by CLIC Sargent evaluating the impact of the nursing key worker support project on children with cancer and their families. It is examining the extent to

Operating and Financial Review

which the nursing key worker support role improves patient and family experience; whether children and their families are better able to spend more time safely at home during treatment and identifying obstacles to providing care closer to home that may be overcome by the key worker role.

- In the field of engineering, research for Sellafield has been undertaken into a range of issues relevant to nuclear decommissioning including mitigation of hydrogen hazard; the heat flow interaction of ground source heating and cooling with underground railways for London Underground; and improving refrigeration technologies along the European food cold chain.
- In social policy research is being undertaken into the issues affecting ageing and wellbeing of black, Asian and minority ethnic elders in Lewisham and Southwark and the factors that impact on their access and uptake of person centred planning; and how accounts of the formative impact of early experience on brain development are informing politics, key social policy legislation and early intervention initiatives, as well as the consequences for everyday practice among health care providers and early years educators.
- In psychology, a research project is looking at 'Executive functioning in children with Developmental Coordination Disorder', increasing awareness of DCD as a disorder and the impact that motor difficulties may have on other areas of functioning.

In the area of enterprise, the University has expanded its student entrepreneurship package to assist more of its entrepreneurial students and former students to explore and develop the commercial potential of their ideas through its *Entrepreneurship in Action Scheme*, *Enterprise Associate Scheme* and *Entrepreneur and Enterprise Link Schemes*. The University has increased the level of expert mentorship, coaching and advice its student entrepreneurs can receive by doubling (to four) the number of established, successful entrepreneurs it retains as resident entrepreneurs. In addition, it has established a new network to facilitate better engagement of the University and its student entrepreneurs with the local business community. It is hoped that the Clarence Centre for Enterprise and Innovation, the University's new enterprise centre (opened in September 2013), will become the new focus at the heart of SE1 for the University's engagement with the business community locally, across London and throughout the South East of England. The Clarence Centre houses the University's student entrepreneurs and a number of new and growing businesses taking advantage of the business incubator space the building offers.

The University also serves the public benefit through its outreach and community work. The University is establishing and sponsoring an academy school in the local area in order to help meet the forecast increase in school age pupils in the local area and to help pupils prepare for higher education. Other activities in this area include the Legal Advice Clinic and the public art gallery, which are informed by LSBU's educational programmes and the Confucius Institute for Traditional Chinese Medicine which helps inform aspects of LSBU's educational programmes.

The University Engineering Academy South Bank, due to open in September 2014, is the first academy in South London to be sponsored by a University. The Academy will specialise in engineering within the broad science, technology, engineering and maths (STEM) framework. The sponsorship of the Academy supports the University's agenda on community engagement which aims to create professional opportunities for students who have the ability to succeed and to enhance student success by preparing them for higher education at the University.

The Legal Advice Clinic helps students enhance their professional legal skills whilst offering free help, support and legal advice for the local community.

Borough Road Gallery was financed by a grant from the Heritage Lottery Fund to renovate part of the Borough Road building, and to devise a two-year programme of exhibitions and events that explore 'A David Bomberg Legacy – The Sarah Rose Collection'. The collection includes over 150 works by members of the Borough Group including David Bomberg, Dennis Creffield, Cliff Holden, Edna Mann, Dorothy Mead, and Miles Richmond and was donated to the University by Sarah Rose. The gallery is open to the public during exhibitions and also runs an educational public programme. To date, this has included workshops with local secondary schools, a partnership with local adult educational specialist Morley College, and a series of talks and events for the general public.

Operating and Financial Review

The University's Confucius Institute for Traditional Chinese Medicine provides benefits to its students and the wider community. Through its Confucius Institute, the University is able to design and deliver Chinese curricula that are authentic and credible. The Institute also works with a network of 42 primary and secondary schools to raise aspirations to learn about another culture. The Institute acts as a facilitator between UK and China researchers to improve dialogue and helps the University ensure its students and communities are prepared for a global world; one in which China plays a greater role.

Employment; policy, diversity and training

During the year the University has continued to roll out action from its Equality Diversity and Inclusion Policy which was first developed to ensure that the University met all of its obligations under the terms of the Equality Act 2010 and in particular to deliver the requirements of the general equality duty in relation to staff. This requirement covers all staff and in particular those who are defined within the nine protected characteristics outlined in the Act.

We are committed to the promotion of equality, diversity and a supportive environment for all members of our community and aspire to be a truly inclusive organisation. To enable us to achieve this we have developed a wide ranging plan of action based on our Equality and Diversity and Inclusion Policy to strive to prevent and eliminate discrimination, promote fairness and celebrate the diversity within our community.

Employee recruitment and grading processes, together with programmes for employee involvement, communication and training are all designed to promote equal opportunity irrespective of age, disability, sex, gender reassignment, marriage/civil partnership, pregnancy and maternity, race, religion or sexual orientation.

The University continues to meet the requirements of the "two ticks positive about disability" scheme having demonstrated its commitment to the recruitment and retention of staff who have or become disabled during the course of their employment.

The University places considerable value on the involvement of its employees and on good communication with them. Staff are informed through regular meetings, emails and information on the University website, open staff forums, staff newsletters, staff magazines and other means. Staff are encouraged to participate in formal and informal consultation, through membership of formal Committees and informal working groups.

Creditor payment policy

It is the University's policy to abide by terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later.

Average creditor days during the year were 24 (2012: 30).

Accounting policies

The University's financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 32 to 36. The University's Governing Body has reviewed the Group's accounting policies and considers them to be the most appropriate to the University's operations.

Subsidiaries

South Bank University Enterprises Limited ("SBUEL") provides consultancy and other services to a range of commercial organisations. SBUEL has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. SBUEL has donated £xm in gift aid to the University this year (2012: £0.6m).

SBUEL is fully consolidated into the Group accounts.

Constitution, governance and regulation

London South Bank University was incorporated on 12 August 1970. It is registered at Companies House under number 986761 and its registered address is 103 Borough Road, London. SE1 0AA. London South Bank University is a company limited by guarantee and has no share capital.

The governing body of the University is responsible for the effective stewardship of the University and has control of the revenue and the property of the University. The University's corporate governance arrangements are described on pages 20 to 25 and the members of the Board of Governors during the year ended 31 July 2012 are listed on page 2. The Governors are also directors under the Companies Act 2006.

Operating and Financial Review

The University is an exempt charity within the meaning of the Charities Act 2011 applying in England and Wales and its principal regulator is HEFCE. All Governors are also charitable trustees.

The University is regulated principally by HEFCE under a Financial Memorandum. The University complies with conditions of grant set out in funding agreements with the relevant grantor.

The University's principal officers and advisers are listed on page 1.

Disclosure of information to auditors

At the date of making this report each of the Governors, as set out on page 2, confirm the following:

- So far as each Governor is aware, there is no relevant information needed by the University's auditors in connection with preparing their report of which the University's auditors are unaware; and
- Each Governor has taken all the steps that he or she ought to take as a Governor in order to make him or herself aware of any relevant information needed by the University's auditors in connection with preparing their report and to establish that the University's auditors are aware of that information.

Auditor

A resolution to reappoint Grant Thornton UK LLP as auditor of the University will be proposed at the forthcoming Annual General Meeting.

Directors' report

This Operating & Financial Review (OFR) also serves as the Directors' Report for the purposes of the Companies Act 2006.

Approval

Approved by the Board of Governors and signed on behalf of the Board by:

Mr David Longbottom
Chair of the Board of Governors
21 November 2013

Responsibilities of the Board of Governors

In accordance with the University's Memorandum and Articles of Association approved by the Privy Council, the Board of Governors is responsible for the effective stewardship of the University and Group and is required to present audited financial statements for each financial year.

The Board of Governors is responsible for keeping adequate accounting records which disclose with reasonable accuracy at any time the financial position of the University and the Group and to enable it to ensure that the financial statements are prepared in accordance with the University's Memorandum and Articles of Association, the HEFCE Accounts Direction, the Statement of Recommended Practice on Accounting for Further and Higher Education, other relevant accounting standards and comply with the Companies Act 2006. In addition, within the terms and conditions of a Financial Memorandum agreed between the HEFCE and the Board of Governors of the University, the Board of Governors, through its Accounting Officer, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and the Group and of the surplus or deficit and cash flows of the Group for that year.

In preparing the financial statements, the Board of Governors has ensured that:

- Suitable accounting policies are selected and applied consistently;
- Judgements and estimates are made that are reasonable and prudent;
- Applicable accounting standards have been followed; and
- Financial statements are prepared on a going concern basis unless it is inappropriate to presume that the University will continue in operation.

The Board of Governors is satisfied that it has adequate resources to continue in operation for the foreseeable future. For this reason the going concern basis continues to be adopted in the preparation of the financial statements.

The Board of Governors has taken reasonable steps to:

- Ensure that funds from HEFCE and other funding bodies are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Funding Council and any other conditions which the Funding Council may from time to time prescribe;
- Ensure that there are appropriate financial management controls in place to safeguard public funds and funds from other sources;
- Safeguard the assets of the University and the Group and prevent and detect fraud; and
- Secure the economical, efficient and effective management of the University and Group's resources and expenditure.

Signed on behalf of the Board of Governors by:

Mr David Longbottom
Chair of the Board of Governors

21 November 2013

Statement of Internal Control

As the governing body of London South Bank University, we have responsibility for ensuring that there is a process for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives of the University, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Memorandum and Articles of Association and the Financial Memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process linked to the achievement of institutional objectives and designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2013 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- We meet a minimum of four times a year to consider the plans and strategic direction of the institution;
- The approach to internal control is risk based, including a regular evaluation of the likelihood and impact of risks becoming a reality;
- The Audit Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Audit Committee concerning internal control and we require regular reports from managers on internal control activities and the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
- The Audit Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Audit Committee receives regular reports from the internal auditor, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, together with recommendations for improvement;
- The internal audit programme has been aligned with the University's corporate risk register;
- An organisation-wide register of key corporate risks is maintained, together with individual risk registers for each faculty and department. Review procedures cover business, operational and compliance as well as financial risk;
- The executive team meets regularly to consider risk, assess the current exposure and keep up to date the record of key corporate risks facing the University;
- A network of risk champions exists to support risk management activity in all faculties and departments; Update training is provided as required to support delivery;
- Formal risk management and internal control procedures have been embedded within ongoing operations.

Our review of the effectiveness of the system of internal control is informed by internal audit, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in July 2011. The internal auditors submit regular reports, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, with recommendations for improvement.

Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

Corporate Governance Statement

The following statement is given to assist readers of the financial statements in obtaining an understanding of the governance and legal structure of the University.

The University's Board of Governors is committed to maintaining the highest standards of corporate governance. In carrying out its duties it has regard to:

- The CUC Governance Code of Practice
- The UK Corporate Governance Code (where applicable)
- The seven principles of behaviour in public life
- The HEFCE Financial Memorandum and the Audit Code of Practice
- The Directors' duties as set out in sections 170 – 177 of the Companies Act 2006
- The Charity Commission's Guidance on Public Benefit and its duties as charity trustees of compliance, prudence and care
- Other legislative requirements of corporate bodies
- The University's Memorandum and Articles of Association

In September 2011, the University received a positive outcome from HEFCE's five yearly assurance review, undertaken in July 2011, which examined how the University exercises accountability for the public funding it receives. The University's Internal Auditor's annual opinion on risk management, control and governance is that, subject to some control design and operating effectiveness issues around IT security for which responses are in hand is adequate and effective.

Governance and Legal Structure

London South Bank University is a company limited by guarantee and an exempt charity within the meaning of the Charities Act 2011. Its objects and powers are set out in its Memorandum and Articles of Association, which govern how the University is run.

The Articles set the governance framework of the University and set out the key responsibilities of the Board of Governors and its powers to delegate to committees, the Vice Chancellor and the Academic Board.

Compliance with CUC Governance Code of Practice

The Board has complied with all aspects of the CUC Governance Code of Practice during the year under review.

Role of the Board of Governors

The University is headed by a Board of Governors which is collectively responsible for the strategic direction of the University, approval of major developments and creating an environment where the potential of all students is maximised. It takes the final decision on all matters of fundamental concern to the institution.

All governors, when appointed, agree to abide by the standards of behaviour in public life. As the University is also a company, its governors comply with the directors' duties as set out in sections 170 – 177 of the Companies Act 2006 and duties of charity trustees when making decisions. Governors are unremunerated but may claim back expenses properly incurred in the discharge of their duties. All members are expected to attend meetings and to contribute effectively to meetings. Attendance at meetings is recorded and monitored by the Chairman. In the year under review there was an 83% (2011/12: 83%) attendance rate at Board meetings.

Corporate Governance Statement

The Board met five times during the year (five in 2011/12) and held two strategy days (two in 2011/12). The Board prioritises strategic matters at its meetings. In addition the Board holds two strategy days per year allowing further time to discuss and debate longer-term strategic challenges for the University. One strategy day is forward looking and the other focusses on delivery of the strategic plan. Where necessary, governors receive presentations on a specific strategic matter before Board meetings to allow them to explore key issues in greater depth.

As recommended by the CUC Governance Code of Practice the Board has agreed a statement of primary responsibilities (on page 24), which is reviewed annually. It follows the model statement as recommended by the CUC and includes approval of the educational character, mission and strategic vision of the university and to ensure that these meet the needs of stakeholders.

The Board delegates day-to-day management of the University to the Vice Chancellor as Chief Executive and Chief Academic Officer. The Vice Chancellor's delegated authority is set out in the Instrument of Government and includes:

- making proposals to the Board about the educational character and mission of the University;
- the organisation, direction and management of the University and leadership of staff;
- the determination, after consultation with the Academic Board, of the University's academic activities, and for the determination of its other activities;
- preparing annual estimates of income and expenditure for consideration by the Board of Governors, and for the management of budget and resources, within the estimates approved by the Board of Governors;
- for the maintenance of student discipline and within the rules and procedures provided for within these Articles, for the suspension or expulsion of Students on disciplinary grounds and for implementing decisions to expel students for academic reasons.

The Vice Chancellor is the designated officer in respect of the use of Funding Council funds.

As Chief Academic Officer, the Vice Chancellor is the Chairman of the Academic Board. The Academic Board is responsible for all the academic affairs, subject to the overall responsibility of the Board of Governors, for determining the educational character and mission of the institution.

Governors are reminded of their duty to exercise their responsibilities in the interests of the University as whole during their induction and throughout their term of office. The University maintains a register of interests of members of the Board of Governors and the Executive which is published on the University's website. New governors are required to complete a declaration on appointment and to inform the Secretary of any amendments to their entry. The register is reviewed annually by the Board who decide whether to authorise the declared interests. During the year under review all declared interests were authorised by the Board, where necessary with conditions, for example not participating in the decision making process for the relevant matter. In accordance with the Companies Act 2006, governors are asked at the opening of each Board and committee meeting to declare whether they have any interests in any matters on the agenda.

The University Court

The University Court is a body established to enhance the University's engagement with its key stakeholders. Although not a decision making body, the University Court plays an important advisory role in the development of the University through its large and varied membership of prominent and distinguished individuals. The University Court meets annually in the spring and helps the University build relationships with members and identify areas for collaboration for the benefit of students. The Court's annual meeting took place in the new Student Centre on 21st March 2013.

Corporate Governance Statement

The University's Chancellor, Richard Farleigh, acts as the principal figurehead of the University and represents the University's interests. His role includes hosting the annual Court event and establishing relationships with the University's stakeholders.

Structure and Processes

The Board when fully complemented consists of 20 governors: 13 independent governors, the Vice Chancellor, two student governors, two academic staff members nominated by the Academic Board, an academic staff member elected by the academic staff and a support staff member elected by the support staff. Governors serving for the period are listed on page 2. The Board determines the number and composition of the Board of Governors within parameters set by the University's Articles of Association.

As part of its revision of the University's articles of association (see below), the Board has decided, that in order to optimise its effectiveness and that of its committees, to reduce its membership to a maximum of 18 for the academic year 2013/14: 13 independent governors, the Vice Chancellor, two student governors and two academic staff members nominated by the Academic Board.

In accordance with the Articles of Association the Board consisted of a majority of independent governors throughout the year and at all Board and committee meetings. All "independent governors" are independent of the University.

The appointment of independent governors to the Board is determined by the Nomination Committee and Appointments Committee, both chaired by the Chairman of the Board. A written description of the role and capabilities required of governors has been agreed by the Nomination Committee. Candidates are judged against the capabilities required and the balance of skills and experience currently on the Board. The balance of skills and experience of independent governors is kept continually under review by the Nomination Committee.

Each new governor is given an appropriate induction and encouraged to attend relevant external training. New governors are appointed to at least one committee. At the University's expense, governors have the right to external, independent advice where necessary in order to fulfil their duties.

The Board of Governors is supported by the University Secretary and Clerk to the Board of Governors and his team. The Secretary provides independent advice on matters of governance to the Chairman. The Secretary ensures that governors receive information in a timely manner and of sufficient quality to allow the Board to fulfil its duties. The University publishes minutes of Board and its sub-committee meetings on its external website. Minutes are redacted when the wider interests of the University as a whole demands it and in the spirit of the Freedom of Information Act 2000.

Effectiveness and Performance Reviews

The Board of Governors last reviewed its effectiveness in 2010 and plans a further review of its own effectiveness during 2013/14. The effectiveness of the key Board committees was last reviewed in 2011/12 and will form part of the next Board effectiveness review.

Committees

The Board operates through a number of committees which report to the Board at each meeting. All committees are formally constituted with appropriate terms of reference which are reviewed annually. Terms of reference and membership of each committee are available on the governance pages of the University's website. All committees have a majority of independent governors, from whom its Chairman is drawn. The chairs of each committee are set

Corporate Governance Statement

out on page 25. The terms of reference of each committee complement the decision-making framework of the Matters Reserved to the Board, which the Board reviews annually.

Matters specifically reserved to the Board as a whole for decision include:

- The determination of the educational character and mission of the University;
- The approval of the University's long-term mission and strategic vision;
- The approval of the annual budget and five year forecasts;
- Investment in capital projects above agreed levels;
- Election of the Chairman of the Board;
- Appointment of the Vice Chancellor and the Clerk to the Board; and
- The variation of the University's Memorandum and Articles of Association.

Current committees of the Board are:

- Policy and Resources Committee;
- Audit Committee;
- Educational Character Committee;
- Human Resources Committee;
- Property Committee;
- Nominations Committee;
- Appointments Committee; and
- Remuneration Committee.

The Policy and Resources Committee advises the Board of Governors on the solvency and the use and safeguarding of its resources and assets, and recommends to the Board of Governors the University's annual revenue and capital budgets and monitors performance in relation to those budgets. It reviews high level corporate policy of the University. Throughout the year under review it met on five occasions.

The Audit Committee is responsible for meeting the external auditors and internal auditors of the University and reviewing their work. The Committee considers detailed reports together with recommendations for the improvement of the University's systems of internal control and management's response and implementation plans. It provides oversight of the risk management process and receives regular risk reports from management. It also scrutinises the University's relationship with HEFCE and monitors adherence with its regulatory requirements. It reviews the University's annual financial statements together with the accounting policies. Whilst members of the Executive attend meetings of the Audit Committee, they are not members of the Committee. The Chairman of the Board is not a member of the Committee and does not attend its meetings. The committee met four times during the year under review.

The Educational Character Committee is relatively new and had its first meeting in September 2011. It helps the Board gain a greater insight and understanding of the educational and academic work of the institution. It considers issues such as student retention and progression, student satisfaction and reports from the Academic Board. The committee met three times in the year under review.

The Human Resources Committee is responsible for setting the framework for the determination and implementation of policies and procedures relating to the employment of staff. It also sets the framework for collective salary and conditions of service negotiations and advises the Vice Chancellor as HEFCE's Accounting Officer of best practice on human resource issues. The Committee considers the broad financial implications of the University's staffing needs.

Corporate Governance Statement

Staff and Student Governors are prohibited by the articles of association from serving on the Committee. With the Chair's permission, one of the staff governors attends as an observer. The committee met three times during the year under review.

The Property Committee advises the Board of Governors on property and estates matters. It considers all major estates projects before recommending their approval to the Policy and Resources Committee and the Board of Governors. The Property Committee monitors the execution of these projects. It met twice during the year under review.

The Nomination Committee meets as necessary to consider candidates for independent governor vacancies on the Board of Governors. Independent Governors are appointed for a term of four years by the Appointments Committee. Renewal for an additional term can be considered, but is not automatic. The Nominations Committee met twice during the year and recommended two new independent governors for appointment.

The Remuneration Committee determines the annual remuneration of senior post holders. It meets annually.

Modernisation of the Articles

During the year, to ensure compliance with legislation, the Board has reviewed the University's constitution. A proposed new set of Articles has been presented to the Privy Council for approval during autumn 2013.

Board of Governors – Statement of Primary Responsibilities (approved by the Board at its meeting in October 2013)

- To approve the educational character, mission and strategic vision of the institution, together with its long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders.
- To delegate authority to the head of the institution, as chief executive, for the academic, corporate, financial, estate, personnel management and health and safety management of the institution, and to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the head of the institution.
- To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.
- To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the institution against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
- To establish processes to monitor and evaluate the performance and effectiveness of the governing body itself, and to carry out such reviews at appropriate intervals.
- To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
- To safeguard and promote the good name and values of the institution.
- To appoint the head of the institution as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
- To appoint a secretary to the governing body and to ensure that, if the person appointed has managerial responsibilities in the institution, there is an appropriate separation in the lines of accountability.
- To be the employing authority for all staff in the institution and to be responsible for establishing a human resources strategy.
- To be the principal financial and business authority of the institution, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate.

Corporate Governance Statement

- To be the institution's legal authority and, as such, to ensure that systems are in place for meeting all the institution's legal obligations, including those arising from contracts and other legal commitments made in the institution's name.
- To make such provision as it thinks fit for the general welfare of students.
- To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution or its students.
- To ensure that the institution's constitution is followed at all times and that appropriate advice to the Board is available to enable this to happen.

