

Meeting of the Audit Committee

4pm* on Thursday, 30 October 2014
in 1B27, Technopark, London Road, London SE1

* Pre meetings with the Internal Auditors and the External Auditors from 3.30pm in 1B27, Technopark

Agenda

<i>No.</i>	<i>Item</i>	<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.52(14)	Chair
4.	Matters arising		Chair
5.	Financial Reporting for the year 2013/14		
6.	Audit findings (to consider)	AC.53(14)	GT
7.	Internal audit annual report (to note)	AC.54(14)	PwC
8.	Going Concern statement (to approve)	AC.55(14)	CFO
9.	Draft report and accounts for year to 31 July 2014 (to recommend to the Board)	AC.56(14)	CFO
10.	Letter of representation to auditors (to recommend to the Board)	AC.57(14)	CFO
11.	External Audit		
12.	External audit performance (to consider)	AC.58(14)	CFO
13.	Review of non-audit services (to consider)	AC.59(14)	CFO
14.	Risk and Control		
15.	Review of Internal Controls (to approve)	AC.60(14)	CFO
16.	Risk Register (to review)	AC.61(14)	CFO
17.	Risk appetite (to recommend to the Board)	AC.62(14)	CFO

18.	Internal Audit		
19.	Progress Report (for monitoring)	AC.63(14)	PwC
20.	Internal Audit report – change programme (for monitoring)	AC.64(14)	PwC
21.	Projects		
22.	Change programme risks and issues report (to note)	AC.65(14)	Prog D.
23.	Change programme – informed decision making report	AC.66(14)	CFO
24.	Other Matters		
25.	Funding Assurance Report (to note)	AC.67(14)	CFO
26.	Value for money annual report (to note)	AC.68(14)	CFO
27.	Draft Audit Committee Annual Report to Board and VC * (to approve)	AC.69(14)	Sec
28.	Anti-fraud, bribery and corruption report (to consider)	AC.70(14)	CFO
29.	Speak up report (to review)	AC.71(14)	Sec
30.	Matters to report to the Board following this meeting		Chair
31.	Any other business		Chair
32.	Date of next meeting: Thursday 26 February 2015 at 4pm		Chair

* paper to follow

Members:	Andrew Owen (Chair), Steve Balmont, Douglas Denham St Pinnock, Mee Ling Ng and Shachi Patel.
Internal Auditors:	Justin Martin and David Wildey (PwC)
External Auditors:	David Barnes (Grant Thornton)
With:	Vice Chancellor, Chief Financial Officer, University Secretary, Financial Controller, Programme Director (for items 22 and 23) and Governance Manager.

Minutes of a Meeting of the Audit Committee
Held at 4pm on Thursday, 30 October 2014
In room 1B27, Technopark, London Road, London, SE1

Present

Andrew Owen	Chairman
Douglas Denham St Pinnock	
Mee Ling Ng	
Shachi Patel	(Independent co-opted member)

External Auditors

David Barnes	Grant Thornton
Omadevi Jani	Grant Thornton

Internal Auditors

Charlotte Bilsland	PricewaterhouseCoopers
Justin Martin	PricewaterhouseCoopers

In attendance

Prof David Phoenix	Vice Chancellor and Chief Executive
Natalie Ferer	Financial Controller
Richard Flatman	Chief Financial Officer
Amir Rashid	Programme Director (<i>for minutes 19-21</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Manager

Welcome and apologies

1. Apologies had been received from Steve Balmont.

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 25 September 2014 were approved subject to minor amendments (paper **AC.52(14)**). The amended minutes were approved for publication subject to the proposed redactions.

Matters arising

4. There were no matters arising from the previous minutes which were not picked up elsewhere on the agenda.
5. It was reported that the first part of the HESES audit had been undertaken and had gone satisfactorily.

Audit findings

6. The committee discussed in detail the audit findings document prepared by Grant Thornton, external auditors (paper **AC.53(14)**). It was reported that the audit was substantially complete and that no material weaknesses had been identified.

Internal audit annual report

7. The committee noted the final internal audit annual report (paper **AC.54(14)**). The final report was unchanged from the draft which had been considered in detail at the previous meeting.

Going concern review

8. The committee noted the “going concern” review (paper **AC.55(14)**). The review supported the going concern statement in the annual report and accounts.

Draft report and accounts, 2013/14

9. The committee reviewed the draft report and accounts for 2013/14 (paper **AC.56(14)**). It was reported that the University made a surplus of £3.1m for the year which was well ahead of the forecast surplus of £2.5m.
10. The committee recommended the accounts to the Board for approval subject to minor amendments while the audit was being completed.

Letter of representation

11. The committee discussed the letter of representation to the auditors (paper **AC.57(14)**). The committee noted that the letter contained standard representations only and that no items had been inserted specific to LSBU. The committee recommended the letter to the Board for approval.

External audit performance

12. The committee noted that Grant Thornton, the external auditors, had achieved all of their agreed key performance indicators (paper **AC.58(14)**).

Review of non-audit services

13. The committee noted that during the year 2013/14 Grant Thornton had provided corporate tax advisory services with a value of £4,050 (paper **AC.59(14)**).

Internal controls – annual review of effectiveness

14. The committee noted the annual review of effectiveness of internal controls (paper **AC.60(14)**). 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.

Risk Register

15. The committee noted the corporate risk register (paper **AC.61(14)**).

Risk Appetite

16. The committee discussed the proposed framework for assessing the University's risk appetite (paper **AC.62(14)**). The framework was divided into four sections covering the following types of risk: 1) financial operation and investment; 2) legal compliance; 3) delivery of teaching and learning; and 4) reputation.
17. The committee recommended the proposed risk framework to the Board for approval. Detailed consideration of the Board's risk appetite in the four risk areas would be considered at a future Board strategy day.

Internal audit progress report

18. The committee noted a progress report on internal audit work (paper **AC.63(14)**). The continuous auditing of student data would begin shortly.

Internal audit report – Change Programme

Amir Rashid joined the meeting

19. The committee noted the internal audit report on the change programme, which was rated as medium risk (paper **AC.64(14)**).

Change Programme – risks and issues

20. The committee noted an update on progress of the change programme (paper **AC.65(14)**). The main issue of the programme currently was communications and engagement with staff.

Change Programme – informed decision making report

21. The committee noted an update on the four projects which made up the “informed decision making” theme of the change programme (paper **AC.66(14)**). Two projects were in development. The two live projects were rated amber due to timescales.

Amir Rashid left the meeting

Funding Assurance Report

22. The committee noted an audit report by AASG Funding Assurance on financial controls of research contract income from Research Councils UK, which was rated as satisfactory assurance (paper **AC.67(14)**).

Annual value for money report

23. The committee noted the annual value for money report (paper **AC.68(14)**) which demonstrated how the university had delivered value for money during 2013/14.

Draft audit committee annual report

24. The committee discussed the draft audit committee annual report (paper **AC.69(14)**). The committee’s main concerns were around ICT controls and the interdependencies of the change programme.
25. The committee approved the report subject to amendments as agreed with the Chairman of the Committee.

Anti-fraud, bribery and corruption report

26. The committee noted the anti-fraud, bribery and corruption report (paper **AC.70(14)**). One breach in financial regulations had been discovered around falsified timesheets since the last committee meeting. There was no evidence that the breaches were ongoing.

Speak up report

27. The committee noted the speak up report (paper **AC.71(14)**). 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 20 November 2014.

Any other business

UK Visas and Immigration investigation

29. The committee received an update on the UK Visas and Immigration (UKVI) nationwide investigation into fraud on the TOEIC English language test used by international students to obtain student visas. UKVI had informed the University that it would be taking action against seven LSBU students. Further updates would be provided to the Board.

Date of next meeting

30. It was noted that the next meeting would be at 4pm on Thursday, 26 February 2015.

There being no further business, the meeting concluded.

Confirmed as a true record:

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Chairman

	PAPER NO: AC.52(14)
Paper title:	Minutes of the meeting of 25 September 2014
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Board sponsor:	Andrew Owen, Chairman of the Audit Committee
Purpose:	To approve the minutes of the past meeting as a correct record and to approve for publication

Matter previously considered by:	N/A	N/A
Further approval required?	No	N/A

Executive Summary

The Committee is asked to approve the minutes of its meetings of 25 September 2014. There are no suggested redactions for publication on LSBU's website.

London South Bank University

Minutes of a Meeting of the Audit Committee
held at 4pm on Thursday, 25 September 2014
in room 1B27, Technopark, London Road, London, SE1

Present

Andrew Owen	Chairman
Steve Balmont	
Douglas Denham St Pinnock	
Mee Ling Ng	

External Auditors

David Barnes	Grant Thornton
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Internal Auditors

Justin Martin	PricewaterhouseCoopers
David Wildey	PricewaterhouseCoopers

Apologies

Shachi Patel	Independent co-opted member
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In attendance

Prof David Phoenix	Vice Chancellor and Chief Executive
Natalie Ferer	Financial Controller
Richard Flatman	Chief Financial Officer
Amir Rashid	Programme Director (<i>for minutes 1-7</i>)
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Governance Manager

Welcome and apologies

1. Apologies had been received from Shachi Patel.

Declarations of Interest

2. Steve Balmont declared an interest on the agenda item on procuring an independent helpline for speak up matters (minute 20 refers). Mr Balmont declared that one of the providers listed in the paper (Safecall) was a subsidiary company of his employer. The committee agreed that he should not take part in the decision to appoint the selected provider.

Minutes of the last meeting

3. The minutes of the meeting held on 12 June 2014 were approved (paper **AC.13(14)**). The minutes were approved for publication subject to the proposed redactions.

Matters arising

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

Change programme reporting

5. The committee discussed in detail an update on reporting of the change programme to the Board and its committees (paper **AC.34(14)**). It was proposed that: a) the Board will review overall progress of the change programme and its impact on the day to day running of the University; b) the audit committee will review the risks and issues of the change programme; and c) projects have been grouped by theme and the relevant committee of the Board will review a highlight report of these themes. Any projects rated red would be reviewed in detail by the relevant committee.
6. The committee noted that the change programme had been reviewed by PwC, the internal auditors and the report would come to the next committee meeting.
7. The committee requested further detail on each project in future reports.

Amir Rashid left the meeting

Internal audit progress report

8. The committee noted the internal audit progress report (paper **AC.35(14)**).

Quarter 4 continuous auditing report

9. The committee noted the quarter 4 continuous auditing report (paper **AC.36(14)**). All aspects of the control environment were rated green with no exceptions.

Continuous Auditing of Student Data terms of reference

10. The committee approved the proposed terms of reference for the continuous auditing of student data (paper **AC.37(14)**). The continuous auditing of student data would focus on key risks around application and enrolment data; UKVI requirements; student attendance monitoring; student module data; student course changes; and the security of student records.

Internal Audit report – Risk Management

11. The committee noted the internal audit report on risk management (paper **AC.38(14)**), which had been given a low risk rating. Risk appetite would be discussed at the next meeting.

Internal Audit draft annual report

12. The committee noted the draft internal audit annual report, 2013/14 (paper **AC.39(14)**). The final report would be considered by the committee at their meeting of 30 October 2014. The draft annual internal audit opinion for 2013/14 is that LSBU 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 value for money processes.
13. The rotation of internal audit leads was discussed.

Risk Register

14. The committee noted the corporate risk register (paper **AC.40(14)**), which was now aligned to the recently approved corporate strategy, 2015-2020. The committee noted that tendering for the NHS contract had been extended by 12 months. The position of Dean of the School of Health and Social Care would be advertised in October 2014.

Effectiveness of Internal Controls

15. The committee noted the review of the effectiveness of internal controls and approved the full compliance statement for inclusion in the annual report (paper **AC.41(14)**).

Debt write-off

16. The committee approved the proposed write off of £280,000 in tuition fee debtors and £114,000 of non-tuition fee sales ledger debtors (paper

AC.42(14)). These amounts had been provided for in the accounts so there would be no financial impact in the accounts for 2013/14.

Pensions Assumptions

17. The committee approved the assumptions used for the FRS17 report (paper **AC.43(14)**). Benchmarking analysis from Grant Thornton would be provided for the next meeting.

Confucius Institute

18. The committee noted an update on the visa status of cultural exchange associates at the Confucius Institute (paper **AC.44(14)**). It was reported that following review of existing Confucius Institute staff's visas and Hanban sponsorship status, the current arrangements are not in breach of UK Visa and Immigration requirements.

Anti-fraud, bribery and corruption report

19. The committee noted the anti-fraud, bribery and corruption report (paper **AC.45(14)**). One matter was reported relating to possible misuse of a purchasing card by an employee which was being dealt with under the University's disciplinary procedure.

Speak up report

20. The committee noted the speak up report (paper **AC.46(14)**). There had been two speak up matters raised since the previous meeting. The committee was satisfied that due process had been followed by management in both cases.

Speak up review

21. The committee discussed a proposal to provide an independent helpline for staff and students to raise speak up issues (paper **AC.47(14)**). The Executive proposed to run a mini-tender to appoint a company to provide an independent helpline for staff. The committee agreed with the approach and requested an update on the tender process.

Audit Code of Practice

22. The committee noted the revised Audit Code of Practice which formed part of the new Memorandum of Assurance and Accountability between HEFCE and universities (paper **AC.48(14)**).

University Academy of Engineering/University Technical College Assurance

23. The committee discussed the relationship between LSBU and its sponsored academies (paper **AC.49(14)**). The committee noted that the relationship would be governed by a Memorandum of Understanding (MoU) between LSBU and each academy it sponsored. The MoU included requirements for the academy trust to operate in accordance with its objects and funding agreements; a description of the extent of support that LSBU would be offering; requirements for the academy trust to maintain proper financial records and to make information available to LSBU on request.
24. The MoU would be reviewed by the Board for approval at its meeting of 9 October 2014.

Terms of Reference

25. The committee noted its terms of reference (paper **AC.50(14)**).

Committee business plan

26. The committee noted its business plan for the year (paper **AC.51(14)**).
27. The committee agreed that its regular self-assessment would take place every two years. It would review its effectiveness again in 2015.

Matters to report to the Board

28. The committee requested that a summary of the following items is reported to the Board meeting of 9 October 2014: continuous auditing terms of reference, change programme and the academies.

Any other business

29. The committee noted that a HESES audit would be undertaken soon.

Date of next meeting

30. It was noted that the next meeting would be at 4pm on Thursday, 30 October 2014.

The Chairman closed the meeting.

London South Bank
University

Confirmed as a true record:

.....
Chairman



Committee Action Points

22 October 2014

15:22:12

Committee	Date	Minute	Action	Person Res	Status	
Audit	25/09/2014	20	Speak up mini-tender update to future meeting	Secretary		<input type="checkbox"/> Completed
Audit	25/09/2014	23	Academy's MoU to Board	Secretary	On Board agenda - 9 October 2014	<input checked="" type="checkbox"/> Completed

	PAPER NO: AC.53(14)
Paper title:	Audit Findings
Board/Committee	Audit committee
Date of meeting:	30 October 2014
Author:	Grant Thornton, External Auditors
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To present findings from the audit for the year ending 31 July 2014

Executive Summary	
Context	The attached paper highlights the significant findings arising from the audit for the year ending 31 July 2014.
Question	Has the audit progressed in line with the agreed plan and are there any significant findings that governors should be aware of when approving the financial statements?
Conclusion & Recommendation	It is recommended that the Audit Committee note and consider the attached Audit Findings from Grant Thornton, which will be submitted to HEFCE.

Matter previously considered by:	N/A	N/A
Further approval required?	Board (for information)	On: 20 November 2014

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

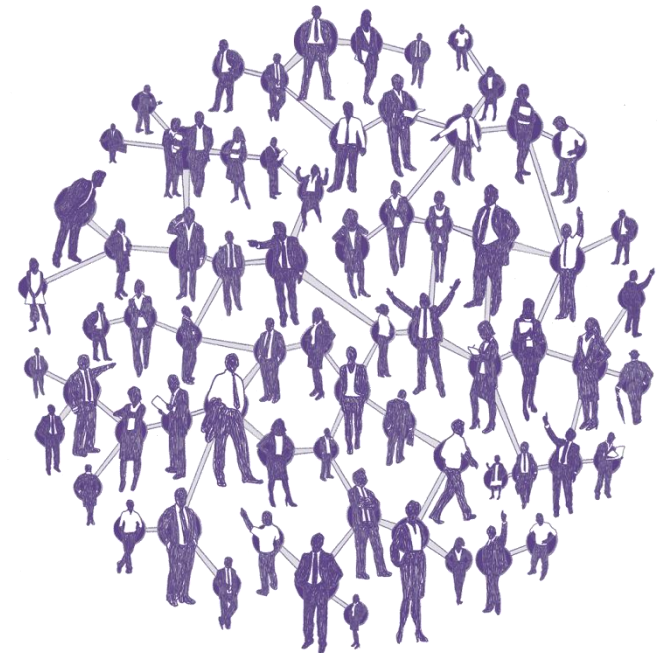
Year ended 31 July 2014

October 2014

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October 2014

Ladies and Gentlemen,

Audit Findings for London South Bank University and its subsidiary undertakings for the year ended 31 July 2014

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

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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.



HESA data collection report
Receipt of Chinese bank letter
Completion of our VAT audit review
Completion of our going concern / post balance sheet reviews
Updated financial statements for LSBU and SBUEL
Signed letters of representation

Subject to resolution of outstanding matters as per outstanding items list dated 17th October 2014

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

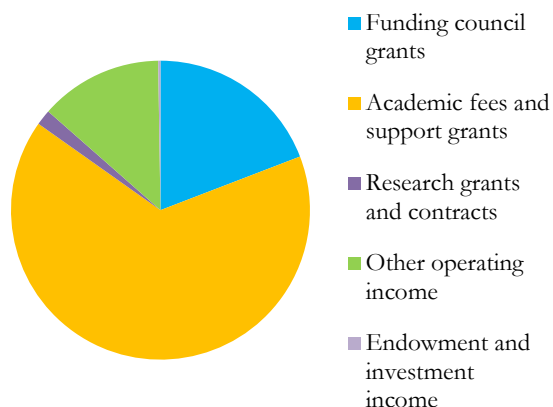
Our anticipated audit report will be unmodified for the following entities:

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

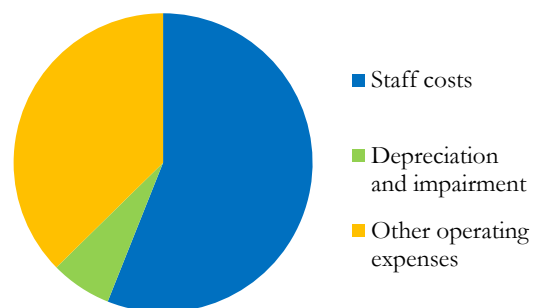
2. Context to our Audit

- Actual outturn for the year to 31 July 2014 of £3,097k surplus is ahead of the budgeted surplus of £2,500k which was as submitted to HEFCE.
- There has been a reduction in Funding Council grants going from £34,750k in 2013 to £25,825k in 2014. This reduction is mainly driven by the HEFCE income having significantly reduced in the current period due to the continued impact of the new fee regime for both undergraduate and post graduate student. This has been offset by an increase in undergraduate fees and a significant increase in post graduate fees.
- Research grants and contracts income continues to decline due to a fall in Health Contract income and a decline in Research Grants which were both related to continued pressure on government spending as seen in recent years.
- Student numbers have fallen overall in both Home/EU and Overseas categories. The Home/EU student went from 12,254 in 2013 to 11,914 in 2014. Overseas students fell only marginally from 1,416 to 1,366 in 2014.

Income (£'000s)



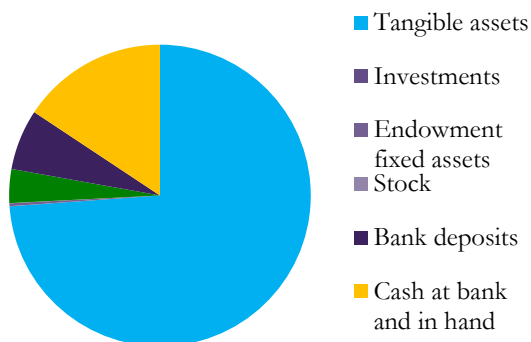
Expenditure (£'000s)



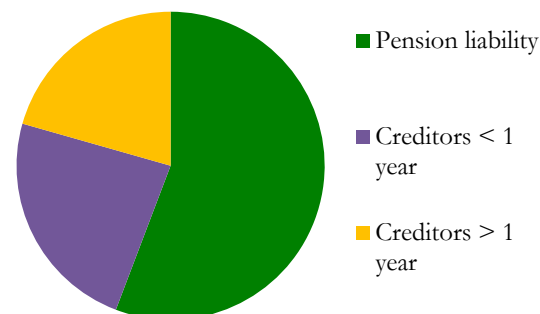
2. Context to our Audit

- Net assets at 31 July 2014 are £101,893k (2013: £112,916k). Net current assets are £29,332k and down slightly from the prior year comparative of £29,660k.
- The bank deposits have increased to £15.540k in the current year after transferring over £10.3m to fixed term bank deposits in the current year. Cash has also been used to fund changes in working capital resulting in the 15% reduction in creditors.
- The largest asset on the balance sheet continues to be the tangible assets, with the key development in the year being the opening of the Clarence Centre for Enterprise and Innovation in September 2013. This is held at a value of £10.7m at the year ended 31 July 2014.
- The pension liability has increased primarily as a result of actuarial losses due to lower Fund returns over the year than assumed. The Pension liability increased to £76,502k from £62,211k.. The Fund's estimated return was 1.8% compared to the assumption made last year of 5.5% although it should be noted that asset returns are, by their nature volatile and 2012/13 was a particularly good year for example (with a return of 19%).
- The main actuarial loss is from the change in assumptions which is primarily due to interest rates falling over the year so that the discount rate used this year is only 4.2% per annum instead of 4.7% per annum last year as per the Actuary's report produced by Barnett Waddingham.

Assets (£'000s)



Liabilities (£'000s)



3. Overview of audit findings

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Revenue	Significant	Presumed risk in line with ISA's: The income cycle includes improper transactions	No	●	None
Revenue - Funding Council	Reasonably Possible	Risk of incorrect recognition of income stream	No	●	None
Revenue - tuition fees and educational contracts	Reasonably Possible	Income includes fraudulent transactions	No	●	None
Revenue - research grants and	Reasonably Possible	Risk of incorrect recognition of income stream	No	●	None
Revenue - other income	Remote	Risk of incorrect recognition of income stream	No	●	None
Revenue - endowment and	Remote	Risk of incorrect recognition of income stream	No	●	None
Employee costs	Reasonably Possible	Risk of incorrect recognition of employee	No	●	None
Depreciation	Remote	Risk of incorrect treatment of fixed assets	No	●	None
Other operating expenses	Remote	Risk that expenses incurred are not for the	No	●	None

Controls

For further details see Internal controls

- Significant deficiency
- Deficiency
- No findings
- Controls not evaluated under Audit Plan

3. Overview of audit findings – continued

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Sufficiency of controls?	Significant audit findings?
Property valuations	Reasonably Possible	Risk of incorrect valuation of investments	No	●	None
Tangible fixed assets	Remote	Risk of incorrect treatment of fixed assets	No	●	None
Stock	-	-	-	●	-
Trade debtors	Reasonably Possible	Risk of incorrect recognition of income streams and recoverability of balances	No	●	None
Other debtors	Reasonably Possible	Risk of incorrect recognition of income streams and recoverability of balances	No	●	None
Cash	Remote	Risk of incorrect valuation of cash	No	●	None
Trade creditors	Reasonably Possible	Risk that creditors are understated	No	●	None
Other creditors	Remote	Risk that creditors are understated	No	●	None
Accruals and deferred income	Reasonably Possible	Risk of incorrect recognition of income streams	No	●	None
Bond	Remote	Risk of incorrect treatment of bond	No	●	None
Deferred capital grants	Remote	Risk of incorrect recognition of income streams	No	●	None
Pension fund liability	Remote	Risk of incorrect valuation of pension fund liability	No	●	None
Reserves	Remote	Risk of incorrect treatment of reserves	No	●	None

Controls

For further details see Internal controls

- Significant deficiency
- Deficiency
- No findings
- Controls not evaluated under Audit Plan

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you on 12 June 2014.