This Statement of Primary Responsibilities does not replace the provisions of the University's Articles of Association. If the two conflict, the Articles shall prevail.

Key individuals

Chair of the Board of Governors	Mr David Longbottom
Vice Chair of the Board of Governors	The Revd Canon Sarah Mullally DBE
Head of Institution (Vice Chancellor and Chief Executive)	Professor Martin Earwicker
Chair of Policy and Resources Committee	The Revd Canon Sarah Mullally DBE
Chair of Audit Committee	Mr Andrew Owen
Chair of Educational Character Committee	Mr Steve Balmont
Chair of Human Resources Committee	Ms Anne Montgomery
Chair of Property Committee	Mr Ken Dytor
Chair of Nominations Committee	Mr David Longbottom
Chair of Appointments Committee	Mr David Longbottom
Chair of Remuneration Committee	Ms Diana Parker
University Secretary and Clerk to the Board of Governors	Mr James Stevenson

Key individuals can be contacted through the office of the University Secretary and Clerk to the Board of Governors, Mr James Stevenson, at London South Bank University, 103 Borough Road, London SE1 0AA. Published documents are available on the governance section of the University website. The Corporate Governance and Internal Control statements were approved by the Board of Governors on 21 November 2013 and were signed on its behalf by:

Mr David Longbottom

Chair of the Board of Governors

Professor Martin Earwicker

Vice Chancellor

Report of the independent auditor to the Board of Governors of London South Bank University (Company registration number 986761)

We have audited the financial statements of London South Bank University (the 'University') for the year ended 31 July 2013 which comprise of the principal accounting policies, the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the note of consolidated historical cost surplus, the consolidated and university balance sheets, the consolidated cash flow statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Governing Body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 124B (4) of the Education Reform Act 1988 as amended by section 71 of the Further and Higher Education Act 1992. Our audit work has been undertaken so that we might state to the University's members and trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and its Governing Body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University's Board of Governors and auditors

As explained more fully in the Governing Body's Responsibilities Statement set out on page 18, the Governing Body (who are also the directors of the charitable company for the purposes of company law) are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under the Companies Act 2006 and the Education Reform Act 1988 and report in accordance with regulations made under those Acts. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the FRC's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the group and University's affairs as at 31 July 2013 and of its incoming resources and application of resources, including its income and expenditure, recognised gains and losses and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the 2007 Statement of Recommended Practice: Accounting for Further and Higher Education; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Operating and Financial Review for the financial year for which the financial statements are prepared is consistent with the financial statements.

Report of the independent auditor to the Board of Governors of London South Bank University (Company registration number 986761)

Opinion on other matters prescribed by HEFCE's Financial Memorandum dated July 2010

In our opinion, in all material respects:

- funds from whatever source administered by the institution for specific purposes have been properly applied to those purposes and, if relevant, managed in accordance with relevant legislation; and
- funds provided by HEFCE have been applied in accordance with the Financial Memorandum and any other terms and conditions attached to them.

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from Branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of the Governing Body's remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992 we are required to report to you if, in our opinion, the Statement of Internal Control is inconsistent with our knowledge of the University.

London South Bank University

Consolidated income and expenditure account Year ended 31 July 2013

		2013	2012
		£'000	£'000
Income	Note		
Funding council grants	1	34,750	45,450
Academic fees and support grants	2	83,282	73,959
Research grants and contracts	3	3,255	4,068
Other operating income	4	16,001	14,094
Endowment income and interest receivable	5	566	697
		<hr/>	<hr/>
Total income		137,854	138,268
		<hr/>	<hr/>
Expenditure			
Staff costs	6	73,619	72,725
Depreciation	13	7,870	10,989
Other operating expenses	8	46,876	44,020
Interest payable	10	3,433	4,019
		<hr/>	<hr/>
Total expenditure		131,798	131,753
		<hr/>	<hr/>
Surplus before exceptional items		6,056	6,515
		<hr/>	<hr/>
Exceptional Items: Deconsolidation of the Students' Union	11	(556)	-
		<hr/>	<hr/>
Surplus for the year		5,500	6,515
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 37-58 form an integral part of the Financial Statements. All activities consist of continuing operations.

London South Bank University

Consolidated statement of total recognised gains and losses Year ended 31 July 2013

		2013 £'000	2012 £'000
	Note		
Surplus for the year	23	5,500	6,515
Actuarial gains/(losses) relating to pension scheme	25	14,237	(18,146)
Change in market value of endowment asset investments	27	88	(10)
		<hr/>	<hr/>
Total recognised gains/(losses) relating to the financial year		19,825	(11,641)
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation

Opening reserves and endowments		63,252	74,893
Total recognised gains/(losses) for the year		19,825	(11,641)
		<hr/>	<hr/>
Closing reserves and endowments		83,077	63,252
		<hr/> <hr/>	<hr/> <hr/>

Note of consolidated historical cost surplus Year ended 31 July 2013

		2013 £'000	2012 £'000
Reported surplus for the year	23	5,500	6,515
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	22	794	802
		<hr/>	<hr/>
Historical cost surplus for the year		6,294	7,317
		<hr/> <hr/>	<hr/> <hr/>

**Balance sheets
As at 31 July 2013**

		Consolidated		University	
		2013	2012	2013	2012
		£'000	£'000	£'000	£'000
Fixed assets	Note				
Tangible assets	13	174,292	163,626	174,292	163,618
Investments	14	38	38	38	38
		<u>174,330</u>	<u>163,664</u>	<u>174,330</u>	<u>163,656</u>
Endowment fixed assets					
Total Endowments	27	729	641	729	641
		<u>729</u>	<u>641</u>	<u>729</u>	<u>641</u>
Stocks		18	46	18	39
Debtors	15	7,823	9,101	7,770	8,923
Bank Deposits		5,206	5,145	5,206	5,145
Cash at bank and in hand		54,750	64,001	53,821	62,314
		<u>67,797</u>	<u>78,293</u>	<u>66,815</u>	<u>76,421</u>
Creditors: amounts falling due within one year	16	<u>(38,137)</u>	<u>(40,746)</u>	<u>(37,835)</u>	<u>(40,190)</u>
Net current assets		<u>29,660</u>	<u>37,547</u>	<u>28,980</u>	<u>36,231</u>
Total assets less current liabilities		<u>204,719</u>	<u>201,852</u>	<u>204,039</u>	<u>200,528</u>
Creditors: amounts falling due after more than one year	17	(29,592)	(31,062)	(29,592)	(31,062)
Provisions for liabilities	19	-	(1,179)	-	(1,179)
Pension liability	20	(62,211)	(74,664)	(62,211)	(74,664)
		<u>(91,803)</u>	<u>(106,905)</u>	<u>(91,803)</u>	<u>(106,905)</u>
Net assets		<u>112,916</u>	<u>94,947</u>	<u>112,236</u>	<u>93,623</u>
Deferred capital grants	21	29,839	31,695	29,839	31,695
Endowments					
Permanent	27	341	304	341	304
Expendable	27	388	337	388	337
		<u>729</u>	<u>641</u>	<u>729</u>	<u>641</u>
Capital and reserves					
Income & expenditure account excluding pension reserve	23	114,367	106,289	113,687	104,965
Pension reserve	23	(62,211)	(74,664)	(62,211)	(74,664)
		<u>52,156</u>	<u>31,625</u>	<u>51,476</u>	<u>30,301</u>
Income and expenditure account including pension reserve		<u>52,156</u>	<u>31,625</u>	<u>51,476</u>	<u>30,301</u>
Revaluation reserves	22	30,192	30,986	30,192	30,986
Total		<u>112,916</u>	<u>94,947</u>	<u>112,236</u>	<u>93,623</u>

These financial statements were approved by the Board of Governors on 21 November 2013 and were signed and authorised on their behalf by:

London South Bank University

Consolidated Cash flow statement Year ended 31 July 2013

	Note	2013 £'000	2012 £'000
Net cash inflow from operating activities	30	12,729	20,083
Returns on investments and servicing of finance	31	(906)	(1,060)
Capital expenditure and financial investment	32	(18,552)	(11,063)
Acquisitions and disposals	33	(547)	-
Net cash (outflow) / inflow before management of liquid resources and financing		(7,276)	7,960
Management of liquid resources	34	(61)	15,209
Financing	35	(1,914)	(1,419)
(Decrease)/increase in cash	36	(9,251)	21,750
Reconciliation of net cash flow to movement in net funds			
(Decrease)/increase in cash	36	(9,251)	21,750
Cash outflow/(inflow) from/(to) liquid resources	34	61	(15,209)
Net decrease in debt	37	2,254	3,378
Change in net funds		(6,936)	9,919
Net funds at 1 August	36	35,897	25,978
Net funds at 31 July	36	28,961	35,897

London South Bank University

Principal Accounting Policies Year ended 31 July 2013

The following principal accounting policies have been applied consistently in both the current and prior year in dealing with items which are considered material in relation to the Group's financial statements.

Basis of preparation

The financial statements are prepared under the historical cost convention, modified by the inclusion of certain properties at valuation and the revaluation of endowment assets, in accordance with the Companies Act 2006 and with the Statement of Recommended Practice (SORP) for Further and Higher Education 2007, and in accordance with applicable accounting standards and HEFCE's Accounts Direction.

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in operation. The Board is satisfied that the Group has adequate resources to continue in operation for the foreseeable future, as described in more detail on page 10 of these accounts. For this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

Consolidation of accounts

The consolidated financial statements incorporate the financial statements of the University and its subsidiary undertaking South Bank University Enterprises Limited (SBUEL). Following a change to the constitution of the London South Bank University Students' Union (LSBUSU) from August 2012, the University no longer exercises control over the LSBUSU and therefore took the decision to cease consolidating the accounts of LSBU SU within these financial statements.

Consolidation of subsidiaries is based on the equity method.

Income recognition

Recurrent funding council block grants are accounted for in the period to which they relate.

Fee income is stated gross and credited to the income and expenditure account over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for as gross expenditure and not deducted from income.

Income from research grants, contracts and other services rendered is included when conditions attaching to its receipt have been met. Contributions towards overhead costs are aligned with expenditure and recognised based on expenditure to date.

Non-recurrent grants received in respect of the acquisition or construction of fixed assets are treated as deferred capital grants. Such grants are credited to deferred capital grants and an annual transfer made to the income and expenditure account over the useful economic life of the asset, at the same rate as the depreciation charge on the asset for which the grant was awarded.

Donations with restrictions are recognised when relevant conditions have been met; in many cases recognition is directly related to expenditure incurred on specific purposes. Donations which are to be retained for the benefit of the institution are recognised in the statement of total recognised gains and losses and in endowments; other donations are recognised by inclusion as other income in the income and expenditure account.

Income from the sale of goods and services is credited to the income and expenditure account when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Endowment and investment income is credited to the income and expenditure account on a receivable basis. Income from restricted endowments not expended in accordance with the restrictions of the endowments, is transferred from the income and expenditure account to restricted endowments. Any realised gains or losses from dealing in the related assets are retained within the endowment in the balance sheet.

London South Bank University

Principal Accounting Policies Year ended 31 July 2013

Income recognition (continued)

Any increase in value arising on the revaluation of fixed asset investments is carried as a credit to the revaluation reserve, via the statement of total recognised gains and losses; a diminution in value is charged to the income and expenditure account as a debit, to the extent that it is not covered by a previous revaluation surplus. Increases or decreases in value arising on the revaluation or disposal of endowment assets i.e. the appreciation or depreciation of endowment assets, is added to or subtracted from the funds concerned and accounted for through the balance sheet by debiting or crediting the endowment asset, debiting or crediting the endowment fund and is reported in the statement of total recognised gains and losses.

Tangible fixed assets

Upon implementation of FRS 15 'Tangible Fixed Assets', the University opted to include assets in its books at historical cost/revalued amount at the date of introduction of the FRS. Properties are not carried under the valuation method and therefore regular revaluation of assets are not undertaken by the University.

Freehold land and buildings, long leasehold and short leasehold premises are included in the accounts at cost or valuation together with subsequent refurbishment expenditure, less amounts written off by way of depreciation. Freehold land is not depreciated. Finance costs that are directly attributable to the construction of land and buildings are not capitalised.

Assets in the course of construction are accounted for at cost, based on the value of Quantity Surveyors' certificates and other direct costs incurred to the end of the year. They are not depreciated until they are brought into use.

Equipment costing less than £10,000 per individual item or group of items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum
Long leaseholds	Period of lease
Short leaseholds	Period of lease
Building improvements	6.7% per annum
IT equipment	20 - 25% per annum
Other equipment and motor vehicles	20% per annum
Furniture	6.7% per annum

At each financial year end the carrying amounts of tangible assets are reviewed to determine whether there is any indication that those assets have suffered a diminution in value. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value and its value in use, is estimated in order to determine the extent of the impairment loss.

Investments

Investments in subsidiaries and associated undertakings are shown in the University's balance sheet at cost less any provision for impairment in their value.

Endowment Asset Investments are included in the balance sheet at market value.

Stocks

Stocks are valued at the lower of cost and net realisable value.

London South Bank University

Principal Accounting Policies Year ended 31 July 2013

Pension costs

The University contributes to the Teachers' Pensions Scheme (England and Wales), the London Pension Fund Authority Pension Fund (LPFAPF) and the Universities Superannuation Scheme (USS). These schemes are administered by Teachers' Pensions (on behalf of the Department for Education), the London Pension Fund Authority and USS Ltd respectively and are all of the defined benefit type. The costs in relation to these schemes are accounted for in accordance with FRS 17 (Retirement benefits).

Where the University is unable to identify its share of the underlying assets and liabilities in a scheme on a reasonable and consistent basis, it accounts as if the scheme were a defined contribution scheme, so that the cost is equal to the total of contributions payable in the year.

For other defined benefit schemes, the assets of each scheme are measured at fair value, and the liabilities are measured on an actuarial basis using the projected unit method and discounted at an appropriate rate of return. The University's share of the surplus or deficit of the scheme is recognised as an asset or liability on the balance sheet. The current service cost, being the actuarially determined present value of the pension benefits earned by employees in the current period, and the past service cost are included within staff costs. Endowment and investment income includes the net of the expected return on assets, being the actuarial forecast of total return on the assets of the scheme, and the interest cost being the notional interest cost arising from unwinding the discount on the scheme liabilities. All changes in the pension surplus or deficit due to changes in actuarial assumptions or differences between actuarial forecasts and the actual out-turn are reported in the statement of total recognised gains and losses.

Taxation status

The University is an exempt charity within the meaning of part 3 of the Charities Act 2011, and as such is a 'charity' within the meaning of Section 467 of the Corporation Tax Act (CTA) 2010. Accordingly the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 478 of the CTA 2010 and Section 256C of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

The University's subsidiary company SBUEL is subject to corporation tax and is therefore required to account for deferred tax and current tax.

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Agency arrangements

Funds the institution receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the institution where the institution is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

Leases

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Finance leases, which substantially transfer all the benefits and risks of ownership of an asset to the institution, are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital elements of the leasing commitments are shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied in order to reduce outstanding obligations and the interest

London South Bank University

Principal Accounting Policies Year ended 31 July 2013

element is charged to the income and expenditure account in proportion to the reducing capital element outstanding. Assets held under finance lease are depreciated over the shorter of the lease term or the useful economic lives of equivalent owned assets.

Maintenance

Maintenance expenditure is charged to the consolidated income and expenditure account in the period in which it is incurred.

Refurbishment expenditure on a property is deemed to be of a capital nature if it either enhances the property's operational capabilities, or if it significantly upgrades the mechanical or electrical infrastructure of that property. To the extent that the expenditure is of a capital nature, it is capitalised and written off over its useful economic life. Refurbishment expenditure that does not meet either of these criteria is treated as maintenance expenditure.

Reserves

Designated reserves represent retained reserves generated by activities not funded by the HEFCE. Any surplus or deficit for the year is transferred from the income and expenditure reserve to designated reserves.

Where fixed assets were revalued prior to the implementation of FRS 15, the gain or loss on revaluation was credited or debited to the capital reserve. Where depreciation on the revalued amount exceeds the corresponding depreciation based on historical cost, the excess is transferred annually from the capital reserve to the income and expenditure reserve.

The pension reserve represents the pension liability in respect of the defined benefit pension schemes (see note 25).

Cash flows and liquid resources

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within twenty-four hours without penalty.

Liquid resources comprise of assets, which in normal practice are generally convertible to cash. They include term deposits held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

Foreign currency translation

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

Provisions, contingent liabilities and contingent assets

Provisions are recognised in the financial statements when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets are disclosed by way of a note, where there is probable, rather than a present asset arising from a past event.

London South Bank University

Principal Accounting Policies Year ended 31 July 2013

Accounting for charitable donations

Unrestricted donations

Charitable donations are recognised in the accounts when the charitable donation has been received or if, before receipt, there is sufficient evidence to provide the necessary certainty that the donation will be received and the value of the incoming resources can be measured with sufficient reliability.

Endowment funds

Where charitable donations are to be retained for the benefit of the institution as specified by the donors, these are accounted for as endowments. There are three main types:

1. Unrestricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream for the general benefit of the institution. These are shown as unrestricted permanent endowments in the balance sheet.
2. Restricted expendable endowments – the donor has specified a particular objective other than the purchase or construction of tangible fixed assets, and the institution can convert the donated sum into income. These are shown as restricted expendable endowments in the balance sheet if the donation is to be retained for more than two years, and as deferred income within creditors due within one year if the donation is to be fully expended within two years.
3. Restricted permanent endowments – the donor has specified that the fund is to be permanently invested to generate an income stream to be applied to a particular objective. These are shown as restricted permanent endowments in the balance sheet.

Total return on investment for permanent endowments

Total return is the whole of the investment return received by the institution on the permanent endowment funds regardless of how it has arisen.

The total return, less any part of the return which has previously been applied for the purposes of the institution, remains in the unapplied total return fund. This fund remains part of the permanent endowment until such time as a transfer is made to the income and expenditure account.

Donations for fixed assets

Donations received to be applied to the cost of a tangible fixed asset are shown on the balance sheet as a deferred capital grant. The deferred capital grant is released to the income and expenditure account over the same estimated useful life that is used to determine the depreciation charge associated with the tangible fixed asset.

Gifts in kind, including donated tangible fixed assets

Gifts in kind are included in 'other income' or 'deferred capital grants' as appropriate using a reasonable estimate of their gross value or the amount actually realised.

London South Bank University

Notes to the accounts Year ended 31 July 2013

1. Funding council grants	2013	2012
HEFCE	£'000	£'000
Recurrent grant	30,993	40,368
Specific grants	810	1,020
Pension liabilities	224	260
Other funding bodies		
Skills Funding Agency (SFA) grant	60	98
Teaching Agency grant	770	2,018
Deferred capital grants released (note 21)	1,893	1,686
	<hr/>	<hr/>
	34,750	45,450
	<hr/> <hr/>	<hr/> <hr/>
2. Academic fees and support grants	2013	2012
	£'000	£'000
Full-time home and EU students	38,120	26,479
Full-time international students	8,456	9,191
Part-time students	7,486	6,742
Other courses	191	885
Strategic Health Authority education contracts	29,029	30,662
	<hr/>	<hr/>
	83,282	73,959
	<hr/> <hr/>	<hr/> <hr/>
3. Research grants and contracts	2013	2012
	£'000	£'000
Research councils	1,123	1,185
UK based charities	279	231
European Commission	434	117
Other grants and contracts	750	1,483
Knowledge Transfer Partnerships	669	1,052
	<hr/>	<hr/>
	3,255	4,068
	<hr/> <hr/>	<hr/> <hr/>
4. Other operating income	2013	2012
	£'000	£'000
Residence and catering income	9,125	8,378
Other income	6,876	5,716
	<hr/>	<hr/>
	16,001	14,094
	<hr/> <hr/>	<hr/> <hr/>

London South Bank University

Notes to the accounts Year ended 31 July 2013

5. Endowment income and investment income	2013	2012
	£'000	£'000
Income from permanent endowments	12	12
Income from expendable endowments	13	13
Interest receivable	541	672
	<u>566</u>	<u>697</u>
6. Staff - consolidated	2013	2012
Average staff numbers by major category:	No.	No.
Academic staff	665	726
Part time teaching staff	307	331
Student support staff	411	431
Other support staff	385	380
	<u>1,768</u>	<u>1,868</u>
	2013	2012
Costs:	£'000	£'000
Wages and salaries	59,355	59,228
Social security costs	5,207	5,306
Employers' pension contributions	9,057	8,191
	<u>73,619</u>	<u>72,725</u>

Staff costs for the year include costs arising from redundancies of £1.5m (2012: £0.9m).

7. Remuneration of Board of Governors and Higher-Paid employees

A. Governors

The University's governors do not receive remuneration from the University in their capacity as governors. The salaries and pension contributions below therefore relate entirely to staff governors and to sums received by them in their capacity as employees of the University.

	2013	2012
	£'000	£'000
Salaries	447	467
Pension contributions	23	33
	<u>470</u>	<u>500</u>

Governors, who are also all trustees, are paid expenses for attending meetings and duties directly related to their duties as trustees. In 2013, six trustees were paid total expenses of £3,716 (2012: three trustees were paid total expenses of £2,342) for travel and subsistence.

London South Bank University

Notes to the accounts Year ended 31 July 2013

7. Remuneration of Board of Governors and Higher-Paid employees (continued)

B. Higher paid employees

Certain employees received remuneration (excluding pension contributions) in excess of £100,000 during the year. Seven of these employees accrued benefits under defined benefit pension schemes during the year (2012:7). These employees are grouped as follows:

	2013	2012
	No.	No.
£100,000 to £109,999	3	1
£110,000 to £119,999	2	2
£120,000 to £129,999	1	1
£130,000 to £139,000	1	1
£160,000 to £169,999	1	1
£230,000 to £239,999	1	1
	<hr/>	<hr/>
	9	7
	<hr/> <hr/>	<hr/> <hr/>

C. Remuneration of the Vice Chancellor

	2013	2012
	£'000	£'000
Salary and taxable benefits	233	238
	<hr/>	<hr/>
Total emoluments and remuneration	233	238
	<hr/> <hr/>	<hr/> <hr/>

All remuneration of the Vice Chancellor was to the current Vice Chancellor Professor Martin Earwicker. The Vice Chancellor is the highest paid Governor.

	2013	2012
	£'000	1£'000
8. Other operating expenses		
Academic	13,585	14,070
Academic support	5,232	3,755
Other support	5,174	3,979
Premises	16,076	16,588
Residence and catering	1,089	1,014
Other expenses	5,720	4,614
	<hr/>	<hr/>
	46,876	44,020
	<hr/> <hr/>	<hr/> <hr/>

London South Bank University

Notes to the accounts Year ended 31 July 2013

8. Other operating expenses (continued)

	2013 £'000	2012 £'000
Group other operating expenses are stated after charging:		
Auditors' remuneration		
<i>External audit</i>		
Grant Thornton UK LLP*	51	49
<i>Internal audit**</i>		
PricewaterhouseCoopers LLP	95	87
<i>Other services**</i>		
Grant Thornton UK LLP	3	3
Rentals under operating leases		
Plant and machinery	269	375
Other assets	120	872
Loss on disposal of fixed assets	8	26
	<u>8</u>	<u>26</u>

* Includes £XXX attributable to the University (2012: £46,350)

** All attributable to the University

Depreciation includes £340,000 attributable to assets held under finance leases (2012: £833,000)

9. Taxation

A deferred tax asset has not been recognised in respect of timing differences relating to capital allowances and trading losses as there is insufficient evidence that the asset will be recovered.

The amount of the asset not recognised is £XXX (2012: £22,459). The asset would be recovered if suitable taxable profits were to arise in the future against which the asset could be offset.

	2013 £'000	2012 £'000
10. Interest payable		
Loans repayable within five years	15	78
Loans not wholly repayable within five years	1,420	1,592
Unwinding of discount in respect of pension liability less expected return on pension assets (see note 19)	1,961	2,262
Finance leases	37	87
	<u>3,433</u>	<u>4,019</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

11 Exceptional items

Following a change to the constitution of the London South Bank University Students' Union (LSBUSU) from July 2013, the University no longer exercises control of LSBUSU and therefore has ceased consolidating the accounts of LSBUSU within these financial statements. At 1 August 2012 LSBUSU had net assets of £556,000 and the impact of this is a loss on derecognition made up as follows:

	£'000
Fixed Assets	8
Stock	7
Debtors	30
Cash at bank and in hand	547
Creditors	(36)
	<hr/>
Net Assets	556
	<hr/> <hr/>

12. Surplus of parent company

The income and expenditure account of the parent company (London South Bank University) has not been presented as part of these accounts. This dispensation is allowed under section 408 of the Companies Act 2006.

The surplus, after depreciation of assets at valuation, of London South Bank University was £6.1m (2012: £5.7m).

London South Bank University

Notes to the accounts Year ended 31 July 2013

13. Tangible fixed assets

(a) Consolidated	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in Course of Construction	Total £'000
	Freehold £'000	£'000	Long Leasehold £'000	Short Leasehold £'000		
Cost or Valuation						
At 1 August 2012	30,656	159,733	47,281	52	8,707	246,429
Additions	1,782	624	-	-	16,138	18,544
Disposals	(249)	-	-	-	-	(249)
Transfers	824	6,754	-	-	(7,578)	-
At 31 July 2013	<u>33,013</u>	<u>167,111</u>	<u>47,281</u>	<u>52</u>	<u>17,267</u>	<u>264,724</u>
Depreciation						
At 1 August 2012	(22,404)	(37,415)	(22,939)	(45)	-	(82,803)
Charge for the year	(2,560)	(4,015)	(1,295)	-	-	(7,870)
Disposals	241	-	-	-	-	241
At 31 July 2013	<u>(24,723)</u>	<u>(41,430)</u>	<u>(24,234)</u>	<u>(45)</u>	<u>-</u>	<u>(90,432)</u>
Net book value						
At 31 July 2013	<u>8,290</u>	<u>125,681</u>	<u>23,047</u>	<u>7</u>	<u>17,267</u>	<u>174,292</u>
At 31 July 2012	<u>8,252</u>	<u>122,318</u>	<u>24,342</u>	<u>7</u>	<u>8,707</u>	<u>163,626</u>

If the land and buildings detailed above had not been revalued, tangible fixed assets would have been included in these financial statements at 31 July 2013 at the following amounts:

	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in Course of Construction	Total £'000
	Freehold £'000	£'000	Long Leasehold £'000	Short Leasehold £'000		
Cost	30,656	86,656	24,854	52	17,267	159,485
Depreciation	(22,403)	(21,585)	(15,034)	(45)	-	(59,067)
Net book value	<u>8,253</u>	<u>65,071</u>	<u>9,820</u>	<u>7</u>	<u>17,267</u>	<u>100,418</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

13. Tangible fixed assets (continued)

(b) University	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in Course of Construction	Total £'000
	Freehold £'000	£'000	Long Leasehold £'000	Short Leasehold £'000		
Cost or Valuation						
At 1 August 2012	30,405	159,735	47,281	52	8,707	246,180
Additions	1,782	624	-	-	16,138	18,544
Transfers	824	6,754	-	-	(7,578)	-
At 31 July 2013	<u>33,011</u>	<u>167,113</u>	<u>47,281</u>	<u>52</u>	<u>17,267</u>	<u>264,724</u>
Depreciation						
At 1 August 2012	(22,182)	(37,396)	(22,939)	(45)	-	(82,562)
Charge for the year	(2,560)	(4,015)	(1,295)	-	-	(7,870)
At 31 July 2013	<u>(24,742)</u>	<u>(41,411)</u>	<u>(24,234)</u>	<u>(45)</u>	<u>-</u>	<u>(90,432)</u>
Net book value						
At 31 July 2013	<u>8,269</u>	<u>125,702</u>	<u>23,047</u>	<u>7</u>	<u>17,267</u>	<u>174,292</u>
At 31 July 2012	<u>8,223</u>	<u>122,339</u>	<u>24,342</u>	<u>7</u>	<u>8,707</u>	<u>163,618</u>

If the land and buildings detailed above had not been revalued, tangible fixed assets would have been included in these financial statements at 31 July 2013 at the following amounts:

	Equipment, Furniture and Motor Vehicles		Land and buildings		Assets in course of construction	Total £'000
	Freehold £'000	£'000	Long Leasehold £'000	Short Leasehold £'000		
Cost	30,405	86,656	24,854	52	17,267	159,234
Depreciation	(22,182)	(21,585)	(15,034)	(45)	-	(58,846)
Net book value	<u>8,223</u>	<u>65,071</u>	<u>9,820</u>	<u>7</u>	<u>17,267</u>	<u>100,388</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

13. Tangible fixed assets (continued)

Land and buildings were valued in September 1994 by Drivers Jonas, Chartered Surveyors. Properties were valued at their open market value for existing use, and where this was not practical, the depreciated replacement cost was used.

All properties, other than those detailed below, are included at 1 August 1994 prices less subsequent depreciation in accordance with the Drivers Jonas valuation report of September 1994:

Freehold Land and Buildings

- ❖ The K2 building is stated at cost of £45.9m. The land at the site of the K2 building is stated at a cost of £4.3m.
- ❖ The Keyworth Centre is stated at cost of £25.8m.
- ❖ The David Bomberg House hall of residence is stated at cost of £11.6m.
- ❖ The Learning Resource Centre is stated at cost of £4.7m.
- ❖ The St George's Circus and Chapel sites are stated at a cost of £1.1m, represented by land of £0.7m and £0.4m of sundry capital costs. This is subsequent to impairments including £2.7m of pre-construction costs related to the aborted redevelopment of the Chapel site and £2.9m of stabilisation works to the listed terraces at St George's circus.
- ❖ The Technopark building is stated at purchase cost of £3.6m.
- ❖ Phase 2 of the Dante Road hall of residence is stated at cost of £2.1m.
- ❖ The Student Centre is stated at cost of £6.8m.

Long leasehold Land and Buildings

- ❖ The New Kent Road hall of residence was originally held under a finance lease. It is included in these accounts at the capital cost of the original lease charges payable, the agreed amount of which was £1.1m. The finance lease was settled before the expiry of its term. Although this property is treated as a long leasehold property the University also owns the freehold of this property, which has a nominal value.
- ❖ Phase 1 and phase 3 of the Dante Road hall of residence are included in these accounts under long leasehold land and buildings at capital costs of £3.5m and £2m respectively.
- ❖ McLaren House, a 620 bed hall of residence, is stated at cost of £16.3m. It was originally held under a finance lease however the lease was settled before the expiry of its term. Although this property is treated as a long leasehold property, the University also holds the underlying freehold, which has a nominal value.

Included in long leasehold land and buildings is £0.7m (2012: £0.7m) of capitalised interest. This interest was capitalised in 1996 in connection with the construction of McLaren House.

London South Bank University

Notes to the accounts Year ended 31 July 2013

13. Tangible fixed assets (continued)

Assets held under Finance Leases

Consolidated and University equipment, furniture and motor vehicles include assets held under finance leases as follows:

	2013 £000	2012 £000
Cost	2,870	2,870
Accumulated depreciation	(2,623)	(2,283)
Net book value	<u>247</u>	<u>587</u>
Depreciation charge for the year	<u>340</u>	<u>833</u>

14. Investments

	Consolidated		University	
	2013 £000	2012 £000	2013 £000	2012 £000
CVCP Properties plc	<u>38</u>	<u>38</u>	<u>38</u>	<u>38</u>

The University holds 9% of the £1 ordinary shares of CVCP Properties plc. The principal activity of the company is leasing of buildings, with the majority of tenants being Higher Education Organisations.

Details of the companies, all incorporated in England and Wales, in which London South Bank University holds directly or indirectly more than 20% of the nominal value of any class of share capital are as follows:

South Bank University Enterprises Limited

The University holds 100% of the £1 ordinary shares of South Bank University Enterprises Limited (SBUEL), which was formed in order to take over the commercial aspects of the University's activities. 5 of these shares have been held since 5 February 1988 with a further 5 issued on 19 July 2012.

London Knowledge Innovation Centre Limited

SBUEL holds 50% of the issued £1 shares of London Knowledge Innovation Centre Limited (LKIC), a company formed to provide serviced office space and other services to start-up companies. The share of the net assets and profit/(loss) of LKIC have not been included in the consolidated accounts as they are immaterial. The profit/(loss) and net assets of LKIC were both £nil for the period ended 31 July 2013 (2012: £nil).

Other investments

All other investments represent less than 20% of the issued share capital in each case and are therefore not individually disclosed.

LSBU Students' Union was a subsidiary until 31/7/12. The investment at 31/7/12 was £nil.

London South Bank University

Notes to the accounts Year ended 31 July 2013

15. Debtors	Consolidated		University	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Trade debtors	4,849	6,983	5,104	7,129
Amounts owed by group undertakings	-	-	17	66
Other debtors	672	227	617	140
Prepayments & accrued income	2,302	1,891	2,032	1,588
	<u>7,823</u>	<u>9,101</u>	<u>7,770</u>	<u>8,923</u>

16. Creditors: amounts falling due within one year	Consolidated		University	
	2013 £'000	2012 £'000	2013 £'000	2012 £'000
Bank and other loans	1,278	1,914	1,277	1,914
Obligations under finance leases	192	340	192	340
Trade creditors	1,652	1,477	1,652	1,454
Other creditors	1,547	1,365	1,487	1,233
Social security and other taxation payable	1,482	1,425	1,482	1,526
Accruals and deferred income	31,986	34,225	31,745	33,723
	<u>38,137</u>	<u>40,746</u>	<u>37,835</u>	<u>40,190</u>

17. Creditors: Amounts falling due after more than one year	Consolidated and University	
	2013 £'000	2012 £'000
Bank and other loans	29,537	30,814
Obligations under finance leases	55	248
	<u>29,592</u>	<u>31,062</u>

18. Borrowings	Consolidated and University	
	2013 £'000	2012 £'000
Bank loans and finance leases are repayable as follows:		
Due in less than one year (note 16)	1,470	2,254
Due between one and two years	1,349	1,470
Due between two and five years	3,981	3,983
Due after five years	24,262	25,609
Total due after one year (note 17)	<u>29,592</u>	<u>31,062</u>
	<u>31,062</u>	<u>33,316</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

18. Borrowings (continued)

Details of bank loans:

- The loan from Allied Irish Bank (GB) in respect of the Dante Road hall of residence is repayable over 26.5 years to 2027. The amount outstanding at 31 July 2013 was £5.377million (2012: £5.754 million). The loan bears interest at a rate of 6.67% per annum. The loan is secured on the property to which it relates.
- There is a loan facility from Barclays Bank of £37 million, secured on David Bomberg House and McLaren House halls of residences. Within the facility, the following balances are outstanding at 31 July 2013:
 - An amount of £5.752million in respect of David Bomberg House was outstanding at 31 July 2013 (2012: £6.062 million). This borrowing is repayable over 25 years to 2032 and bears interest at a fixed rate of 5.67% per annum.
 - An amount of £nil (2012: £0.650 million) was outstanding in respect of McLaren House.
 - A further £21.830 million of the Barclays facility was drawn down to finance the K2 building. Of this amount, £19.485 million was outstanding at 31 July 2013 as follows: £5m (2012: £5m) is interest-only, repayable in April 2029, and bears interest at a fixed rate of 5.25% per annum; £8.917m (2012: £9.196m) is repayable over 23.25 years to 2032 and bears interest at a fixed rate of 5.54% per annum, and £5.568m (2012: £5.865m) is repayable over 23 years to 2032 and bears interest at a variable rate of 0.225% above LIBOR per annum.

19. Provisions for liabilities

	Consolidated and University	
	2013	2012
	£'000	£'000
Other provisions	-	1,179
	<u> </u>	<u> </u>
Analysis of provision for liabilities:		£'000
Balance at 1 August 2012		1,179
Provision utilised in year		(1,179)
		<u> </u>
Balance at 31 July 2013		-
		<u> </u>

Provisions at the start of the year were in respect of HEFCE and other funding and in respect of dilapidations on temporary buildings. During the year payments were made against all provisions.

London South Bank University

Notes to the accounts Year ended 31 July 2013

20. Pension liability

The pension liability has been measured in accordance with the requirements of FRS17 and relates to the London Pension Fund Authority pension scheme (LPFA).

	Consolidated and University	
	2013	2012
	£'000	£'000
Balance at 1 August	74,664	55,340
Current service cost	4,449	3,680
Settlements and curtailments	307	139
Contributions	(4,933)	(4,903)
Other finance cost (note 25)	1,961	2,262
Actuarial (gains)/losses recognised in STRGL (note 25)	(14,237)	18,146
	<u>62,211</u>	<u>74,664</u>
Balance at 31 July	<u>62,211</u>	<u>74,664</u>

21. Deferred capital grants

Consolidated and University

	Land and buildings	Equipment	Total
	£'000	£'000	£'000
Balance at 1 August 2012	27,809	3,886	31,695
Release to income and expenditure account (note 1)	(1,341)	(552)	(1,893)
Grants received	-	340	340
Transfers to deferred income	(303)	-	(303)
	<u>26,165</u>	<u>3,674</u>	<u>29,839</u>
Balance at 31 July 2013	<u>26,165</u>	<u>3,674</u>	<u>29,839</u>

22. Revaluation reserves

Consolidated and University

	2013	2012
	£'000	£'000
Balance at 1 August	30,986	31,788
Transfer to income & expenditure reserves being excess depreciation on revalued assets (note 23)	(794)	(802)
	<u>30,192</u>	<u>30,986</u>
Balance at 31 July	<u>30,192</u>	<u>30,986</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

23. Income and expenditure account	Consolidated	University
	2013	2013
	£'000	£'000
Reserve		
Balance at 1 August 2012	106,289	104,965
Surplus for the year	5,500	6,144
Transfer from revaluation reserve	794	794
Net FRS17 pension costs transferred to pension reserve	1,784	1,784
	<hr/>	<hr/>
Balance at 31 July 2013	114,367	113,687
	<hr/> <hr/>	<hr/> <hr/>
Pension reserve		
Balance at 1 August 2012	(74,664)	(74,664)
Actuarial gain	14,237	14,237
Net FRS17 pension costs transferred from income and expenditure reserve	(1,784)	(1,784)
	<hr/>	<hr/>
Balance at 31 July 2013	(62,211)	(62,211)
	<hr/> <hr/>	<hr/> <hr/>

24. Designated reserves

The income and expenditure account of the Group does not include any amount which are designated reserves. (2012: £0.6m). Designated reserves were held in the accounts of London South Bank University Students' Union (LSBUSU) and were not distributable. From 1 August 2012 and the accounts of LSBUSU were not consolidated into these accounts).

25. Pension arrangements

The University participates in the Teachers Pension Scheme (TPS) and the Universities Superannuation Scheme Limited (USS) for academic employees and the London Pension Fund Authority (LPFA) Pension Fund for non-academic employees.

A. The Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. These regulations apply to teachers in schools and other educational establishments in England and Wales including teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers or lecturers and from 1 January 2007 automatic too for teachers or lecturers in part-time employment following appointment or change of contract. Teachers and lecturers are able to opt out of the TPS.

Retirement and other pension benefits are provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Teachers' contributions are credited to the Exchequer under arrangements governed by the above act. The Teachers' Pension Regulations require that an annual account, the Teachers' Budgeting and Valuation Account, to be kept of receipts and expenditure, including the cost of pension increases.

From 1 April 2001, the account has been credited with a real rate of return of 3.5%, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

Notes to the accounts Year ended 31 July 2013

25. Pension arrangements (continued)

The contribution rate paid into the TPS is in two parts: a standard contribution rate plus a supplementary contribution payable if, as a result of actuarial investigation, it is found that accumulated liabilities of the Account are not fully covered by the standard contribution to be paid in the future plus the notional fund built up from past contributions.

The last valuation of the TPS was as of 31 March 2004 and revealed that total liabilities in the scheme (pensions currently in payment and estimated cost of future benefits) amounted to £166,500 millions. The value of the assets (estimated future contributions together with the proceeds of notional investments) amounted to £163,240 millions. The assumed real rate of return is 3.5% in excess of prices and 2% in excess of earnings. The real rate of earnings growth is assumed to be 1.5% and the assumed gross rate of return is 6.5%.

From 1 January 2007, and as a part of the cost-sharing agreement between employers' and teachers' representatives, the standard contribution rate is 19.75% plus a supplementary contribution rate of 0.75%; a total contribution rate of 20.5%. This translated into an employee contribution rate of 6.4% and an employer contribution rate of 14.1%. During the year contributions were paid by the University and charged to the Income and Expenditure account at a current rate of 14.1% (2012: 14.1%) of salaries and the University's contribution to the TPS for 2013 was £3,549,403 (2012: £3,829,589). Employee contribution rates were between 6.4% and 11.2% depending on earnings.

Actuarial scheme valuations are dependent on assumptions about the valuation of future costs and design of benefits. These are being discussed in the context of the design for a reformed TPS and scheme valuations are therefore currently suspended. The Government however has set out a future process for determining the employer contribution rate under the new scheme, and this process will involve a full actuarial valuation.

Under the definitions set out in FRS17 'Retirement Benefits', the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

B. The Universities Superannuation Scheme

The Universities Superannuation Scheme is a defined benefit scheme which is externally funded. The assets of the scheme are held in a separate fund administered by the trustee, Universities Superannuation Scheme Limited. Contributions are paid by the University and charged to the Income and Expenditure account. The contribution rate for 2013 is 16% of salaries.

The latest triennial valuation of the scheme was 31 March 2011. At the valuation date, the value of the assets in the scheme was £32,433.5 million and the value of the scheme's technical provisions was £35,343.7million, indicating a shortfall of £2,910.2 million. The assets were therefore sufficient to cover 92% of the benefits accrued to members after allowing for expected future increases in earnings.

The financial assumptions of that valuation are as follows:

Investment returns per annum – past service	4.4%
Investment returns per annum – future service	6.2%
Salary scale increases per annum	4.4%
Price increases per annum	2.9%
Pension increases	3.4%

The Trustees have determined, after consultation with employers, a recovery plan to pay off the shortfall by 31 March 2021. The next formal triennial valuation is at 31 March 2014. If experience up to that date is in line with the assumptions made for this current actuarial valuation, the shortfall at 31 March 2014 is estimated to be £2.2 billion, equivalent to a funding level of 95%. The contribution rate will be reviewed as part of each valuation and may be reviewed more frequently.

London South Bank University

Notes to the accounts Year ended 31 July 2013

25. Pension arrangements (continued)

At 31/7/13 the University had 52 active members participating in the scheme. The University's contribution to the USS for 2013 was £409,605 (2012: £366,823). This was an 11% rise.

Under the definitions set out in FRS17 'Retirement Benefits', the USS scheme is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

C. The London Pension Fund

The London Pension Fund Authority (LPFA) provides members with benefits related to pay and service at rates which are defined under the Local Government Pensions Scheme Regulations 1997. To finance these benefits, assets are accumulated in the Fund and held separately from the assets of the University.

A full triennial valuation was carried out by the scheme's actuary Barnett Waddingham as at 31 March 2010. The results showed the market value of the Fund's assets attributable to the University as £78.47m. The actuarial value of those assets represented 78.2% of the value of the benefits that have accrued to the University's pensioners, deferred pensioners and current members based upon past service but allowing for assumed pay increases and pension increases.