4. 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 point 4 for further details of our testing in this area.</p> <p>Conclusion</p> <p>Revenue is recognised appropriately and in accordance with the accounting policies.</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 the accounting estimates, judgements and decisions made by management; reviewed the controls in place over the accounting system and other key IT software applications by the IT members of our audit team tested a sample of journals entries selected 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 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>Conclusion</p> <p>We have gained reasonable assurance in this area , however we would like to draw your attention to some internal control findings in relation to journals without descriptions which are discussed further in Section 5 'Internal controls' of this report.</p>

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

	Risks identified in our audit plan	Audit findings and conclusions
3.	Valuation of properties	<p>Impairment review of the Enterprise Centre</p> <p>We note that the Enterprise Centre was brought into use in September 2013. An impairment review has been carried out by management to confirm the carrying valuation of the Centre at £10.7m at the year ended 31 July 2014.</p> <p>We have reviewed the impairment paper produced by management to ensure that this is in line with the requirements of Financial Report Standard 11 'Impairment of Fixed Assets and Goodwill.' Under FRS 11 an asset will be considered to be impaired where its carrying value is higher than its recoverable amount . The recoverable amount being the lower of the net realisable value or the value in use of the asset. For the University the 'value in use' is considered to be the service potential of the asset as the Enterprise Centre is not assessed as to be solely an 'income generation unit'. Management have assessed the asset as being used to meet the objectives of the University and have provided evidence to support this.</p> <p>Our work performed in this area included reviewing the information surrounding the performance of the centre and consideration of the potential realisable value of the asset . On the basis of the information presented to us the carrying value of the Centre appears reasonable.</p> <p>Assets under construction</p> <p>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, agreed these back to invoices and ensured that they have been capitalised appropriately.</p> <p>Conclusion</p> <p>We are pleased to conclude that there were no issues noted during our testing in this area.</p>
4.	Recognition, recoverability and existence of tuition fees and other fees	<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 2013/14.</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 NHS and agreed this back to the contracts and cash received. NHS income appears reasonably stated with the clawback confirmed by the NHS subsequent to year end.</p> <p>Bad debt review</p> <p>We have reviewed the recoverability of the debtors in respect of tuition fees, halls accommodation fees and sales ledger debtors.</p>

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

	Risks identified in our audit plan	Audit findings and conclusions
4.	<p>Recognition, recoverability and existence of tuition fees and other fees (continued)</p>	<p>Management makes a 90% general provision for all self-funded student balances owed to the university at year end less any amounts received in August and September. This is consistent with prior years.</p> <p>Based on our review of the ageing of the debtors profile and historic cash recoveries, the bad debt provision appears to be reasonable.</p> <p>No provision has been made against the Student Loan Company (SLC) or Sponsored student debt, these debtors are not provided for 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.</p> <p>SLC creditor balance</p> <p>We have reviewed the reconciliation of amounts remitted to the University by the SLC against student records to identify data mismatches and overpayments to the University. We have compared the resulting University accrual for amounts owed to the SLC against the amount recorded as 'overpaid' in the SLC system. Management has accrued for £1,132,277 at the year end, however the report from SLC website shows that £245,049 is due to be repaid by the University.</p> <p>Per discussions with management we note that this is mainly due to a timing difference between the University's records and the information being updated on the SLC website portal. From our understanding this SLC credit balance increases continuously until the credits are taken against the next payment from SLC. The rationale behind this is that the overpayment can only increase as more and more students change their course / drop out / do not re-enrol / notice an overpayment. In addition, £500k, relates to before 31st July 2011 and much of this will only be noticed by students once they start to repay their loans.</p> <p>Conclusion</p> <p>We gained assurance that the tuition fee and other fee income has been correctly recognised and conclude that the bad debt provision appears to be reasonable.</p> <p>Whilst we conclude that the difference between the University SLC creditor and amount owed per the SLC system is not considered to be materially misstated, we recommend, management inform the SLC of data mismatches to enable the SLC to update their records on a timely basis and avoid this balance becoming unmanageable and increasing over time.</p> <p>Management response</p> <p>We will contact our account manager at SLC and seek to engage them in a process of reconciling their records to ours in order to agree balances, including those relating to prior years.</p>

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

	Risks identified in our audit plan	Audit findings and conclusions
5.	<p>Appropriate application of funds in accordance with relevant legislation</p>	<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 2014.</p> <p>We have reviewed the HESES reconciliation and discussed this with appropriate personnel in Registry and Admissions who compile the HESES report, to understand why they believe there will be no discrepancies. We have also considered whether a provision is required for 2013/14 and discussed this with Andrew Fisher, (Head of Registry and Admissions) who compiles the HESES report, to understand the process and controls around student data, which feeds into the assessment of whether a provision is required.</p> <p>We conclude that the university funds have been applied for the proper purposes and in accordance with the Financial Memorandum.</p> <p>Conclusion</p> <p>We are yet to review your HESA reconciliation once this has been submitted in October 2014. All other testing in this area proved satisfactory.</p>
6.	<p>Operating expenses and creditors</p>	<p>We have:</p> <ul style="list-style-type: none"> • enquired of accounting staff as to the possibility of unrecorded liabilities and examined any unprocessed invoices for unrecorded creditors.; • searched for unrecorded liabilities by reviewing the payments journal subsequent to the year end for large or unusual entries; • reviewed all significant balance sheet items and compared to prior year and expectations, investigating any significant differences; • reviewed expenditure streams for the year and verified significant items to supporting documentation. <p>We noted there was an under-accrual of approximately £8,500 in South Bank University Enterprises Limited at the year end. This balance is not considered to be significant and therefore the proposed adjustment has not been posted by management. See unadjusted misstatements as per Section 6, page 24 of this report.</p> <p>Conclusion</p> <p>No other issues were noted from our testing in this area.</p>

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

	Risks identified in our audit plan	Audit findings and conclusions
7.	Employee costs	<p>To gain assurance over this significant expenditure balance we:</p> <ul style="list-style-type: none"> • updated our understanding of the systems and controls in place surrounding the management of staff changes and the calculation and processing of the payroll; • analytically reviewed payroll expenses in comparison to prior years and budgets and investigated any significant or unexpected variances and reviewed the reconciliation of payroll reports to the ledger; • tested a sample of staff members to supporting documentation (including contracts) to gain assurance over the correct calculation of remuneration and processing of staff changes, including salary changes, new joiners and leavers; • performed data interrogation tests (using IDEA software) to identify exceptions such as duplicate employee names, NI numbers or bank accounts and have fully investigated the results; • carried out the review the relevant disclosures relating to staff costs within the financial statements. <p>We noted during our testing one control issue as we identified one incident of a duplicate employee record on the payroll system which has been discussed in further details in Section 5 Internal controls. We do not consider this to be material to the financial statements.</p> <p>Conclusion Other than the above control point, we have gained assurance that the employee costs appears reasonable.</p>
8.	Pension liability	<p>We have reviewed the actuarial assumptions suggested by Barnett Waddingham and agree that these assumptions appear reasonable.</p> <p>We have carried out a review of the detailed disclosures within the financial statements to ensure that full compliance with FRS 17 is met.</p> <p>For further details of benchmarking of the assumptions compared to other educational institutions please see Section 9.</p> <p>Conclusion No issues were noted from our testing in this area.</p>

4. 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.	Difference on the opening reserves	<p>During our review of the reserves, we noted a difference of approximately £534,000 on the opening reserves within the University.</p> <p>Management has reconciled this difference and noted this difference of £534,000 was due the gift aid payment from South Bank University Enterprise Limited to the University for the year ended 31 July 2013.</p> <p>The gift aid payment had not been posted through the financial statements for 2013 and therefore resulted in the University Balance Sheet Reserves, Intercompany debtor and the University Income and Expenditure Account being understated by £534,000 in the 2013 signed accounts. This error has not impacted the Consolidated Financial statements for the year ended 31 July 2013 and is not considered to be a material misstatement.</p> <p>Management have agreed to amend this through the surplus for 2013/14 to ensure all balances are corrected at the year end.</p> <p>Conclusion</p> <p>We conclude that this is the correct treatment.</p>
3.	VAT	<p>We are awaiting to finalise our VAT review and will update this section once this has been completed.</p>

4. Audit findings – Other communication requirements

	Issue	Commentary
1.	Matters in relation to fraud	We have not been made aware of any significant 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	<p>We note that in the current year, there is a related party transaction. The Vice Chancellor of the University, Professor David Phoenix received an interest free loan as part of a relocation package. Professor David Phoenix is an employee of the University.</p> <p>The amount of the loan was £350,000 and was for the purpose of purchasing a property within reasonable commuting distance to the University.</p> <p>As at 31 July 2014 the outstanding balance on this loan was £350,000 and this should be disclosed separately, as a related party transaction within the financial statements in line with the requirements of HE SORP 2007, Financial Reporting Standard 8 'Related party disclosures' and Companies Act 2006. A reclassification adjustment to disclose this balance has been posted through the financial statements as noted on Section 7 of this report.</p>
3.	Matters in relation to laws and regulations	We are not aware of any significant incidences of non-compliance with relevant laws and regulations.
4.	Written representations	<p>As in previous years we will include a representation on data assurance in addition to our standard representations:</p> <p>"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."</p>
5.	Disclosures	<p>We are yet to carry out a detailed technical review of the financial statements and our work in this area is pending.</p> <p>These will be communicated to the finance team and their resolution will be discussed and reviewed in the final set of financial statements.</p>
6.	Going Concern	We are currently finalising our review of going concern. However from our discussions and understanding of the University, we do not anticipate any issues to be identified that would cause concern about the going concern status in the 12 months following the signing of the audit report.

5. 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>Payroll controls</p> <p>Our work on duplicates testing, identified one employee record which appeared in Oracle, the HR system twice. On the basis of the work performed, we conclude that no instances of duplicate payments made to this employee in the financial year ended 31 July 2014.</p> <p>We understand from HR that this was caused due to an Oracle application disk issue whereby a 'ghost' record had been created within the Oracle data tables at some point in the past. This meant HR were unable to do any further updating of this record but has subsequently been removed from the Oracle system.</p>	<p>We recommend existing procedures are tightened whereby a review process and policy is put in place to ensure there is timely updating of casual employee records .</p> <p>Management response</p> <p>The duplicate record was an Oracle application disk issue whereby a 'ghost' record had been created within the Oracle data tables – this could have been a network or database resource issue within Borough Road at some time in the past. This stopped HR doing any further updating of this record as the system was 'seeing' two records whereas there should only have been one. This issue has recently been resolved (within the last two weeks) while a consultant was working with management on this year's HESA report. There is now only one record on Oracle therefore this audit issue no longer exists.</p>

Assessment




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

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5. Internal controls – Actions taken on issues raised in previous years

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.		<p>Journals authorisation</p> <p>In the previous year, we noted there are practical reasons why two authorisation systems are currently in operation: the J5 system being used for large multi-line journals and the G6 system for short corrections and adjustments.</p> <p>As a result of this, we had also noted that manual G6 journals posted by the Financial accountant were not reviewed or approved by the financial controller until the end of month process.</p> <p>Our previous recommendations in this area were as follows:</p> <ul style="list-style-type: none"> all journals posted should have a description of what the posting relates to. This would aid the reviewer and approver as part of the authorisation and monitoring control over journal postings all supporting documentation in relation to a journal is uploaded onto Agresso by the team. 	<ul style="list-style-type: none"> During our work in this area in the current year, we are pleased to report a significant improvement in the area of supporting documentation for journals. However, we continue to recommend that management ensure that all journals posted have a description, as we found several journals with no description. <p>Management response</p> <p>All G6 journals should include an appropriate description and a monthly check will take place to ensure that this procedure is followed by finance staff preparing these types of journal.</p> <p>Journal lines without descriptions included J1 transactions which originate from purchase invoices that are matched to POs. for these journals the description comes from the original requisition. We will issue instructions to those raising requisitions to ensure they include a description.</p>




Assessment

-  Significant improvement still required
-  Improvements noted but room for improvements remains
-  Control issue resolved

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

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2.		<p>Suspense account</p> <p>In the prior year, we recommended that all suspense accounts are cleared on a timely basis and allocated to the appropriate areas.</p> <p>We carried out further testing in respect of the use of suspense accounts as part of review of journals posted to such accounts in the year. We have no issues to report from our testing in this area.</p>	<ul style="list-style-type: none"> • During our review this year, we noted that the balance on the suspense account at the year end has reduced significantly from £309,000 in the previous year to £10,000 in the current year. • Whilst the balance is not considered to be significant to the financial statements, due to the nature of this account, we continue to recommend that all suspense accounts are cleared on a timely basis and allocated to the appropriate areas. <p>Management response</p> <p>Suspense accounts are normally cleared to zero as part of the month end process but this balance was not corrected at the year end. suspense accounts will continue to be reviewed monthly to prevent this error re occurring.</p>
3.		<p>Payroll controls</p> <p>The following control recommendations were made in this area in the prior year:</p> <ul style="list-style-type: none"> • signed employment contracts are place for all members of staff • 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 • 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. 	<ul style="list-style-type: none"> • We are pleased to report that these recommendations have been addressed by management.


Assessment

-  Significant improvement still required
-  Improvements noted but room for improvements remains
-  Control issue resolved


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6. IT control findings


As part of our work on understanding the University and its control environment our IT specialists have reviewed the General IT controls in place at the University to determine whether they are designed effectively. As a result of this review a number of recommendations have been made which we would like to bring to the attention of management.

	Asses sment	Issue and risk	Recommendations
1.		<p>Proactive reviews of logical access within iTrent and network domain</p> <p>User accounts and associated permissions within iTrent and network domain access are not proactively reviewed for appropriateness.</p> <p>Implication</p> <p>a) No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts</p> <p>b) Access privileges may become disproportionate with respect to end users' job duties</p>	<ul style="list-style-type: none"> • It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within all financially critical systems (including Active Directory). • These reviews should take place at a pre-defined, risk-based frequency (annually as a minimum). We are aware that user accounts on iTrent are being reviewed, but this process is not documented. • These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties). <p>Management response</p> <ul style="list-style-type: none"> • LSBU is currently engaged in project to replace Identity and Access Management (IAM) systems. Once live these projects will tie access to role rather than relying on manually granted permissions which then accumulate. The monthly review of access for core payroll system users will be documented in the future. Expected to be complete by March 2015. • iTrent - A monthly review of access for core payroll system users is already in place and performed by the Payroll Manager who is responsible for security and access rights. There are around 10 users of iTrent and as such the risk of user accounts becoming out of date is low.



6. IT control findings (continued)

	Assessment	Issue and risk	Recommendations
2.		<p>Lack of information security policies and procedures</p> <p>We note that following procedures are not documented</p> <ul style="list-style-type: none"> • User creation process • User termination process • User access review process <p>Further, Information security policy and the change management policy are not reviewed on periodic basis (the last review was July 2009). We also note these policies are not approved from the senior management.</p> <p>Implication</p> <p>Lack of sufficient IT policies and procedures may lead to information security processes, requirements and controls inconsistently defined, understood, and implemented throughout the organisation. This may lead to inconsistent controls deployed and may leave potential vulnerabilities in access management, server security, network security, which can also lead to inappropriate access to underlying financial data.</p>	<ul style="list-style-type: none"> • A user access management policy should be established, formally approved by the appropriate members of the organization, and communicated to relevant personnel responsible for implementing them and/or abiding by them. • Once established, these documents should be formally reviewed (at least annually) to ensure their continued accuracy and appropriateness. Examples of topics commonly addressed within user access management policy are user access provisioning, user access reviews, password control requirements, account lockout restriction requirements, and restriction of administrative access, acceptable use of IT resources, information security event monitoring, and information security incident handling. • Typically, policies exist to address high-level control requirements as defined by the organization's information security or compliance group while procedures exist for individual systems which outlining security-related processes and controls unique to that system. <p>Management response</p> <ul style="list-style-type: none"> • These polices and processes are also affected by the project for IAM. Policies on security will be reviewed and updated by December 2014.


6. IT control findings (continued)

	Assessment	Issue and risk	Recommendations
3.		<p>Acknowledgement of IT security policy</p> <p>Staff employment contracts require employees to abide by London State Bank University policies, which includes the IT Acceptable Use Policy. However, employees are not required to periodically formally acknowledge that they have read, understand, and will abide by the organisation's information security policy requirements</p> <p>Implication</p> <p>It is important that senior management promote a culture where end-users of information resources are aware of their roles, responsibilities and accountability with respect to security of information assets. The lack of periodic formal acknowledgements of information security requirements may make disciplining employees for inappropriate use of information resources more difficult. The lack of these acknowledgements may lead to a lack of employee awareness of expectations over the use of IT resources. For example, a user who is caught sharing personal passwords with other employees may be able to claim ignorance of any wrongdoing.</p>	<ul style="list-style-type: none"> Management should introduce a process whereby employees are required to periodically (at least annually) acknowledge that they have read, understand, and will abide by requirements outlined in the organisation's information security policies. An example of a low impact method of implementing this control would be to introduce a 'splash' screen that users are presented with at each log-in that states that by using their machine they have read and will abide by the IT Acceptable Use Policy. <p>Management response</p> <ul style="list-style-type: none"> We will review this recommendation and consider how best to implement as part of on-going Identity and Access Management (IAM) work. We recognize that the University should improve its processes for staff acknowledging that they accept IT acceptable use policy. We will address this as part of the IAM work with a target date of March 2015.




6. IT control findings (continued)

	Assessment	Issue and risk	Recommendations
4.		<p>Password complexity</p> <p>Password complexity (i.e. requirement that passwords must contain at least one numeric, number and special character) is not enforced within Active Directory.</p> <p>Users of the QLX application are not forced to routinely change their passwords.</p> <p>Implication</p> <p>This may lead to compromise of user accounts through password guessing or cracking. Further, compromised user accounts may be misused by unauthorised users to circumvent internal controls and may lead to inappropriate access to data.</p>	<ul style="list-style-type: none"> • Password complexity should be enforced within Windows domain access. • If possible, the organisation should enable restrictions within the QLX application to force users to change their passwords on a regular risk-based frequency (e.g. every 90 days). <p>Management response</p> <ul style="list-style-type: none"> • QLX - There is password enforcement within the system for Users and their associated Workgroups. Password limits can be configured and are currently set to 99 logins, when users are forced to change their password. • Windows - Complexity not currently enforced due to legacy systems. These will be replaced by IAM and complexity enforced at that point.
5.		<p>Terminated user process for QLX application</p> <p>There are no documented procedures in place to ensure the timely notification to the QLX application manager of terminated employees from the registry team.</p> <p>Implication</p> <p>Without processes to automatically inform the IT department of terminated users, there is a risk that the access rights of these users would not be removed from the system, exposing the data to unauthorised access which would not be detected in a timely manner.</p>	<ul style="list-style-type: none"> • A process whereby the registry team is assigned specific responsibility for notifying the IT department of all terminated users should be introduced. • Additional assurance over this process operation could be achieved if it could be automated. For example, if an interface to the HR system, which flags up user terminations, could be introduced. The IT department should complement the control with a periodic review of all terminated users provided from Human Resources against the active network accounts. <p>Management response</p> <ul style="list-style-type: none"> • We have manual notifications in place but we recognize that an automated feed will increase the accuracy and timelessness of notifying IT. The Identity Management project will make this an automatic rather than manual process. (See point 1.) • QLX - An additional manual process in Registry notifies ICT of terminated users.

6. IT control findings– Actions taken on issues raised in prior year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6.		<p>Logical access parameters We continue to 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>We continue to repeat our recommendations until this is completed.</p> <p>Management response</p> <p>A revised identity management system is being implemented to address this control weakness. The following parameters are already in place for the network and applications controlled by Active Directory:</p> <ul style="list-style-type: none"> • minimum password length 6 characterers • account log out set for 3 attempts • lock out period indefinite. <p>the other parameters will be addressed as part of the AIM project.</p>

Assessment

-  Significant improvement still required
-  Improvements noted but room for improvements remains
-  Control issue resolved

7. Adjusted misstatements

London South Bank University

Journal	Detail	Income Statement		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
1	DR Amounts owed to related parties > one year			350,000		-
	CR Other debtors				350,000	-
	Being a reclassification of the VC's loan amount					

No adjusted misstatements have been noted in relation to South Bank University Enterprise Limited.

7. Unadjusted misstatements

London South Bank University

Journal	Detail	Income Statement		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
1	DR Other debtors CR Other creditors Being the net effect of bursary income and bursary payments.			185,097	185,097	-
2	DR Bank CR Creditors Being the reclassification of the SLC account balance			156,634	156,634	-

South Bank University Enterprise Limited

Journal reference	Detail	Profit and loss account		Balance sheet		Profit effect
		Debit	Credit	Debit	Credit	
1	DR Trade debtors CR Trade creditors Being reclassification of credit balances on the debtors ledger.			23,012	23,012	-
2	DR Operating expenses CR Accruals Being an unrecorded liability for Spring Personnel	8,585			8,585	(8,585)

8. Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Statutory audit	£40,975	• No	
Non-audit services			
Tax compliance services	£2,525	• Yes	Use of separate teams
iXBRL tagging	£850	• No	Use of separate teams
Total non-audit services	£3,375		

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 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

9. Pension

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

Mortality (based on future life expectancies at the age of 65)	2014	Benchmark* (years)
Current pensioners - male	21.8	21.8-22.9
Current pensioners - female	25.0	24.4-25.8
Future pensioners – male	24.2	24.1-24.3
Future pensioners - female	27.2	26.9-27.4
* 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 the Scheme itself.

Projected Improvements

The method used to allow for future improvements in mortality is critical in the assessment of the liabilities. The approach adopted by the Actuary is the CMI 2012 improvement factors applied with an underpin to future improvements of 1.50% pa.

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.

9. Pension

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

Actuarial assumptions	2014	2013	Benchmark*
Pension increases	2.7%	2.5%	2.2%-2.7%
Salary increases	4.5%	4.2%	3.1%-4.5%
Discount rate	4.2%	4.7%	3.7%-4.3%
CPI increases	2.7%	2.5%	2.2%-2.7%

* Benchmark has been obtained from various other Educational institutions

Pension increases

Increases in payment – 2.70% p.a (CPI)

Increases in deferment – 2.70% p.a (CPI)

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 for salary increases is 4.50% pa, which represents a 1.00% pa real salary increase above the RPI inflation rate assumption adopted. In the past the usual range was between 0.5% and 1.5% pa above RPI inflation. However, due to changing economic conditions, the typical margin we have observed over recent periods has reduced to, in some cases, a zero margin.

As this assumption is based on long term expectations, we have confirmed with the University that this in line with their long term business plans.

We note that the Actuary states that within the salary increase assumption an adjustment has been made for a short term pay restraint in line with CPI until 31 March 2015.

We have confirmed with the University that this applies to them to the extent proposed by the Actuary.

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 2014 was 4.08% pa. The Actuary has adopted a discount rate of 4.20% pa as at 31 July 2014.

Due to the current upward-sloping curve of the yield curve, we would expect to see discount rates above the iBoxx index for schemes whose liabilities have a longer duration than iBoxx. The current duration of the iBoxx index is 13 years. The Actuary has estimated the duration of the scheme's liability to be 19 years. We are therefore comfortable with the adjustment to the iBoxx index and the discount rate assumption is acceptable.

CPI increase

Standard practice is to derive the CPI assumption based on the RPI assumption. Based on the 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.

We expect the RPI/CPI wedge to remain between 0.50% and 1.00% and therefore this assumption is reasonable.

Alignment of UK and International Financial Reporting

From the year ending 31 July 2016, the University will be required to report under The FRS (FRS 102) and a revised SORP 2015 for the education sector. We set out below a summary of the key areas of impact for the University:

Impact

The new SORP 2015 has been through consultation and the final version was published in March 2014. The SORP has resulted in a number of changes to financial reporting which will require some additional work to be completed by the finance team. From our experience in helping other entities transition between frameworks we note that the key to managing the process successfully is thorough planning and understanding of the new requirements. We have already started to discuss the transition plan with management and key members of the finance team have been invited to attend seminars and workshops held by Grant Thornton to expand their knowledge.

The key areas of focus for London South Bank University are as follows:

Loans- Management will need to review any loan agreements to determine their complexity and whether there are any financial instruments within the agreement which require measurement at their fair value.

Capital Grants- Following much debate during consultation, the final SORP has retained a policy choice for the treatment of government grants. Universities will be able to account for government grants using the accruals model or the performance model. Under the accruals model, the grant is held on the balance sheet, within creditors, and recognised (amortised) as income over the expected useful economic life of the structure of the capital asset. Any non-government grants will be recognised directly in income as soon as the conditions attaching to the grant are met under the performance model. Management should complete an exercise to determine whether grants received to date are government or non-government grants to ensure that they are appropriately treated under the new SORP.

Tangible Fixed assets - The new SORP requires more assets to be classified as investment properties than under current accounting standards. Unlike tangible fixed assets, investment properties are held at their fair value and are not depreciated. Management will need to review all asset classifications to determine whether they meet the definition of a tangible fixed asset or an investment property.

Designated reserves - The new SORP does not allow designated reserves to be presented in the financial statements. These reserves can still be used for internal purposes, but should not be shown on the face of the balance sheet. Although the University does not currently have designated reserves, this should be noted where potential designated reserves are being considered.

Pensions – London South Bank University is a member of a multi-employer pension scheme. As with current UK GAAP, the University will continue to not recognise the pension liability relating to the Teachers Pension Service and the University Superannuation Scheme on the balance sheet as the assets and liabilities of the scheme cannot be separately identified. However, the University will need to provide for any contractual obligation they may have to fund the deficit position.

Holiday pay accrual - At each year end there will be a requirement to accrue for any unutilised staff holiday entitlements. Management will need to review the current process for capturing holiday entitlement to ensure that an estimate of the accrual can be made at the year end.

Intangible assets and goodwill - For intangible assets and goodwill, current UK GAAP presumes a maximum useful life of 20 years, but this can be rebutted if a longer or indefinite life can be justified. Under FRS 102, intangible assets and goodwill always have a finite life. If no reliable estimate can be made, the useful life will be limited to a maximum of five years.