Pension costs under FRS17

For accounting purposes the scheme's assets are measured at market value and liabilities are valued using the projected unit method and discounted using the annualised yield on the iBoxx AA rated over 15 year corporate bond index. The valuation uses market-based assumptions and asset valuations, and represents a current valuation. It does not impact on the contribution rates set by the trustees of the scheme. The principal assumptions used by the actuary were:

	31 July 2013 % per annum	31 July 2012 % per annum
Salary increases	4.2	3.5
Pension and price increases	2.5	1.8
Discount rate	4.7	3.9

Employees retiring on or after 6 April 2006 are permitted to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

On the advice of our actuaries we have assumed that members will exchange half of their commutable pension for cash at retirements. In calculating the scheme assets and liabilities, the fund's actuaries had to make a number of assumptions about events and circumstances in the future. These assumptions represent the best estimate of expected outcomes but it is possible that actual outcomes will differ from those included in the accounts. Any differences between expected and actual outcomes are reported through experience gains and losses.

Life expectancy

Post-retirement mortality is based on Club Vita analysis which has then been projected with the Medium Cohort Projection, allowing for a minimum rate of improvement of 1% per annum. Based on these assumptions, average future life expectancies at age 65 are summarised below:

	Males Years	Females Years
Current pensioners	20.9	23.9
Future pensioners	22.9	25.8

London South Bank University

Notes to the accounts Year ended 31 July 2013

25. Pension arrangements (continued)

Fund assets

The expected return on fund assets is based on the long-term future expected investment return for each asset class as at the beginning of the period (i.e. as at 1 August 2012 for the year to 31 July 2013). The return on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The return on equities and property is then assumed to be a margin above gilt yields. The employer assets in the scheme and the expected rates of return are as follows:

	Expected rate of return at 31 July 2013	Fair value as at 31 July 2013 £'000	Expected rate of return at 31 July 2012	Fair value as at 31 July 2012 £'000
Equities	6.4%	45,279	5.6%	57,251
Target return portfolio	4.9%	27,938	4.3%	8,063
Alternative assets	5.4%	7,707	4.6%	12,902
Cash	0.5%	944	0.5%	2,419
Cashflow matching	3.4%	14,451	n/a	0
Total fair value of assets		<u>96,319</u>		<u>80,635</u>

Net pension liability

The following amounts at 31 July related to London South Bank University measured in accordance with the requirements of FRS17:

	2013 £'000	2012 £'000	2011 £'000
Fair value of Employer Assets	96,319	80,635	78,471
Present value of funded obligations	(146,774)	(143,181)	(121,971)
Net underfunding in funded plans	(50,455)	(62,546)	(43,500)
Present value of unfunded obligations	(11,756)	(12,118)	(11,840)
Net Pension Liability	<u>(62,211)</u>	<u>(74,664)</u>	<u>(55,340)</u>

The movement for the year in the net pension liability is shown in note 20.

Analysis of the amount included in staff costs for the year

	2013 £'000	2012 £'000
Current service cost	4,449	3,680
Curtailments and settlements	307	139
Enhancements to former employees*	229	236
Total operating charge	<u>4,985</u>	<u>4,055</u>

*recoverable in full from HEFCE (note 1)

London South Bank University

Notes to the accounts Year ended 31 July 2013

25. Pension arrangements (continued)

Analysis of the amount included in interest payable for the year	2013	2012
	£'000	£'000
Expected return on pension scheme assets	(4,173)	(4,923)
Interest on pension scheme liabilities	6,134	7,185
	<u>1,961</u>	<u>2,262</u>

Analysis of the amount recognised in STRGL	2013	2012
	£'000	£'000
Actual return less expected return on pension scheme assets	11,058	(4,000)
Experience gains and losses	(237)	(374)
Changes in assumptions underlying the present value of scheme liabilities	3,416	(13,772)
	<u>14,237</u>	<u>(18,146)</u>

Analysis of movement in the present value of scheme liabilities	2013	2012
	£'000	£'000
At 1 August	155,299	133,811
Current service cost	4,449	3,680
Interest cost	6,134	7,185
Actuarial gains and losses	(3,179)	14,146
Losses on curtailments	307	139
Benefits paid	(4,877)	(4,121)
Contributions by scheme participants	1,294	1,317
Unfunded pension payments	(897)	(858)
	<u>158,530</u>	<u>155,299</u>

25. Pension arrangements (continued)

Analysis of movement in the fair value of scheme assets	2013	2012
	£'000	£'000
At 1 August	80,635	78,471
Expected return on scheme assets	4,173	4,923
Actuarial gains/(losses)	11,058	(4,000)
Contributions by employer	4,036	4,045
Contributions by scheme participants	1,294	1,317
Benefits paid	(4,877)	(4,121)
	<u>96,319</u>	<u>80,635</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

25. Pension arrangements (continued)

Contributions payable in 2013/14 will be at 20.8% of pensionable salary. The projected pension expense for the year to 31 July 2014 is £6,665,000 (2013: £6,285,000)

Experience gains & losses in year

	2013 £'000	2012 £'000	2011 £'000	2010 £'000	2009 £'000
Difference between the actual and expected return on pension scheme assets	11,058	(4,000)	1,206	1,935	8,717
Experience gains and losses arising on scheme liabilities	(237)	(374)	12,593	4,498	-

Sensitivity Analysis

	£'000	£'000	£'000
Adjustment to discount rate	+0.1%	0.0%	-0.1%
Present value of total obligation	156,955	158,530	164,083
Projected service cost	4,140	4,297	4,459
Adjustment to mortality age rating assumption	+1 Year	None	- 1 Year
Present Value of total obligation	155,061	158,530	165,877
Projected service cost	4,114	4,297	4,480

26. Related party disclosures

Due to the nature of the University's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is possible that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

A member of the Board is a Principal Representative to three trusts settled by PricewaterhouseCoopers LLP. During the year the University paid £125,665 to PricewaterhouseCoopers LLP in respect of Internal Audit and other professional services (2012: £75,168). A member of the Board is a Principal Representative of the DHL pension scheme. During the year the University paid £8,671 in respect of delivery services. During the year a member of the Board was a director of Pearson Educational Ltd. During the year the University paid £23,640 in respect of learning resources (2012:£3,336)

The accounts of SBUEL, a wholly owned subsidiary, are consolidated into these accounts and therefore the University has taken exemption under FRS8 not to disclose transactions between the SBUEL and the University. There were no transactions during the year between London Knowledge Innovation Centre Limited (LKIC) or CVCP Properties PLC and the University.

London South Bank University

Notes to the accounts Year ended 31 July 2013

26. Related party disclosures (continued)

During the year the LSBU Students' Union received financial support from the University of £685,000, net of services provided by the University. The President of the LSBU Students' Union is a member of the Board of Governors. The balance between the two parties at the year-end was £nil

27. Endowments

	Consolidated and University			
	Unrestricted Permanent £'000	Restricted Expendable £'000	2013 Total £'000	2012 Total £'000
Balance at 1 August 2012	337	304	641	651
Investment income	13	12	25	25
Expenditure	(13)	(12)	(25)	(25)
Increase in market value of investments	51	37	88	(10)
Balance at 31 July 2013	388	341	729	641

28. Operating lease commitments

At 31 July 2013 the University and the Group were committed to making the following annual payments in respect of operating leases on land and buildings:

	2013 £'000	2012 £'000
Expiring within one year	-	-
Expiring in over five years	51	51
	51	51

29. Capital commitments

	Consolidated and University	
	2013 £'000	2012 £'000
Commitments contracted at 31 July	5,006	9,936
	5,006	9,936

Commitments include those relating to building projects, being undertaken as part of the University's Estates Strategy.

London South Bank University

Notes to the accounts Year ended 31 July 2013

30. Reconciliation of consolidated operating surplus to net cash inflow from operating activities

	2013	2012
	£'000	£'000
Surplus after depreciation of assets at valuation	6,056	6,515
Depreciation (note 13)	7,870	10,989
Loss on disposal of fixed assets	8	26
Investment income	(566)	(697)
Interest payable (note 10)	3,433	4,019
Decrease in stocks	21	2
Decrease in debtors	1,248	1,136
(Decrease)/increase in creditors	(2,092)	538
Decrease in provisions	(1,356)	(759)
Deferred capital grants released to income (note 21)	(1,893)	(1,686)
	<u>12,729</u>	<u>20,083</u>

31. Returns on investments and servicing of finance

	2013	2012
	£'000	£'000
Income from endowments (note 5)	25	25
Interest receivable (note 5)	541	672
Interest paid (note 10)	(1,472)	(1,757)
	<u>30,192</u>	<u>30,986</u>

32. Capital expenditure and financial investment

	2013	2012
	£'000	£'000
Payment to acquire tangible fixed assets	(18,544)	(11,063)
Adjustment for Students' Union assets	(8)	-
	<u>(18,552)</u>	<u>(11,063)</u>

33. Acquisitions and disposals

	£'000	£'000
Transfer of assets to Students' Union	(547)	-

London South Bank University

Notes to the accounts Year ended 31 July 2013

34. Management of Liquid Resources		2013	2012
		£'000	£'000
Cash withdrawn/(added) from/(to) fixed term		(61)	15,209
Net cash outflow from returns on investments and servicing of finance		<u>(61)</u>	<u>15,209</u>
35. Financing		2013	2012
		£'000	£'000
Capital element of bank loan repayments		(1,914)	(2,545)
Capital element of finance lease repayments		(340)	(833)
Capital grants received in year		340	1,959
Net cash outflow from financing		<u>(1,914)</u>	<u>(1,419)</u>
36. Analysis of changes in net funds	At	Cash flow	At
	31 July		31 July
	2012		2013
	£'000	£'000	£'000
Cash at bank and in hand	64,001	(9,251)	54,750
Endowment asset investments	67	-	67
	<u>64,068</u>	<u>(9,251)</u>	<u>54,817</u>
Fixed Term deposits	5,145	61	5,206
Debt due within one year (note 16)	(2,254)	784	(1,470)
Debt due after more than one year (note 17)	(31,062)	1,470	(29,592)
Net funds	<u>35,897</u>	<u>(6,936)</u>	<u>28,961</u>
37. Analysis of changes in financing during the year		2013	2012
		£'000	£'000
Bank and Other Loans			
Balance at 1 August		33,316	36,694
Capital repayments		(2,254)	(3,378)
Balance at 31 July		<u>31,062</u>	<u>33,316</u>

London South Bank University

Notes to the accounts Year ended 31 July 2013

38. Access & Hardship funds	2013	2012
	£'000	£'000
Balance at 1 August	21	2
HEFCE grant	543	640
Skills Funding Agency grant	-	29
Administration costs	(15)	(18)
Distributed to students	(521)	(632)
Funds returned	(23)	-
	<u>5</u>	<u>21</u>
Balance at 31 July	<u><u>5</u></u>	<u><u>21</u></u>

Access and Hardship funds are paid to universities by HEFCE and SFA to provide financial assistance to students whose access to further or higher education might be inhibited by financial considerations or who, for whatever reason, including physical or other disabilities, face financial difficulties.

The grant from HEFCE and SFA grant is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account and grants not disbursed are shown within other creditors.

39. Teacher Training Bursaries	2013	2012
	£'000	£'000
Balance at 1 August	(61)	50
Funding council grant	692	103
Disbursed to students	(821)	(214)
	<u>(190)</u>	<u>(61)</u>
Balance at 31 July	<u><u>(190)</u></u>	<u><u>(61)</u></u>

Teacher Training Bursary funds are paid to universities by the Teaching Agency to provide financial support to students studying for a postgraduate qualification which leads to Qualified Teacher Status (QTS).

The grant from the TDA is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account and grants not disbursed are shown within other creditors.

London South Bank University

	PAPER NO: AC.61(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Letter of representation to auditors	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee review the attached Letter of Representation and recommend approval to the Board. The letter must be signed by the Chair of the Board of Governors at the time of signing the accounts.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability	
Matter previously considered by:	Audit committee	Annually
Further approval required?	Board of Governors	21/11/13
Communications – who should be made aware of the decision?	N/A	

Executive Summary

The letter of representation to the auditors allows the Board of Governors to give specific assurances to the auditors over matters regarding the financial statements and the year audit. The attached letter contains standard representations only; there are no items that have been inserted specific to LSBU.

The committee is requested to note this letter and recommend approval to Board.

{Prepare on client letterhead**}**

Our Ref: DLB/ALT

Grant Thornton UK LLP
Grant Thornton House
Melton Street
Euston Square
LONDON
NW1 2EP

21 November 2013

Dear Sirs

**London South Bank University
Financial Statements for the year ended 31 July 2013**

This representation letter is provided in connection with the audit of the financial statements of London South Bank University and its subsidiary undertaking South Bank University Enterprises Limited for the year ended 31 July 2013 for the purpose of expressing an opinion as to whether the group financial statements give a true and fair view in accordance with the Companies Act 2006.

We confirm to the best of our knowledge and belief that the following representations are made on the basis of appropriate enquiries of other members of the Council with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements, in accordance with the terms of your engagement letter dated 13 October 2011.

Financial Statements

- i As set out in the Statement of Responsibilities of the Board of Governors on page 18, we acknowledge our responsibilities, in accordance with the University's Memorandum and Articles of Association, for preparing financial statements in accordance with the University's Memorandum and Articles of Association and the Statement of Recommended Practice - Accounting for Further and Higher Education, and for making accurate representations to you.
- ii In addition, within the terms and conditions of the Financial Memorandum agreed between the Higher Education Funding Council for England and the Board of Governors, the Board of Governors, through its designated officer holder, is required to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.
- iii We are responsible for ensuring that funds from the Higher Education Funding Council for England, the Teaching Agency and the Skills Funding Agency are used only for the purposes for which they have been given and in accordance with the Financial Memorandum with the Higher Education Funding Council for England and any other conditions which the Funding Council may from time to time prescribe.

- iv The University has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- v We acknowledge our responsibility for the design and implementation of internal control to prevent and detect error and fraud.
- vi Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP'), issued by the Charity Commission for England and Wales and any subsequent amendments or variations to this statement.
- viii All events subsequent to the date of the University financial statements and for which the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.
- ix Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.
- x We have not adjusted the misstatements brought to our attention on the audit differences and adjustments summary, included within the Audit Findings document, as they are immaterial to the results of the University and its financial position at the year-end. The University financial statements are free of material misstatements, including omissions.

Information Provided

- i We have provided you with:
 - a. access to all information of which we are aware that is relevant to the preparation of the University financial statements such as records, documentation and other matters;
 - b. additional information that you have requested from us for the purpose of your audit; and
 - c. unrestricted access to persons within the entity from whom you determine it necessary to obtain audit evidence.
- ii We have disclosed to you the results of our assessment of the risk that the University financial statements may be materially misstated as a result of fraud.
- iii All transactions have been recorded in the accounting records and are reflected in the University's financial statements.
- iv We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:
 - a. management;
 - b. employees who have significant roles in internal control; or
 - c. others where the fraud could have a material effect on the University's financial statements.

- v We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the University's financial statements communicated by employees, former employees, analysts, regulators or others.
- vi We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing University's financial statements.
- vii We have disclosed to you the identity of the University's related parties and all the related party relationships and transactions of which we are aware.
- viii We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- ix We confirm that we have reviewed the serious incident guidelines issued by the Charity Commission (updated in 2010). We also confirm that no serious incident reports have been submitted to HEFCE, as the principal regulator, nor any events considered for submission, during the year or in the period to the signing of the balance sheet.
- x We confirm that we have provided to you all information relating to our contractual arrangements with HEFCE and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware at the current time, there is no adjustment to the HEFCE funds to be provided for in the financial statements.
- xi Except as stated in the financial statements:
 - there are no unrecorded liabilities, actual or contingent
 - none of the assets of the company has been assigned, pledged or mortgaged
 - there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

Yours faithfully

On behalf of the Board of Governors of London South Bank University

	PAPER NO: AC.62(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Draft Student's Union accounts for year to 31 July 2013	
Author:	Rebecca Warren, Students' Union Finance Manager	
Executive sponsor:	Phil Cardew, Pro Vice Chancellor (Academic)	
Recommendation by the Executive:	To note the numbers from the statutory accounts of the Students' Union.	
Aspect of the Corporate Plan to which this will help deliver?	Financial Sustainability	
Matter previously considered by:	N/A	N/A
Further approval required?	Trustees of the Students' Union	On: November 2012
Communications – who should be made aware of the decision?	N/A	

Executive summary

The Audit Committee is asked to note the statutory accounts of the Students' Union.

These accounts will be approved and signed by the trustees of the Students' Union on 5 November 2013.

London South Bank University Students' Union

Annual Report and Accounts

For the year ended 31st July 2013

DRAFT

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION

Annual Report and Accounts for the year ended 31 July 2013

Administrative information

Charitable Status

London South Bank University Students' Union is an unincorporated charity established under the Education Act 1994. The Union is not yet a Registered Charity as an application has not yet been made to the Charity Commission.

Even though Students' Unions connected with exempt higher/further education institutions were removed by section 11(9), Charities Act 2006, from the list of exempt charities in Schedule 2 to the Charities Act 1993, the Union continues to operate as a Charitable organisation in accordance with its Constitution approved by the Board of Governors.

The University Board of Governors formally approved a revised Constitution and Memorandum of Understanding for the Students' Union at its meeting on the 19th July 2012. The final Constitution still has to receive approval from the Students' Union Council. This Constitution will enable the Students' Union to apply for separate Charity registration.

Principal Address

London South Bank University Students' Union
Student Centre
103 Borough Road
London SE1 0AA

Holding office for 2012/13

(from 1 July 2012 to 30 June 2012)

President	A Ali
VP Student Experience	B Ahland
VP Student Experience	M Alam
VP Employability & Activities	A Mustafa

Holding office for 2013/14

(from 1 July 2013 to 30 June 2014)

President	B Ahland
VP Student Experience	H El Gharib
VP Student Experience	A Mahbubul
VP Employability & Activities	S Fawaz

Auditors

Crowe Clark Whitehill LLP
Registered Auditors
Aquis House
49-51 Blagrove Street
Reading
Berks
RG1 1PL

Bankers

HSBC plc
28 Borough High St
Southwark
London
SE1 1YB

Solicitors

Farrer and Co
66 Lincoln's Inn Fields
London
WC2A 3LH

London South Bank University Students' Union (LSBUSU) employs a General Manager to work closely with the Executive Officers and ensure effective management of the Union. Steve Baker was appointed to fill this position from May 2013. Prior to this, the Union was supported by a Project Change Director, Antony Blackshaw to work with the officers and staff of the Students Union.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

The Executive Committee present their Annual Report for the year ended 31 July 2013 which includes the administrative information set out on page 1, together with the audited accounts for that year.

Overview of the year

The Union has continued to move through significant change. Antony Blackshaw from Blackshaw Management Consulting Ltd was recruited to the Change Project Director and ended the appointment in December 2012. Unfortunately a new Chief Executive was not appointed by this time. A new Trustee Board was established by February 2012 and the new Chief Executive, Steve Baker, started in May 2013.

The Union moved into the new Student Centre in November 2012 which has improved the ability of the Union to build relationships with the University. The elections were a highlight with the highest ever turnout at LSBSU of 1965 votes.

In June the Trustee Board approved a development paper which set out the plan to restore the Union and enable it develop its strategic plan over the following academic year ensuring consultation with students. The staffing restructure was coming into it's final stages at July 2013 completing early in the 2013/14 academic year.

Structure, governance and management

LSBUSU is constituted under the Education Act 1994 as an Unincorporated Association with charitable status by virtue of its association with London South Bank University (the University), which has charitable status. The Union's Constitution incorporating internal regulations or Rules are approved by the governing body of the University. The Union's Aims and Objects contained in its Constitution and under the Act are:

- To be the sole democratic representative body of all the students at the University;
- To advance the education of its members;
- To promote the general welfare of the students;
- To encourage student societies, sports and social activities;
- To act as a channel of communication between its members and the University and other bodies;
- Governed in accordance with the Constitution, Regulations and the Strategic Plan.

LSBUSU is administered by its Executive Committee of eleven students, all of whom are the Union's Trustees for the purposes of the Charities Acts. During this financial year four were Sabbatical Officers, being elected annually by cross-campus secret ballot of the Union's membership. Seven are elected from the Union's Council; however for this year, there was no Council and as such the Sabbatical Officers alone comprised the Union's Executive Committee and Trustees. The four Sabbatical posts are President, Vice President Employability & Activities, and two Vice Presidents Student Experience. The Sabbatical posts are remunerated as authorised by the Education Acts and an individual's term of office cannot exceed two years duration; an Officer can be re-elected for a maximum of two terms in the same or different positions.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

The Union operates on democratic principles, with supervisory power vested in the Union's Council, which:

- Furthers the aims and objects of the Union;
- Is responsible for the determination of Union policy (except when a policy is determined by referendum)
- Receives minutes and reports from the Executive, Union Committees and Union Officers and
- Considers recommendations, motions and business as appropriate;
- Elects students (apart from Sabbatical Officers) to serve on Union and University committees.

Council's membership comprises the Executive Committee together with representatives of students' interests in the Union's Sports Clubs and Societies, Faculty Representatives, Student Representative Officers and the Student Governors (which includes the Union's Sabbatical President).

As the Union's Trustees, all Executive Committee members commence their terms of office subject to completion of an appropriate course of training approved by the Board of Governors. This includes, for Sabbatical Officers, a handover with the outgoing Sabbatical Officer and training on the roles and responsibilities of Trustees (legal and administrative), with an ongoing training programme as and when needed for issues arising during their term of office.

The Executive Committee meets throughout the year to receive reports from individual Officers, Union employees and subcommittees to review the Union's performance and administration. Recommendations for Union policy are made to the Union's Council and in the absence of such a body, the Trustees consider and approve policy. LSBUSU also employs a number of non-student full and part-time staff for the sake of continuity in the management of its many activities. Such staff were accountable to the General Manager for the performance of their duties.

A new constitution for the Students Union was approved by the Board of Governors at its meeting on the 19th July 2012.