Specific impact on the University

Alignment of UK and International Financial Reporting (continued)

Impact

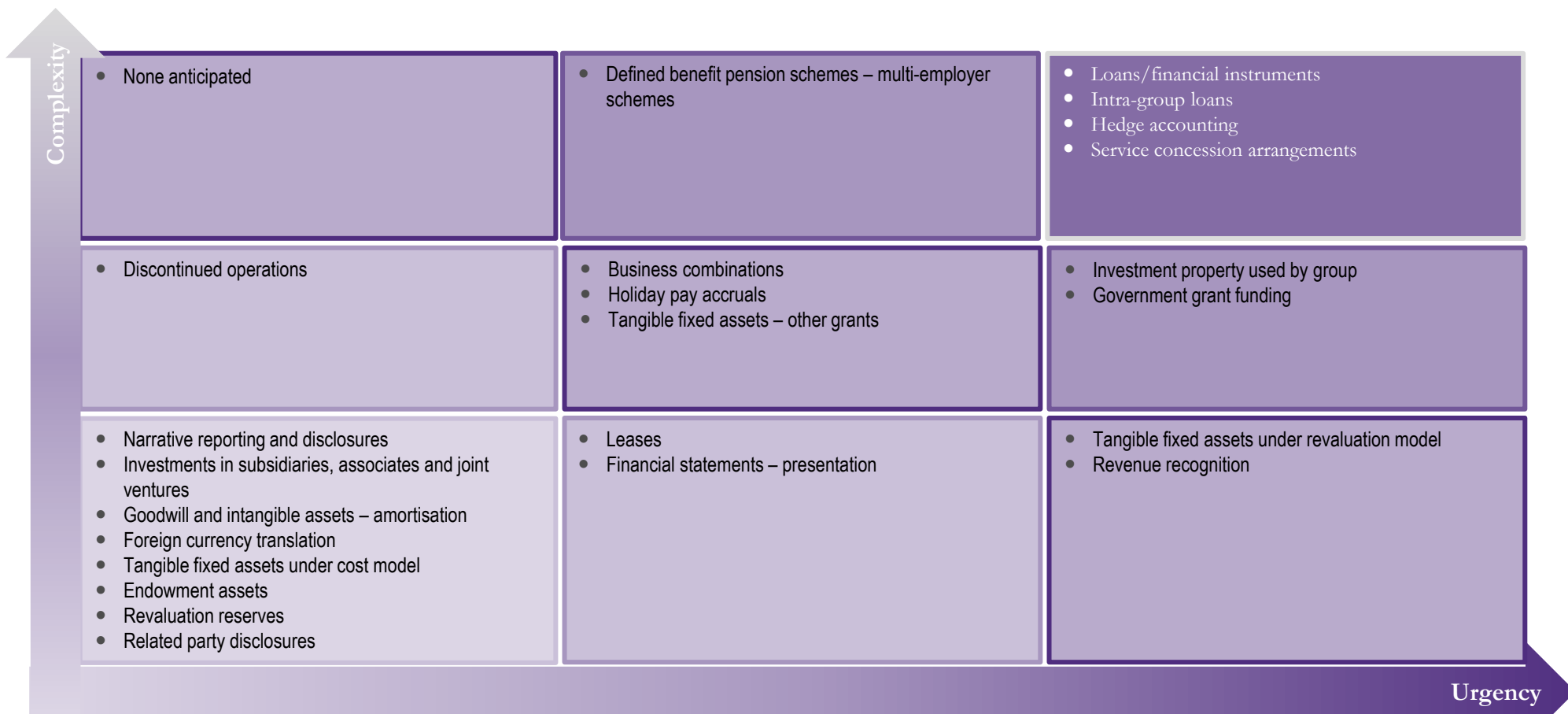
Lease accounting - FRS 102 classifies leases into finance leases and operating leases based on whether the lessee or the lessor holds the risks and rewards of ownership. This is the same principle as current UK GAAP; however current UK GAAP also includes a presumption that where the present value of the minimum lease payments is 90% or more of the fair value of the asset, then the lease is a finance lease. FRS 102 does not include this '90% test' so the classification of some leases may change. Under current UK GAAP, the value of a lease incentive, such as a rent-free period, is spread over the period to the first rent review, being the point at which the rent is reset to market rates. Under FRS 102, lease incentives are spread over the lease term, which may be a significantly longer time period.

We will continue to work with management throughout their transition and provide technical support, as required, throughout the process. We will perform a formal review of the restated opening balances once this exercise is complete, to ensure that policies and disclosures have been agreed in advance of preparing the first set of financial statements under the new SORP.

Specific impact on the University

Alignment of UK and International Financial Reporting (continued)

We now set out below a summary of the key areas of changes to financial reporting and our view on the complexity of the area and their urgency:



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Alignment of UK and International Financial Reporting (continued)

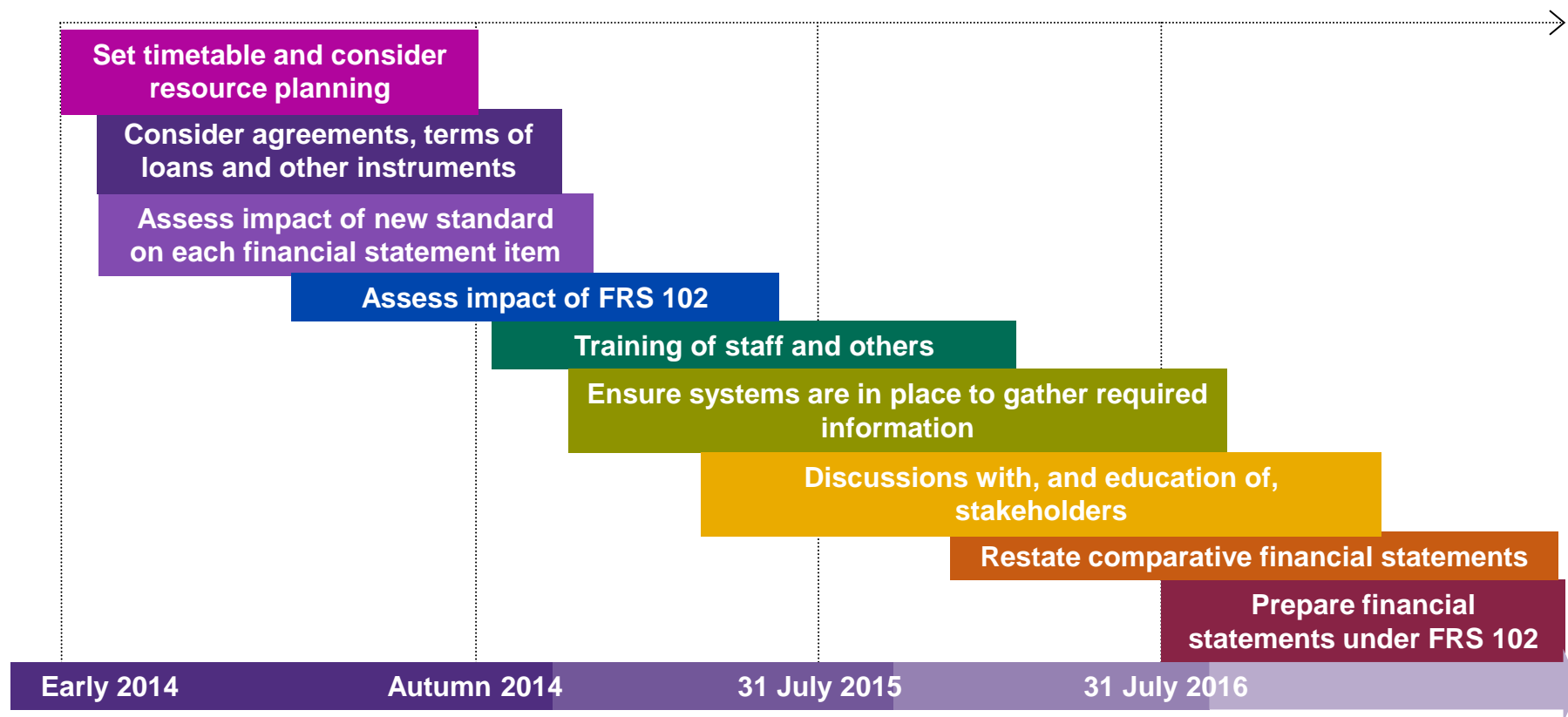
Practical issues

In addition to the accounting issues, conversion to FRS 102 and the new education SORP will have an array of practical implications. These may prove to be the real challenge on transition and, consequently, timely consideration is strongly recommended.

Potential requirement	Issues to consider
Training	Who will need to be trained in the new standards, in what depth, and at what time?
Resources	What resources will be needed? The need to restate the comparatives will mean essentially preparing two sets of financial statements in the year of transition.
Accounts production	Differences in the format of the accounts will affect the accounts production process. Can the current process cope with these changes?
Involving other departments	The search for information and the training shouldn't just be restricted to the finance function. Other departments will have a significant amount of information that will assist the conversion and they will need to be educated on the new standards for operational decisions being made. Include IT, HR and commercial operations teams.
Stakeholder education	Are there other stakeholders who may need to be educated in why the numbers and the accounts look different, for example members of the Board, lenders or funding bodies?
Systems	Will the systems be able to capture the information needed, such as holiday pay accruals?
Tax advice	Should specialist tax advice be obtained to address the conversion issues, particularly in respect of the subsidiary undertakings?
Audit	The transition adjustments will need to be audited in addition to the year end figures. When would be appropriate and convenient for this work to be performed?

Alignment of UK and International Financial Reporting (continued)

Suggested timeline for transition to FRS 102



Sector Update

Accounts Direction 2014-15

HEFCE has published its updated Accounts Direction 2014-15 to be applied to the University's 2014-15 accounts. The Direction is very similar to the 2013-14 version, but with one key change which is to provide greater and more transparent disclosure of remuneration and benefits payments to the Head of Institution. Whilst the Direction applies to 2014-15 accounts, we understand that HEFCE are encouraging Universities to adopt this change early.

HEFCE Memorandum of assurance and accountability

HEFCE has published changes to the Financial Memorandum which will take effect on 1 August 2014. The changes proposed in the consultation take account of the Government's recent reforms to the funding and regulation of HE. Key changes impacting on the function of the Audit Committee are that:

- The memorandum sets out principles of ensuring governing bodies take full responsibility for entering into any financial commitments. These should not expose the institution to unnecessary levels of risk. Institutions must seek separate approval from HEFCE before entering into any new financial commitments that would increase the total financial commitments to five times its average EBITDA-based surplus.
- The Accountable Officer must report any material adverse events in a timely manner to the chair of the audit committee, the chair of the governing body, the head of internal audit, the external auditor and the chief executive of HEFCE. Material adverse events include a change that poses a significant and immediate threat to the financial position, a significant fraud (over £25,000) or impropriety or major accounting breakdown.
- The Code states that the institution should undertake market testing every seven years and that one named individual should not be responsible for the HEI's audit for more than ten consecutive years. The latter point is an extension on the old financial memorandum that limits an individual partner's involvement to seven years. Where internal audit is provided from an outside source, market testing should be undertaken at least every five years.
- Audit Committees should include a minimum of three lay members of the governing body. Audit committee members should not be members of an HEI's finance committee or its equivalent. If an HEI's governing body determines that cross-representation involving one member is essential, this should be the subject of an explicit, recorded resolution, which sets out the rationale for such a decision – but it should not be an option for the chair of either committee or the chair of the governing body.

Sector Update (continued)

Managing through uncertainty- Financial Health of the HE Sector

Grant Thornton has published its latest annual review of the financial health of the HE sector. Headline statistics, based on 2012-13 accounts are:

- HE sector surplus is 3.7% continuing a three year decline (down from 4.0% in 2011-12)
- Fees from overseas students grew by 9.5% but growth is slowing
- Research grants and contracts income grew by 6.3%
- Staff costs grew by 4.3% whilst total income grew by 4.7%
- Borrowing has increased by 13.6% although the gearing and liquidity of the sector has remained relatively stable.

Copies of our report continue to be available and we have provided the University with a bespoke report highlighting the University's comparative position on financial indicators with other universities.

Overview of main trends and changes in Higher Education in England

HEFCE has published a research report (April 2014) of trends and changes in the HE sector. A selection of findings based on 2013-14 data are:

- Undergraduate entrants grew by 8% in 2013-14 representing a strong recovery. This is expected to continue in 2014-15
- Numbers of part time undergraduates has halved in the last 3 years
- Full time post graduate student entries has risen following a decline last year
- Improvements to widening access and fair access continue
- Young women are more likely to apply for and be accepted into higher education than young men
- STEM subjects continue a trend of growth
- Changes in recruitment trends are favoring some types of institution more than others. Universities with higher average tariff scores are gaining students whilst those with medium and low average tariffs have seen numbers decline
- FE colleges are gaining market share
- The sector retains a high level of confidence to invest with a 30% increase in investment planned in the next 3 years compared to the last 3 years.

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		✓
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.



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	PAPER NO: AC.54(14)
Paper title:	Internal Audit Annual Report
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	PricewaterhouseCoopers, Internal Auditors
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To provide the annual internal audit opinion.

Executive Summary	
Context	<p>The attached report provides a review of the LSBU internal audit programme in 2013/14.</p> <p>This paper was considered in detail at the September audit committee and no material changes have been made since that date</p>
Question	What is the annual internal audit opinion?
Conclusion & Recommendation	<p>The annual internal audit opinion contained within the report 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 value for money processes.</p> <p>The review of recommendations notes both that the number and category of findings from reports has fallen, and that majority are fully implemented, with none entirely outstanding.</p> <p>The Executive recommends that Committee note this report</p>

Matter previously considered by:	Audit Committee	23 September 2014
Further approval required?	No	N/A

Internal Audit
Annual Report
2013/2014
FINAL

October 2014

London South
Bank University

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Distribution List

For action	Richard Flatman, Chief Financial Officer Audit Committee
For information	James Stevenson, University Secretary

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 under our contract dated 21/07/2010.

1. *Executive summary*

Background

The Higher Education Funding Council for England's (HEFCE) Memorandum of Assurance and Accountability (MAA) requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Audit Committee. 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 the 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 risk management, control, governance, value for money and data quality arrangements.

This report covers the period to the financial year ended 31/07/2014.

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 2013/14 approved by the Audit Committee and updated during the year to reflect changing priorities and requests for additional reviews. Our report also considers any matters that arise up to the date of issuing our report.

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 1.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to HEFCE's MAA. 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 2013/14.

We have completed the program of internal audit work for the financial year ended 31/07/2014, and except for the areas noted below, we believe London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over:

- Risk management, control and governance; and
- Value for money processes.

Our review of Risk Management has been assigned a low risk rating and our audit fieldwork shows that there has been an improvement in the core control and governance environment. Although there were some ongoing control issues, particularly relating to payroll controls during the year, our most recent Continuous Auditing report, did not identify any exceptions providing some assurance that the control environment surrounding key financial systems has stabilised and is operating effectively.

Only two high risk findings have been raised in 2013/14. Both of these relate to control issues which are specific to the processing of Student Module Data. We have also noted some control issues surrounding IT, as part of our Phishing review which we believe has implications on London South Bank University's control framework. These matters are described further in Section 2 of this report.

Our work over value for money indicates that the processes in place to ensure value for money is achieved are in accordance with good practice, for example: establishment of a value for money working group; alignment to business planning and the corporate plan; and adherence to financial controls.

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:

<i>Description</i>	<i>Detail</i>
<p>Overview</p> <p>We completed 10 internal audits and 1 specialist review.</p> <p>This resulted in the identification of 0 critical, 2 high, 8 medium and 8 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness of these controls.</p> <p>While we have performed fewer audits this year (2012/13: 14) the results of our trend analysis indicate that the control environment has improved from the previous year. The overall volume of recommendations raised per review has reduced and the individual ratings of individual recommendations have also 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 Internal Audit Risk Assessment and Internal Audit Plan 2013/14.</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:</p> <ul style="list-style-type: none"> • Payroll Implementation; and • Extenuating Circumstances, Academic Appeals & Other Processes that could result in a student complaint to the Office of the Independent Adjudicator (OIA). <p>We have also worked with our specialist team to perform a phishing exercise to follow up our 2012/13 phishing review.</p>
<p>Risk Management, Control and Governance</p> <p>Risk Management:</p> <p>Our work surrounding Risk Management was limited to a review of overall procedures and the corporate risk register and was classified as low risk. Our only findings relate to the development of London South Bank University's Risk Appetite Statement and preparation of a project risk register for the University restructure.</p> <p>Control:</p> <p>Our Continuous Auditing fieldwork had identified some recurrent control deficiencies in relation to payroll processing which required additional focus however, no issues were identified in our final report providing some assurance that the control environment had stabilised by year end. Our most recent period of Continuous Auditing, which tested up to 31/07/2014, also did not identify any issues. A summary of Continuous Auditing performance and results of individual reviews is included in Section 3.</p> <p>We are aware of some control design and operating effectiveness issues surrounding Student Module Data and IT which we believe has implications with respect to London South Bank University's control framework. These key findings are summarised</p>	<p>Student Module Data:</p> <p>Our review of Student Module Data identified two high risk issues:</p> <ul style="list-style-type: none"> • At the time of audit there was no requirement to retain supporting evidence for amendments made to module data or exception investigation. The associated risks were heightened given the system access issues also identified: client administrators are delegated 'edit access' which allows them to process changes to student modules; once 'edit access' is granted there is no further independent review of changes that have been made. Lack of independent review of changes to data could mean unauthorised amendments are not identified. • We tested a sample of 40 students who had no modules attached to their records. 14/40 students tested were incorrectly classified as having no modules. We also tested a sample of 40 data mismatches; five exceptions were noted from this test. <p>Management have implemented all agreed actions from our review, including the introduction of monthly exception reporting to identify mis-matches and resolve them. Management have also reminded staff of the need to retain supporting documentation.</p>

<p>opposite.</p> <p>Governance:</p> <p>Our core financial systems work has identified appropriate segregation of duties and reporting/documenting of key processes and there have been no significant issues raised as part of individual reviews performed.</p> <p>Another indicator of a strong compliance culture is managements prompt implementation of audit recommendations as outlined in Section 4.</p>	<p>Phishing:</p> <p>Our specialists performed a follow up review to understand how the level of awareness to phishing attacks has changed since our first phishing exercise in 2012/13. The review found that the level of awareness has dropped from the previous year: there was a 5% increase in both the employees who followed the malicious link and those that entered their username and password.</p> <p>We were informed that the LSBU IT department was quickly alerted to the phishing emails and were ready to block the phishing portal within an hour of the first email being sent. This would have reduced the overall exposure to London South Bank University employees to a real phishing attack and would have reduced the percentage of employees who clicked the link and entered credentials to 4% and 3% respectively.</p> <p>Several London South Bank University employees directly replied to the phishing email or sent information such as screenshots of their desktop or new addresses. There is a risk that in this situation an attacker would be able to continue the attack and reply to the employees requesting that they perform malicious actions in order to gain information or to facilitate an initial compromise of London South Bank University's internal infrastructure.</p>
<p>Value for Money</p> <p>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 London South Bank University's systems of internal control. Our work indicates that London South Bank University has processes in place to ensure value for money which are in accordance with good practice, examples are provided opposite.</p>	<p>London South Bank University's Corporate Plan 2011/14 recognises that value for money is about delivering the 'highest possible value for a given price' and demonstrates the University's commitment to value for money, through linking value for money and financial resilience, effectively using staff and systems and supporting students as customers.</p> <p>Value for money is also supported in the Procurement Strategy which is linked to the University's aims and ambitions and London South Bank University's Business Plan and Budget Guidance 2014/15 which requires commitment from staff to focus on income generation, efficiency, financial control and value for money.</p> <p>Value for money has also been demonstrated through the following activities:</p> <ul style="list-style-type: none"> • Use of purchasing consortiums – London South Bank University are a member of the London Universities Purchasing Consortia; • Adherence to financial controls - as part of our Continuous Auditing work we test to ensure transactions are approved and reviewed in accordance with London South Bank University's delegated authority framework. No significant issues have been noted this year; and • Value for Money Working Group – a working group was established in 2013 and is attended by senior officers across the organisation. This also focuses on delivering value for money for

	students.
<p><i>Data Quality</i></p> <p>The MAA 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 2013/14 has been designed to support the Audit Committee in forming its conclusion in respect of such matters.</p>	<p><i>HESA Finance Return</i></p> <p>Two low risk findings were raised surrounding the creation of additional categories for expenditure and review of the draft return before submission to the Vice Chancellor.</p> <p><i>Student Module Data</i></p> <p>Two risk issues were identified surrounding review of amendments and inaccuracy of data: these are summarised on page 2. These risks did not affect data reported to HESA and HEFCE as we were reviewing the module data far in advance of return deadlines to HESA and before the operation of quality processes related to those external returns. Management have improved their exception reporting and introduced monthly monitoring meetings to ensure compliance with processes.</p> <p><i>Continuous Auditing</i></p> <p>We have not identified any exceptions regarding student financial data controls during 2013/14.</p>

3. Internal Audit work conducted

Introduction

The table below sets out the results of our internal audit work. 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 2012/13	Final	No classification	-	-	-	-	-
Continuous Auditing – Q1 2013/14	Final	No classification	-	-	2	1	-
Continuous Auditing – Q2 2013/14	Final	No classification	-	-	-	1	-
Continuous Auditing – Q3 2013/14	Final	No classification	-	-	-	-	-
Extenuating Circumstances, Academic Appeals & Other Processes that could result in a student complaint to the OIA (additional review)	Final	No classification	-	-	-	-	5
HESA Finance Return	Final	Low	-	-	-	2	1
Student Module Data	Final	High	-	2	1	-	1
Business Continuity	Final	Medium	-	-	4	3	-
Risk Management	Final	Low	-	-	1	1	-
Payroll Implementation (additional review)	Final	No classification	-	-	-	-	5
Phishing Exercise (specialist)	Final	No classification	-	-	-	-	-
		Total	-	2	8	8	12

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 4.

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2013/14	2012/13	2011/12
Critical	↔	0	0	0
High	↑	2	5	5
Medium	↑	8	13	9
Low	↑	8	11	18
Total	↑	18	29	32

Implications for management

The results of our trend analysis indicate that the control environment has improved from the previous year. No critical risk issues have been identified in the last three years and the number of high, medium and low risks has reduced.

It is recognised that no classification has been given for 7 of 11 reviews performed. 4 of these relate to Continuous Auditing, an analysis of findings in this area has been provided below. The remaining 3 reviews were requested by management, in addition to our core internal audit plan and are deemed to be value enhancing or specialist reviews. All findings have been classified as advisory on this basis.

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.

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 testing period. We have included results up to 31/07/2014.

System	Trend	P1 2014/15 (01/05/2014 – 31/07/2014)	P4 2013/14 (01/02/2014 – 30/04/2014)	P3 2013/14 (01/11/2013 – 31/01/2014)	P2 2013/14 (01/08/2013 – 31/10/2013)	P1 2012/13 (01/05/2013 – 31/07/2013)
Payroll	↔	● Green (1)	● Green (0)	● Amber (2)	● Amber (3)	● Green (0)
Accounts Payable	↔	● Green (0)	● Green (0)	● Amber (2)	● Green (0)	● Green (1)
Accounts Receivable	↔	● Green (0)	● Green (0)	● Green (0)	● Amber (2)	● Green (2)
Cash	↔	● Green (0)	● Green (0)	● Green (0)	● Green (1)	● Green (0)
General Ledger	↔	● Green (0)	● Green (1)	● Green (0)	● Amber (1)	● Green (1)
Student Financial Data	↔	● Green (0)	● Green (0)	● Green (0)	● Green (0)	● Green (0)

This table represents our view of the overall risk within each testing period and the numbers in brackets represent the number of control effectiveness exceptions identified from our work rather than the number of control design recommendations (these are summarised within the table included on page 5).

Implications for next year's plan

We have decreased the number of days assigned to and frequency of our Continuous Auditing programme to reflect the stable control environment across 2013/14 and introduced a separate Continuous Auditing cycle for student data.

Comparison of planned and actual activity

<i>Audit</i>	<i>Audit Type</i>	<i>Budgeted days</i>	<i>Actual days</i>
Continuous Auditing – Q4 2012/13	Value Protection	13	13
Continuous Auditing – Q1 2013/14	Value Protection	13	13
Continuous Auditing – Q2 2013/14	Value Protection	12	12
Continuous Auditing – Q3 2013/14	Value Protection	12	12
Extenuating Circumstances, Academic Appeals & Other Processes that could result in a student complaint to the OIA	Value Enhancement	0	16
HESA Finance Return	Value Protection	10	10
Student Module Data	Value Protection	5	5
Business Continuity	Value Protection	10	10
Quality of Management Information	Value Protection	10	0
Risk Management	Value Protection	5	5
Payroll Implementation	Value Enhancement	0	12
Phishing Exercise	Specialist	0	0*
Audit Management and Value for Money	N/a	20	20
		110	128

*This was a specialist review for which a separate price for work was agreed.

4. Follow up work conducted

Introduction

Within the Internal Audit Risk Assessment and Internal Audit Plan 2013/14, 5 days were assigned for following up agreed actions raised in previous and current periods in order to assess whether agreed actions had been implemented by management.

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

If some action has been taken to implement an action then the action has been classified as 'partially implemented'. If no action has been taken, this has been classified as 'outstanding'. We have agreed revised implementation deadlines for all 'partially implemented' actions.

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 testing period.

Summary

The table below shows that the majority of agreed actions due by 31/07/2014 have been implemented throughout the year (78% implementation rate).

<i>Status</i>	<i>Number of actions</i>
Implemented	21
Partially Implemented	6
Outstanding	0
Total	27

There are 6 findings which were due to have been resolved by year end but remain in progress. We have included a breakdown of these findings, with their current status and revised implementation deadlines in Appendix 3.

We will continue to work collaboratively with management in 2014/15 to ensure that implementation timescales agreed for management actions 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 agreed Internal Audit Risk Assessment and Internal Audit Plan 2013/14. 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 2013/14.

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 31/07/2014. 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
Low risk	1 point per finding
Medium risk	3 points per finding
High risk	10 points per finding
Critical risk	40 points per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Individual finding classifications

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

	<p>consequences over £250k; or</p> <ul style="list-style-type: none"> • 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 of £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 recommendations

Breakdown of partially implemented agreed actions

6 agreed actions which were due to be implemented by 31/07/2014 are only partially implemented at year end. We have provided a breakdown of the original agreed action, original due date, risk rating, status and revised deadline below.

Review	Agreed action and original due date	Risk rating	Status	Revised deadline
IT Controls and Phishing	<p>A. The use of the Phonebook system as the 'golden record' for staff will be examined along with replacing the CAMS system. A propriety identity management solution will be procured that includes approval processes for user accounts and audit trails for changes.</p> <p>B. See (a) – Phonebook should not be the trigger system for ICT accounts.</p> <p>C. A review of user accounts will be undertaken against staff leavers. People that have left will be removed from the system</p> <p>Original due date:</p> <p>A. 31/12/2013 B. 31/12/2013 C. 31/08/2013</p>	High	<p>A. To close this action it is necessary to replace CAMS with a new solution which is being procured from IBM. Contract negotiations are underway.</p> <p>B. As above.</p> <p>C. A monthly reconciliation process is operational to ensure that any accounts that should have been terminated are dealt with. This has been in place since October 2013.</p> <p>In addition, we have made online training available to staff to educate them and help them identify "phishing" emails so they respond appropriately.</p> <p>The ability to block access to any sites referenced in "phishing" emails for the purpose of collecting user data has been created and tested.</p>	<p>A. 31/12/2014 B. 31/12/2014 C. Implemented</p>
IT Controls and Phishing	<p>A. A logical security policy will be written and implemented. LSBU is currently tendering to appoint a Managed Security Service provider and they will be consulted to ensure that an appropriate policy is put in place.</p> <p>B. Following agreement of the Security Policy, the password strength and maximum age will be adjusted. Steps have already been taken to prevent users from re-using their old password immediately.</p> <p>C. Security logs will be exported to an external server as</p>	High	<p>A. The Managed Security Service (MSS) contract has been placed with Data Integration / Xchanging.</p> <p>B. The Security Policy has not been agreed. Following agreement of the Security Policy, the password strength and maximum age will be adjusted. Steps have already been taken to prevent users from re-using their old password immediately.</p> <p>C. The MSS is now fully operational.</p> <p>D. The usage of the "Install" privileged account password has been</p>	<p>A. Implemented B. 31/12/2014 C. Implemented D. Implemented</p>

	<p>part of the Managed Security Service and this will also include a forensic element to follow-up on incidents.</p> <p>D. The use of privileged account passwords that don't expire will be examined and expiration dates set. The "Install" account will be stopped from being used.</p> <p>Original due date: 30/09/2013</p>		stopped	
OIA	<p>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.</p> <p>Original due date: 28/02/2014</p>	Advisory	The action has been delayed due to the changes to faculties set in hand after the report was delivered. LSBU is currently working with the supplier (iCasework) to implement their appeals solution, but extenuating circumstances have been identified as a phase 2 element to be delivered during 2014/15. This was necessary in order to reduce risk to the appeals component of the work.	31/10/2014
OIA	<p>A. A forthcoming review of the procedure will change the wording to reflect the fact that a few courses do not require the check.</p> <p>B. 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.</p> <p>C. 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.</p> <p>D. 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</p>	Advisory	The action has been delayed due to the changes to faculties set in hand after the report was delivered. LSBU is currently working with the supplier (iCasework) to implement their appeals solution, but extenuating circumstances have been identified as a phase 2 element to be delivered during 2014/15. This was necessary in order to reduce risk to the appeals component of the work.	31/10/2014

	<p>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.</p> <p>E. 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> <p>Original due date:</p> <p>A. 30/11/2013</p> <p>B. N/a</p> <p>C. 31/07/2014</p> <p>D. 30/11/ 2013</p> <p>E. 31/08/2014</p>			
OIA	<p>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.</p> <p>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.</p> <p>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.</p> <p>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. The intention of the complaints procedure is that the handling of the</p>	Advisory	<p>A. The Student Complaints Officer has had meetings with each Faculty to discuss all issues. The Pro Deans, Heads of Department, Faculty Managers and administrative support staff of each Faculty now understand that London South Bank University aims to resolve all internal complaints informally at Stage 1 and that a sufficiently senior member of staff is to lead on these resolutions. In the light of the restructuring scheduled for 2014 – moving from four Faculties to nine Schools – it was agreed that Pro Deans, Heads of Department and Faculty Managers designated by the Pro Deans were all suitable for this role. Each Faculty was enthusiastic about the variety of refresher courses scheduled for 2014/15. These courses will address best practice in complaint handling, the university's obligations under the Equality Act 2010, and advise on procedures to be followed in the complaints process (disciplinary versus fitness to practise procedures, for example). The resources identified for these courses are the OIA's Good practice framework for handling complaints and academic appeals (published in draft form in April 2014), as well as PowerPoint presentations and other guidance publications that are readily available on the OIA and QAA websites (prior to the recent publication of their Good Practice framework, the OIA used the Quality Assurance Agency's The UK Quality Code for Higher Education as the standard in determining the outcomes of their investigations). LSBU presentations and refresher courses in complaint handling will be augmented also by best practice</p>	31/10/2014

	<p>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.</p> <p>Original due date: 31/12/2013</p>		<p>frameworks published by the Office of the Parliamentary and Health Service Ombudsman, which will cover the principles of good administration, of good complaint handling, and of remedying upheld complaints.</p> <p>B. See above.</p> <p>C. None of the Faculties thought the current deadlines for the internal complaints system to be unworkable; the 20-working-day turnaround for Stage 1 complaints was considered more than adequate, and within this system provision is already in place to allow for extra time during busy exam periods or holidays. Nonetheless, LSBU is revising and updating its student complaints procedure to be in line with the OIA's new Good Practice framework (all universities have to be compliant by September 2015); this will be in place for the start of academic year 2014/15.</p>	
Payroll Implementation	<p>A system change document will be developed and any changes made to i-Trent post-implementation will be authorised appropriately and recorded for future reference.</p> <p>Original due date: 30/04/2014</p>	Advisory	<p>Following discussion with Midland HR, who undertook all of the system build, it has been agreed that the lead consultant at Midland will update the blueprints London South Bank University's behalf so that these accurately reflect the current system build. Midland HR is due to commence this work on the week commencing 25/09/2014.</p>	30/09/2014

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 Unit</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	x
Extenuating Circumstances, Academic Appeals & Other Processes that could result in a student complaint to the OIA	x	x	x	-	-
HESA Finance Return	-	-	x	-	x
Student Module Data	x	x	-	-	x
Business Continuity	x	x	x	-	-
Risk Management	x	x	-	-	-
Payroll Implementation	-	x	x	-	x
Phishing Exercise	x	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 against each KPI is shown in the table below.

Title	KPI	Achieved?	Narrative
Production of the Internal Audit Plan	<p>The annual internal audit plan will be produced for the June Audit Committee. The plan will be risk based and linked to London South Bank University's Risk Register.</p> <p>Once the plan is approved by the Audit Committee any further material changes must be approved by the Committee.</p>	✓	<p>The internal audit plan for 2013/14 was presented to the June 2013 Audit Committee. We have reported on plan progress throughout the year and there have been no material changes to the plan.</p> <p>The draft internal audit plan for 2014/15 was presented in June 2014. Our final 2014/15 plan has been taken to the September 2014 Audit Committee. This was compiled following a risk based approach and was linked to London South Bank University's risk register.</p>
Terms of Reference	All internal audit Terms of References will be agreed with the audit sponsor at least 1 week before the fieldwork start date.	✓	<p>Our final Terms of Reference for Business Continuity was issued 2 working days ahead of fieldwork. However, our draft Terms of Reference was issued 11 days before the proposed fieldwork start date. The final Terms of Reference was issued within 1 day of receiving management approval of the draft Terms of Reference.</p> <p>We were requested by management to perform an additional review of London South Bank University's procedures over complaints to the Office of the Independent Adjudicator. Our draft terms of reference was issued 7 working days ahead of fieldwork commencement and the final Terms of Reference was issued within 2 days of receiving management approval of the draft Terms of Reference.</p>
Fieldwork	All audit fieldwork will be recorded on our electronic working paper system.	✓	-
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.		
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	✓	-
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.	✓	Management responses for our Q1 Continuous Auditing report were not received until 17 days after our draft report was issued. This was an isolated incident as the report was released over the Christmas period when a number of staff were on annual leave.
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.	✓	Our Q2 Continuous Auditing report was not issued in final until 17 days after receipt of final management comments. This was an isolated incident because the Engagement Manager was on annual leave when the final management approval was received.
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.	✓	Update reports provided at September, October, February and June Committees.
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.	✓	-
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.	✓	-
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.	✓	Client satisfaction survey issued. Any results >7 will be discussed.
Audit Committee 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.	✓	Client satisfaction survey issued. Any results >7 will be discussed.



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.

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	PAPER NO: AC.55(14)
Paper title:	Going concern review
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	Richard Flatman, Chief Financial Officer
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To provide assurance regarding institutional sustainability and which support the going concern statement in the statutory financial statements

Executive Summary	
Context	One of the responsibilities of the Board in approving the financial statements is to ensure that they 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.
Question	On what basis is it appropriate to prepare the financial statements on a going concern basis?
Conclusion & Recommendation	<p>Areas of assurance are set out in the report and include:</p> <ul style="list-style-type: none"> • regular KPI reporting in areas which are relevant to the sustainability of LSBU; • effective risk management process (recently rated as low risk by the internal auditors); • financial strategy and forecasts, which provide financial surpluses each year over the forecast period; • 2014/15 budget, with a budget surplus of £1m agreed by the Board; • student recruitment, which is expected to be close to target for 2014/15; • cashflow: the approved forecasts provide for sufficient annual net cash inflows to enable the University to meet its increased investment plans and

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	<p>retain sufficient internal cash reserves without additional bank borrowing;</p> <ul style="list-style-type: none"> • sustainability in estates & infrastructure investment, including plans to invest up to £90m over the next ten years funded from cash reserves and operating cash flows generated over that period. <p>The Executive recommends that audit committee note the assurance sources and recommend approval by the Board of the going concern statement in the statutory accounts.</p>
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Matter previously considered by:	Board of Governors	Annually
Further approval required?	Board of Governors	On: 20 November 2014

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. 2013/14 has been another year of continued strong financial performance with a financial surplus of £3.1m.

A reduced budget surplus of £1m for 2014/15 has been approved. The reduced level of surplus is planned and takes account of increased investment to ensure delivery of future required outcomes. The next few years 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 retention and 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 £53m cash and bank deposits at 31 July 2014) 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 headline financial KPI targets aligned to the new corporate strategy are as follows:

By 2020 we will have delivered:
<ul style="list-style-type: none">• 25% growth in income from £136m to £170m
<ul style="list-style-type: none">• An operating surplus of 5% (£8.5m pa on income of £170m)
<ul style="list-style-type: none">• EBITDA margin (EBITDA/income) of 15% (equivalent to EBITDA of £25.5m pa on income of £170m)

The latest KPI report for 2013/14 is attached as Appendix 1. In terms of financial KPIs the only red rated item relates to gearing. The recent movement to a red RAG rating is driven entirely by a reduction in reserves following receipt of the LPFA FRS17 report and, as a result, the inclusion of an increased pensions deficit on the face of the balance sheet. Our external borrowing continues to reduce in line with agreed plans and as a percentage of income at 21% is below the median value for the sector.

- 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. Considerable work has been done recently to align the KPI set to the new University strategy 2015/20.

2. Risk management

- We have an effective risk management process (recently rated as low risk by our internal auditors), linked to the achievement of institutional objectives as set out in the corporate strategy 2015/20 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 2014 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 because we are increasing our revenue (as well as capital) investment to deliver a significant change programme aligned with the outcomes in the new University strategy. 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%
 - deliver growth in income, with a particular focus on enterprise, income from international students and non SNC post graduate and part-time provision

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- manage staff costs, including agency costs, to an agreed maximum percentage of income
 - 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
 - invest at an appropriate level to provide for future sustainability in buildings and infrastructure
 - ensure that all aspects of the University's operation are as lean and efficient as possible without compromising quality or student success
 - 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 (minimum £1m pa)
 - 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.
 - 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 YR1 Home/EU FTUG of 2,750 (with fees moving to £9k from 2014/15)
 - improving YR1/YR2 progression to 71% by 2015/16
 - Additional income of £12 m pa (at surplus of 20%) by 2017/18
 - Investment of £100m+ over the life of the forecasts
 - Maintaining income in the Health and Social Care (HSC) at forecast levels.

With regard to progression rates, our financial forecasts assume improvement but at 78% for YR1/YR2 progression by 2020, which is considerably more prudent than the aspirational KPI within the Corporate Strategy - which is to deliver a rate of 85%. In financial terms, there is potential therefore for upside in terms of bottom line assuming our aspirational targets are met.

It is also important to note that we have made no assumptions about fee inflation which is pegged at the headline £9k over the life of the forecasts.

2014/15 budget

- The detailed budget planning process for 2014/15 is complete and a budget surplus of £1.0m (0.7%) 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 £1.0m. The budget also contains a provision of £1.5M for restructuring costs and exceptional items.

Student recruitment

- For the first time, the University enforced a floor of 120 points A level (EEE) and 160 points BTec. Even with this floor we have seen an increase in the number of offers accepted with over 3100 undergraduate full time acceptances by the end of the cycle. There has historically been approximately 10% non-attendance hence it is expected that we will be close to the 2750 target.
- There have been shortfalls in some of the STEM related areas, especially engineering. The portfolio review we are undertaking will seek to energise the offer in these areas and during the course of the year we will focus activity in these areas. The areas that have under-performed with undergraduate recruitment seem to have performed well with postgraduate and international hence, whilst the data has yet to be analysed, there are no immediate resource concerns.
- ABB equivalent students, which at LSBU are mainly BTec, remain lower than we would like and this is one of the factors contributing to our low grade point average. We will also therefore be increasing our efforts to attract these students moving forward.
- We have also managed to see increases in international enrolments compared to this stage last year. We need to ensure we continue to carefully monitor our visa refusal rates as the government has now lowered the level allowed from 20% to 10% which puts a number of moderns at risk of losing their licence. At LSBU the value appears to reach approx. 5% which would indicate robust performance.

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 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 estate and infrastructure 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

LSBU Corporate Key Performance Indicators (2011/12 - 2013/14)

Report Production Date: 15th October 2014

Financial Sustainability						
KPI	2011/12	2012/13	2013/14		YoY up down	
	Actual	Actual	Target	Actual (Draft Accounts)		
Student Numbers & Contracts						
1	Recruitment against HEFCE contract	Within tolerance	Within tolerance	Within tolerance band	within tolerance	➔
Income						
2	NHS contract income (£)	On target	On target	£25.9m	£25.2	⬇
3	International student income	£9.6m	£8.8m	£9.4m	£8.5	⬇
4	Research (non-HEFCE) income (£)	£2.4m	£2.2m	£2.4m	£1.8	⬇
5	Enterprise income (£)	£10.0m	£8.4m	£9.0m	£9.5	⬆
6	Total Income (£)	£138.3m	£137.9	£137.6m	£134.8	⬇
Surplus						
7	Total Surplus (% of income)	4.7%	4.00%	1.8%	2.4%	⬇
Other Financial Indicators						
8	Cash Balance (£)	£69.1m	£60.0 m	£48.2	£53.0m	⬇
9	Gearing Ratio	0.31	0.27	0.26	0.29	⬇
10	Days liquidity	203	176.6	139	157.1	⬇
11	Staff Costs as a % of Income	<i>new indicator</i>	<i>new indicator</i>	55%	55.8%	NI

The Student Experience						
KPI	2011/12 (Actual)	2012/13 (Actual)	2013/14 (Target)	Current Performance (RAG)	YoY	
Student Satisfaction						
12	Overall Student Satisfaction - UG (NSS) *	80%	82%	86%	80%	⬇
13	Overall Student Satisfaction - PG	78%	76%	80%	77%	⬆
Student Retention & Progression						
14	FTUG Year 1 Progression (%)	63%	65%	65%		
15	Graduating in intended period (FTUG 3/4yrs) (%)	52%	51%	65%		
Value Added						
16	Employment of graduates (DLHE return)* (Employed, or studying, or both)	78.1%	77.4%	85%	85.50%	⬆
17	No. of first degree students obtaining 1st or Upper 2nd class degrees *	56.0%	58%	62%	58.30%	⬆
Resource Measures						
18	Spend per student (£) * (Academic Services)	£940 <i>(Complete UG 2013)</i>	£900 <i>(CUG 2014)</i>	£1,000	£971 <i>(CUG 2015)</i>	⬆
19	Spend per student (£) * (Services & Facilities)	£1,062 <i>(Times GUG 2012/13)</i>	£1,110 <i>(SundayTimes/Times GUG)</i>	£1,150	£1,250	⬆
20	Staff:student ratio *	22.4:1 <i>(2010/11 HESA)</i>	23.7:1 <i>(2011/12 HESA)</i>	21:1	24.2:1 <i>(2012/13 HESA)</i>	⬇

Institution Reputation and Esteem						
KPI	2011/12 (Actual)	2012/13 (Actual)	2013/14 (Target)	Current Performance (RAG)	YoY	
League Table Ranking						
21	The Times / Sunday Times	111 (of 116) <i>(2012/13 Table)</i>	118 (of 120) <i>(2014 Table)</i>	< 110	122 (of 123) <i>(2015 Guide - Sep 14)</i>	⬇
22	The Guardian	104 (of 120) <i>(2013 Table)</i>	113 (of 119) <i>(2014 Guide - June 13)</i>	< 110	112 (of 116) <i>(2015 Guide - June 14)</i>	⬆
23	The Complete University Guide	109 (of 116) <i>(2013 Table)</i>	119 (of 124) <i>(2014 Table - April 13)</i>	< 110	120 (of 123) <i>(2015 Table - May 14)</i>	⬇
Subject League Tables (The Guardian)						
24	No. of subjects in top 75% nationally	5 (of 17)	3 (of 21)	5 (of 21)	3 (of 25)	➔
25	No. of subjects in top 50% of post-1992	3 (of 17)	2 (of 21)	7 (of 21)	2 (of 25)	➔
26	No. of subjects in top 25% of post-1992, London	3 (of 17)	4 (of 21)	4 (of 21)	2 (of 25)	⬇
Student Perceptions						
27	% of Firm acceptances against enrolment target from FTUG students prior to clearing	<i>new indicator</i>	68% <i>(no rating criteria)</i>	75%	75.6%	⬆
28	Early : late applications (% of FTUG enrolments arising from early/late applications)	74:26	79:21	80:20		
29	Financial support from donors (cash received, £)	£1.5m	£1.35m	1.4m	£1.35m	➔
30	Alumni Engagement: Number of placement, volunteer & mentor opportunities for students	<i>new indicator</i>	<i>new indicator</i>	500	520	NI
Staff Perceptions						
31	Staff Turnover rate	<i>new indicator</i>	21%	18%		

KPI Notes: Measure Overview	Data date & Source	Notes
1-11 Financial performance	Nov to Aug: LSBU Management Accounts	Forecast data updated after each month end period Draft figure prior to audit & final after accounts sign
Student Satisfaction		
12 Overall Student Satisfaction - UG (NSS)	Aug 14: Ipsos Mori National Student Survey	Satisfaction has fallen by 2%
13 Overall Student Satisfaction - PG	Sep 14: LSBU PG Taught Survey	Satisfaction has increased by 1%
14 FTUG Year 1 Progression (%)	Oct/Nov 14: LSBU Cognos PAT Reports	
15 % Graduating in intended period (FTUG 3/4yrs)	Oct/Nov 14: LSBU Registry Analysis	
Value Added		
16 Employment of graduates (% Employed, Studying, or both)	July 14: Hefce DLHE survey	An improvement to 85.5%
17 No. of first degree students obtaining 1st or Upper 2nd class degrees *	Oct/Nov 14: LSBU Registry Analysis	
tbc No. of first degree students obtaining 1st or 2nd class degrees	Oct/Nov 14: LSBU Registry Analysis	
Resource Measures		
18 Spend per student (£) * (Academic Services)	April/May 14: 'Complete University Guide'	
19 Spend per student (£) * (Services & Facilities)	Sep 14: Times 'Good University Guide'	
20 Staff:student ratio *	Aug 14th: publication of HESA data for 12/13	
League Table Ranking		
21 The Sunday Times / Times	September 14: The Sunday Times Newspaper	
22 The Guardian	June 14: The Guardian Newspaper	
23 The Complete University Guide (formerly The Independent)	April 14: Complete University Guide website	
Subject League Tables (The Guardian)		
24 No. of subjects in top 75% nationally	June 14: The Guardian Newspaper	
25 No. of subjects in top 50% of post-1992	June 14: The Guardian Newspaper	
26 No. of subjects in top 50% of post-1992, London	June 14: The Guardian Newspaper	
Student Perceptions		
27 % of Firm acceptances against enrolment target from FTUG students prior to clearing	August 2014, Recruitment Analysis	2080 Firm Acceptances were received by the 12th August, against a SNC target of 2750
28 Early : late applications (% of FTUG enrolments arising from early/late applications)	Oct/Nov 14, Registry Analysis	
29 Financial support from donors (cash received, £)	Oct/Nov 14, Development Office	
30 Alumni Engagement: Number of placement, volunteer & mentor opportunities for students	August 14, Development Office	P&R Report notes 200 mentors, 300 placements & 20 student talks
Staff Perceptions		
31 Staff Turnover	HR Database Analysis	

London South Bank University

	PAPER NO: AC.56(14)
Paper title:	Draft Report and Accounts for the year to 31 July 2014
Board/Committee	Audit committee
Date of meeting:	30 October 2014
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To review the draft report and accounts for the year ending 31 July 2014

Matter previously considered by:	N/A	N/A
Further approval required?	Board	On:20 November 2014

Executive summary

The audit for the year ended 31 July 2014 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 20th November. Subject to satisfactory completion of the matters referred to below, the committee is requested to recommend approval to the Board.

Outstanding steps to completion

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

Key Issues

The attached accounts are for the year ended 31 July 2014. Grant Thornton has now completed their technical review and any changes to the accounts and their presentation have been incorporated into these accounts.

London South Bank University

The operating surplus of £3.1m is ahead of the agreed budget and the forecast surplus of £2.5m submitted to HEFCE in November 2013. In the context of the recruitment challenges across the sector in 2013/14 this is a considered a strong result.

No clawback of funds by HEFCE relating to 2013/14 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.

The pension liability with the London Pension Scheme Authority (LPFA) has increased from £62.2m to £76.5m, mainly as a result of actuarial losses. The FRS17 charge to the I&E account for the year is £6.9m (interest £2,341k and staff costs £4,581k) and a £12.5m loss is recognised in the statement of total recognised gains and losses (STRGL).

The University generated a net cash outflow from operating activities of £6.0m in the year. After accounting for the cost of the Capital Investment programme and repayment of loans the net cash position was reduced by £17.3m. However this is after transferring over £10.3m to fixed term bank deposits. Net funds reduced by £5.4m to £23.5m at 31 July 2014.

A detailed commentary on the financial results is included on pages 11-16 of the accounts.

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

Recommendation

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

**London South Bank
University**

Report and Financial Statements

31 July 2014

Draft at 23th Oct 2014

London South Bank University

Report and financial statements 2014

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London South Bank University

Strategic Report

Legal and Administrative Details

This Strategic Report is that of the University and its subsidiary, South Bank University Enterprises Limited.

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 23-29 and the members of the Board of Governors during the year ended 31 July 2014 are listed on page 4. The Governors are also directors under the Companies Act 2006.

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.