This constitution provides for the creation of a full Trustee Board, separate from the Executive Committee, consisting of:

- 4 Sabbatical Officers
- 4 elected students
- 4 non-student trustees (1 to be an alumni trustee)

Relationship with London South Bank University Students' Union

LSBUSU is established in the University's Memorandum and Articles of Association in that there shall be a Students' Union. The Union receives a Subvention/Block Grant from the University (£685,485 before reimbursed space charge costs of £47,430 in 2012/13), which also pays for utilities, some security staff and the majority of the costs associated with cleaning and premises maintenance. This non-monetary support is intrinsic to the relationship between the University and LSBUSU. As recommended by the Charities SORP an estimated value to LSBUSU for this free serviced accommodation has been included in the accounts at an amount agreed with the University (based on prior year space charge calculations) as £225,619. Although LSBUSU undertakes a range of mutual trading activities, it is dependent on the University's financial support. There is no reason to believe that this or equivalent support from the University will not continue for the foreseeable future.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION

Annual Report and Accounts for the year ended 31 July 2013

Risk Management

The major strategic, business and operational risks faced by LSBUSU have been considered and a risk register has been established. Where appropriate, systems or procedures have been established to mitigate the risks the Union faces. Budgetary and internal control risks are minimised by the implementation of procedures for authorisation of all transactions and projects. Procedures are in place to ensure compliance with health and safety of staff, volunteers and participants on all activities organised by the Union. These procedures are periodically reviewed to ensure that they continue to meet the Union's needs.

Aims, Objectives and activities

LSBUSU's Mission is:

"We exist as a Union to support and communicate with Students, and enhance the Student experience with the provision of high quality Services, empowering Students through representation and encouraging personal development."

The following are the Union's long-term aims:

- (i) To promote for the public benefit the interests and welfare of students at the University during their course of study and to represent, support and advise LSBUSU's members;
- (ii) To provide appropriate social, cultural and recreational activities and forums for discussion and debate for the personal development of the Union's members; and
- (iii) To be the recognised representative channel between students and the University and also in relation to external bodies.

In pursuit of these aims for the public benefit, LSBUSU:

- Will ensure the diversity of its membership is recognised, valued and supported;
- Has established departments and services for use by its members and to support its work with the University and other organisations on behalf of students.

These included (in the 2012/13 financial year) the Union's Student Advice Bureau, the Rigg Bar and Catering, Internet Café, Communications and Marketing and Representation and Democracy support services. The Union's Sabbatical Officers and Council members are the students' representatives on all major University committees and the Board of Governors.

The Union represents its members (London South Bank University's students) on relevant local, national and international issues by maintaining contact with student representatives. Such contact ensures that the Union can take into account students' requirements and cater effectively for their needs. Student representatives are present on the University's policy/strategy making Boards/Committees and are also members of Course Boards within the four University Faculties.

Achievements and performance

In last year's report, the Executive referred to a number of aims for the year that were expected to be achieved and other goals moving forward. The table below details the objectives and progress/achievement to date.

Building Move - To relocate the entire Students' Union operation and establish operating procedures for the year ahead	
Recruitment - To recruit a new Chief Executive for the Students' Union to take it forward into the next period	The New Chief Executive started in May 2013

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION

Annual Report and Accounts for the year ended 31 July 2013

Charity Status - To register with the Charity Commission and to begin the process of formal charity registration. To recruit external and student trustees to complete the Trustee Board	The Union is yet to register as a Charity but has recruited a full Trustee Board
Staff - To publish a new staff handbook, updating all procedures and information	The new handbook has been reviewed by the HR Committee and is now on draft 2
Staff To introduce a competency-based appraisal system for all staff, including a 360-degree appraisal for managers and the CEO	360 degree appraisals have not been introduced.
Finance To restructure the budgeting process to ensure that the Union is able to be included in the University's project-bidding round as well as making an appropriate bid for core funding of the operations of the Union	The Union increase its core funding to £720,000 for the coming year.

Future plans

The Union

Plans for the year ahead

Employability	<ol style="list-style-type: none"> 1. 300 students engaged with employability activities 2. The Union will create its strategy for employability 3. The Union Internship program will be established
Engagement	The Union to greatly increase its contact with key student volunteers, improve the Unions voice and visibility and will specifically be promoting engagement with Union services.
Key Demographics	The Union will produce its strategy for engaging these students and will elect a full complement Student Representation Officers.
Essential Services	The Union will create its student led volunteering program And reinstate a newspaper and radio station
Student Satisfaction	Increase NSS satisfaction results with Union to 55%
Strategy	Fully engage with students and stakeholders to complete the Union strategic Plan.

Financial review

The Union's accounts have been produced in accordance with the Charities SORP 2005. As such all income and expenditure, including the notional space charging income and its allocation based on the percentages shown in note 3 have been included. LSBUSU's income from all sources was £1,038,591. Total expenditure was £1,038,219. A surplus of £372 resulted. The surplus was transferred to the reserves, which now total £556,588.

The Union continued to benefit from the University's provision of a Subvention Grant of £732,915 (including reimbursed space charges of £47,430).

The Union should hold reserves to cover unexpected eventualities and also ensure there are sufficient to resource planned capital expenditure. Total reserves (the Charity Funds) at the 31st July 2012 stood at £556,588, of which £240,884 has been designated as a protected amount (shown as "Accumulated Funds") and the remaining £315,704 as a development fund to support future activity.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

The Union is currently affiliated to the National Union of Students (NUS), for which the total subscription costs amounted to £38,736 for the year, and no donations were made during the year to any external institutions out of LSBUSU's own resources.

Future Funding

The Executive Committee confirms that LSBUSU has sufficient funds to meet all its obligations. The Union's Subvention/Block Grant for 2013-14 has been confirmed at £720,000 and the Union's activities are expected to break even.

Executive Committee's Responsibilities

The Trustees are responsible for preparing the Trustees' Annual Report and the financial statements in accordance with applicable law and United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards).

The law applicable to charities in England and Wales requires the Trustees to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the charity and of the incoming resources and application of resources of the charity for that period. In preparing these financial statements, the Trustees are required to:

- select suitable accounting policies and then apply them consistently;
- observe the methods and principles in the Charities SORP;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the charity will continue in business.

The Trustees are responsible for keeping adequate accounting records that are sufficient to show and explain the charity's transactions, disclose with reasonable accuracy at any time the financial position of the charity and enable them to ensure that the financial statements comply with the Charities Act 2011, the Charities (Accounts and Reports) Regulations 2008 and the provisions of the charity's constitution. They are also responsible for safeguarding the assets of the charity and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Trustees on.....and signed on their behalf, by:

.....
B Ahland
President

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

Independent Auditors' Report to the members of London South Bank University Students' Union

We have audited the financial statements of London South Bank University Students' Union for the year ended 31 July 2013 which comprise the Statement of Financial Activities, the Balance Sheet and the related notes set out on pages 11 to 17.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the charity's trustees, as a body, in accordance with section 154 of the Charities Act 2011. Our audit work has been undertaken so that we might state to the charity's trustees those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the charity and the charity's trustees as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of trustees and auditor

As explained more fully in the Statement of Trustees' Responsibilities, the trustees are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under section 144 of the Charities Act 2011 and report in accordance with regulations made under section 154 of that Act.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the charity's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the trustees; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Trustees' Annual Report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the charity's affairs as at 31 July 2013 and of its incoming resources and application of resources for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Charities Act 2011.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Charities Act 2011 requires us to report to you if, in our opinion:

- the information given in the Trustees Annual Report is inconsistent in any material respect with the financial statements; or
- sufficient accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records and returns; or
- we have not received all the information and explanations we require for our audit.

THIS REPORT HAS NOT YET BEEN SIGNED

Crowe Clark Whitehill LLP

Statutory Auditor

49-51 Blagrove Street
Reading
Berkshire
RG1 1PL

Date:

Crowe Clark Whitehill LLP is eligible to act as an auditor in terms of section 1212 of the Companies Act 2006.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

STATEMENT OF FINANCIAL ACTIVITIES FOR THE YEAR

	Note	Unrestricted Income	Restricted Income	Total £	2012 £
Gross Income					
Voluntary income:					
Block Grant		685,485	-	685,485	744,867
Space Grant (actual)		47,430		47,430	-
Space Grant (benefit-in-kind)		225,619	-	225,619	225,619
Other Grant		17,750		17,750	-
Activities to generate funds:					
Marketing		11,961	-	11,961	9,367
Investment income		2,074	-	2,074	10,179
Charitable activities for students:					
Student Activities		7,094	3,451	10,545	11,505
Bar and Venue		30,412	-	30,412	124,580
Merchandising		2,961	-	2,961	9,017
Leisure and Gaming		278	-	278	20,849
Profit on Disposal of Fixed Asset		767		767	
Other Income		3,309	-	3,309	-
		<hr/>			
Total income		1,035,140	3,451	1,038,591	1,155,983
		<hr/>			
Resources expended					
Costs of Generating Funds:					
Charitable Activities for students:					
Advice & Representation		472,834	-	472,834	510,506
Communications and Marketing		110,245	-	110,245	82,287
Student Activities		265,760	3,451	269,211	342,403
Bar and Venue		169,410	-	169,410	207,689
Governance		16,519	-	16,519	16,672
		<hr/>			
Total expenditure	2-5	1,034,768	3,451	1,038,219	1,159,557
		<hr/>			
Net (outgoing)/incoming resources		372	-	372	(3,574)
Fund balances brought forward		556,216	-	556,216	559,790
		<hr/>			
Fund balances carried forward		556,588	-	556,588	556,216
		<hr/>			

The statement of financial activities includes all gains and losses recognised in the year.

All amounts derive from continuing activities.

The notes on pages 11 to 17 form part of these accounts

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

BALANCE SHEET

		2013		2012	
	Notes	£	£	£	£
Fixed Assets					
Tangible fixed assets	6		5,744		7,254
Investments	7		60		60
			5,804		7,314
Current Assets					
Stocks in bars, shops & other outlets			1,845	6,638	
Debtors & prepayments	8		113,746	29,665	
Cash at bank & in hand			569,244	547,129	
			684,835	583,432	
Current Liabilities					
Creditors: Amounts due within one year	9		(134,051)	(34,530)	
Net Current Assets			550,784	548,902	
Total Assets less Current Liabilities			556,588	556,216	
Net Assets			556,588	556,216	
Representing Charitable Funds:-					
Unrestricted Income Funds					
Development Fund			240,884	240,884	
Designated Governance Review Funds			-	10,000	
Accumulated Fund			315,704	305,332	
Total Funds	11		556,588	556,216	

Approved and authorised for issue on behalf of the London South Bank University Students' Union on

.....
B Ahland
Trustee

The notes on pages 11 to 17 form part of these accounts

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

NOTES TO THE ACCOUNTS

1 Accounting Policies

(a) Accounting convention

These accounts are prepared on the historical cost convention in accordance with the Statement of Recommended Practice: 'Accounting and Reporting by Charities' published in March 2005 (SORP 2005) and with applicable UK Accounting & Financial Reporting Standards.

After making enquiries, the trustees have a reasonable expectation that the charity has adequate resources to continue its activities for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements as outlined in the Statement of Trustees Responsibilities on page 6.

(b) Incoming resources

All income and capital resources are recognised in the accounts when the Charity is legally entitled to the income and the amount can be quantified with reasonable certainty. The College grant of free serviced accommodation on the campus is accounted for as income and expenditure of the year at an estimated value to London South Bank University Students' Union by reference to the alternatives available on the commercial market.

(c) Resources expended

Expenditure includes irrecoverable VAT. Charitable expenditure comprises the direct and indirect costs of delivering public benefit. Governance costs are those incurred for compliance with constitutional and statutory requirements, such as the annual audit. Central overhead costs are apportioned to charitable and other projects/activities on a usage basis, pro rata to the total costs of each project or activity undertaken.

(d) Tangible fixed assets

Fixed assets are stated at cost less accumulated depreciation. Equipment, fixtures and fittings are included at cost. Depreciation is provided at the following annual rates in order to write the cost of assets off over their estimated useful lives:-

Motor vehicles	over a period of approximately 8 years
Computer equipment	rates ranging from 20% to 33.3% per annum
Equipment, furnishings and other sundry equipment	rates ranging from 15% to 20% per annum

(e) Investments

London South Bank University Students' Union's fixed asset investments are valued at cost, as these assets are not readily saleable and a reliable market value is not readily ascertainable.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

1 Accounting Policies (continued)

(f) Pension costs

London South Bank University Students' Union participates in the Student Union Superannuation Scheme, a defined benefit scheme which is externally funded and contracted out of the State Second Pension. The fund is valued at least every three years by a professionally qualified independent actuary with the rates of contribution payable being determined by the Executive Committee on the advice of the actuary. The Scheme operates as a pooled arrangement, with contributions paid at a centrally agreed rate. As a consequence, no share of the underlying assets and liabilities can be directly attributed to London South Bank University Students' Union. Under the terms of FRS17, in these circumstances contributions are accounted for as if the Scheme were a defined contribution scheme based on actual contributions paid through the year.

London South Bank University Students' Union now also operates a defined contribution pension scheme and the pension charge represents the amounts payable by the company to the fund in respect of the year. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the balance sheet.

(g) Stock

Stock is valued at the lower of the cost and its net realisable value.

(h) Fund accounting

London South Bank University Students' Union administers and accounts for a number of charitable funds, as follows:-

- (i) Unrestricted Funds** representing unspent income which may be used for any activity/purpose at the Trustees' own discretion;
- (ii) Restricted funds** raised and administered by London South Bank University Students' Union for specific purposes as determined by students, such as Club and Societies Accounts, as well as revenue received for purposes specified by the donor and also (if not material enough to require a separate column in the SoFA) any small capital grants received from the College.
- (iii) Custodian Funds** entrusted to London South Bank University Students' Union for safekeeping, but not under its management control, e.g., Clubs & Societies Funds and the annual RAG. Such custodian activities are disclosed in the Annual Report, but as the funds are not managed by London South Bank University Students' Union they cannot be included in the accounts.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

NOTES TO THE ACCOUNTS, (continued)

2 Charitable and other Activity costs	Cost of Sales	Staff	Rent and Rates	Other	Total
	£	£	£	£	£
Resources expended					
Charitable Activities for Students					
Advice & Representation	-	263,532	120,142	89,160	472,834
Communications & Marketing	-	65,449	19,113	25,683	110,245
Student Activities	-	93,210	81,915	94,086	269,211
Bar and Venue	11,777	84,080	49,149	24,404	169,410
Governance	-	1,752	2,730	12,037	16,519
<hr/>					
Total costs	11,777	508,023	273,049	245,370	1,038,219

Included in the above governance costs is the annual audit fee of £9,450 (2011: £8,745).

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

NOTES TO THE ACCOUNTS, continued

3 Central Overhead Costs included in Note 2

	Usage	Staff £	Rent & Rates £	Other £	Total £
Resources expended					
Charitable Activities for Students					
Advice & Representation	44%	77,086	120,142	35,355	232,583
Communications & Marketing	7%	12,264	19,113	5,625	37,002
Student Activities	30%	52,559	81,915	24,106	158,580
Bar and Venue	18%	31,535	49,149	14,464	95,148
			-		
Governance	1%	1,752	2,730	804	5,286
Totals	100%	175,196	273,049	80,354	528,599

Other Costs comprised:-

	£
Recruitment and Interim Chief Executive	13,824
Audit Fees	9,450
Insurances	9,008
Professional Charges	8,700
Training and Conferences	7,937
Office Expenses	5,784
Sundry expenses	25,651
	80,354

4 Staff Costs

	2013 £	2012 £
Wages and salaries	443,496	495,899
Social security	33,365	34,801
Pension costs	31,161	36,617
Other staff costs	-	6,456
	508,023	573,773

No employee earned over £60,000 per annum.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

NOTES TO THE ACCOUNTS, continued

5 Trustees' Remuneration and Expenses

The Trustees' four sabbatical officers received £82,305 (2012: £82,246) for the year, as authorised in the Union's governing document, for the representation, campaigning and support work they undertake as distinct from their trustee responsibilities. This work includes voicing student opinion with the institution and local community, defending and extending the rights of students through petitions, discussion with MPs and also organising and supporting student volunteers and service provision for them. The total salary and NI costs for the sabbatical officers amounted to £89,315 (2012: £89,359).

There were no other trustee-benefits for the year.

Trustees were reimbursed a total of £4,208 (2012: £5,514) for the year in respect of personal travel and subsistence expenses.

6 Tangible Fixed Assets

	Total	£
COST		
At 1 August 2012	253,171	
Additions	4,632	
Disposals	<u>(8,180)</u>	
At 31 July 2013	<u>249,623</u>	
DEPRECIATION		
At 1 August 2012	245,917	
Charge for the year	6,142	
Disposals	<u>(8,180)</u>	
At 31 July 2013	<u>243,879</u>	
NET BOOK VALUE		
At 31 July 2013	<u><u>5,744</u></u>	
<i>At 31 July 2012</i>	<u><u>7,254</u></u>	

7 Investments

	2013	2012
	£	£
At Cost		
Investment in Nus Services Limited	<u>60</u>	<u>60</u>

In order to continue receiving retrospective discounts through the central billing system LSBUSU has minority holdings of 60 'A' voting shares in this trading company.

8 Debtors

	2013	2012
	£	£
Trade debtors	44,216	19,304
London South Bank University	60,622	3,618
Other debtors	6,229	4,152
Prepayments & accrued income	<u>2,679</u>	<u>2,591</u>
	<u>113,746</u>	29,665

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

NOTES TO THE ACCOUNTS, continued

9	Creditors: Amounts due within one year	2013 £	2012 £
	Trade creditors	7,698	15,296
	Social security & other taxes	9,242	10,176
	Other creditors	43,281	5,789
	London South Bank University	53,816	-
	Accruals & Deferred income	20,014	3,269
		134,051	34,530

10	Student Society/Club material funds held were:-	Brought Forward £	Income for Fund £	Grants for Activities £	Carried forward £
	<i>Societies:</i>	-	3,451	3,451	-
	Total	-	3,451	3,451	-

11 Analysis of Net Assets between Funds

	Unrestricted Funds £	Restricted Income Funds £	Capital Grant Fund £	Total £
Fixed Assets	5,804	-	-	5,804
Net current assets	550,784	-	-	550,784
Long term liabilities	-	-	-	-
	556,588	-	-	556,588

12 Leasing Commitments

At 31 July 2013 London South Bank University Students' Union had annual commitments under non-cancellable operating leases as detailed below:

	2013 £	2012 £
Plant and machinery		
Operating leases expiring within one year	-	-
Operating leases expiring within two to five years	5,068	-
	5,068	-

The amount paid during the year in respect of operating leases for plant and machinery was £3,548 (2012: £1,621).

13 Control Relationship

Ultimate control of London South Bank University Students' Union rests with its membership, represented by the Trustees.

LONDON SOUTH BANK UNIVERSITY STUDENTS' UNION
Annual Report and Accounts
for the year ended 31 July 2013

NOTES TO THE ACCOUNTS, continued

14 Pension Costs

SUSS

London South Bank University Students' Union participates in the Students' Union Superannuation Scheme, which is a defined benefit scheme whose membership consists of employees of students' unions and related bodies throughout the country. Benefits in respect of service up to 30 September 2003 are accrued on a "final salary" basis, with benefits in respect of service from 1 October 2003 accruing on a Career Average Revalued Earnings (CARE) basis. With effect from 30 September 2011 the scheme closed to future accrual.

The most recent valuation of the scheme was carried out as at 1 October 2010 and showed that the market value of the scheme's assets was £67,141,000 with these assets representing 58% of the value of benefits that had accrued to members after allowing for expected future increases in earnings. The deficit on an ongoing funding basis amounted to £47,869,000.

The assumptions which have the most significant effect upon the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries and pensions.

The following assumptions applied at 1 October 2010:-

- The investment return would be 6.6% per annum before retirement and 4.6% per annum after retirement
- Pensions accruing on the CARE basis would revalue at 3.2% per annum.
- Present and future pensions would increase at rates specified by scheme rules with appropriate assumptions where these are dependent on inflation.

The 2010 valuation recommended a monthly contribution requirement by each Union expressed in monetary terms intended to clear the ongoing funding deficit over a period of 20 years and will increase by at least 3.2% each year. These contributions also include an allowance for cost of the ongoing administrative and operational expenses of running the Scheme. These rates applied with effect from 1 October 2011 and will be formally reviewed following completion of the next valuation due with an effective date of 1 October 2013. Surpluses or deficits which arise at future valuations will also impact on London South Bank University Students' Union future contribution commitment. In addition to the above contributions, the London South Bank University Students' Union also pays its share of the scheme's levy to the Pension Protection Fund.

The contribution rate (excluding deficit contributions) for the period to 30 September 2011 applicable to London South Bank University Students' Union for the majority of members was 7.70% of Earnings for members and 9.60% of Earnings for the London South Bank University Students' Union (17.3%).

NUSPS

Since 1 October 2011, all participating employees have been in a new defined contribution pension scheme, National Union of Students Pension Scheme (NUSPS). Contributions are at variable rates up to 6% for the employer and a minimum contribution rate of 3% for the employee. The Union's cost of contribution in the year amounted to £7,288 (2012: £7,979).

The total contributions paid into the two pension schemes by the London South Bank University Students' Union in respect of eligible employees for the year ended 31 July 2013 amounted to £38,373 (2012: £42,511), including deficit contributions.

London South Bank
University

	PAPER NO:AC.63(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	External audit performance	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note this report	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability	
Matter previously considered by:	None	
Further approval required?	None	
Communications – who should be made aware of the decision?	Grant Thornton	

Executive Summary

The external audit for the year ended 31 July 2013 has been completed and a summary of performance against agreed KPIs is attached. No material issues have arisen.

The committee is requested to note this report.

Key Performance Indicators (KPIs)

The agreed KPIs are listed below with a summary of performance against them for the 2012/13 financial year end audit.