Bankers

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

Solicitors

SGH Martineau
1 Colmore Square
Birmingham
B4 6AA

Mills and Reeve LLP (from November 2013),
Botanic House,
100 Hills Road
Cambridge
CB2 1PH

Shoosmiths LLP (from November 2013)
Witan Gate House,
500-600 Witan Gate West,
Milton Keynes,
MK9 1SH

Michelmores LLP (from November 2013),
48 Chancery Lane,
London,
WC2A 1JF

Muckle LLP (until November 2013)
Time Central
32 Gallowgate
Newcastle-Upon-Tyne
NE1 4BF

London South Bank University

Strategic Report

Veale Wasbrough Vizards LLP (from November 2013)
Orchard Court,
Orchard Lane,
Bristol
BS1 5WS

Auditor

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

Structure, Governance and Management

A separate Corporate Governance Statement is shown on pages 23-29.

Principal Officers:

Chancellor

Mr Richard Farleigh

Vice Chancellor

Professor Martin Earwicker (resigned 31 December 2013)
Professor David Phoenix (appointed 1 January 2014)

Pro Vice Chancellors

Professor Phil Cardew (Students and Education)
Ms Beverley Jullien (External) (resigned 31 July 2014)

Chief Financial Officer

Mr Richard Flatman

Chief Operating Officer

Mr Ian Mehrrens

Executive Director of Human Resources

Ms Mandy Eddolls (appointed 16 June 2014)

Secretary and Clerk to the Board of Governors

Mr James Stevenson

Strategic Report

Changes in officers since 31 July 2014:

Deputy Vice Chancellor

Professor Patrick Bailey (appointed 1 September 2014)

Pro Vice Chancellors

Professor Paul Ivey (Research and External Engagement) (appointed 1 November 2014)

Board of Governors

The following were Governors throughout the year ended 31 July 2014 except as noted:

Mr David Longbottom (Chair)

Professor Martin Earwicker (Vice Chancellor and Chief Executive) (resigned 31 December 2013)

Professor David Phoenix (Vice Chancellor and Chief Executive) (appointed 1 January 2014)

Ms Ilham Abdishakur (appointed 1 July 2014)

Ms Barbara Ahland (resigned 30 June 2014)

Mr Steve Balmont

Mr Douglas Denham St Pinnock

Mr Ken Dytor

Professor Neil Gorman (appointed 20 March 2014)

Professor Hilary McCallion CBE

Ms Anne Montgomery

The Revd Canon Sarah Mullally DBE

Dr Mee Ling Ng

Ms Louisa Nyandey (appointed 14 October 2013)

Mr Andrew Owen

Ms Diana Parker

Professor Shushma Patel

Mr James Smith CBE

Professor Jon Warwick

Changes in Governors since 31 July 2014:

Mr Jeremy Cope (appointed 01 September 2014)

Strategic Report

Objectives and Activities

Our mission:

To be recognised as an enterprising civic university that addresses real world challenges

London South Bank University has been transforming lives, communities and businesses for over 120 years. At its creation, the Prince of Wales and Archbishop of Canterbury were instrumental in a fundraising campaign which included 55000 letters of appeal and led to collection boxes being placed on London's bridges. The aims were to improve the social mobility of the people of south east London by improving their employment opportunities and to support the community by providing access to applied knowledge that would advance their businesses. Other than an increasingly global reach that mission remains almost unchanged today –LSBU provides a highly applied academic environment which supports students into professional careers by providing the knowledge and skills attractive to employers. At the same time, it supports employers and the professions by providing the education, consultancy and high quality applied research they need to grow their businesses.

Building on our past to shape our future

The higher education sector and the market within which we operate has changed and continues to develop rapidly and so we must continue to innovate in order to keep pace. The recent decision to remove student number controls means we will inevitably see recruitment becoming an even more heated environment and this will be fuelled by new entrants such as private providers and overseas institutions, plus UK universities setting up London campuses. In 2010 only £30 million of public funding went to private providers and by 2015 this will be approaching £1billion.

Students do not want to simply sit in a lecture theatre. They continue to demand more for their money and they will expect that their investment in education will enhance their future career prospects. Institutions who strive to successfully meet and manage these expectations are the ones who will prosper. Providing a personalised student experience leading to strong graduate outcomes will become increasingly important and given our focus on professional education, is an area in which we must excel.

As the number and diversity of providers grows it will be important to ensure a degree of differentiation from competitors. Universities that succeed in this new environment will be ones that build on their strengths to ensure they develop a strong external reputation for the quality of what they deliver and indeed with the increase in the number of providers new quality measures will no doubt be linked to funding success. For example there is the current discussion around linking student loans and fee levels to graduate employment or retention rates and league table performance will of course continue to be of keen interest to students, employers, commissioners and funding agencies in the UK and overseas.

Our new Corporate Strategy 2015-2020 builds on the strengths of our university to enhance our reputation for supporting student success, delivering real world impact through our academic activity and by building on our history of providing opportunities through partnership.

Developing into a university that is recognised for addressing society's challenges by engaging with partners on both a local and global scale is not in itself a significant move away from who we are now. We have a reputation for courses relevant to the professions, for applied research and for business engagement and our teaching is becoming more and more dynamic as we produce enterprising graduates ready for a global market. Our academic expertise has real world impact and is drawn upon by commercial and government organisations, so it makes sense to build our future ambitions upon the relevance and strengths of our current identity. Examples of recent activity include:

- 960 employers send 4000 of their staff to be educated by LSBU each year
- Over 150 British SMEs and major companies have formed commercial research partnerships
- The Clarence Centre for Enterprise and Innovation is now home to 48 student-led businesses and social enterprises: companies in our business incubation suite generate an annual turnover of over £37m.

We are refocusing and re-doubling our ambition, trading on our specialisms and moulding graduates for success.

We want our success to be recognised, so by 2020 we aim to be London's top modern University.

Strategic Report

Key outcomes 2015-2020

We are committed to:-

- Ensuring we work with local partners to provide opportunities for students with the potential to succeed and through active engagement retain them
- Developing the multicultural community of students and staff, working through international alliances and partnerships to further build our capacity and capabilities in education, research and enterprise
- Ensuring students develop skills and aspiration to enter employment or further study and so become sought after by employers, or have the skills and confidence to start their own businesses, or develop a portfolio career
- Ensuring that students are seen as participants in their learning and that the student voice is encouraged and listened to
- Strengthening our national position and our profile as a leading university for professionally focused education underpinned by highly applied research
- Delivering outstanding economic, social and cultural benefits from our intellectual capital, by connecting our teaching and research with the real world through commercial activities and via social enterprise
- Creating an environment which attracts and fosters the very best staff, and within which all staff, whatever their role, feel valued and proud of their university and take appropriate responsibility for its development
- Strategically investing in the creation of first class facilities and ensuring that they are underpinned by services which are responsive to academic needs and outcome focused.

A range of cross University change projects are in progress to help deliver those future outcomes.

To ensure that the University has academic groupings that are meaningful to the outside world and focused enough to be able to respond rapidly to stakeholder need, the University's four faculties have been split into seven new schools. The smaller schools will enable each one to build its own ethos and brand, to attract potential students and business to work with the University. The Schools from 1st August 2014 are:

- Applied Science
- Arts and Creative Industries
- Built Environment and Architecture
- Business
- Engineering
- Health and Social Care
- Law and Social Sciences

Professional Service functions have also been aligned with key areas of delivery, whilst allowing the University to minimise duplication through ensuring clarity in terms of responsibility.

In February 2014, the University embarked on the implementation of a suite of IBM hardware and software solutions – the Edison Project – which will both reduce risks around systems delivery and security, and enable a step-change in the ways in which we monitor and respond to student engagement, and communicate digitally with students. The project has three distinct strands of activity: the transference of core systems onto IBM 'Softlayer' data centres; the implementation of new identity and access management systems; and the delivery of new systems for monitoring student engagement and enhancing digital communication with students. The last of these strands includes the use of analytical tools to identify and pro-actively respond to student engagement, the delivery of a new Student Portal (which will provide access to all our core systems in one location) and the enhancement of our Virtual Learning Environment to include social collaboration tools and instant messaging to students.

Strategic Report

Achievements and Performance

Strategy and Performance:

The University's financial strategy is expressed through its rolling five year financial forecasts. The strategy is focused on future sustainability and is designed to maintain financial resilience and flexibility at all times. These rolling 5 year forecasts are updated each year following Semester 1 recruitment and include surplus and liquidity forecasts and a 5 year investment profile as well as income and cost projections. This analysis ensures that the University delivers not only an acceptable level of surplus but stays within acceptable gearing levels and has the funds for an appropriate capital investment programme.

The strategy sets out a range of financial key performance indicators and these have recently been reviewed as part of the new corporate strategy 2015-2020. The headline financial targets are that by 2020 we will have:

- Grown our income by 25% to £170m
- Returned to an annual operating surplus of minimum 5%, and
- Improved the EBITDA margin to 15%.

The key drivers of successful financial outcomes for the university are:

- Meeting our home/EU recruitment targets
- Delivering against agreed growth targets for postgraduate, overseas students and enterprise income
- Improving progression and retention rates. Our future forecasts assume that undergraduate fees are capped at £9,000 and that significant financial impact can be delivered through small improvements in progression and retention rates
- Maintaining current levels of NHS contract income through high quality delivery
- Managing staff costs, including agency costs, so they are within our maximum agreed percentage of income
- Further efficiency savings wherever possible.

The key targets have been accompanied by a renewed focus on part time UG recruitment which has been a historic strength of this university and an emphasis on international recruitment where the University has underperformed compared to its peers.

We entered 2013/14 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 and this was followed by surpluses of £6.5m and £5.5m in 2011/12 and 2012/13 respectively. The 2011/12 result was after accounting for an impairment charge of £2.9m in respect of building stabilisation costs which made the result even more satisfying. The true underlying operating surplus last year was £6m before an exceptional loss on the deconsolidation of the Student's Union. It was always anticipated that 2013/14 would be more challenging given ongoing financial uncertainty, pressure on student numbers and the continued reductions in government funding. As expected, recruitment proved challenging and LSBU fell marginally short of initial recruitment targets. This has been managed through effective cost control and the surplus of £3.1m is higher than the original agreed budget surplus of £2.5m. Furthermore, this is after accounting for unbudgeted revenue costs of £1m+ associated both with changed organisation structures and the Edison project.

The 2014/15 budget shows a surplus of £1m. This reduced level of surplus is planned and takes account of increased investment in 2014/15 in a number of areas including close to £3m revenue spend on the Edison project and £0.75m in relation to the cost of running the new programme change office which has been established to drive University wide projects in support of the key outcomes in the new corporate strategy. Depreciation in 2014/15 also increases by £2m to £10.5m, reflecting IBM investment cost and the recent investment in both the new Student Centre and the Clarence Centre. Also included within the budget is an uncommitted revenue investment pool of £1m which allows for some flexibility in terms of actual spending.

The 5 year forecasts demonstrate that the University can deliver a minimum level of £1m surplus over the next 3 years after accounting for this significant level of increased investment spend in our digital and physical infrastructure which

Strategic Report

is designed to improve student experience and progression. The resultant outcome that the increased spend will deliver will be increased surpluses (reaching 5% by 2020) linked to increased levels of graduation and international recruitment.

Investment in the physical estate

LSBU continues to develop its 10 year vision of strategic investment in the estate to create sustainable, first class facilities which will enhance both the learning and social experiences of students and support the delivery of the academic mission.

Approximately £100m will be invested in redeveloping the estate over the next ten years (funded from cash reserves and operating cash flows generated over that period). This investment includes both the provision of new buildings using sustainable construction principles and the development of innovative solutions to improve the energy efficiency of existing buildings in order to meet the University's carbon reduction commitment by 2020.

It is proposed to dispose of old buildings of corresponding dimensions to those of the new builds in order that there is no significant increase in the size of the overall footprint of the campus.

The energy and environmental management systems at the University have achieved re-accreditation to ISO 50001 and ISO14001 standards. Sustainability is a major consideration in all procurement processes and we ensure that, where appropriate, environmental criteria are used in both the award of contracts and the purchase of equipment and supplies.

In September 2013, the renovation of seventeen unused Grade II listed Georgian buildings to create the Clarence Centre for Enterprise and Innovation was completed at a cost of £13m. A further £5.6m has been invested in the estate including the provision of a new street facing library entrance, the creation of a dedicated entrance to our sports centre (jointly funded with Sport England and from Section 106 money), the refurbishment of specialist laboratory space and public realm improvements costing £830K.

Strategic Report

Key Performance Indicators

Financial Sustainability	2012/13 Actual	2013/14 Target	Current Performance Red, Amber, Green	Year on year movement
Student numbers and contracts				
Recruitment against NHS Contracts	Within tolerance	Within tolerance	Within tolerance	➔
Financial Indicators				
NHS Contract Income	£27.6m	£25.9m	£25.2m	↓
International student income	£8.8m	£9.4m	£8.5m	↓
Research (non HEFCE) income	£2.2m	£2.4m	£1.8m	↓
Enterprise Income	£8.4m	£9.0m	£9.5m	↑
Total income	£137.9m	£136.6m	£134.8m	↓
Surplus as % of income	4.0%	1.8%	2.3%	↓
Cash and bank deposits	£60.0m	£48.2m	£53.0m	↓
Gearing Ratio	0.27	0.26	0.29	↓
Days Liquidity	176.6	139.0	157.1	↓
Staff costs as % of income (inc agency staff)	55.9%	55.0%	55.8%	➔

The Student Experience

Student satisfaction

Overall student satisfaction – undergraduate (National Student Survey)	82%	86%	80%	↓
Overall student satisfaction – post graduate (National Student Survey)	76%	80%	77%	↑
Full time undergraduate year 1 progression	65%	65%	TBC	
Graduating in intended period (Full time undergraduate 3/4 year)	51%	65%	TBC	

Strategic Report

Institutional Reputation	2012/13 Actual	2013/14 Target	Current Performance Red, Amber, Green	Year on year movement
League Table Ranking				
The Times/Sunday Times	118(of 120)	<110	122(of 123)	↓
The Guardian	113(of 119)	<110	112(of 116)	↑
The complete University Guide	119(of 124)	<110	120 (of 123)	↓
Subject League Tables				
Subjects in top 75% nationally	3(of 21)	5 (of 21)	3 (of 25)	→
Subjects in top 50% of post 1992 Universities	2 (of 21)	7 (of 21)	2 (of 25)	→
Subjects in top 25% of post 1992 London Universities	4 (of 21)	4 (of 21)	2 (of 25)	↓
Student Perceptions				
% of firm acceptances against enrolment target from FT UG students prior to clearing	New indicator	75%	75.6%	↑
Early:late applications (FT UG)	29:21	80:20	TBC	
Financial support from donors	£1.40m	£1.40m	£1.35	→
Alumni Engagement: number of placements, volunteer and mentor opportunities for students	New indicator	500	520	
Value Added				
Employment of graduates	77.4%	85.0%	85.5%	↑
First degree students obtaining 1 st or upper 2 nd class degree	58.0%	62.0%	58.3%	↑
Resources				
Academic services spend per student	£900	£1,000	£971	↑
Services and facilities spend per student	£1,100	£1,150	£250	↑
Student:staff ratio	23.7:1	21.0:1	24.2:1	↓
Staff turnover rate	21.0%	18.0%	TBC	

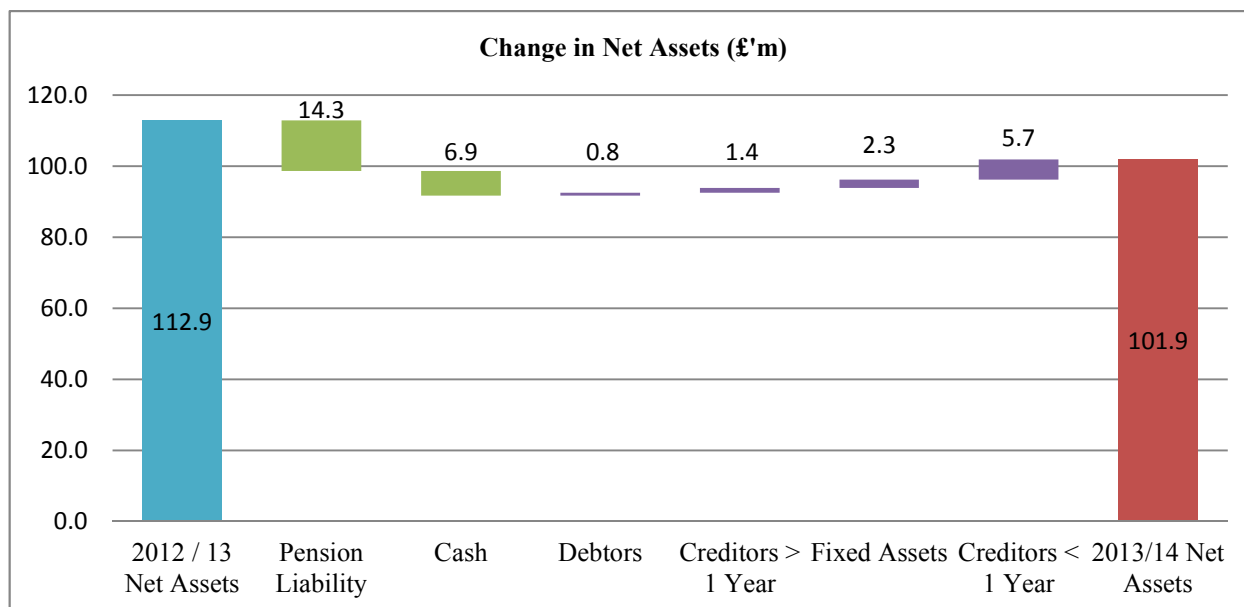
*Key League Table Measure

Strategic Report

Financial Review

Balance sheet and liquidity

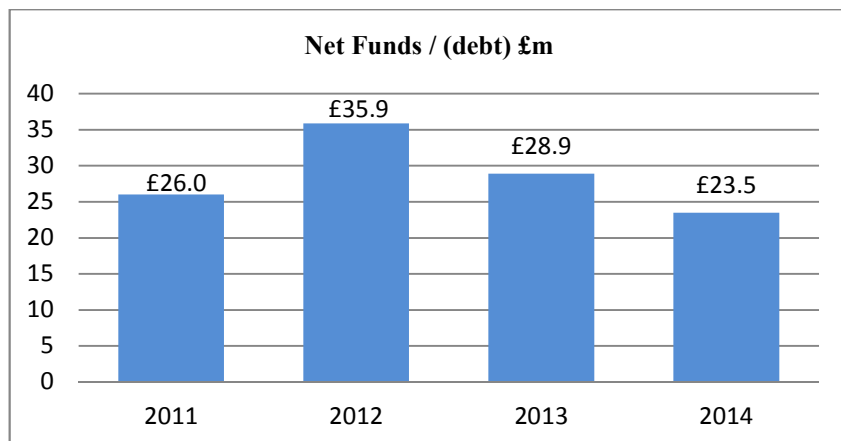
The Group's net assets decreased by 10% during the year moving from £112.9m to £101.9m. There are two principle reasons for the reduction. Firstly an increase of £14.3m in the LPFA pension liability, and secondly an increase of almost £2.3m in tangible assets reflecting the University's continued investment in its Estate and digital infrastructure. Cash balances have been reduced by £6.9m reflecting other changes to working capital.



The University always plans to have sufficient liquid assets to meet its liabilities as they fall due and this reduction in net assets will not compromise the group's ability to do so. Days liquidity has decreased from 176 days at 31 July 2013 to 157 days at 31 July 2014. This reduction is primarily due to a fall in cash balances and bank deposits from £59.9m at 31 July 2013 to £53.0m at 31 July 2014, which reflects the reduction in creditors and continuing capital expenditure through 2013/14. The longest term deposit is 3 months and the maximum overseas exposure is £5.0m through liquidity funds.

Borrowings have reduced from £31.1m at 31 July 2013 to £29.6m at 31 July 2014 reflecting loan repayments made during the year.

Net funds/(debt) is summarised below:



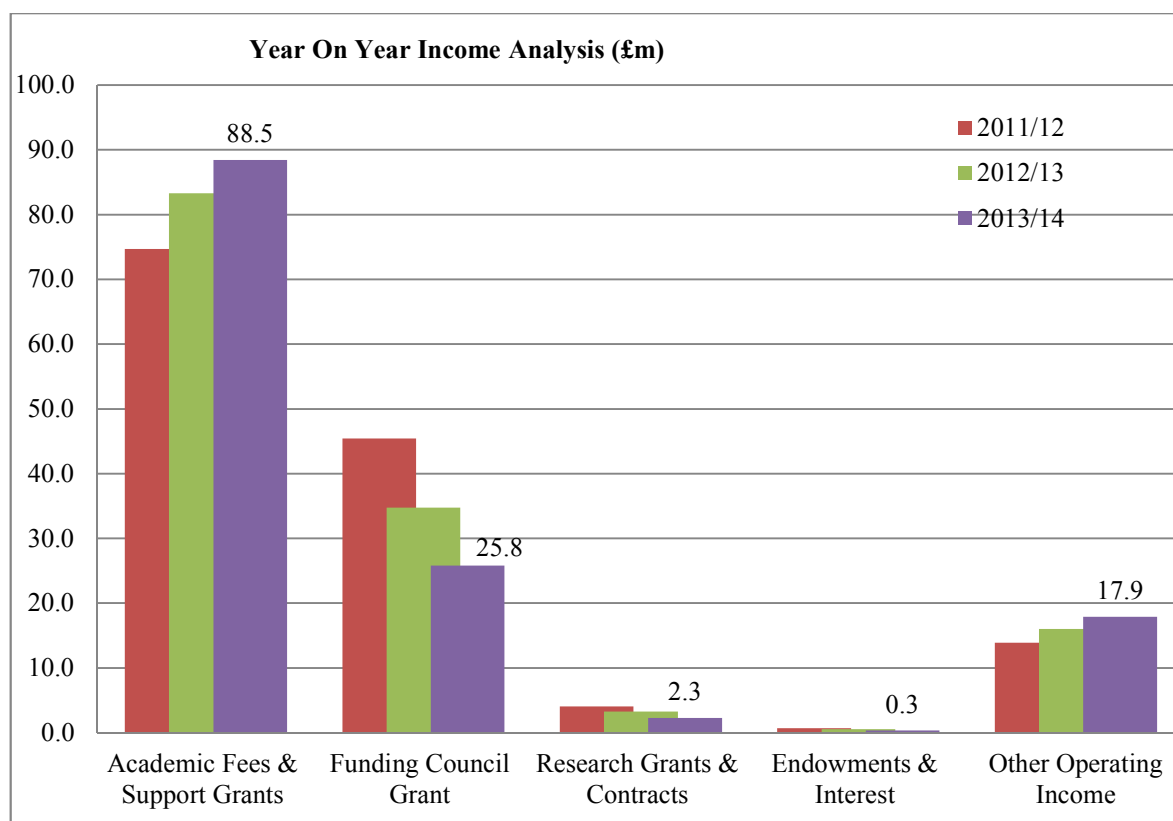
Borrowing capacity is reviewed on a regular basis and is considered adequate to meet current plans.