Dialogue with the University

1. Establish and maintain good lines of communication throughout the year and at critical times for the Audit.

Measure/Target:

- *Significant issues identified during fieldwork communicated immediately and directly to Executive Director of Finance*
- *Audit planning and clearance meetings set up by 30 June of each year*
- *Auditor to update LSBU on any significant Financial Reporting developments as and when they occur*

- Achieved. There were no significant issues identified during the fieldwork. Communication between the audit team and the Financial Controller and her Financial Accounting team was good.
- Achieved. Audit planning meeting took place on 21st May 2013. At this meeting it was agreed that the clearance meeting would take place during October and the actual date of the clearance meeting was October 2nd.
- Achieved. Any Financial Reporting developments were discussed as they occurred.

2. Effective and timely planning with Management to address areas of risk and discuss and agree the responses with Management and present these in the audit strategy prior to 31 May each year.

Measure/Target: Areas of risk and management responses agreed by 31 May

- Achieved. Audit planning meeting held 21st May 2013 with Audit Approach Memorandum presented to Audit Committee on June 13th 2013.

3.	Communicate with Management in relation to reporting standards and their impact on the University.
	<i>Measure/Target: Auditor to update LSBU on any significant Financial Reporting developments as and when they occur</i>
	<ul style="list-style-type: none"> • Achieved

Reporting and Communication

4.	Annual audit work, including Financial Statements, completed by 31 October following the relevant financial year end.
	<i>Measure/Target: Audit work and financial statements completed by 31 October</i>
	<p>Achieved:</p> <ul style="list-style-type: none"> • Onsite audit fieldwork completed by 27th September 2013. • Draft financial statements sent to Audit Committee on 31 October 2013.

5.	Timely discussion of findings with Management so issues are resolved promptly.
	<p><i>Measure/Target:</i></p> <ul style="list-style-type: none"> • <i>Significant issues identified during fieldwork communicated immediately and directly to Executive Director of Finance</i> • <i>Less significant issues communicated immediately to Financial Controller</i>
	<p>Communication of issues met the targets</p> <ul style="list-style-type: none"> • There were no significant issues identified during the audit fieldwork. • Less significant issues were communicated to the Financial Controller during the audit visit and with the Director of Finance at a meeting on the 26th September 2013.

6. **Timely reporting of Audit strategy and findings to comply with the requirements of the Audit Committee which would normally be 10 working days prior to the relevant date.**

Measure/Target: Reports completed and submitted 10 working days before date of relevant committee meeting

- Partially achieved: Audit Findings document finalised and sent to the University on 18th October, 9 working days before Audit Committee on the 31st October

7. **Issue of a separate management letter highlighting any significant accounting and control issues arising from the audit. (A copy of this letter will be sent to the HEFCE Assurance Service to enable them to see what observations have been made about the internal control system and how management have responded).**

Measure/Target: Separate management letter compiled for submission to HEFCE

- Achieved.

8. **An innovative audit approach, offering timely advice and constructive, practical, relevant and value added recommendations for improvement.**

Measure/Target: Advice and analysis not directly relevant to financial statement audit included within annual audit report.

- Advice delivered in Audit Findings document.

Other Measures

9. Independent, professional and suitably experienced staff engaged on the Audit.

Measure/Target: No avoidable staff rotation, with exception of 5 year partner rotation

- Partially achieved. The audit team was new in 2013. David Barnes took over from Judith Newton as audit partner, Amanda Tilley was the Senior Manager and Omedevi Jani was the Executive Auditor. However, the team was suitably experienced and prepared for the audit and the University experienced no issues or delays as a result of working with a new team.

10. Effective liaison with the internal auditors in order to maximise efficiency from total audit effort.

Measure/Target:

- *External auditors meet internal auditors as part of planning process*
- *External auditors review completed internal audit reports and rely on their work if appropriate*

- Achieved. External audit met with the internal auditors and also reviewed their reports. Although they did not place direct reliance on the work of the Internal Auditors, they did take into account their findings and if necessary amend their audit approach as may be required.

London South Bank University

	PAPER NO: AC.64(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Review of non-audit services	
Author:	Natalie Ferer, Financial Controller	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the non-audit services provided by Grant Thornton during the year.	
Aspect of the Corporate Plan to which this will help deliver?	Financial sustainability	
Matter previously considered by:	Audit committee	Annually
Further approval required?	N/A	
Communications – who should be made aware of the decision?	None	

Executive Summary

For the year ended 31 July 2013, Grant Thornton provided corporate tax advisory services with a value of £3,972 including VAT. This work was carried out by an engagement team completely separate from the audit team.

The committee is requested to note this report.

	PAPER NO: AC.65(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Internal Controls – Annual review of effectiveness	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	<p>The Executive recommends that:</p> <ul style="list-style-type: none"> • This report is noted • The annual compliance statement is approved (subject to final review immediately before approval of accounts). 	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Financial sustainability • Creating an environment in which excellence can thrive. 	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	N/A	N/A
Communications – who should be made aware of the decision?	Financial controller	

Executive summary

This paper presents the annual review of effectiveness of the University’s system of internal control and underpins the internal control statement in the annual report and accounts. As reported in Appendix 1, the statement relates to the period up to the date of approval of the financial statements. No changes have been made since the draft was considered at the meeting of 26 September 2013.

Committee is asked to note the report and approve the statement in Appendix 1 subject to final confirmation. Our statement is a “full compliance” statement for the period under review. Please refer to section 1 of the report for the summary/justification of the full compliance statement.

London South Bank
University

London South Bank University

System of Internal Controls

Annual Review of Effectiveness
Year ended 31 July 2013

CONTENTS

1. Executive Summary
2. Annual review process
3. Changes in the nature and extent of significant risks
4. Scope and quality of management's ongoing monitoring of risks and the system of internal control
5. Results of internal audit work
6. Extent and frequency of communication to the board (and other committees)
7. Incidence of significant control failings or weaknesses during the year
8. Effectiveness of the University's external reporting processes

Appendix

1. Draft Statement on Internal Control
2. Corporate Risk Framework as at 12 September 2013

1. Executive Summary

This report documents the progress that has been made to our system of internal control and to our risk management processes over the past year. A copy of the proposed statement of full compliance for the year ended 31 July 2013 is enclosed as Appendix 1.

In making this statement, we are required to ensure that a number of key principles of effective risk management have been applied. These principles, together with an assessment of compliance by LSBU, are provided in the table below.

Effective risk management:

Requirement	Assessment
Covers all risks – governance, management, quality, reputation and financial.	✓
Produces a balanced portfolio of risk exposure.	✓
Is based on a clearly articulated policy and approach.	✓
Requires regular monitoring and review, giving rise to action where appropriate.	✓
Needs to be managed by an identified individual and involves the demonstrable commitment of governors, academics and officers.	✓
Is integrated into normal business processes and aligned to the strategic objectives of the organisation.	✓

In making this assessment and a full compliance statement for the period under review (for the year ended 31 July 2013 and up to the date of approval of the financial statements) the following assurance sources have been taken into account:

HEFCE

- The most recent risk assessment, as reported by HEFCE in its letter to LSBU dated 3 April 2013 (and as reported to Audit Committee at its meeting in June 2013) confirms that LSBU is “not at higher risk at this time”. The Executive is not aware of any issues which would currently change that rating
- HEFCE also carried out an assurance visit to LSBU on 12 July 2011, which is conducted every 5 years. The overall conclusion from the review was the highest assurance rating possible “*that, at this time we (HEFCE) are able to place reliance on the accountability information.*” No additional recommendations for improvement were included in the report.

- HEFCE have subsequently raised in their final assurance report some issues regarding the data amendments to the HESA fixed database. This is consistent with internal audit findings on data quality and an appropriate plan is in place to address these issues.

Internal audit

- The programme of internal audit work for the year ended 31 July 2013 was aligned to the corporate risk framework to provide assurance on the effectiveness of controls in key risk areas.
- The 12/13 internal audit programme included a specific follow up review of the findings noted as part of the 2011/12 risk management audit. The majority had been actioned and closed. One recommendation remained valid, regarding the effectiveness of some faculty / departmental risk registers. These continue to be monitored closely through the Quarterly Review meetings.

The conclusions from internal audit work are discussed in more detail in section 5 of this report. Subject to some control design and operating effectiveness issues surrounding IT security for which responses are in hand, the internal audit opinion is that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of both risk management, control and governance; and for economy, efficiency and effectiveness (value for money) arrangements.

Internal governance

- The Corporate Risk Framework is aligned to the Corporate Plan, reviewed by the Executive on a monthly basis and updated regularly.
- Risk reports have been submitted to every meeting of the Board of Governors and the Audit Committee.
- In addition to risk reports, regular reports have been submitted to Audit committee/Board demonstrating progress on projects/actions related to key corporate risks.
- There have been no major breakdowns in controls during the year.
- Regular fraud updates/reports have been provided to each meeting of the Audit Committee. No significant frauds have occurred.
- No significant issues have arisen as a result of the University's external reporting processes.

2. Annual Review Process

To be able to make the statement on internal control set out in Appendix 1, Governors need to satisfy themselves that the risk management system is functioning effectively and in a manner that they have approved.

The two elements of effective monitoring are:

- An ongoing review process (for LSBU this takes the form of regular risk management reports to the Audit Committee and ongoing monitoring reports and consideration of risk issues by the Executive); and
- An annual assessment of the effectiveness of internal controls.

This paper documents the annual assessment undertaken. It considers issues dealt with in reports received during the year, together with any additional information necessary to ensure that Governors take account of all significant aspects of internal control for the year under review and up to the date of approval of the annual accounts.

3. Changes in the nature and extent of significant risks

The corporate risk framework has been subject to monthly review by the Executive and has been updated as appropriate. Significant changes were made in the year to combine risks where appropriate and to ensure that the risk framework is aligned with the University's Corporate Plan 2011/14.

There have been no significant changes to the corporate risk register.

The current Corporate Risk summary framework is attached at Appendix 2. The principal risks facing the University relate to student recruitment and the potential future loss of NHS income. These risks are discussed in more detail in the University's financial statements.

4. Scope and quality of management's ongoing monitoring of risks and the system of internal control

Risk Management is a standing item on every Executive agenda, and risk management and internal control are embedded into normal operating routines. Both are subject to regular management review and periodic audit review.

Every Corporate Risk has an Executive Risk Owner. Every member of the Executive is the Risk Champion for their area, and this is embedded into formal letters of delegated authority.

5. Results of internal audit work for 2012/13

The University's Internal Auditors for the period under review were PricewaterhouseCoopers LLP (PwC) and their opinion for 2012/13 is set out in their internal audit annual report.

The PwC opinion for 2012/13 is based on their assessment of whether the controls in place support the achievement of management's objectives as set out in their Internal Audit Risk Assessment and Internal Audit Plan 2012/13. They have completed the program of internal audit work for the financial year ended 31 July 2013, and their opinion is:

Our work in relation to Risk Management, Control and Governance indicates that London South Bank University's overarching mechanisms for ensuring the regularity and propriety of activity are largely sound.

The core control environment has remained robust overall. Our continuous auditing fieldwork during the year had identified some recurrent control deficiencies over payroll processing which required additional focus. However, our most recent continuous audit work for the period 1 May to 31 July 2013 has identified no issues within this cycle which provides some assurance that this control environment had stabilised by year end.

We have been made aware of some control design and operating effectiveness issues surrounding IT security which we believe has implications with respect to London South Bank University's control framework. These matters are described further in Section Two of this report.

Except for the areas noted in Section Two, we believe London South Bank University has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of:

- *Risk management, control and governance; and*
- *Economy, efficiency and effectiveness (value for money) arrangements.*

6. Extent and frequency of communication to the Board (and other committees)

Regular reports on risk and control matters have been presented to the Board and its Committees throughout the year as set out below. These are in addition to the detailed papers at this meeting.

Board of Governors	Report	Purpose
18 th July 2013	Key performance indicators	To note a progress report from the Vice Chancellor
	Corporate risk register	To note a report from the Executive Director of Finance
	Hefce Annual Mid Year Accountability Return	To approve the return to Hefce including the 5 year forecast.
23 rd May 2013	Key Performance Indicators	To consider the Vice Chancellor's report and note developments
	Corporate risk register	To consider a report from the Executive Director of Finance
21 st March 2013	Corporate risk register	To note and update report from the Executive Director of Finance
	Key performance indicators	To consider the Vice Chancellor's report and note developments
	Corporate projects	To note progress on the list of corporate projects from the Vice Chancellor
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
22 nd November 2012	Corporate risk register	To note and update report from the Executive Director of Finance
	Key performance indicators	To consider the Vice Chancellor's report and note developments
	Annual report from Audit	To note report from the Chair of Audit

22 nd November 2012	Committee	Committee
	Audit Committee report on the accounts	To note report from the Chair of Audit Committee
	Annual report and financial statements for year ended 31 July 2011	To approve report from the Executive Director of Finance
	Report from the Policy and Resources Committee on the accounts	To note report from the Chair of Policy and Resources Committee
	External Audit key issues memorandum	To note report from the External Auditors (Grant Thornton)
	HEFCE annual accountability return	To note report from the Executive Director of Finance
3 rd October 2012	Corporate risk register	To note detailed annual review from the Executive Director of Finance
	Key performance indicators	To consider the Vice Chancellor's report and note developments
	Corporate Governance Statement	To approve

Audit Committee	Report	Purpose
13 th June 2013	Corporate risk report	To consider the report on corporate risks from the Executive Director of Finance
	Internal Audit progress report 2012/13	To note report from internal auditors on audit progress for 2012/13
	Internal Audit Reports 2012/13:	To note reports completed from 2012/13 internal audit plan
	<ul style="list-style-type: none"> • Key Information Sets • Financial Forecasting • IT Security & Phishing • University Enterprise 	

13 th June 2013	<ul style="list-style-type: none"> • Payroll Project Implementation • TRAC reporting 	
	Internal Audit plan 2013/14	To preview plan from internal auditors for activity in 2013/14
	External audit plan for 2012/13	To approve plan from external auditors
7 th February 2013	Corporate risk report	To consider the report on corporate risks from the Executive Director of Finance
	Internal Audit progress report 2012/13	To note report from internal auditors on audit progress for 2012/13
	Internal Audit Reports 2012/13:	To note reports completed from 2012/13 internal audit plan
	<ul style="list-style-type: none"> • Capital Projects • Counter Fraud 	
	Internal Audit Key Performance Indicators	To approve report from internal auditors
30 th October 2012	Corporate risk report	To consider the report on corporate risks and mitigating actions
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
	Draft report and accounts for year ended 31 July 2012	To consider the report from the Executive Director of Finance
	Internal audit annual report	To note report from internal auditors
	Internal audit progress report	To note report from internal auditors on audit progress for 2012/13
	Audit Committee Annual Report	To approve the Audit Committee Annual Report
	HEFCE assurance report	To note a report from HEFCE

27 th September 2012	Corporate risk report	To consider the report on corporate risks and mitigating actions
	Annual report on effectiveness internal controls	To consider the report from the Executive Director of Finance
	Internal Audit Reports	To note reports on various 2011/12 audit areas
	<ul style="list-style-type: none"> • Research • Student & Data Quality 	
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
	UK Border Agency Audit Feedback	To note a report from the Pro Vice Chancellor (External)

Policy and Resources	Report	Purpose
2 nd July 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
7 th May 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
12 th February 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
13 th November 2012	Key performance indicators update	To consider the corporate plan KPIs progress report
18 th September 12	Key performance indicators update	To consider the corporate plan KPIs progress report

In addition:

The Audit Committee will have reviewed the following reports at meetings in September 2013 and October 2013 before the accounts are signed:

- The financial statements, including the Statement of Internal Control
- final annual report of the internal auditors for the year ended 31 July 2013
- External auditor's Key Issues memorandum (KIM).

The Board will conduct a detailed review of the corporate risk register at its meeting in October 2013.

7. Incidence of significant control failings or weaknesses during the year

There have been no reportable incidents of significant control failings or weaknesses during the year.

The internal auditors have identified some control design and operating effectiveness issues around IT security and these are being addressed.

Regular anti-fraud reports have been submitted to each meeting of the Audit Committee. No significant reportable incidents have been reported in the year.

8. Effectiveness of the University's external reporting processes

No significant issues have arisen as a result of the University's external reporting processes other than matters already covered within the Corporate Risk framework.

APPENDIX 1

Statement on Internal Control

As the governing body of London South Bank University, we have responsibility for ensuring that there is a process for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives of the University, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Memorandum and Articles of Association and the Financial Memorandum with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness.

The system of internal control is based on an ongoing process linked to the achievement of institutional objectives and designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2013 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

As the governing body, we have responsibility for reviewing the effectiveness of the system of internal control. The following processes have been established:

- We meet a minimum of four times a year to consider the plans and strategic direction of the institution;
- The approach to internal control is risk based, including a regular evaluation of the likelihood and impact of risks becoming a reality;
- The Audit Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Audit Committee concerning internal control and we require regular reports from managers on internal control activities and the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
- The Audit Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Audit Committee receives regular reports from the internal auditor, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, together with recommendations for improvement;
- The internal audit programme has been aligned with the University's corporate risk register;

- An organisation-wide register of key corporate risks is maintained, together with individual risk registers for each faculty and department. Review procedures cover business, operational and compliance as well as financial risk;
- The executive team meets regularly to consider risk, assess the current exposure and keep up to date the record of key corporate risks facing the University;
- A network of risk champions exists to support risk management activity in all faculties and departments; Update training is provided as required to support delivery;
- Formal risk management and internal control procedures have been embedded within ongoing operations.

Our review of the effectiveness of the system of internal control is informed by internal audit, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in July 2011. The internal auditors submit regular reports, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, with recommendations for improvement.

Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

APPENDIX 2

CORPORATE RISK FRAMEWORK (by Residual Priority)

Ref	Description	Impact	Inherent Likelihood	Residual Likelihood	Residual risk priority	Owner
CO-01-02	Failure to meet recruitment targets	Critical	High	Medium	Critical	PVC(E)
CO-10-06	Potential loss of NHS contract income	Critical	High	High	Critical	ED(HSC)
CP-01	Failure to position the university to effectively respond to changes in government legislation/policy and the political landscape	Critical	High	Low	High	VC
CO-08-01	Ineffective management information to support delivery of the corporate plan	High	High	Medium	High	PVC(A)
CO-10-01	Increasing pensions deficit	High	High	High	High	EDF
CO-13-01	Data Protection	High	Medium	Medium	High	EDF
CO-10-09	Poor Staff Engagement	High	High	Medium	High	VC
CO-10-08	Potential impact of estates strategy delivery on financial position	High	High	Low	Medium	EDF

CO	Risk to delivery of one of the objectives in the Corporate Plan
CP	Risk to overall delivery of the Corporate Plan
MI	Risk to University students, staff or infrastructure resulting from major incident

	PAPER NO: AC.66(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Internal Audit Report – Progress Report	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. • Financial sustainability 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

PwC have provided a high level summary of their work so far during 2013/14. The internal audit programme is on target and proceeding to agreed schedule.

Appendix 2 shows the results of follow up recommendations, and demonstrates that the majority of these have been completed for this quarter, with some recommendations from the review of Enterprise activity being partially complete and ongoing.

The Executive recommends that the Audit Committee note the attached report.



Internal Audit Progress Report 2013/2014

**Progress Report to
Audit Committee**

31 October 2013

Overview

Progress Summary

This report presents a high level summary of the audit activity that has taken place in 2013/14 since our last progress report to the September Audit Committee. A detailed timeline of audit activity for the year is set out at Appendix 1.

Reports presented at the 31 October 2013 Audit Committee meeting

Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA

Outline of work performed

London South Bank University (LSBU) has a duty to make reasonable adjustments for its disabled students. It is also possible for students at LSBU to claim for extenuating circumstances where they have missed or failed assessments due to circumstances beyond their control, for example, a serious personal illness which isn't a permanent medical condition, death or serious illness of a family member or a serious and unforeseeable disruption to public transport. Faculties and exam boards are responsible for Extenuating Circumstances panels. A central team in the Registry is responsible for the management of student appeals. It is possible for a student to contact the Office of the Independent Adjudicator (OIA) to appeal against a decision or to lodge a complaint against the LSBU on how their case has been treated.

LSBU was named in the OIA's Annual Report for 2012 as not being compliant with its recommendations. The OIA also issued a good practice letter to LSBU in June 2013, identifying key areas where LSBU may not always follow good practice in its administration of appeals and complaints. The purpose of this review was to review existing procedures to identify any areas for improvement and perform testing to confirm compliance with existing policies and procedures.

Findings

Our review identified that policies and procedure notes are in place but it was highlighted by management that Faculties operate different policies on an operational basis. LSBU are currently mapping current procedures to the notice of good practice from the OIA and to update Academic Regulations to take account of these recommendations and the outputs of our work.

Our substantive testing of procedures identified a number of recurring themes, in particular: incomplete audit trail; untimely information processing; and, non-compliance with identified procedures.

Key messages

On the whole procedures have been followed, however LSBU will be able to improve consistency of applied procedures and improve student experience by ensuring that there is a complete and accurate audit trail of procedures followed, assessments are processed on a timely basis and that procedures are consistently applied across the University.

In particular, coordination of efforts and outputs across all four areas will be improved through standardising policies and procedures at a Faculty level, to ensure that procedures are applied consistently across the University so that students receive consistent treatment.

Reducing the reliance on paper forms will also help to improve the efficiency of the process. We are aware that LSBU have procured Tribal ESD software, to reduce their reliance on paper systems and plan to implement a complete online workflow for appeals, complaints and Extenuating Circumstances. This is currently in process, and in the interim period, LSBU are exploring options to improve workflows to maximise efficiency.

The majority of cases tested had complete records but we have identified instances of non-compliance and missing records. An electronic workflow may help to improve this area e.g. through requiring minimum levels of records/checks before proceeding to the next stage. In the absence of automated systems, record keeping could be improved by storing paper-forms electronically (to reduce the risk of loss of paper information), introducing a standardised checklist to be completed across all Faculties confirming procedures followed and periodic spot checks of a sample of files to confirm compliance. For this to be effective, the consequences of non-compliance will need to be formally defined and communicated to all parties involved in the process.

LSBU may also wish to update timescales for information processing to ensure adequate time is allocated to perform reviews and deal with requests. This may have the added benefit of improving the quality of records (ensuring there is adequate time to complete all required documentation) and assist resourcing in this area to allow more time to process claims and appeals.

Findings of our follow up work

- We have undertaken follow up work on the recommendations on the 4Action system with a target date for action of 31/10/2013 or sooner. We have discussed with management the progress made in implementing recommendations falling due in this period. Where the recommendations had a priority of low, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.
- A total of 3 recommendations have been followed up this quarter. Of these 2 (67%) have been fully implemented. The remaining recommendation is still in progress and a revised implementation deadline has been agreed.
- Our detailed findings in respect of each recommendation considered this quarter are included in Appendix 2.

Other matters

- Our audit of Student Data is due to commence w/c 11/11/2013. We will bring the associated report to the next audit committee meeting.
- We have also begun the scoping for our review of Business Continuity and Disaster Recovery. We will also bring the associated report to the next audit committee meeting.
- It has been agreed with management to defer our audit of Quality of Management Information to quarter 3.
- We have also included in the Committee papers, a final version of our Internal Audit Annual Report 2012/2013 which was presented and approved at the September meeting, without the need for any amendments.

Recommendations

- That the Committee **notes** the progress made against our 2013/14 Internal Audit Operational Plan.
- That the Committee **comments** on our report of Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA.

Appendix 1 - Progress against the 2013/14 operational plan

Included below is a summary of the current progress against the reviews in our 2013/14 operational plan. For each review, the days per the plan are shown, together with the actual days spent to date (shown in brackets).

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 1: August 2013 – October 2013											
Continuous Auditing of Key Financial Systems (May 2013 to July 2013)											
12 (12)	02/08/2013	12/08/2013	03/09/2013	12/08/2013	N/A	-	-	-	-	-	
Quality of Management Information – deferred to quarter 3											
10	-	-	-	-	TBC	-	-	-	-	-	
Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA											
16 (16)	13/08/2013	19/08/2013	22/09/2013	17/10/2013	N/A	-	-	-	-	-	
Student Data											
5 (1)	30/09/2013	11/11/2013	-	-	TBC	-	-	-	-	-	
Quarter 2: November 2013 – January 2014											
HESA Finance Return											
10	-	-	-	-	TBC	-	-	-	-	-	
Continuous Auditing of Key Financial Systems (August 2013 to October 2013)											
10	-	-	-	-	TBC	-	-	-	-	-	
Disaster Recovery and Business Continuity											
10	-	-	-	-	TBC	-	-	-	-	-	
Quarter 3: February 2014 – April 2014											
Continuous Auditing of Key Financial Systems (November 2013 – January 2014)											
10	-	-	-	-	TBC	-	-	-	-	-	
Quarter 4: May 2014 – July 2014											
Continuous Auditing of Key Financial Systems (February 2014 – April 2014)											
10	-	-	-	-	TBC	-	-	-	-	-	
Value for Money											
5	-	-	-	-	TBC	-	-	-	-	-	
Other											
15 (5)	Planning, contract management, reporting, value for money and Follow up										
Total 126 (34)											

Appendix 2 - Results of Follow Up of Recommendations

Agreed action	Progress to date	Priority	Status	Further recommendation
1. Allocation of faculty driven projects - Enterprise 2012/13				
The Enterprise team will develop a straightforward checklist to enable non-financial experts to allocate projects correctly, in the context of taxation and other compliance considerations.	Guidance on when projects must go through SBUEL and when they may go through the University has been developed by finance and approved by the SBUEL Board of Directors on 25th September.	Medium	Implemented	N/A
2. Lack of approval limits for contracting – Enterprise 2012/13				
Procedures will be developed to formalise approval limits. This will be developed to be consistent with London South Bank University's Financial Regulations and will include due diligence checks on contracting parties, consultation with legal and analysis of budgets. It is noted that the Financial Regulations are not specific on the controls that must be applied beyond those imposed by the FEC form (i.e. they specify no value constraints). Values for each level should be set based on a review and discussion of the capacity of the University to deliver commercial contracts and will be agreed by the SBUEL Board of Directors.	This was approved by the SBUEL Board of Directors on 25th September.	Medium	Implemented	N/A
3. Alignment of Objectives – Enterprise 2012/13				
There remains an issue regarding 'buy- in' within some Faculties to the work London South Bank University are trying to do. This is largely centred on the lack of strategic goals and incentives which are aligned across University Enterprise and Faculty. There are a number of perceived 'perverse' incentives (often around financial control and targets) which continue to act as barriers to more aligned working. LSBU will share findings from this report with the University Executive team to establish a formal route to securing better alignment of objectives and incentives with Faculties. In parallel, LSBU will continue to perform formal exercises to engage with key stakeholders at Faculty level to build buy-in from individuals into the nature of the Enterprise offering, the resources available and the potential for 'value-add' in their own work.	LSBU is continuing to work with faculties to align objectives. During the budget planning cycle for 2014/15, they plan actively to engage faculties to develop their enterprise plans and budgets jointly.	Medium	Partially implemented	Revised implementation date of 31/07/2014 agreed.

This publication has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this publication without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy or completeness of the information contained in this publication, and, to the extent permitted by law, PricewaterhouseCoopers LLP, its members, employees and agents do not accept or assume any liability, responsibility or duty of care for any consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this publication or for any decision based on it.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

	PAPER NO: AC.67(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Internal Audit Report – Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA	
Author:	PricewaterhouseCoopers, Internal Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that the Audit Committee note the attached report.	
Aspect of the Corporate Plan to which this will help deliver?	<ul style="list-style-type: none"> • Creating an environment in which excellence can thrive. 	
Matter previously considered by:	n/a	n/a
Further approval required?	n/a	n/a
Communications – who should be made aware of the decision?	n/a	

Executive summary

The attached audit report for ‘Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA’ was undertaken as part of the internal audit programme for 2013/14.

The review has identified that policies and procedure notes are in place but it was highlighted by management that Faculties operate different policies on an operational basis. LSBU are currently mapping current procedures to the notice of good practice from the OIA and to update the Academic Regulations to take account of these recommendations and the outputs of our work.

The Executive recommends that the Audit Committee note the attached report.

Internal Audit Report 2013/2014

Extenuating Circumstances,
Academic Appeals & other
processes that could result in
a student complaint to the

OIA

FINAL

October 2013

London South Bank
University

Contents

1. Executive summary	1
2. Detailed current year findings	4
Appendix 1 - Terms of Reference	11
Appendix 2 - Limitations and responsibilities	14

Distribution List

For action:	Phil Cardew, Pro Vice Chancellor (Academic)
For information:	Richard Flatman, Director of Finance
	John Baker, Corporate & Business Planning Manager
	Audit Committee

This report has been prepared by PwC in accordance with our contract dated 01/08/2013.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Higher Education Funding Council for England's (HEFCE) Financial Memorandum. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

1. *Executive summary*

Background

London South Bank University (LSBU) has a duty to make reasonable adjustments for its disabled students. It is also possible for students at LSBU to claim for extenuating circumstances where they have missed or failed assessments due to circumstances beyond their control, for example, a serious personal illness which isn't a permanent medical condition, death or serious illness of a family member or a serious and unforeseeable disruption to public transport. Faculties and exam boards are responsible for Extenuating Circumstances panels. A central team in Registry is responsible for the management of student appeals.

It is possible for a student to contact the Office of the Independent Adjudicator (OIA) to appeal against a decision or to lodge a complaint against the LSBU on how their case has been treated. When cases are taken up by the OIA, these are handled by the University Secretary's Office team (who also deal with student complaints), who liaise with the Registry appeals teams and Pro-Deans and Academics in the four Faculties.

LSBU was named in the OIA's Annual Report for 2012 as not being compliant with its recommendations. The OIA also issued a good practice letter to LSBU in June 2013, identifying key areas where LSBU may not always follow good practice in its administration of appeals and complaints. LSBU have plans to address a number of areas of improvement in their performance. The purpose of this review was to review existing procedures to identify any areas for improvement and perform testing to confirm compliance with existing policies and procedures.

Audit Findings

Our review has identified that policies and procedure notes are in place but it was highlighted by management that Faculties operate different policies on an operational basis. LSBU are currently mapping current procedures to the notice of good practice from the OIA and to update Academic Regulations to take account of these recommendations and the outputs of our work.

Our substantive testing of a sample against required procedures identified a number of recurring themes, in particular:

Incomplete audit trail

We identified a number of instances where records were incomplete, for example:

- One student tested was referred to as a 'complex' case. In these instances it is required that a Course Director attends this meeting. In the case tested, this was not the case. It was confirmed that this policy is not always adhered to and no record is kept of these meetings (finding #2); and
- We identified eight instances where we were unable to confirm if an appeal had been submitted within the designated time frames. This is because the original letter detailing the exam board's decision was not retained by management as evidence (finding #4).

Untimely information processing

LSBU procedure notes include a number of deadlines for the submission, assessment and communication of decisions. Our testing found a number of examples where deadlines have not been adhered to, for example:

- Provision of feedback on the outcome of student disability assessments (finding #2);
- Student submission of extenuating circumstance forms and complaints (findings #3 and #5); and,
- Arriving at final decisions for complaints processed (finding #5).

Non-compliance with identified procedures

The following examples of non-compliance with existing procedure notes were identified:

- We identified one instance where an occupational health check had not been completed (finding #2);
- A signed data protection form had not been completed for two students tested (finding '2);
- For one complaint, the outcome of the investigation had not been provided in writing to the student (finding #5); and,
- We identified three complaints that had not been investigated by a staff member of appropriate seniority (finding #5).

Comparison to OIA good practice recommendations

In addition to the above, we have compared our fieldwork against the findings identified by the OIA in the good practice letter:

1. Minutes of Extenuating Circumstances Panels and Appeal Panels

The OIA commented that minutes were hand written and limited in scope. It was recommended that these minutes were word-processed and outlined who was present and their role. It was recommended that minutes state what documentation was considered by the Panel, including regulations applied, forms of evidence submitted and the final decision made by the Panel, including if a decision has been deferred.

Our fieldwork confirmed that all minutes from the Extenuating Circumstances Panel and Appeals Panel were handwritten. We agree that word-processed documents and standardised pro-formas for minute taking will improve the quality of records and reduce the risk of an incomplete audit trail due to missing information or illegible records. However, in all cases that we sampled, we were able to establish who attended, what documentation was considered and the final decision made by the Panel.

2. Extenuating circumstances claims

The OIA noted that they identified some students had made multiple claims for the same modules but this was not reflected in the letters sent to students. The OIA also noted there is a lapse of time between claim submissions and meetings of the Extenuating Circumstances panel, which in combination with shortfalls in minute taking make it difficult to demonstrate that all submissions have been appropriately considered.

Our testing of extenuating circumstances claims did not include whether a letter made reference to multiple claims. However, we did identify some similar instances of untimely processing of claims, please see findings #2, #3 and #5.

3. Communication with students

The OIA expressed concern that they did not see evidence that LSBU acted to inform their students of the progress of their requests for extenuating circumstances or appeals. This includes notifying students of delays or where matters have been deferred.

We only identified one instance where a student had not been notified of the progress of their claim (see finding #5). In other instances this had been performed.

Conclusion

On the whole procedures have been followed, however LSBU will be able to improve consistency of applied procedures and improve student experience by ensuring that there is a complete and accurate audit trail of procedures followed, assessments are processed on a timely basis and that procedures are consistently applied across the University.

In particular, coordination of efforts and outputs across all four areas will be improved through standardising policies and procedures at a Faculty level, to ensure that procedures are applied consistently across the University so that students receive consistent treatment.

Reducing the reliance on paper forms will also help to improve the efficiency of the process. We are aware that LSBU have procured Tribal ESD software, to reduce their reliance on paper systems and plan to implement a complete online workflow for appeals, complaints and Extenuating Circumstances. This is currently in process, and in the interim period, LSBU are exploring options to improve workflows to maximise efficiency.

The majority of cases tested had complete records but we have identified instances of non-compliance and missing records. An electronic workflow may help to improve this area e.g. through requiring minimum levels of records/checks before proceeding to the next stage. In the absence of automated systems, record keeping could be improved by storing paper-forms electronically (to reduce the risk of loss of paper information), introducing a standardised checklist to be completed across all Faculties confirming procedures followed and periodic spot checks of a sample of files to confirm compliance. For this to be effective, the consequences of non-compliance will need to be formally defined and communicated to all parties involved in the process.

LSBU may also wish to update timescales for information processing to ensure adequate time is allocated to perform reviews and deal with requests. This may have the added benefit of improving the quality of records (ensuring there is adequate time to complete all required documentation) and assist resourcing in this area to allow more time to process claims and appeals.

2. Detailed current year findings

1. Policies and procedure notes – Operating Effectiveness

Finding

We obtained and reviewed policies and procedure notes to ensure that these cover the following key processes:

- Assessment of applicants with need for special adjustments under the terms of the Equality Act 2010;
- Extenuating Circumstances;
- Appeals; and
- Complaints and Office of the Independent Adjudicator.

Our work identified that policies and procedure notes are in place and these are available on the University website to all students and staff.

However, it was noted by management that Faculties operate different policies on an operational basis. It is recognised that processes are currently being mapped to the notice of good practice from the OIA and to updated Academic Regulations.

Risks

Procedures adopted by different Faculties may mean that students receive inconsistent treatment which is not in line with University policy. This could also mean students have inconsistent experiences.

Action plan

Agreed action

The University is already working with faculties to iron out inconsistencies of approach. This will be further facilitated through the Student Records Development Team, who will ensure a follow-up review of process at the end of semester 1, to monitor progress and further eliminate inconsistency.

Responsible person / title

Academic Registrar

Target date:

28 February 2014

2. Compliance with policies and procedures: Assessment of applicants with need for special adjustments under the terms of the Equality Act 2010 – Operating Effectiveness

Finding

Applicants with a need for special adjustments are required to attend meetings with representatives from the support team to agree their support requirements. If the student is identified as having complex needs, the Course Director is also required to attend the meeting.

In addition, all applicants to the Faculty of Health and Social Care courses must complete an Occupational Health Check to demonstrate fitness to practice prior to enrolment.

All offer letters should include a statement encouraging students to disclose any disabilities.

A listing of all continuing and prospective students for academic year 2013/2014 who had disclosed a disability was obtained. We tested a sample of twenty students to confirm that:

- Their offer letter included a statements encouraging disclosure of any disabilities;
- Contact had been made with the student after notification of a disability;
- Evidence of checks performed, including supporting documentation for any disabilities disclosed, are retained on file; and
- Support arrangements have been established and communicated to the student in line with LSBU's policies.

Our testing identified the following exceptions:

- 1 An occupational health check had not been completed for one of 20 students tested. It was identified by management that this is not a requirement for the particular course being completed by the student. This is not consistent with LSBU's procedure notes which state that an occupational health check should be completed for all students within the Faculty of Health and Social Care;
- 2 For four of 20 students tested, LSBU had identified that DSA was available to the student but the student had not responded. It is a departmental performance indicator to maximise the uptake of DSA but there is currently no formal process in place for this;
- 3 One of 20 students tested is referred to as a 'complex' case. In these instances it is required that a Course Director attends this meeting. In the case tested, this was not the case. Management identified this policy is not always adhered to and no record is kept of these meetings;
- 4 LSBU have a timeframe of 20 days to respond to provide feedback on the assessment performed of the student. This timeframe was exceeded in five of 20 cases tested;
- 5 A signed data protection form had not been completed for two of 20 students tested; and for one of 20 students tested the student should not have been on the system as they terminated their studies in 2011/12.

Risks

Non-compliance with policies and procedures could mean that inadequate checks are performed. This could lead to incorrect decisions being made.

LSBU may fail to meet key performance targets for maximising uptake of DSA.

If cases are not assessed by staff of appropriate seniority there is a risk that inappropriate decisions are made. This could have an adverse effect on the student's performance.

Deadlines may be unrealistic. This could mean that information is not subject to appropriate scrutiny leading to inadequate assessment of information and inappropriate decisions being made.

Lack of audit trail to support management decisions.

System data may be inaccurate this could mean that management information is inaccurate or incomplete making it difficult to monitor performance.

<i>Action plan</i>	
<i>Agreed action</i>	<i>Responsible person / title</i>
<p>Issues have been numbered, above, to facilitate cross-reference to actions:</p> <ol style="list-style-type: none"> 1. A forthcoming review of the procedure will change the wording to reflect the fact that a few courses do not require the check. 2. All students declaring a disability are communicated with to promote DSA and to invite them to make an appointment with the service. There is much publicity and communication already in place to drive students to make appointments with the DDS Team. The process, beyond the point of admission, however, is not formal, and a more comprehensive communications plan is being considered. 3. A review will look at changing the procedure, which is at present impossible to comply with. Students declare a disability at admission, but not its complexity, and even if the pre-entry form is completed, it does not always draw the full complexity of a case out. At the moment Advisers will invite a Course Director to an initial meeting if the needs are clearly complex from the pre-entry form, but for students whose complexity emerges at the meeting or later, they will involve the Course Director in another way. A review of procedures will formalise the involvement of the Course Director. 4. Adviser Appointments are automatically booked for 20 days after the assessment, to allow time for the report to be written. We find it unusual for the report not to have been written in time, and, given the number of students is 5, suggest that the reason for missing the deadline is most likely to be that the students did not attend the feedback appointment and another, later appointment had to be made. This would record the feedback as late. The wording of the procedure will be amended. 5. The lack of signed data protection forms is regrettable. We will look at the process again, and consider whether this is something that might be dealt with at enrolment. 	<p>Director of Student Services</p> <p style="color: #c00000;"><i>Target date:</i></p> <p>1: 31 November 2013</p> <p>2: N/A</p> <p>3: 31 July 2014</p> <p>4: 31 November 2013</p> <p>5: 31 August 20134</p>

3. Compliance with policies and procedures: Extenuating circumstances – Operating Effectiveness

Finding

All students requesting extenuating circumstances should complete a 'Claim for Extenuating Circumstances' form. This is submitted to the Faculty Office and must be received by 5 days after the relevant examination date or submission date for course work. The submission date is deemed to be the date on which it is received and stamped by the Faculty Office.

The following documentation must be attached to the claim:

- Serious or personal illness – a doctor's letter that underlines the illness and details the student's ability to perform;
- Family bereavement or serious illness - a death certificate or other relevant documentation confirming the death or illness. If the person is not a relative, evidence of the closeness of the relationship must be provided;
- Public transport disruption - a letter or other statement from the relevant bus or rail company confirming the details of the disruption and details of the student's address and normal route to University.

All claims are considered by the Extenuating Circumstances Panel. These are organised by the Faculty and chaired by a senior member of academic staff. The Extenuating Circumstances Panel will inform the Award and Progression Examination Board of its decision.

We tested a sample of twenty students who had applied for extenuating circumstances to confirm that:

- The original claim was submitted within 5 days of any academic assessment deadlines;
- Supporting evidence to accompany the claim was submitted
- The claim was submitted to the Extenuating Circumstances Panel for consideration; and
- The Extenuating Circumstances Panel decision is documented and was communicated to the Award and Progression Board.

Our testing identified:

- Four of 20 extenuating circumstances claims had not been submitted in line with the specified five day deadline.

Risks

Non-compliance with policies and procedures could mean that inadequate checks are performed. This could lead to incorrect decisions being made.

Deadlines may be unrealistic. This could mean that information is not subject to appropriate scrutiny leading to inadequate assessment of information and inappropriate decisions being made.

Action plan

Agreed action

1. The issue of non-compliance with Extenuating Circumstances Procedures is addressed in (1) above. There is an additional issue of potentially unrealistic deadlines which will be reviewed by the Academic Regulations Committee, which will make recommendations to the Academic Board by July 2014.

Responsible person / title

Academic Registrar

Target date:

31 July 2014

4. Appeals – Operating Effectiveness

Finding

Appeals against decisions can be made on the grounds that an administrative or procedural error has affected the decision. All appeals must be submitted with written evidence and using the 'Appeals Form'.

We tested a sample of 20 appeals cases to confirm that:

- The appeal has been submitted within three weeks of the decision;
- Supporting evidence has been attached to the Appeal form;
- There is documentation evidencing the outcome of the Appeal Panel;
- Documentation is consistent with other information held on individual's files; and
- That the output of this exercise has been communicated to the student via a Completion of Procedures letter.

Our testing identified the following exceptions:

- In eight of 20 instances we were unable to confirm if the appeal had been submitted within three weeks of the decision. This is because the original letter detailing the exam board's decision was not provided by management as evidence.

Risks

Lack of audit trail to support management decisions.

Action plan

Agreed action

We are moving the system to an electronic workflow process which will be piloted during 2013/14 and fully implemented for the next main appeals cycle.

Responsible person / title

Academic Registrar

Target date:

31 August 2014

5. Complaints – Operating Effectiveness

Finding

Complaints must be submitted using a Student Complaint Form. This should be accompanied by relevant documentary evidence, for example, evidence of timely submission to the University and qualifications. The complaint should be raised by either a current LSBU student or an ex-LSBU student based at one of LSBU's designated campuses.

Procedures state that a complaint may be made informally within 60 working days of the issue first occurring and within no more than 90 working days if the informal process did not resolve the complaint or if no informal process was launched. The informal process involves consulting with the member of staff/faculty with whom the complaint resonates.

Additionally an assessment should be made to determine whether the complaint actually constitutes a 'complaint'. LSBU procedures define this as a specific issue not an exam board issue or an academic misconduct panel decision.

The Faculty will appoint a senior member of the management team, typically a Head of Department or Pro Dean, to investigate the case. This will involve discussion with the student in the first instance, followed by additional assistance from other staff members.

A response must be provided to the student within 20 working days from receipt of the complaint into the Faculty. The University's Secretary Office must be copied into the response to the student.