Strategic Report

Result for the Year

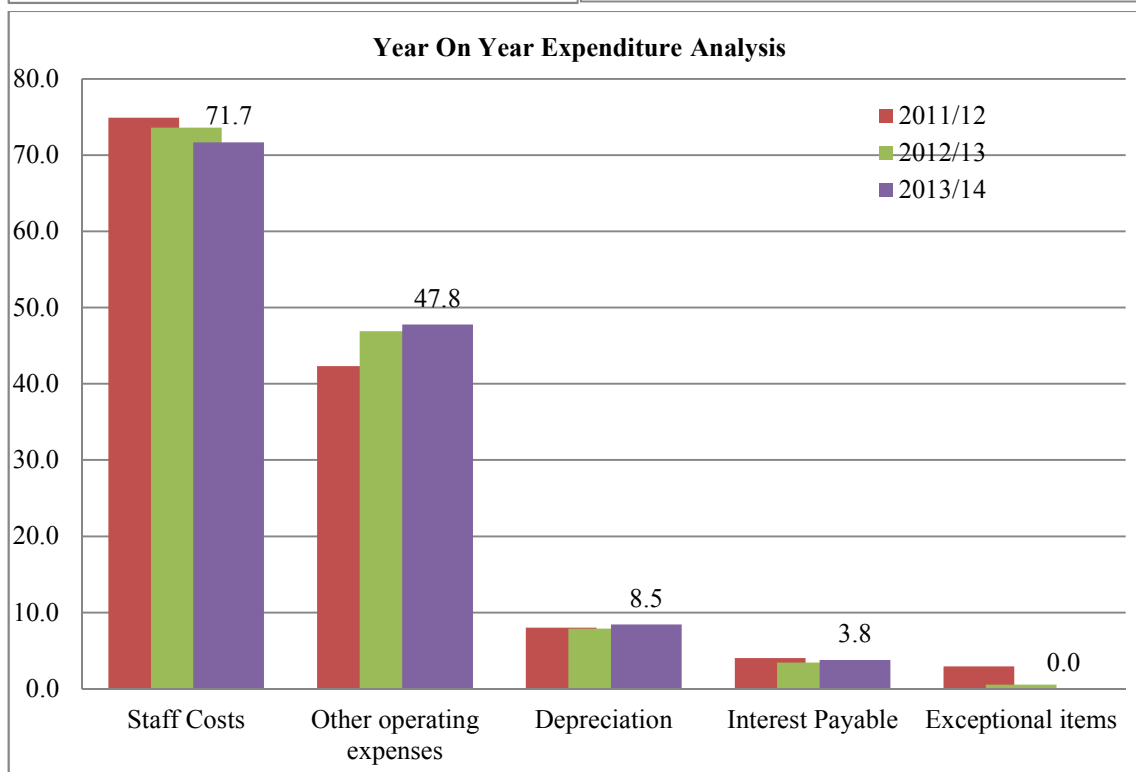
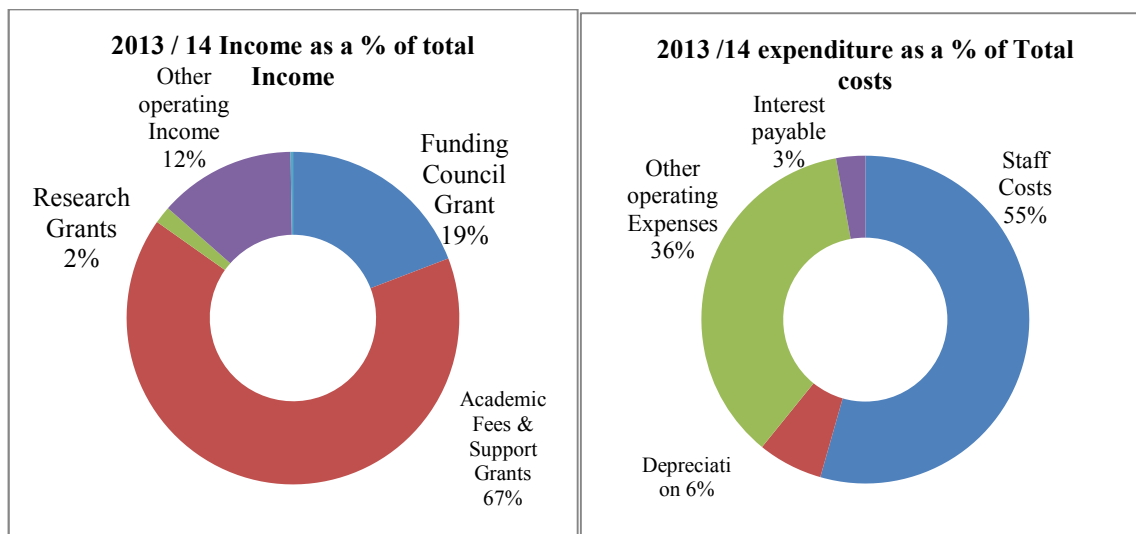
Financial Summary in £m				Variance from 2012 / 13	
	2013/14	2012/13	2011/12		
Income	134.8	137.9	138.3	-3.1m	-2.2%
Expenditure	131.7	132.4	131.8	-0.7m	-0.5%
Surplus for the year	3.1	5.5	6.5	-2.4m	-43.6%
Surplus %	2.3%	4.0%	4.7%		

The operating surplus of £3.1m is ahead of the agreed budget and the forecast surplus of £2.5m submitted to HEFCE in November 2013. In the context of the recruitment challenges across the sector in 2013/14 this is a considered a strong result.



- Total income decreased by 2.2% (£3.1m) to £134.8m (2012/13: £137.9m). There was a reduction in Funding Grant due to the continued impact of the new fee regime for both UG and PG students. This fall, however, was offset by an increase in UG fees and a significant increase in PG fees. The other factors affecting income were a decline in Health Contract income and a decline in Research Grants which were both related to continued pressure on Government spending.
- Academic fees including NHS contract income and Funding Council grants remain the main sources of income for the university representing 66% and 19% respectively (2012/13 = 60% and 25%). 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.

Strategic Report

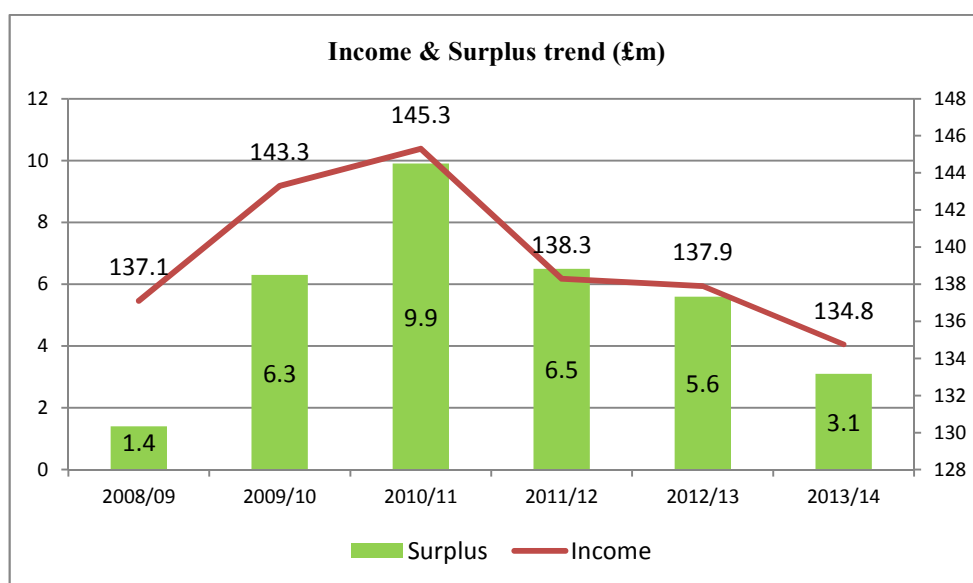


- Staff costs decreased by 2.6% from £73.6m in 2012/13 to £71.7m in 2013/14 representing 53.2% of income (2012/13 = 53.4%). After including Agency Staff costs, which are included in the accounts as operating expenditure, Total staff costs represent 55.7% of income. This is marginally ahead of our target of 55%. This remains an area of continued focus for the university in 2014/15.
- Other operating expenses increased by 1.9% from £46.9m in 2012/13 to £47.8m. This increase was driven by increased expenditure on computing software and hardware as the University transitions to a digital learning environment, increased expenditure on the maintenance of the Campus including our Halls of Residences and increased expenditure due to the change of Catering provider. This was offset by a year on year reduction in the provision for debts to cover higher fees due from self-paying and sponsored students, reductions in Bursaries payable to students under the old Fee regime and a reduction in payments to our Franchise partners.

Strategic Report

- Capital expenditure amounted to £10.7m during the year as we continued to implement the Estate Strategy along with some additional investment in computers and other equipment. Major investments included the EDISON project (an IBM led investment in our Digital infrastructure), investments in Academic spaces including Psychology, Engineering, Architecture and the National Bakery School and continued investments in our campus infrastructure including the Sports Centre, the Perry Library and the University's WiFi network.

Financial trend analysis



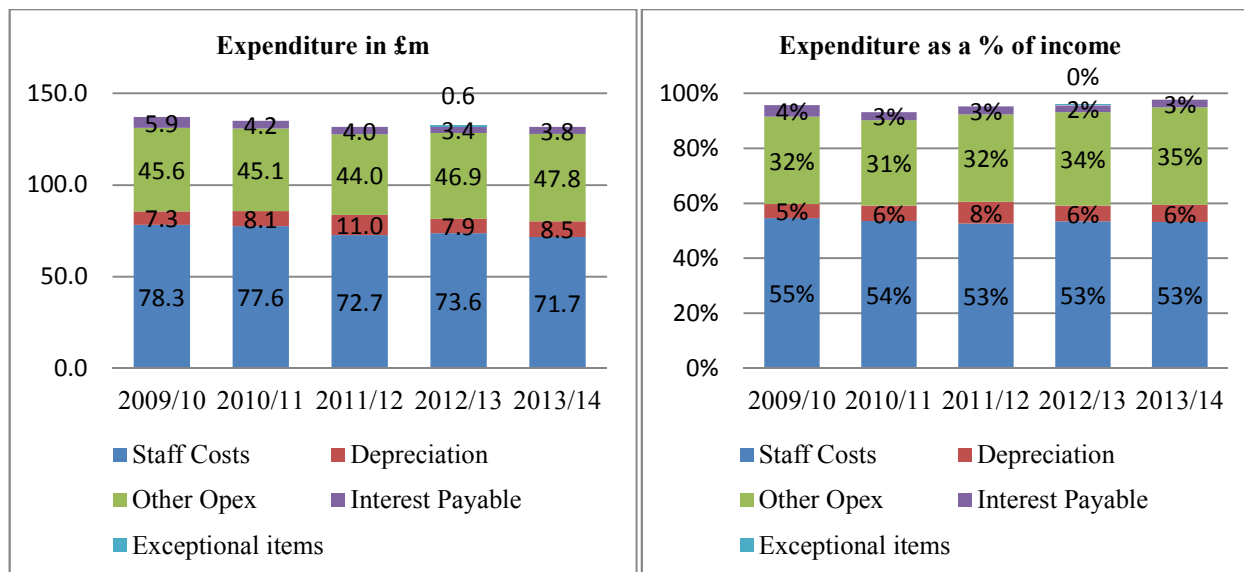
Between 2007/08 and 2010/11 income had grown steadily as a result of the introduction of higher tuition fees for full-time Home & European Union students from 2006 and growth in student numbers. However the number of new students enrolling in the University has declined as a result of the introduction of the new fee regime and is expected to remain below previous levels following the abolition of Student Number Controls.

The University strategy is to focus on income growth from postgraduate, overseas students and enterprise. For full time home and EU postgraduate students the focus is on maintaining stability in terms of numbers with the emphasis on the student experience and improved retention and progression.

The large increase in 2010/11 income can be explained by the one-off increase of 300 UGFT (Undergraduate Full-Time) Student Numbers. These discontinued in 2011/12 and income was further reduced in both 2012/13 and 2013/14 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 2013/14 which further depressed income.

The surplus remained relatively constant over recent years but has reduced in 2013/14 by approximately £3m from £6m to £3m due to the decline in income. This reflects declining income but broadly static staff costs and operating expenditure. The University remains focused on cost control and income growth through improved progression.

Strategic Report



Staff costs

Staff costs (including restructuring costs but excluding Agency Staff) have decreased from £78.3m in 2009/10 to £71.7m in 2013/14. As a % of income, staff costs (excluding Agency Staff) have been broadly flat over the last 4 years.

Operating expenditure

Operating expenditure increased from 2008/09 as a result of the introduction of student bursaries alongside higher tuition fees. This began to reverse in 2012/13 and continued to fall in 2013/14 due to the replacement of Bursaries with fee waivers which impact income rather than expenditure. The increase in operating expenditure from 32% of income in 2009/10 to 35% in 2013/14 reflects the decline in income as well as additional expenditure particularly with regard to ICT and the maintenance of our Estate.

Interest

Interest payable decreased from £5.9m in 2009/10 to £3.8m in 2013/14 reflecting a reduction in borrowings outstanding and a requirement for a reduced FRS 17 interest charge compared to previous years.

Depreciation

Depreciation has increased over the 5-year period as a result of investments in the University's estate including the K2 building which came into use in November 2009, the Student Centre which came into use in 2012/13 and the Clarence Centre for Enterprise which came into use in 2013/14. The increase is expected to continue since the University has proposed further investments in the estate, additional investments in IT infrastructure and systems and has further plans to improve teaching spaces. Depreciation is actually higher than in 2011/12 because the impairment write down of £2.9m, linked to stabilisation of the terraces which were ultimately transformed into the Clarence Centre, was reflected in the depreciation charge that year.

Cashflows

The University generated a net cash outflow from operating activities of £6.0m in the year. After accounting for the cost of the Capital Investment programme and repayment of loans the net cash position was reduced by £17.3m. However this is after transferring over £10.3m to fixed term bank deposits. Net funds reduced by £5.4m to £23.5m at 31 July 2014.

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Pension liability

The pension liability with the London Pension Scheme Authority (LPFA) has increased from £62.2m to £76.5m, mainly as a result of actuarial losses. The FRS17 charge to the I&E account for the year is £6.9m (interest £2,341k and staff costs £4,581k) and a £12.5m loss is recognised in the statement of total recognised gains and losses (STRGL).

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 25 (2013: 24).

Accounting policies

The University's financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 36-41. 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 £nil in gift aid to the University this year (2013: £0.5m).

SBUEL is fully consolidated into the Group accounts.

Strategic Report

Principal risks and uncertainties

At a corporate level, the principal risks are identified and managed through the University's risk management processes as described in the statement on internal control. The corporate risk register has been the subject of careful and frequent review recently to ensure alignment with the new corporate strategy 2015-2020.

Risk and impact	Mitigation Strategy
Failure to meet recruitment targets leading to under recruitment, loss of HEFCE contract numbers and failure to meet income targets	<ul style="list-style-type: none"> - Financial modelling and scenario analysis, linking student number and financial planning much more closely - Sustainable strategy for recruitment including international students, building on our academic strengths - Different modes of delivery and ensuring differentiated marketing for undergraduate, part-time and post graduate programmes.
Potential loss of NHS contracts, leading to loss of income, loss of student numbers and negative impact on the University's reputation	<ul style="list-style-type: none"> - Five year financial forecast has made allowances for potential reductions - Contract discussions with Health Education England and Local Education and Training Boards (LETBs) - Focus on submission of strong returns to the Research Excellence framework (REF) exercise.
Failure to position the university to effectively respond to changes in government policy and the competitive landscape leading to loss of public funding, loss of HEFCE contract numbers, failure to recruit students and the University's business model becoming unsustainable	<ul style="list-style-type: none"> - Appropriate leadership through senior University appointments and a more strategic approach to Business Intelligence - Realigning the academic offering to the market through restructuring the faculties into 7 new schools.
Effectiveness of delivery impaired as the University goes through a re-structuring process, leading to loss of staff, reduction in service levels and less reliable data.	<ul style="list-style-type: none"> - Project management approach to the change with a Programme Director who reports directly to the Executive - Appointing an Executive Director of HR and freeing up staff from the organisation to act as a change team - New professional service groupings to ensure minimal impact on service delivery - Behavioural framework and extensive communications strategy to support staff engagement.
Increasing Staff pension scheme deficits leading to increased pension costs, weakened balance sheet and more requirement for cash payments into the scheme.	<ul style="list-style-type: none"> - Participation in sector discussions - Tight control of staff costs and early access to pensions - Establishment of a defined contribution pension scheme for some staff.
Ineffective data systems leading to insufficient evidence to support decision making, over recruitment penalties, poor league table and failure to satisfy requirements of professional, statutory and regulatory bodies	<ul style="list-style-type: none"> - Internal audit and systematic data checks - Staff training - Attendance monitoring.

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Going Concern

Governors are satisfied that it is appropriate to prepare the financial statements on a going concern basis. 2013/14 has been another year of continued strong financial performance with a financial surplus of £3.1m.

A reduced budget surplus of £1m for 2014/15 has been approved. The reduced level of surplus is planned and takes account of increased investment to ensure delivery of future required outcomes. The next few years 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 retention and 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 current strong cash position (the University has £53m cash and bank deposits at 31 July 2014), supports the University's ambitious investment plans.

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 has no linked charities.

Charity Commission Guidance on Public Benefit

The members of the Board of Governors are the charitable trustees of the University. In undertaking its duties the Board of Governors has regard to the Charity Commission's guidance on public benefit.

Aims (Charitable Objects)

During the year, the Privy Council approved new Articles for LSBU. The new Articles included revised objects, approved by the Charity Commission. The revised charitable objects (under s.3 Charities Act 2011) of the University are to:

-
- conduct a university for the public benefit for the advancement of education, promotion of research and dissemination of knowledge;
- provide full time and part time courses of education at all levels; and
- provide facilities to promote these objects and provide associated support and welfare for students.

The University's objects are applied solely for the public benefit, as follows.

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.

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The University promotes research and the dissemination of knowledge by:

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

The University provides associated support and welfare for 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.

Beneficiaries

In carrying out its objects the University benefits the wider public, through research and knowledge transfer; and benefits its students and future students through teaching and learning activities.

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. Throughout its history LSBU has enabled wider access to education. The University's Strategy, 2015-2020 sets clear targets to focus on three key areas, all directly related to providing public benefit: student success; real world impact; and access to education.

Like other universities LSBU must charge tuition fees. However, maintenance grants are 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. LSBU's 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.

The University's portfolio is firmly rooted in professional courses supported by accreditation from professional, statutory and regulatory bodies that enhance employability and career success. 86% of graduates were in employment or further education six months after graduating (DLHE survey results 2013). Over 4,500 of LSBU's students are sponsored to study by employers.

The University's research activities also contribute to wider public benefit through the publication of technological advances, scientific knowledge and innovation. The University has undertaken and published research in 2013-14 which will benefit the wider public

Achievements in relation to objectives

LSBU's student body is diverse and reflects its outreach to the wider community. During the year 97.8% of its full time first degree students came from state schools. LSBU is above the location adjusted benchmark in recruiting students from low participation neighbourhoods.

LSBU's Schools 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

Strategic Report

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.

The University Academy of Engineering South Bank, opened in September 2014, is the first academy in South London to be sponsored by a University. The Academy specialises in engineering within the broad science, technology, engineering and maths (STEM) framework. LSBU's sponsorship of the Academy is an example of 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.

Private Benefits

Governors are not paid in their capacity of governors. In revising the University's Articles of Association, an enabling power to remunerate governors was included. This power has not been used. It will only be used if the benefit of remunerating governors outweighs the all other options available.

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.

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Disclosure of information to auditors

At the date of making this report each of the Governors, as set out on page 4, 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 Strategic Report 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:

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:

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 and in doing so complies with the CUC Governance Code of Practice. In carrying out its duties it also has regard to:

- The UK Corporate Governance Code (where applicable)
- The seven principles of behaviour in public life
- The HEFCE Financial Memorandum (now the Memorandum of Assurance and Accountability) 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 it 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 Articles of Association, which govern how the University is run. During the year, the University amended its Articles of Association, approved by the Privy Council on 3 June 2014.

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, as demonstrated below.

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.

The Board met seven times (five in 2012/13) during the year. In addition to the usual five ordinary business meetings the Board met twice (i) to approve the appointment of the Vice Chancellor; and (ii) to approve aspects of the Vice Chancellor designate's remuneration. In addition, the Board held two strategy days (two in 2012/13) allowing further

Corporate Governance Statement

time to discuss and debate longer-term strategic challenges for the University. The Board priorities strategic matters at its meetings. Where necessary, governors receive presentations on a specific strategic matter before Board meetings to allow them to explore key issues in greater depth. All governors are expected to attend meetings and to contribute effectively. Attendance at meetings is recorded and monitored by the Chairman. In the year under review there was an 87% (2012/13: 83%) attendance rate at Board meetings.

The Board has agreed a Statement of Primary Responsibilities (on page 27), which is reviewed annually and published on the University's website. 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 Articles of Association 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 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. No conditions were attached to any of the interests authorised by the Board. In addition, 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 enhances 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 wide 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 Clarence Centre for Enterprise and Innovation on 20th March 2014. The University's Chancellor, Richard Farleigh, acts as the principal figurehead of the University and represents the University's interests externally. His role includes hosting the annual Court event, presiding at degree ceremonies and establishing relationships with the University's stakeholders.

Corporate Governance Statement

Structure and Processes

The Board when fully complemented consists of 18 governors: 13 independent governors, the Vice Chancellor, two student governors and two academic staff members nominated by the Academic Board. Governors serving for the period are listed on page 4. The Board determines the number and composition of the Board of Governors within parameters set by the University's Articles of Association.

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 external and 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 has appointed an independent facilitator to undertake a formal and rigorous review of the effectiveness of governance at the University. The review will include reviewing the effectiveness of the Board and its sub-committees, the Academic Board and its sub-committees, and their relationships with the University Executive. The review will be carried out during 2014/15. The agreed recommendations of the review will be implemented during 2015/16. The Board of Governors last reviewed its effectiveness in 2010.

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 out on page 28. 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;

Corporate Governance Statement

- 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 other senior post holders; 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
- 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. In addition to the four independent governor members, there is one independent external member co-opted to the committee. 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 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. The Committee considers the broad financial implications of the University's staffing needs. 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 three times 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.

Corporate Governance Statement

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 Appointments Committee met twice during the year.

The Remuneration Committee determines the annual remuneration of senior post holders. It met twice during the year.

Modernisation of the Articles

During the year the Board reviewed the University's constitution and a new set of Articles was approved by the Privy Council in June 2014.

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.
- 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.

Corporate Governance Statement

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 David Phoenix
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 Douglas Denham St Pinnock
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.

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 Memorandum of Assurance and Accountability 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 2014 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;

Corporate Governance Statement

- 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 school and professional service group. Review procedures cover risk to achievement of strategic objectives, operational business matters, and regulatory compliance as well as financial risk;
- The Operations Board 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 schools and professional service groups; 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.

The Corporate Governance and Internal Control statements were approved by the Board of Governors on 20 November 2014 and were signed on its behalf by:

Mr David Longbottom

Chair of the Board of Governors

Professor David Phoenix

Vice Chancellor and Chief Executive

Independent auditors' report to the Board of Governors of London South Bank University

We have audited the financial statements of London South Bank University (the 'University') for the year ended 31 July 2014 which comprise the principal accounting policies, the consolidated income and expenditure account, the consolidated statement of total recognised gains and losses, the consolidated statement of historical cost surpluses and deficits, the University and consolidated balance sheet, 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 Governing Body 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 Board of Governors and auditor

As explained more fully in the Statement of Responsibilities set out on page 27, 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 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 Financial Reporting Council'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 2014 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 Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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 managed in accordance with the relevant legislation; and
- funds provided by HEFCE have been applied in accordance with the funding council's Financial Memorandum and any other terms and conditions attached to them.

Independent auditors' report to the Board of Governors of London South Bank University

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us 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.

David Barnes
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
20 November 2014

London South Bank University

Consolidated income and expenditure account Year ended 31 July 2014

		2014	2013
		£'000	£'000
Income	Note		
Funding council grants	1	25,825	34,750
Academic fees and support grants	2	88,453	83,282
Research grants and contracts	3	2,255	3,255
Other operating income	4	17,890	16,001
Endowment income and interest receivable	5	331	566
		<hr/>	<hr/>
Total income		134,754	137,854
		<hr/>	<hr/>
Expenditure			
Staff costs	6	71,663	73,619
Depreciation	13	8,455	7,870
Other operating expenses	8	47,763	46,876
Interest payable	10	3,776	3,433
		<hr/>	<hr/>
Total expenditure		131,657	131,798
		<hr/>	<hr/>
Surplus before exceptional items		3,097	6,056
		<hr/>	<hr/>
Exceptional Items: Deconsolidation of the Students' Union	11	-	(556)
		<hr/>	<hr/>
Surplus for the year		3,097	5,500
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 42-63 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 2014

		2014	2013
		£'000	£'000
	Note		
Surplus for the year	22	3,097	5,500
Actuarial (losses)/gains relating to pension scheme	24	(12,500)	14,237
Change in market value of endowment asset investments	26	7	88
		<hr/>	<hr/>
Total recognised (losses)/ gains relating to the financial year		(9,396)	19,825
		<hr/> <hr/>	<hr/> <hr/>

Reconciliation

Opening reserves and endowments		83,077	63,252
Total recognised (losses)/gains/ for the year		(9,396)	19,825
		<hr/>	<hr/>
Closing reserves and endowments		73,681	83,077
		<hr/> <hr/>	<hr/> <hr/>

Note of consolidated historical cost surplus Year ended 31 July 2014

		2014	2013
		£'000	£'000
Reported surplus for the year	22	3,097	5,500
Difference between historical cost depreciation charge and actual depreciation charge for the year calculated on the revalued amount	22	792	794
		<hr/>	<hr/>
Historical cost surplus for the year		3,889	6,294
		<hr/> <hr/>	<hr/> <hr/>

**Balance sheets
As at 31 July 2014**

		Consolidated		University	
		2014	2013	2014	2013
		£'000	£'000	£'000	£'000
Fixed assets	Note				
Tangible assets	13	176,532	174,292	176,532	174,292
Investments	14	38	38	38	38
		<hr/>	<hr/>	<hr/>	<hr/>
		176,570	174,330	176,570	174,330
Endowment fixed assets					
Total Endowments	26	736	729	736	729
		<hr/>	<hr/>	<hr/>	<hr/>
Stocks		45	18	45	18
Debtors	15	8,663	7,823	9,023	7,770
Bank Deposits		15,540	5,206	15,540	5,206
Cash at bank and in hand		37,492	54,750	36,526	53,821
		<hr/>	<hr/>	<hr/>	<hr/>
		61,740	67,797	61,134	66,815
Creditors: amounts falling due within one year	16	(32,408)	(38,137)	(31,890)	(37,835)
		<hr/>	<hr/>	<hr/>	<hr/>
Net current assets		29,332	29,660	29,244	28,980
		<hr/>	<hr/>	<hr/>	<hr/>
Total assets less current liabilities		206,638	204,719	206,550	204,039
Creditors: amounts falling due after more than one year	17	(28,243)	(29,592)	(28,243)	(29,592)
Pension liability	19	(76,502)	(62,211)	(76,502)	(62,211)
		<hr/>	<hr/>	<hr/>	<hr/>
Net assets		101,893	112,916	101,805	112,236
		<hr/>	<hr/>	<hr/>	<hr/>
Deferred capital grants	20	28,212	29,839	28,212	29,839
Endowments					
Permanent	26	392	388	392	388
Expendable	26	344	341	344	341
		<hr/>	<hr/>	<hr/>	<hr/>
		736	729	736	729
Capital and reserves					
Income & expenditure account excluding pension reserve	22	120,047	114,367	119,959	113,687
Pension reserve	22	(76,502)	(62,211)	(76,502)	(62,211)
		<hr/>	<hr/>	<hr/>	<hr/>
Income and expenditure account including pension reserve		43,545	52,156	43,457	51,476
		<hr/>	<hr/>	<hr/>	<hr/>
Revaluation reserves	21	29,400	30,192	29,400	30,192
		<hr/>	<hr/>	<hr/>	<hr/>
Total		101,893	112,916	101,805	112,236
		<hr/>	<hr/>	<hr/>	<hr/>

These financial statements were approved by the Board of Governors on 20 November 2014 and were signed and authorised on their behalf by:

London South Bank University

Consolidated Cash flow statement Year ended 31 July 2014

	Note	2014 £'000	2013 £'000
Net cash inflow from operating activities	29	6,038	12,729
Returns on investments and servicing of finance	30	(1,103)	(906)
Capital expenditure and financial investment	31	(10,744)	(18,552)
Acquisitions and disposals	32	-	(547)
Net cash outflow before management of liquid resources and financing		<u>(5,809)</u>	<u>(7,276)</u>
Management of liquid resources	33	(10,334)	(61)
Financing	34	(1,115)	(1,914)
Decrease in cash	35	<u><u>(17,258)</u></u>	<u><u>(9,251)</u></u>
Reconciliation of net cash flow to movement in net funds			
Decrease in cash	35	(17,258)	(9,251)
Cash outflow/(inflow) from/(to) liquid resources	33	10,334	61
Net decrease in debt	36	1,470	2,254
Change in net funds		<u>(5,454)</u>	<u>(6,936)</u>
Net funds at 1 August	35	<u>28,961</u>	<u>35,897</u>
Net funds at 31 July	35	<u><u>23,507</u></u>	<u><u>28,961</u></u>

London South Bank University

Principal Accounting Policies Year ended 31 July 2014

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 18 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.