If the student is dissatisfied with the response, the student must write to the University's Secretary Office within 15 days of the response, citing the reason for escalation and attaching any additional information to support the complaint. This student may request for the complaint to be progressed to 'Stage 2' (Internal Informal Mediation) or Stage 3 (Independent Internal Investigation).

The student must submit a written request to the University Secretary's Office if a complaint is escalated to Stage 3. The University Secretary's Office may either dismiss or uphold the complaint. For all dismissals, the Executive Dean or Head of University Service must be cc'd into any communications and the student should be told that if they wish to escalate further they must complain to the Office of the Independent Adjudicator for Higher Education.

If the University Secretary Office upholds the complaint, then an Executive Dean, Pro Dean or Deputy Dean from an Independent Faculty or a Head or Deputy Head of Service from an independent service must be appointed to investigate the complaint. The complaint file should be submitted to the appointed officer within 10 working days.

The investigator will produce a report to conclude as to whether they find the complaint justified and supporting the findings with reasons. If applicable they must state whether they recommend for action the relevant Faculty or University Service. The investigator must send the report to the student and the Executive Dean/Head of Faculty/University Service and the USO; within 20 working days of the investigation commencing.

It is possible for a student to escalate the complaint to Stage 4. This allows the student to submit a request for a review to the USO within 15 working days of receiving the investigator's report.

To test compliance with this process, a sample of 20 student complaints was selected for testing to confirm that:

- The complaint had been submitted to the University Secretary Office in line with procedural deadlines;
- Supporting documentation was provided;
- The decision to dismiss or uphold the complaint was documented in line with procedure;
- All upheld claims were investigated by staff with appropriate seniority; and
- Whether this investigation was documented;
- If a decision was reached within 20 days.

Please note that within the testing period, no complaints had been escalated to stage 2 or stage 4 so this process was not tested.

Our testing identified the following exceptions:

- In three of 20 cases tested, the case had not been investigated a member of staff of appropriate seniority as required under stage one procedures. This case was subject to referral by the OIA;
- In one of 20 cases the complaint has been investigated despite not being received within the specified time lines in accordance with University procedure;
- In one of 20 cases the outcome of the investigation had not been provided in writing to the student; and
- In one of 20 cases, a decision on the outcome of the Stage 1 complaint was not reached within 20 days of the complaint being lodged.

Risks

If cases are not assessed by staff of appropriate seniority there is a risk that inappropriate decisions of made. This could have an adverse effect on the student's performance.

Non-compliance with policies and procedures could mean that inadequate checks are performed. This could lead to incorrect decisions being made.

Deadlines may be unrealistic. This could mean that information is not subject to appropriate scrutiny leading to inadequate assessment of information and inappropriate decisions being made.

Lack of communication of progress to students could lead to confusion or frustration.

Action plan

Agreed action

In relation to the handling of student complaints, the executive's aim is to achieve informal resolution at Stage 1 by the Pro Dean of the relevant faculty. This means the complaint is resolved in a timely way, allowing the student to prioritise their studies and avoids entrenchment in the later stages of the formal process.

With this in mind, the following actions will be taken to mitigate the risks identified in section 5 (above).

- A. The complaints procedure requires the complaint to be handled by a senior manager within the relevant faculty. The complaints team will provide a refresher session for the four Pro Deans responsible for student complaints (plus their nominees) to cover best practice.
- B. Under the complaints procedure, it is best practice for decisions affecting students to be made at the level of Pro Dean or above. The refresher session will address this point.
- C. The complaints team will review the time limits and deadlines in the complaints procedure and make a recommendation to Academic Board as to whether they are fit for purpose or otherwise.
- D. The intention of the complaints procedure is that the handling of the case is led by the Pro Dean of the relevant faculty. The refresher session will address how Pro Deans and their senior colleagues may review and report on progress of cases, including keeping the student informed.

Responsible person / title

University Secretary

Target date:

31 December 2013

Appendix 1 - Terms of Reference

Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA

To: *Phil Cardew (Pro-Vice Chancellor, Academic)*
From: *Justin Martin (Head of Internal Audit)*

This review is being undertaken in addition to the 2013/2014 internal audit plan approved by the Audit Committee.

Background

London South Bank University (LSBU) has a duty to make reasonable adjustments for its disabled students. Disability support is provided by the DDS team within Student Services.

In addition it is possible for students at LSBU to claim for extenuating circumstances where they have missed or failed assessments due to circumstances beyond their control, for example, a serious personal illness which isn't a permanent medical condition, death or serious illness of a family member or a serious and unforeseeable disruption to public transport.

Faculties and exam board are responsible for Extenuating Circumstances panels. Following exam board decisions, a central team in the Registry is responsible for the management of student appeals.

It is possible for a student to contact the Office of the Independent Adjudicator (OIA) to appeal against a decision or to lodge a complaint against the University on how their case has been treated. When cases are taken up by the OIA, these are handled by the Secretary's team (who also deal with student complaints), who liaise with the Registry appeals teams and Pro-Deans and Academics in the four Faculties.

LSBU was named in the OIA's Annual Report for 2012 as not being compliant with its recommendations. LSBU have plans to address a number of areas of improvement in their performance. The purpose of this review is to review the existing policies and procedures to identify any areas for improvement and to test a sample of cases to confirm compliance with policies and procedures.

Scope

This review will cover the following scope:

- We will obtain policies and procedure notes and ensure these cover the following key processes:
 - Assessment of applicants with need for special adjustments under the terms of the Equality Act 2010;
 - Extenuating Circumstances;
 - Appeals; and
 - Complaints and Office of the Independent Adjudicator.

We will review the processes outlined to identify any control design recommendations and / or to confirm if they are efficient and effective.

- We will test a sample of cases in line with identified procedures to confirm if these are being complied with.
- We will understand what monitoring mechanisms are in place to gain oversight of performance. We will test a sample of these to confirm that these are being produced and reviewed.

Limitations of scope

The scope of our work will be limited to those areas outlined above. Our testing will be limited to a review of the following key areas:

- Assessment of applicants with need for special adjustments under the terms of the Disability and Discrimination Act;
- Extenuating Circumstances;
- Appeals; and
- Complaints and Office of the Independent Adjudicator.

Our review will be limited to reviewing policies and procedures and testing compliance with these policies and procedures. This work will not include an assessment of case decisions made.

Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of work performed through discussions with key personnel, review of methodology and procedure notes and walkthrough tests;
- Identify the key risks relating to the process;
- Evaluate the design of the controls in place to address the key risks;
- Test the operating effectiveness of the key controls.

Fees

Our fee for this work has been agreed as £9,472 (16 days @ £592 a day) excluding VAT.

Internal audit team

Name	Title	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 justin.f.martin@uk.pwc.com
David Wildey	Senior Manager	0207 213 2949 / 07921 106 603 david.w.wildey@uk.pwc.com
Charlotte Bilsland	Team Manager	07715 484 470 charlotte.bilsland@uk.pwc.com
Helen Morgan-Rees	Auditor	07896 332 042 helen.r.morgan-rees@uk.pwc.com

Key contacts

Name	Title	Contact details	Responsibilities
Phil Cardew	Pro Vice Chancellor (Academic) (Audit Sponsor)	0207 815 6010 phil.cardew@lsbu.ac.uk	Review and approve terms of reference Review draft report

			<p>Review and approve final report</p> <p>Hold initial scoping meeting</p> <p>Review and meet to discuss issues arising and develop management responses and action plan</p>
Richard Flatman	Executive Director of Finance	0207 815 6301 richard.flatman@lsbu.ac.uk	<p>Receive draft and final terms of reference</p> <p>Receive draft and final report</p> <p>Hold initial scoping meeting</p>
John Baker	Corporate & Business Planning Manager	0207 815 6003 j.baker@lsbu.ac.uk	<p>Receive draft and final terms of reference</p> <p>Receive draft and final report</p> <p>Co-ordinate onsite audit work with LSBU staff</p>

Timetable

Fieldwork start	19/08/2013
Fieldwork completed	30/08/2013
Draft report to client	13/09/2013
Response from client	27/09/2013
Final report to client	04/10/2013

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request;
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

Appendix 2 - Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of, Extenuating Circumstances, Academic Appeals & other processes that could result in a student complaint to the OIA, subject to the limitations outlined below.

Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future periods

Our assessment of controls is for the period 2013/2014 only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.



In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the “Legislation”), London South Bank University is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such [report]. If, following consultation with PwC, London South Bank University discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University in our agreement dated 01 August 2013. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

© 2013 PricewaterhouseCoopers LLP. All rights reserved. In this document, "PwC" refers to PricewaterhouseCoopers LLP (a limited liability partnership in the United Kingdom), which is a member firm of PricewaterhouseCoopers International Limited, each member firm of which is a separate legal entity.

	PAPER NO: AC.68(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Annual Value for Money report	
Authors:	Ralph Sanders, Head of Financial Planning & Reporting & Rob Ager, Acting Head of Procurement	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	<p>This report sets out the measures taken by the University to meet its duty of care to ensure that spend of public funds demonstrates good value for money. This is a duty and condition of grant in the memorandum between the Department for Business, Innovation, & Skills and HEFCE and is delegated to LSBU through our financial memorandum with HEFCE.</p> <p>The Executive recommends that the Audit Committee note this report and the conclusion that LSBU has delivered value for money during the period under review.</p>	
Aspect of the Corporate Plan to which this will help deliver?	Financial Sustainability	
Matter previously considered by:	Audit Committee	Annually
Further approval required?	Not Applicable	
Communications – who should be made aware of the decision?	HEFCE	

1. Executive summary

The Executive is confident, based on the content of this report that LSBU has delivered Value for Money (VFM) across the broad range of its spend and activities for 2012/13.

2. Introduction

The University's clear commitment to achieving and demonstrating VFM is specified in various objectives of the Corporate Plan, linking VFM and financial resilience, effective use of staff and systems, and supporting our students as customers.

“The trend in society generally for increasing consumer choice will be accelerated in Higher Education by the introduction of variable fees that fall entirely on students to pay. Their judgement about value for money will increasingly dominate their choice of University.” Corporate Plan 2011-14

The ongoing Procurement strategy, approved in 2011, supports this view. A key objective is to increase awareness and knowledge of VFM throughout LSBU to secure VFM in all aspects of the University's expenditure.

Value for Money continues to be increasingly important in how the University operates. The outcomes delivered by effective use of scarce resources will be equally as important as expenditure levels; and will ultimately affect students perception of the University.

Current practices will continue to be challenged to ensure that we deliver value for money to all stakeholders - doing the right things the right way at the right price.

3. What is Value for Money (VFM)

Value for money is defined by HEFCE as effectiveness, economy, and efficiency.

- Effectiveness – The extent to which corporate objectives are met (doing the right thing).
- Economy – Appropriately minimising the cost of an activity (the right price)
- Efficiency – Performing tasks well (the right way)

Value for money is not about cuts. It is about making sure that the University's resources are used in the right way to generate outcomes that align with the University's corporate objectives, and that any expenditure or time spent on an activity is appropriate to the outcome.

Value for money is the combination of doing the right thing, at the right price, the right way. Disproportionate emphasis on one of the three aspects, could impact on overall value for money. For example, negotiating low prices for printed material may not represent value for money if 'print per page' unit rate savings are offset by:

- the internal cost of staff time spent waiting and collecting the printed material
- students not wanting print outs, preferring accessing material online
- excessive volumes printed resulting in high waste levels.

4. VFM Activities in 2012/13

This report focuses on the initiatives which are in place to promote and ensure Value for Money, and on VFM achievements in year.

4.1 Cashable Economy Savings

Cashable savings identified in 12/13 totalled £3.9 million over their respective contract terms. Please see Appendix A for a summary of cashable savings identified in year. Cashable savings are assessed on the basis of a saving identified against budget allocated for the contract, savings against previous contract value or schedules of rates.

In addition to Procurement exercises led by LSBU, we collaborate with other Universities and use framework agreements at consortia level. We are a member of the London Universities Purchasing Consortia (LUPC).

The ongoing development and success of Procurement at LSBU led to the team being shortlisted for the Outstanding Procurement team category at The HE Leadership and Management Awards (THELMA) 2013.

4.2 Non Cashable Efficiency Savings

We have continued to reduce or transfer any non-value adding activity, removing any unnecessary steps to free up University resources to focus on core activities. The University's non-cashable efficiency savings are detailed in Appendix B. Overall, using the HEFCE measurement model, there has been a 3% decrease in these savings compared to 11/12. This has mainly been a result of increased collaborative purchasing, in particular, avoiding the need for further competition by making direct awards or using E-Auctions both of which are not covered by the HEFCE model and avoid the need for costly tender processes and a reduction in the number of complex procurements compared to 11/12. However, this is offset by a significant growth in the number of procurement card transactions.

There are further non value-adding activities which have been removed or transferred during 12/13:

- Procurement Cards have been introduced for online stationery and office consumables purchasing. This has streamlined and simplified the process removing paper orders and individual invoices at a University-wide level.
- The Purchase Order process has been widened to include Enterprise purchases. These are now fully embedded into the P2P process replacing paper purchase orders.

4.3 VFM Category Management and Knowledge Transfer

Ensuring a holistic view of expenditure and related resourcing is key to optimising VFM. In 2012/13 we have further embedded the Category Management approach and have identified VFM targets and category action plans over multiple years.

- All expenditure categories have a dedicated Procurement lead, who is responsible for developing category strategies with key stakeholders and Contract Managers.

- Dedicated intranet category pages have been introduced for six key spend areas.
- As part of the category strategies, categories with University-wide interest have user groups or working groups established to improve input into contract management reviews, compliance management, and to ensure that any contract arrangements remain relevant and current. User groups and working groups have already been established for Travel, Print (MFDs), Print Room, Catering and Office Supplies. We will seek to set up new User Groups as other projects develop.
- A Spend Analysis Tool is now available for detailed interrogation of spend across all Categories.

4.4 Compliance Management

- New areas were added in 12/13 to the mandated list, including Multi-Functional Devices (linked to the removal of standalone printer equipment from the ICT shopping cart) and mobile phones.
- Use of the mandated temporary staff contract was further actively managed. 97% compliance was achieved in 12/13, up from 91% in 11/12.
- Spend analysis reports were developed to facilitate contract compliance reporting.
- Compliance will be further reviewed and embedded by Category Managers in 13/14 with specific targets linked to the increased use of collaborative procurement agreements in compliance with the Diamond Report.

4.5 VFM Working Group

A VFM working group has been established with the following approach agreed:

- There will be a joint chair arrangement shared between the Head of Financial planning & Reporting and the Director of Student Services, to ensure a student focus is maintained within the group discussions
- Working group members to be:
 - Pro Dean of each academic faculty
 - Senior member representative of:
 - QAA
 - EAF
 - ICT
 - Libraries
 - Marketing
 - Enterprise
 - Staff Development
 - Corporate Planning
- VFM for students will be strategically targeted by the group.

4.6 Contract Management

A bid was submitted under the University's investment bid process for a University-wide contract management system for all contracts with external expenditure, and a tailored suite of training workshops with before and after assessments, to determine improved knowledge and skills. The benefits of this proposal were given as:

- Ensure contract benefits are realised
- Standardised contract management process across LSBU
- Increase skills to resolve issues proactively, minimising the risk of costly litigation
- Increase continuous improvement initiatives during contract terms
- Enable levels of contract management activity to be monitored
- Improve use of resource time, through reduced duplication of efforts
- Reduce maverick spend and savings erosion

This bid was successful and the initial training workshops and development of the contract management system commenced in 12/13. A competitive tender exercise commenced with the appointment of Bywater Training to deliver the training workshops and Bravosolution (Our current E-Tendering and spend analysis provider) to deliver the Contract Management System.

4.7 Internal Audit Conclusions on VFM

The HEFCE Accountability and Audit Code of Practice makes reference to the duty of care institutions have to ensure the proper use of public funds and the achievement of value for money. Accordingly, the internal audit approach considers value for money as an integral objective of the University's systems of internal control.

A specific review of VfM arrangements will be performed by our internal auditors in 2013/14.

In the current year the work of the internal auditors has considered value for money across a range of areas.

The overall conclusion of the internal auditors continues to be positive in respect of VFM. Their annual audit opinion confirms that LSBU has adequate and effective arrangements to address the risk that management's objectives are not achieved in respect of VFM.

5. Future Plans for Delivering VFM

Delivering VFM is an ongoing process. Below are the key VFM initiatives planned for 13/14:

5.1 VFM Working Group

- Develop an action plan for VFM priority projects
- VFM working group members to input into 13/14 VFM report, capturing broader range of VFM initiatives, with specific emphasis on optimising VFM for students.

5.2 Contract Management

- Expand contract management system pilot and go live across the whole university in Q2 of 13/14.
- Following on from the initial training workshops, deliver a series of targeted Action Learning Sets.

5.3 Category Management

- Further embed category management approach at LSBU, and identify VFM targets and action plans over multiple years.
- Incorporate income generating initiatives into category specific activities and strategies, including supplier engagement with student employability initiatives and other income streams.
- Develop engagement plans for key suppliers in partnership with internal clients, including building relationships, joint performance improvement strategies, and supplier feedback.
- Increasing collaboration with key internal clients in order to identify, capture and realise cashable savings.

5.4 Project Specific

- Working with ICT, Faculties and Departments to rationalise the use of standalone printing, scanning and faxing equipment.
- Going live with an online print ordering system for staff with full order tracking capability, replacing a paper and email based system, eradicating duplication.

6. **Conclusion**

Based on the content of this report, we are confident that we have delivered VFM across the broad range of University spend and activity for the year under review.

Appendix A: Procurement Savings Relating to Projects with Procurement Involvement

Project / Category	Workstream	Cashable Saving Baseline	Id £ (multiple years)	Payback 12/13	Payback 13/14	Payback 14/15	Payback 15/16	Payback 16/17	Payback 17/18
Lab Supplies & Svs	Radiography Equipment	Budget	54,200	54,200					
Professional Svs - Insurance		Budget 12/13	660,000	150,000	150,000	120,000	120,000	120,000	
Printing	MFD rollout	Previous contract rates	597,924	0	17,848	178,487	121,646	196,786	83,157
Printing	Print Room Services	Previous contract rates	520,773		47,547	76,162	76,162	160,451	160,451
Computer Supplies & Services	Desktops	BC option figures (savings from lease options captured separately)	142,182	(92,608)	244,400	60,290	(69,900)		
Safety & Security	Occupational Health - Students	Previous contract rates	135,828	15,092	30,184	30,184	30,184	30,184	
Safety & Security	Occupational Health - Staff	Budget	56,260	1,875	11,252	11,252	11,252	11,252	9,377
Catering	Outsourcing catering provision	11/12 Figures	1,338,387		176,135	228,582	256,453	314,820	362,397
Post & Mail room	Mailing Services	12/13 projected costs with Royal Mail, Neopost and Global Mailing	98,853		32,951	32,951	32,951		
Utilities	Energy	Previous contract rates	85,863	74,870					
Professional Svs - Temp Staff	Retrospective savings confirmation	Previous Framework rates	86,507						
Telecomms	Mobile Phones	Previous contract tariffs	169,428	28,238	56,476	56,476	28,238		
Travel		Non public rates	22,851	22,851					
				Payback 12/13	Payback 13/14	Payback 14/15	Payback 15/16	Payback 16/17	Payback 17/18
			3,969,056	254,518	766,793	794,384	606,986	833,493	615,382

Appendix B – 11/12 Non Cashable Savings

Efficiency Type	Efficiency Saving	Total Transactions	Cash Value of Efficiency
Procurement Card			
Number of Transactions	£28	9984	£279,552
Variation to Previous Year		<i>1322 growth</i>	
E-Procurement			
Electronic Orders (eMarketplace transactions)	£20	2447	£48,940
Electronic Invoice Processing, Payment Authorisation and Payment Transfer	£18	15545	£279,810
Electronic Requisitions	£10	5157	£51,570
E-Tendering			
Electronic Tender Documentation via URL <i>(Up to 10 participating suppliers)</i>	£400	31	£12,400
Electronic Tender Documentation via URL <i>(10-20 participating suppliers)</i>	£600	2	£1,200
Electronic Tender Documentation via URL <i>(Over 20 participating suppliers)</i>	£800	3	£2,400
Secure e-communication	£150	36	£5,400
Electronic Tender Submission <i>(Up to 10 participating suppliers)</i>	£300	33	£9,900
Electronic Tender Submission <i>(10-20 participating suppliers)</i>	£450	3	£1,350
Electronic Tender Submission <i>(Over 20 participating suppliers)</i>	£600	0	£0
Consortium Contracts and Framework Arrangements			
Take up of Routine Consortium Contract Arrangement	£6,000	4	£24,000
Take up of Complex Consortium Contract Arrangement	£12,000	2	£24,000

Conducting a mini-competition under a framework

£2,800

23

£5,600

London South Bank University

	PAPER NO: AC.70(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Anti fraud, bribery and corruption report	
Author:	Richard Flatman, Executive Director of Finance	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Executive recommends that Audit committee note the position as reported below.	
Aspect of the Corporate Plan to which this will help deliver?	Creating an environment in which excellence can thrive.	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	N/A	

Executive summary

This paper is presented to each meeting of Audit Committee to alert members to any instances of fraud, bribery or corruption arising in the period since committee last met.

No instances of fraud, bribery or corruption have occurred since the last meeting in September.

	PAPER NO: AC.71(13)	
Board/Committee:	Audit Committee	
Date:	31 October 2013	
Paper title:	Speak up report	
Author:	James Stevenson, University Secretary & Clerk to the Board	
Sponsor:	Andrew Owen, Chair of the Audit Committee	
Recommendation:	The Audit Committee is requested to note the report	
Aspect of the Corporate Plan to which this will help deliver?	N/A – but speak up is one aspect of developing a climate of personal responsibility and ethical conduct by staff / stakeholders	
Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	N/A	
Communications – who should be made aware of the decision?	The Speak up Policy is published to staff and students	

Speak up report

1. No matters have been raised with the University Secretary, Director of HR or Deputy Director of HR under the “Speak up” policy.
2. The committee is requested to note the speak up report.