The University Sponsors an Academy, University Academy of Engineering South Bank and is in the process of establishing a University Technical College. Although the University has representation on the Academy's Board of Trustees and Governing Body, the Trustees and Governors act for the Academy and not the University. Furthermore, if the Academy were to fail, the University would not receive its assets or reserves. Therefore the Accounts of the Academy are not consolidated into the University Accounts.

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.

London South Bank University

Principal Accounting Policies Year ended 31 July 2014

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.

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	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.

London South Bank University

Principal Accounting Policies Year ended 31 July 2014

Stocks

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

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.

London South Bank University

Principal Accounting Policies Year ended 31 July 2014

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 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 24).

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.

Financial Instruments

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and it is intended either to settle on a net basis or to realise the asset and settle the liability simultaneously.

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.

London South Bank University

Principal Accounting Policies Year ended 31 July 2014

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.

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.

London South Bank University

Principal Accounting Policies Year ended 31 July 2014

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 2014

1. Funding council grants	2014	2013
HEFCE	£'000	£'000
Recurrent grant	22,102	30,993
Specific grants	808	810
Pension liabilities	244	224
Other funding bodies		
Skills Funding Agency (SFA) grant	-	60
Teaching Agency grant	689	770
Deferred capital grants released (note 20)	1,982	1,893
	<u>25,825</u>	<u>34,750</u>
	<u><u>25,825</u></u>	<u><u>34,750</u></u>
2. Academic fees and support grants	2014	2013
	£'000	£'000
Full-time home and EU students	43,871	38,120
Full-time international students	8,067	8,456
Part-time students	8,606	7,486
Other courses	721	191
Strategic Health Authority education contracts	27,188	29,029
	<u>88,453</u>	<u>83,282</u>
	<u><u>88,453</u></u>	<u><u>83,282</u></u>
3. Research grants and contracts	2014	2013
	£'000	£'000
Research councils	689	1,123
UK based charities	310	279
European Commission	295	434
Other grants and contracts	678	750
Knowledge Transfer Partnerships	283	669
	<u>2,255</u>	<u>3,255</u>
	<u><u>2,255</u></u>	<u><u>3,255</u></u>
4. Other operating income	2014	2013
	£'000	£'000
Residence and catering income	9,626	9,125
Other income	8,264	6,876
	<u>17,890</u>	<u>16,001</u>
	<u><u>17,890</u></u>	<u><u>16,001</u></u>
5. Endowment income and investment income	2014	2013
	£'000	£'000
Income from permanent endowments	12	12
Income from expendable endowments	14	13
Interest receivable	305	541
	<u>331</u>	<u>566</u>
	<u><u>331</u></u>	<u><u>566</u></u>

London South Bank University

Notes to the accounts Year ended 31 July 2014

6. Staff - consolidated	2014	2013
Average staff numbers by major category:	No.	No.
Academic staff	676	665
Part time teaching staff	282	307
Student support staff	366	411
Other support staff	395	385
	<u>1,719</u>	<u>1,768</u>
	2014	2013
Costs:	£'000	£'000
Wages and salaries	58,276	59,355
Social security costs	5,065	5,207
Employers' pension contributions	8,322	9,057
	<u>71,663</u>	<u>73,619</u>

Staff costs for the year include costs arising from redundancies of £1.3m (2013: £1.5m).

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.

	2014	2013
	£'000	£'000
Salaries	378	447
Pension contributions	41	23
	<u>419</u>	<u>470</u>

Governors, who are also all trustees, are paid expenses for attending meetings and duties directly related to their duties as trustees. In 2014 five trustees were paid total expenses of £3,897 (2013: six trustees were paid total expenses of £3,716) for travel and subsistence.

London South Bank University

Notes to the accounts Year ended 31 July 2014

B. Higher paid employees

Certain employees received remuneration (excluding pension contributions) in excess of £100,000 during the Year. Eight of these employees accrued benefits under defined benefit pension schemes during the year (2013:7). These employees are grouped as follows:

	2014 No.	2013 No.
£100,000 to £109,999	2	3
£110,000 to £119,999	3	2
£120,000 to £129,999	-	1
£130,000 to £139,000	3	1
£140,000 to £149,999	1	-
£160,000 to £169,999	1	1
£230,000 to £239,999	-	1
	10	9
	10	9

In addition to the remuneration above, one higher paid employee received compensation for loss of office of £93,000.

C. Remuneration of the Vice Chancellor

	2014 £'000	2013 £'000
Salary and taxable benefits	247	233
Pension Scheme Contributions	20	-
	267	233
	267	233

Remuneration of the Vice Chancellor (excluding pension contributions) includes payments of £140,383 to the current Vice Chancellor Professor David Phoenix, and payments to former Vice Chancellor Professor Martin Earwicker of £106,906. Professor Martin Earwicker was employed until to 31st December 2013 and Professor David Phoenix commenced employment on 1st January 2014. The Vice Chancellor is the highest paid Governor. The Vice Chancellor is a member of the Teachers' Pension Scheme. The nature of the scheme means it is not possible to ascertain the amount of his accrued pension at the year end.

8. Other operating expenses	2014 £'000	2013 £'000
Academic	11,487	13,585
Academic support	5,845	5,232
Other support	5,668	5,174
Premises	16,912	16,076
Residence and catering	1,758	1,089
Other expenses	6,093	5,720
	47,763	46,876
	47,763	46,876

London South Bank University

Notes to the accounts Year ended 31 July 2014

	2014	2013
	£'000	£'000
Group other operating expenses are stated after charging:		
Auditors' remuneration		
<i>External audit</i>		
Grant Thornton UK LLP*	49	51
<i>Internal audit**</i>	98	95
PricewaterhouseCoopers LLP		
<i>Other services**</i>		
Grant Thornton UK LLP	3	3
Rentals under operating leases		
Plant and machinery	356	269
Other assets	-	120
Loss on disposal of fixed assets	50	8

* Includes £44,714 attributable to the University (2013: £47,736)

** All attributable to the University

Depreciation includes £192,000 attributable to assets held under finance leases (2013: £340,000)

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 £ (2013: £13,410). The asset would be recovered if suitable taxable profits were to arise in the future against which the asset could be offset.

	2014	2013
	£'000	£'000
10. Interest payable		
Loans repayable within five years	-	15
Loans not wholly repayable within five years	1,423	1,420
Unwinding of discount in respect of pension liability less expected return on pension assets (see note 19)	2,341	1,961
Finance leases	12	37
	<u>3,776</u>	<u>3,433</u>

11 Exceptional items

There were no exceptional items in the year ending 31st July 2014. The Exceptional item of £556,000 for the year ending 31st July 2013 related to a loss on derecognition following a change to the constitution of the London South Bank University Students' Union.

London South Bank University

Notes to the accounts Year ended 31 July 2014

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 £3.1m (2013: £6.1m).

London South Bank University

Notes to the accounts Year ended 31 July 2014

13. Tangible fixed assets (University and 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 2013	33,013	167,111	47,281	52	17,267	264,724
Additions	308	-	-	-	10,437	10,745
Disposals	(185)	-	-	-	-	(185)
Transfers	7,545	10,614	-	-	(18,159)	-
At 31 July 2014	<u>40,681</u>	<u>177,725</u>	<u>47,281</u>	<u>52</u>	<u>9,545</u>	<u>275,284</u>
Depreciation						
At 1 August 2013	(24,723)	(41,430)	(24,234)	(45)	-	(90,432)
Charge for the year	(2,830)	(4,330)	(1,295)	-	-	(8,455)
Disposals	135	-	-	-	-	135
At 31 July 2014	<u>(27,418)</u>	<u>(45,760)</u>	<u>(25,529)</u>	<u>(45)</u>	<u>-</u>	<u>(98,752)</u>
Net book value						
At 31 July 2014	<u>13,263</u>	<u>131,965</u>	<u>21,752</u>	<u>7</u>	<u>9,545</u>	<u>176,532</u>
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>

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 2014 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	33,013	98,763	24,854	52	9,545	166,227
Depreciation	(24,723)	(24,099)	(15,961)	(45)	-	(64,828)
Net book value	<u>8,290</u>	<u>74,664</u>	<u>8,893</u>	<u>7</u>	<u>9,545</u>	<u>101,399</u>

London South Bank University

Notes to the accounts Year ended 31 July 2014

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 £11.1m, represented by land of £0.7m and £10.4m cost of redeveloping the Clarence Centre for Innovation and Enterprise.
- ❖ 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 (2013: £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 2014

Assets held under Finance Leases

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

	2014 £000	2013 £000
Cost	2,870	2,870
Accumulated depreciation	(2,815)	(2,623)
Net book value	55	247
Depreciation charge for the year	192	340

14. Investments

	Consolidated		University	
	2014 £000	2013 £000	2014 £000	2013 £000
CVCP Properties plc	38	38	38	38

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 2014 (2013: £nil).

Other investments

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

London South Bank University

Notes to the accounts Year ended 31 July 2014

15. Debtors: amounts falling due within one year	Consolidated		University	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Trade debtors	5,284	4,849	5,430	5,104
Amounts owed by group undertakings	-	-	554	17
Other debtors	271	672	198	617
Prepayments & accrued income	2,758	2,302	2,491	2,032
Total debtors due within one year	8,313	7,823	8,673	7,770
Debtors: amounts falling due after one year: amounts owed by related parties (note 25)	350	-	350	-
Total Debtors	8,663	7,823	9,023	7,770

16. Creditors: amounts falling due within one year	Consolidated		University	
	2014 £'000	2013 £'000	2014 £'000	2013 £'000
Bank and other loans	1,294	1,278	1,293	1,277
Obligations under finance leases	55	192	55	192
Trade creditors	1,997	1,652	1,997	1,652
Other creditors	957	1,547	892	1,487
Social security and other taxation payable	1,354	1,482	1,354	1,482
Accruals and deferred income	26,751	31,986	26,299	31,745
Total	32,408	38,137	31,890	37,835

17. Creditors: Amounts falling due after more than one year	Consolidated and University	
	2014 £'000	2013 £'000
Bank and other loans	28,243	29,537
Obligations under finance leases	-	55
Total	28,243	29,592

18. Borrowings	Consolidated and University	
	2014 £'000	2013 £'000
Bank loans and finance leases are repayable as follows:		
Due in less than one year (note 16)	1,349	1,470
Due between one and two years	1,309	1,349
Due between two and five years	4,039	3,981
Due after five years	22,895	24,262
Total due after one year (note 17)	28,243	29,592
Total	29,592	31,062

London South Bank University

Notes to the accounts Year ended 31 July 2014

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 2014 was £5.000 million (2013: £5.377 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 halls of residences. Within the facility, the following balances are outstanding at 31 July 2014:
 - An amount of £5.441 million in respect of David Bomberg House was outstanding at 31 July 2014 (2013: £5.752 million). This borrowing is repayable over 25 years to 2032 and bears interest at a fixed rate of 5.67% per annum.
 - A further £21.830 million of the Barclays facility was drawn down to finance the K2 building. Of this amount, £18,896 million was outstanding at 31 July 2014 as follows: £5.000m (2013: £5.000m) is interest-only, repayable in April 2029, and bears interest at a fixed rate of 5.25% per annum; £8.625m (2013: £8.917m) is repayable over 23.25 years to 2032 and bears interest at a fixed rate of 5.54% per annum, and £5.271 (2013: £5.568m) is repayable over 23 years to 2032 and bears interest at a variable rate of 0.225% above LIBOR per annum.

19. 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	
	2014	2013
	£'000	£'000
Balance at 1 August	62,211	74,664
Current service cost	4,228	4,449
Settlements and curtailments	104	307
Contributions	(4,882)	(4,933)
Other finance cost (note 24)	2,341	1,961
Actuarial losses/(gains) recognised in STRGL (note 24)	12,500	(14,237)
Balance at 31 July	76,502	62,211

London South Bank University

Notes to the accounts Year ended 31 July 2014

20. Deferred capital grants	Consolidated and University						
	<table border="0" style="width: 100%;"> <tr> <td style="text-align: right;">Land and buildings</td> <td style="text-align: right;">Equipment</td> <td style="text-align: right;">Total</td> </tr> <tr> <td style="text-align: right;">£'000</td> <td style="text-align: right;">£'000</td> <td style="text-align: right;">£'000</td> </tr> </table>	Land and buildings	Equipment	Total	£'000	£'000	£'000
Land and buildings	Equipment	Total					
£'000	£'000	£'000					
Balance at 1 August 2013	26,165 3,674 29,839						
Release to income and expenditure account (note 1)	(1,286) (696) (1,982)						
Grants received	- 355 355						
Transfers to deferred income	-						
Balance at 31 July 2014	24,879 3,333 28,212						
21. Revaluation reserves	Consolidated and University						
	<table border="0" style="width: 100%;"> <tr> <td style="text-align: right;">2014</td> <td style="text-align: right;">2013</td> </tr> <tr> <td style="text-align: right;">£'000</td> <td style="text-align: right;">£'000</td> </tr> </table>	2014	2013	£'000	£'000		
2014	2013						
£'000	£'000						
Balance at 1 August	30,192 30,986						
Transfer to income & expenditure reserves being excess depreciation on revalued assets (note 22)	(792) (794)						
Balance at 31 July	29,400 30,192						
22. Income and expenditure account	Consolidated University						
	<table border="0" style="width: 100%;"> <tr> <td style="text-align: right;">2014</td> <td style="text-align: right;">2014</td> </tr> <tr> <td style="text-align: right;">£'000</td> <td style="text-align: right;">£'000</td> </tr> </table>	2014	2014	£'000	£'000		
2014	2014						
£'000	£'000						
Reserve							
Balance at 1 August 2013	114,367 113,687						
Surplus for the year	3,097 3,689						
Transfer from revaluation reserve	792 792						
Net FRS17 pension costs transferred to pension reserve	1,791 1,791						
Balance at 31 July 2014	120,047 119,959						
Pension reserve							
Balance at 1 August 2013	(62,211) (62,211)						
Actuarial loss	(12,500) (12,500)						
Net FRS17 pension costs transferred from income and expenditure reserve	(1,791) (1,791)						
Balance at 31 July 2014	(76,502) (76,502)						
23. Designated reserves							
The income and expenditure account of the Group does not include any amount which are designated reserves. (2013: £nil).							

Notes to the accounts Year ended 31 July 2014

24. 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, 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.

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 million. The value of the assets (estimated future contributions together with the proceeds of notional investments) amounted to £163,240 million. 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% (2013: 14.1%) of salaries and the University's contribution to the TPS for 2014 was £3,590,765 (2013: £3,549,403). Employee contribution rates were between 6.4% and 12.4% 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.

London South Bank University

Notes to the accounts Year ended 31 July 2014

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 2014 is 16% of salaries.

The latest triennial valuation of the scheme for which results are available 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. A formal triennial valuation took place at 31 March 2014. It is expected to show a considerable ongoing scheme deficit. Although the formal results of the valuation are not expected until later in 2014, the employers and the University and College Union continue to work together constructively to respond to the USS funding position. The contribution rate will be reviewed as part of this valuation and may be reviewed more frequently.

At 31/7/14 the University had 48 active members participating in the scheme. The University's contribution to the USS for 2014 was £414,047 (2013: £409,605). The scheme has tiered employer contribution rates of between 6% and 9% depending on employee earnings.

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 2013 with the valuation results taking into account changes to the scheme from 1 April 2014. The results showed the market value of the Fund's assets attributable to the University as £92.17m. The actuarial value of those assets represented 69% 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. New employer contribution rates effective from 1 April 2014 are 15.2% of pensionable salaries to cover the cost of future service plus an annual lump sum of £1,418,000 to clear the deficit over a recovery deficit period of 17 years.

London South Bank University

Notes to the accounts Year ended 31 July 2014

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 2014	31 July 2013
	% per annum	% per annum
Salary increases	4.5	4.2
Pension and price increases	2.7	2.5
Discount rate	4.2	4.7

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	Females
	Years	Years
Current pensioners	21.8	25.0
Future pensioners	24.2	27.2

London South Bank University

Notes to the accounts Year ended 31 July 2014

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 2013 for the year to 31 July 2014). 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 2014	Fair value as at 31 July 2014 £'000	Expected rate of return at 31 July 2013	Fair value as at 31 July 2013 £'000
Equities	6.7%	44,008	6.4%	45,279
Target return portfolio	6.1%	28,644	4.9%	27,938
Alternative assets	-	-	5.4%	7,707
Cash	3.2%	13,803	0.5%	944
Cashflow matching	3.4%	6,116	3.4%	14,451
Infrastructure	6.3%	3,343	-	-
Commodities	6.1%	1,067	-	-
Property	5.6%	2,745	-	-
Total fair value of assets		<u>99,726</u>		<u>96,319</u>

C. The London Pension Fund (continued)

Net pension liability

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

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Fair value of Employer Assets	99,726	96,319	80,635	78,471	70,432
Present value of funded obligations	<u>(164,260)</u>	<u>(146,774)</u>	<u>(143,181)</u>	<u>(121,971)</u>	<u>(123,986)</u>
Net underfunding in funded plans	(64,534)	(50,455)	(62,546)	(43,500)	(53,554)
Present value of unfunded obligations	<u>(11,968)</u>	<u>(11,756)</u>	<u>(12,118)</u>	<u>(11,840)</u>	<u>(12,065)</u>
Net Pension Liability	<u>(76,502)</u>	<u>(62,211)</u>	<u>(74,664)</u>	<u>(55,340)</u>	<u>(65,619)</u>

The movement for the year in the net pension liability is shown in note 19.

London South Bank University

Notes to the accounts Year ended 31 July 2014

Analysis of the amount included in staff costs for the year

	2014	2013
	£'000	£'000
Current service cost	4,228	4,449
Curtailments and settlements	104	307
Enhancements to former employees (recoverable in full from HEFCE (note 1))	249	229
Total operating charge	<u>4,581</u>	<u>4,985</u>

Analysis of the amount included in interest payable for the year

	2014	2013
	£'000	£'000
Expected return on pension scheme assets	(5,209)	(4,173)
Interest on pension scheme liabilities	7,550	6,134
Net charge	<u>2,341</u>	<u>1,961</u>

Analysis of the amount recognised in STRGL

	2014	2013
	£'000	£'000
Actual return less expected return on pension scheme assets	(2,910)	11,058
Experience gains and losses	10,002	(237)
Changes in assumptions underlying the present value of scheme liabilities	(19,592)	3,416
Actuarial (losses)/ gains recognised in STRGL	<u>(12,500)</u>	<u>14,237</u>

24. Pension arrangements (continued)

Analysis of movement in the present value of scheme liabilities

	2014	2013
	£'000	£'000
At 1 August	158,530	155,299
Current service cost	4,228	4,449
Interest cost	7,550	6,134
Actuarial loss/(gains)	9,590	(3,179)
Losses on curtailments	104	307
Benefits paid	(4,248)	(4,877)
Contributions by scheme participants	1,323	1,294
Unfunded pension payments	(849)	(897)
At 31 July	<u>176,228</u>	<u>158,530</u>

London South Bank University

Notes to the accounts Year ended 31 July 2014

Analysis of movement in the fair value of scheme assets

	2014 £'000	2013 £'000
At 1 August	96,319	80,635
Expected return on scheme assets	5,209	4,173
Actuarial (losses)/gains	(2,910)	11,058
Contributions by employer	4,033	4,036
Contributions by scheme participants	1,323	1,294
Benefits paid	(4,248)	(4,877)
	<hr/>	<hr/>
At 31 July	<u>99,726</u>	<u>96,319</u>

The projected pension expense for the year to 31 July 2015 is £6,141,000 (2014: £6,665,000)

Experience gains & losses in year

	2014 £'000	2013 £'000	2012 £'000	2011 £'000	2010 £'000
Difference between the actual and expected return on pension scheme assets	(2,910)	11,058	(4,000)	1,206	1,935
Experience gains and losses arising on scheme liabilities	10,002	(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	175,030	176,228	181,417
Projected service cost	4,350	4,228	4,541
Adjustment to mortality age rating assumption	+1 Year	None	- 1 Year
Present Value of total obligation	172,413	176,228	183,974
Projected service cost	4,306	4,228	4,582

D. London South Bank University Defined Contribution Scheme.

The University provides a defined contribution pension scheme through Friends Life for employees of London South Bank University Enterprises Limited (SBUEL). At 31/7/14 the University had 9 members participating in the scheme. The University's contribution to the Friends Life scheme for 2014 was £22,750 (2013: nil) and employers contribution rates ranged from 6%-9%. Pension contributions payable at 31st July 2014 were nil (2013: nil)

London South Bank University

Notes to the accounts Year ended 31 July 2014

25. 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.

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.

During the year the LSBU Students' Union received financial support from the University of £727,000, 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.

The Vice Chancellor of the University is a member of the University Academy of Engineering South Bank (UEASB), which the University sponsors. During the year UEASB paid the University £8,527 in reimbursement of actual expenses incurred on behalf of the Academy.

The Vice Chancellor of the University, Professor David Phoenix received an interest free loan as part of a relocation package agreed for him. Professor David Phoenix is an employee of the University. The amount of the loan was £350,000 and was solely to purchase a specified property. The loan is repayable on 30th October 2015 (or later as agreed). As of 31st July 2014 the outstanding balance was £350,000. The loan is fully secured by way of legal mortgage on the property in favour of London South Bank University.

26. Endowments

	Consolidated and University			
	Unrestricted Permanent £'000	Restricted Expendable £'000	2014 Total £'000	2013 Total £'000
Balance at 1 August 2013	388	341	729	641
Investment income	14	12	26	25
Expenditure	(14)	(12)	(26)	(25)
Increase in market value of investments	4	3	7	88
Balance at 31 July 2014	392	344	736	729

27. Operating lease commitments

At 31 July 2014 the University and the Group were committed to making the following annual payments in respect of operating leases on land and buildings:

	2014 £'000	2013 £'000
Expiring in over five years	51	51
	51	51

London South Bank University

Notes to the accounts Year ended 31 July 2014

	Consolidated and University	
	2014	2013
	£'000	£'000
28. Capital commitments		
Commitments contracted at 31 July	5,369	5,006
	<u>5,369</u>	<u>5,006</u>
Commitments include those relating to building projects, being undertaken as part of the University's Estates and ICT Strategy.		
29. Reconciliation of consolidated operating surplus to net cash inflow from operating activities		
	2014	2013
	£'000	£'000
Surplus after depreciation of assets at valuation	3,097	6,056
Depreciation (note 13)	8,455	7,870
Loss on disposal of fixed assets	50	8
Investment income	(331)	(566)
Interest payable (note 10)	3,776	3,433
(Increase)/Decrease in stocks	(27)	21
(Increase)/Decrease in debtors	(841)	1,248
Decrease in creditors	(5,609)	(2,092)
Decrease in provisions	(550)	(1,356)
Deferred capital grants released to income (note 20)	(1,982)	(1,893)
	<u>6,038</u>	<u>12,729</u>
Net cash inflow from operating activities	6,038	12,729
30. Returns on investments and servicing of finance		
	2014	2013
	£'000	£'000
Income from endowments (note 5)	26	25
Interest receivable (note 5)	305	541
Interest paid (note 10)	(1,434)	(1,472)
	<u>(1,103)</u>	<u>(906)</u>
Net cash outflow from returns on investments and servicing of finance	(1,103)	(906)
31. Capital expenditure and financial investment		
	2014	2013
	£'000	£'000
Payment to acquire tangible fixed assets	(10,744)	(18,544)
Adjustment for Students' Union assets	-	(8)
	<u>(10,744)</u>	<u>(18,552)</u>
Net cash outflow from capital expenditure and financial investment	(10,744)	(18,552)
	<u>£'000</u>	<u>£'000</u>
Transfer of assets to Students' Union	-	(547)

London South Bank University

Notes to the accounts Year ended 31 July 2014

32. Acquisitions and disposals		2014	2013
33. Management of Liquid Resources		2014	2013
		£'000	£'000
Cash added to fixed term		(10,334)	(61)
Net cash outflow from returns on investments and servicing of finance		<u>(10,334)</u>	<u>(61)</u>
34. Financing		2014	2013
		£'000	£'000
Capital element of bank loan repayments		(1,277)	(1,914)
Capital element of finance lease repayments		(193)	(340)
Capital grants received in year		355	340
Net cash outflow from financing		<u>(1,115)</u>	<u>(1,914)</u>
35. Analysis of changes in net funds	At 31 July 2013 £'000	Cash flow £'000	At 31 July 2014 £'000
Cash at bank and in hand	54,750	(17,258)	37,492
Endowment asset investments	67	-	67
	<u>54,817</u>	<u>(17,258)</u>	<u>37,559</u>
Fixed Term deposits	5,206	10,334	15,540
Debt due within one year (note 16)	(1,470)	121	(1,349)
Debt due after more than one year (note 17)	(29,592)	1,349	(28,243)
Net funds	<u>28,961</u>	<u>(5,454)</u>	<u>23,507</u>
36. Analysis of changes in financing during the year		2014	2013
		£'000	£'000
Bank and Other Loans			
Balance at 1 August		31,062	33,316
Capital repayments		(1,470)	(2,254)
Balance at 31 July		<u>29,592</u>	<u>31,062</u>

London South Bank University

Notes to the accounts Year ended 31 July 2014

37. Access & Hardship funds	2014	2013
	£'000	£'000
Balance at 1 August	5	21
HEFCE grant	530	543
Administration costs	(15)	(15)
Distributed to students	(520)	(521)
Funds returned	-	(23)
	<hr/>	<hr/>
Balance at 31 July	-	5
	<hr/> <hr/>	<hr/> <hr/>

Access and Hardship funds are paid to universities by HEFCE 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 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.

38. Teacher Training Bursaries	2014	2013
	£'000	£'000
Balance at 1 August	(190)	(61)
Funding council grant	682	692
Disbursed to students	(569)	(821)
	<hr/>	<hr/>
Balance at 31 July	(77)	(190)
	<hr/> <hr/>	<hr/> <hr/>

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.

	PAPER NO: AC.57(14)
Paper title:	Letter of Representation to Auditors
Board/Committee	Audit committee
Date of meeting:	30 October 2014
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To agree the letter of representation.

Matter previously considered by:	N/A	N/A
Further approval required?	Board	On: 20 November 2014

Executive Summary

The letter of representation requires the Board of Governors to give specific assurances to the auditors over matters regarding the financial statements and the year-end audit. It is to be signed by the Chairman of the Board at the time of signing the accounts.

The draft letter is attached. There are no non-standard matters inserted specific to LSBU or arising as a result of the audit which require reference in the letter of representation.

It is recommended that the Audit Committee review the attached Letter of Representation and recommend approval to the Board.

{Prepare on LSBU letterhead**}**

Our Ref: L05822015/DB/AT

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

20th November 2014

Dear Sirs

London South Bank University
Financial Statements for the year ended 31 July 2014

This representation letter is provided in connection with the audit of the financial statements of London South Bank University and its subsidiary undertaking(s) as shown in Appendix I to this letter for the year ended 31 July 2014 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 Board 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 16 July 2014.

Financial Statements

- i As set out in the Statement of Responsibilities of the Board of Governors on page 22, 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 of the University, 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 for Schools, 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, attached to this letter, 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.
- xi 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.

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 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.

- vi 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.
- vii 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.
- viii 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.
- ix 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.
- x We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
- xi 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 the Charity Commission, nor any events considered for submission, during the year or in the period to the signing of the balance sheet.

Yours faithfully

Appendix I
List of subsidiary undertakings

South Bank University Enterprises Limited

Additional written representations from management or those charged with governance

The general letter of representation includes all written representations that are required to be made by management or those charged with governance for **every** audit.

In addition to the required representations, other ISAs (UK and Ireland) require the auditor to request written representations when certain factors or situations are triggered. These ISAs and the representations are included in section 1 below.

The auditor may also determine it is necessary to obtain one or more written representations to support other audit evidence relevant to the financial statements or one or more specific assertions in the financial statements. Section 2 includes some examples of such representations.

1 Representations required by other ISAs where applicable

ISA 540.22 Auditing accounting estimates

The auditor should request specific representations from management about whether significant assumptions used in making accounting estimates are reasonable.

ISA 570.16(e) Going concern

Where events or conditions have been identified that may cast significant doubt on the entity's ability to continue as a going concern (irrespective of whether a material uncertainty exists) the auditor should request specific representations from management regarding their plans for future action and the feasibility of these plans.

ISA 710.9 Comparative information

The auditor should request specific representations from management about restatement made to correct a material misstatement in prior period financial statements that affect the comparative information.

2 Other representations

ISA 580.A10 Written representations [Financial Statements]

Where relevant you may want to include representations about the following:

- whether the selection and application of accounting policies are appropriate;
- whether matters such as the following have been measured, presented or disclosed in accordance with the applicable financial reporting framework:
 - Plans or intentions that may affect the carrying value or classification of assets and liabilities;
 - Liabilities, both actual and contingent;
 - Title to, or control over, assets, the liens or encumbrances on assets, and assets pledged as collateral;
 - Aspects of laws, regulations and contractual agreements that may affect the financial statements, including non-compliance.

Examples of representations:

Under Financial Statements:

Except as stated in the financial statements:

- a. there are no unrecorded liabilities, actual or contingent
- b. none of the assets of the company has been assigned, pledged or mortgaged
- c. there are no material prior year charges or credits, nor exceptional or non-recurring items requiring separate disclosure.

There were no transactions, arrangements or agreements to provide credit facilities, (including loans, quasi-loans or credit transactions and guarantees to involving directors or officers that should be disclosed in the financial statements under section 412 and 413 of the Companies Act 2006 except as disclosed in note [..].

The company 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.

We have no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.

We have signed sales and service franchise agreements with the manufacturer under the new Block Exemptions regulations. We are not serving the termination period for any current franchised held, nor have we been notified of any impending franchise termination notice from any manufacturer. We anticipate meeting all standards and special arrangements required by the manufacturer.

ISA 580.A11 Written representations [Information Provided to the Auditor]
In addition to the standard written representations required by ISA 580.11 for all audits, we may consider it necessary to request management to provide the following representation:

Under Information Provided:

We have communicated to you all deficiencies in internal control of which we are aware.

ISA 580.A12 Written representations [Specific Assertions]

Written representations maybe required in other areas such as:

profit or losses foreseen on long term contract work in progress
likely outcomes of litigation or uncertain situations
representations concerning transactions which involve the application of specific areas of
PAYE/NI, VAT or other corporate taxes eg casual labour
any further areas of completeness or judgement
any other areas where representations are necessary to provide adequate audit evidence

	PAPER NO: AC.58(14)
Paper title:	External Audit Performance
Board/Committee	Audit committee
Date of meeting:	30 October 2014
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To consider the performance of the Grant Thornton during their audit for the year ending 31 st July 2014

Executive Summary	
Context	The external audit for the year ended 31 July 2014 has been completed and a summary of performance against agreed KPIs is attached.
Question	Has the performance of Grant Thornton been in line with agreed KPIs?
Conclusion & Recommendation	No material issues have arisen. The committee is requested to note this report.

Matter previously considered by:	N/A	N/A
Further approval required?	None	N/A

Key Performance Indicators (KPIs)

The agreed KPIs are listed below with a summary of performance against them for the 2013/14 financial year end audit.

Dialogue with the University

1.	<p>Establish and maintain good lines of communication throughout the year and at critical times for the Audit.</p> <p><i>Measure/Target:</i></p> <ul style="list-style-type: none"> • <i>Significant issues identified during fieldwork communicated immediately and directly to the Chief Financial Officer</i> • <i>Audit planning and clearance meetings set up by 30 June of each year</i> • <i>Auditor to update LSBU on any significant Financial Reporting developments as and when they occur</i>
	<ul style="list-style-type: none"> • 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 14th May 2014. 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 8th. • Achieved. Any Financial Reporting developments were discussed as they occurred.
2.	<p>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.</p> <p><i>Measure/Target: Areas of risk and management responses agreed by 31 May</i></p>
	<ul style="list-style-type: none"> • Achieved. Audit planning meeting held 14th May 2014 with Audit Approach Memorandum presented to Audit Committee on 13th June 2014.

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 26th September 2014. • Draft financial statements considered by Audit Committee on 30 October 2014.

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 Chief Financial Officer</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 Chief Financial Officer at a meeting on the 8th October 2014.

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.
	<i>Measure/Target: Reports completed and submitted 10 working days before date of relevant committee meeting</i>
	<ul style="list-style-type: none"> • Partially achieved: Audit Findings document finalised and sent to the University on 16th October, 6 working days before Audit Committee on the 22nd 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.
<i>Measure/Target: No avoidable staff rotation, with exception of 5 year partner rotation</i>	
<ul style="list-style-type: none">• Achieved. Deborah Moorhouse took over as Audit Manager following Amanda Tilley's departure from the company. Otherwise all key members of the team continued from 2013 including David Barnes as audit partner, Omedevi Jani as Supervisor and Lucy Morton as the Executive Auditor. All members of the team were suitably experienced and prepared for the audit and the University experienced no issues or delays as a result of working with the team.	
10.	Effective liaison with the internal auditors in order to maximise efficiency from total audit effort.
<i>Measure/Target:</i> <ul style="list-style-type: none">• <i>External auditors meet internal auditors as part of planning process</i>• <i>External auditors review completed internal audit reports and rely on their work if appropriate</i>	
<ul style="list-style-type: none">• 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 amended their audit approach as required.	

	PAPER NO: AC.59(14)
Paper title:	Review of non-audit services
Board/Committee	Audit committee
Date of meeting:	30 October 2014
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To review Grant Thornton's non audit services for the year ending 31 July 2014.

Executive Summary	
Context	The University has engaged Grant Thornton to conduct the audit for the year ending 31 July 2014.
Question	Have the auditors, Grant Thornton, carried out any non-audit services during the year?
Conclusion & Recommendation	Tax advisory services with a value of £4,050 including VAT were delivered by Grant Thornton, with the work being carried out by an engagement team completely separate from the audit team. The committee is requested to note this report.

Matter previously considered by:	N/A	N/A
Further approval required?	None	N/A

	PAPER NO: AC.60(14)
Paper title:	Review of Internal Controls
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	John Baker, Corporate & Business Planning Manager
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To set out the statement on internal control for approval and inclusion in the year-end financial accounts and to set out the assurance sources in support of the full compliance statement.

Executive Summary	
Context	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. This paper was considered in detail at the September audit committee and no material changes have been made since that date. A further final review will be made before the accounts are signed but no further changes are expected and any subsequent reporting will be by exception.
Question	Do the assurance sources support a full compliance statement on internal control?
Conclusion & Recommendation	<p>The proposed 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</p> <p>The Executive recommends that Committee:</p> <ul style="list-style-type: none"> • Notes that no material changes have been made to the report since review at September Audit Committee, and • Approves the annual full compliance statement.

Matter previously considered by:	Operations Board	16 September 2014
	Audit Committee	25 September 2014
Further approval	N/A	

London South Bank
University

required?		
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London South Bank University

System of Internal Controls

Annual Review of Effectiveness
Year ended 31 July 2014

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 Register as at 5th September 2014

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 2014 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 2014 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 7th April 2014 (and as reported to Board and Audit Committee at subsequent meetings) 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 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.

Internal Audit

- The programme of internal audit work for the year ended 31 July 2014 was aligned to the corporate risk framework to provide assurance on the effectiveness of controls in key risk areas.
- The 13/14 internal audit programme included a review of risk management. Corporate Risk is regularly reported to the Executive and the Board of Governors and Audit Committee. Operational risk registers continued to be monitored closely by the Executive through the Quarterly Business Review meetings.

The conclusions from internal audit work are discussed in more detail in section 5 of this report. No critical risk findings were identified in 2013/14. Only 2 high risk findings were identified in 2013/14, and except for these the opinion of the internal auditors is that London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over Risk management, control and governance, and Value for money processes.

Internal Governance

- The Corporate Risk Register is aligned to the Corporate Strategy, and is reviewed by the Executive on a monthly basis and updated regularly. It has recently been re-structured to align to the new corporate strategy 2015/2020.
- The Corporate Risk Register has been submitted to every meeting of the Board of Governors and the Audit Committee.
- In addition to the Risk Register, 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 Board of Governors, 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 Register has been subject to monthly review by the Executive and has been updated as appropriate. The Risk Register has been aligned with the University's Corporate Strategy 2015-2020.

The main changes to the corporate risk register have been the addition of new risks relating to the structural transition of the institution.

The current Corporate Risk Register 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 issued for every financial period.

5. Results of internal audit work for 2013/14

The University's Internal Auditors for the period under review were PricewaterhouseCoopers LLP (PwC) and their opinion for 2013/14 is set out in their internal audit annual report.

The PwC opinion for 2013/14 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 2013/14.

They have completed the program of internal audit work for the financial year ended 31 July 2014, and their opinion is:

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 2013/14.

We have completed the program of internal audit work for the financial year ended 31/07/2014, and except for the areas noted below, we believe London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over:

- *Risk management, control and governance; and*
- *Value for money processes.*

Our review of Risk Management has been assigned a low risk rating and our audit fieldwork shows that there has been an improvement in the core control and governance environment. Although there were some ongoing control issues, particularly relating to payroll controls during the year, our most recent Continuous Auditing report did not identify any exceptions providing some assurance that the control environment surrounding key financial systems has stabilised and is operating effectively.

Only two high risk findings have been raised in 2013/14. Both of these relate to control issues which are specific to the processing of Student Module Data. We have also noted some control issues surrounding IT, as part of our Phishing review which we believe has implications on London South Bank University's control framework.

Our work over value for money indicates that the processes in place to ensure value for money is achieved are in accordance with good practice, for example: establishment of a value for money working group; alignment to business planning and corporate plan; and adherence to financial controls.

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
8 th July 2014	Key performance indicators	To note a progress report from the Vice Chancellor
	Risk Strategy & Appetite	To approve these documents
	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.
22 nd May 2014	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
20 th March 2014	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
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)
21 st November 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
	Annual report from Audit	To note report from the Chair of Audit

21 st November 2013	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 2013	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
17 th October 2013	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
12 th June 2014	Corporate risk report	To consider the report on corporate risks from the Executive Director of Finance
	Risk Strategy & Appetite	To approve these documents
	Internal Audit progress report 2013/14	To note report from internal auditors on audit progress for 2013/14
	Internal Audit Reports 2013/14:	To note reports completed from 2013/14 internal audit plan
	<ul style="list-style-type: none"> • Business Continuity • Payroll Project Implementation • IT Security & Phishing 	

12 th June 2014	<ul style="list-style-type: none"> • Continuous Audit Quarters 2 & 3 • TRAC reporting 	
	Internal Audit plan 2014/15 & Re-Tender	To preview plan from internal auditors for activity in 2014/15
	External audit plan for 2014/15	To approve plan from external auditors
6 th February 2014	Corporate risk report	To consider the report on corporate risks from the Executive Director of Finance
	Internal Audit progress report 2013/14	To note report from internal auditors on audit progress for 2013/14
	Internal Audit Reports 2013/14:	To note reports completed from 2013/14 internal audit plan
	<ul style="list-style-type: none"> • HESA Finance Return • Student Module Data • Continuous Audit Q1 	
	Internal Audit Key Performance Indicators	To approve report from internal auditors
31 st October 2013	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 2013	To consider the report from the Executive Director of Finance
	Internal audit annual report	To note report from internal auditors
	Internal Audit OIA report	To report on audit into circumstances leading to an OIA complaint.
	Internal audit progress report	To note report from internal auditors on audit progress for 2013/14
	Audit Committee Annual Report	To approve the Audit Committee Annual Report
	HEFCE assurance report	To note a report from HEFCE

26 th September 2013	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 2012/13 audit plan areas
	<ul style="list-style-type: none"> • Continuous Audit Q4 12/13 • Progress Report 	
	External Reporting (HESES HESA) progress report	To note progress report by Pro-Vice Chancellor (Academic)

Policy and Resources	Report	Purpose
24 th June 2014	Key performance indicators update	To consider the corporate plan KPIs progress report
6 th May 2014	Key performance indicators update	To consider the corporate plan KPIs progress report
4 th March 2014	Key performance indicators update	To consider the corporate plan KPIs progress report
12 th November 2013	Key performance indicators update	To consider the corporate plan KPIs progress report
1 st October 13	Key performance indicators update	To consider the corporate plan KPIs progress report

In addition:

The Audit Committee has reviewed the following reports at meetings in September 2014 and October 2014 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 2014
- External auditor's Key Issues memorandum (KIM).

The Board will conduct a detailed review of the corporate risk register at its meeting in November 2014.

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.

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 Memorandum of Assurance and Accountability 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 2014 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 school and professional service group. Review procedures cover risk to achievement of strategic objectives, operational business matters, and regulatory compliance as well as financial risk;
- The Operations Board 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 schools and professional service groups; 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 Register

Date: 15th October 2014 **Author:** John Baker – Corporate & Business Planning Manager **Executive Lead:** Richard Flatman – Chief Financial Officer

	2: Loss of revenue if recruitment targets not met (PC)	1: Failure to position the university to effectively respond to changes in government policy & the competitive landscape (DP)	4 Critical <i>fail to deliver corporate plan / removal of funding or degree awarding status, penalty / closure</i>	Impact
397: Effectiveness of delivery impaired as institution goes through restructuring process (DP)	6: Ineffective data systems provide Management Information that is not meaningful and reliable, either for internal decision or for external reporting (RF) 14: Potential loss of NHS contract income (WT) 305: Data not used / maintained securely (IM) 362: Poor staff engagement (DP) 3: Increasing pensions deficit (RF) 402: Income from 20:20 Programme unrealised	37: Potential impact of estates strategy delivery on financial position (RF)	3 High <i>significant effect on the ability for the University to meet its objectives and may result in the failure to achieve one or more corporate objectives</i>	
	398: Academic programmes do not remain engaged with technological and pedagogic developments which support students and promote progression and achievement (PC)		2 Medium <i>failure to meet operational objectives of the University</i>	
			1 Low <i>little effect on operational objectives</i>	
3 - High <i>The risk is likely to occur short term</i>	2 - Medium <i>This risk may occur in the medium to long term.</i>	1 - Low <i>This risk is highly unlikely to occur</i>		
Residual Likelihood				
Executive Risk Spread: VC – 3, DVC – 1, CFO – 3, PVC-S&E – 2, COO – 1, PVC/Health – 1, ExD-HR – 0, US - 0				

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #3 Real World Impact - Teaching & Learning: Ensuring teaching is highly applied, professionally accredited & linked to research & enterprise
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
398	Academic programmes do not remain engaged with technological and pedagogic developments which support students and promote progression and achievement Risk Owner: Phil Cardew Last Updated: 18/09/2014	<p>Cause & Effect:</p> <p>Cause: LSBU does not effectively exploit the learning potential of new technologies. Curriculum do not adapt sufficiently to give students the knowledge and skills valued by employers Support mechanisms do not provide some students with the learning support they need to navigate and succeed in the learning environment.</p> <p>Effect: Retention does not meet the targets within the 5 year forecast. Employability of LSBU graduates does not improve. Market appeal of courses is impaired</p>	2 3 Medium	Delivery of the Teaching Enhanced Learning Strategy (TEL) through Academic Board and related committees.	2 2 Medium	<p>Actively pursue the long term objectives of the TEL strategy:</p> <ol style="list-style-type: none"> 1. Promote active learning methods that go beyond a 'filing cabinet' use of a VLE; 2. Promote electronic submission, assessment and feedback; 3. Promote aspects of staff development focused towards developing effective and technology enhanced learner-centred approaches to curriculum design, learning and assessment; 4. Support all staff in professional development and other learning and teaching activities; 5. Identify common technologies and develop information repositories; 6. Actively engage students in the further development of the VLE and in evaluating the use of technology in support of learning. <p>Person Responsible: Phil Cardew To be implemented by: 30/09/2015</p> <hr/> <p>Implement 'Exceptional Student Experience' aspect of the EDISON Investment program to deliver a step change in the institutional use of personal in year data to drive communications to students concerning their academic performance.</p> <p>Person Responsible: Francois Contreiras To be implemented by: 31/07/2015</p>

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #4 Real World Impact – Research & Enterprise: Delivering outstanding economic, social and cultural benefits from our intellectual capital.
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
402	<p>New income expectations from 16/20 programme are not met</p> <p>Risk Owner: Phil Cardew</p> <p>Last Updated: 21/08/2014</p>	<p>Cause & Effect:</p> <p>Cause: Academic staff Fail to engage with research and enterprise activities that have potential to deliver additional income. Enterprise department encounter resistance from academic staff to a more commercial approach or are not able to provide the support or development required. The outcome of the REF is not as positive as was hoped.</p> <p>Effect: Income growth expectations of the 5 year forecast are unrealised. Research funding opportunities are harder to come by. A market based approach to costing academic activity to slow to develop.</p>	<p>3 2</p> <p>High</p>	<p>Reports on the 16-20 Challenge Programme (Financial & Narrative) will be provided to each Executive Meeting to aid constant scrutiny of this initiative and review of progress against 5 year income targets.</p> <hr/> <p>Enterprise Business Plan & strategy submitted for approval annually to SBUEL Board (which has 2 Non-Executive Directors) for monitoring & quarterly updates provided at LSBU Board meetings.</p>	<p>3 1</p> <p>Medium</p>	<p>16/20 Pipeline: research, identify, prioritise & develop a range of major long term Research & Enterprise investment opportunities with potential to generate significant income and contribution over 5 years, progress to be reported to Executive monthly.</p> <p>Person Responsible: Yvonne Mavin</p> <p>To be implemented by: 31/07/2014</p>

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #7 Strategic Enabler - People & Organisation: Attracting proud, responsible staff, & valuing & rewarding their achievements.
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
1	<p>Failure to position the university to effectively respond to changes in government policy and the competitive landscape</p> <p>Risk Owner: David Phoenix</p> <p>Last Updated: 18/09/2014</p>	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees and funding models - Increased competition from Private Providers - Government policy changes and SNC cap removal - Failure to anticipate change - Failure to position (politically) - Failure to position (capacity/structure) - Failure to improve League Table position <p>Effects:</p> <ul style="list-style-type: none"> - Further loss of public funding - Loss of HEFCE contract numbers - Failure to recruit students - Business model becomes unsustainable 	<p>4 3</p> <p>Critical</p>	<p>Ketchum appointed to advise LSBU on the ongoing changes to the political environment for higher education & its external communications in response to these changes.</p> <hr/> <p>Financial controls (inc. forecasting/modelling, restructure) to enable achievement of operating surplus target</p> <hr/> <p>Regular scrutiny of press packs by Board & Executive to monitor Institutional Esteem, and direct PR activity as appropriate.</p> <hr/> <p>A horizon scanning report produced by the Director of Strategic Stakeholder Engagement is provided to each meeting of the Executive.</p> <hr/> <p>Maintain relationships with key politicians/influencers, boroughs and local FE</p> <hr/> <p>Annual review of corporate strategy by Executive and Board of Governors</p> <hr/> <p>Student Access & Success Strategy for 14/15 through OFFA</p> <hr/> <p>Modelling work regularly updated to establish a fee position net of fee waivers less than £7500 for the 12/13 entry cohort, using allocation of fee waivers and bursaries as required.</p>	<p>4 1</p> <p>High</p>	<p>Realign academic offering to market through restructuring of Faculties into Schools, and appointment of 6 new Deans of School.</p> <p>Person Responsible: David Phoenix</p> <p>To be implemented by: 29/08/2014</p> <hr/> <p>Full review of organisational processes to ensure clarity of roles and functions, and alignment with key deliverables of Corporate Delivery plan.</p> <p>Person Responsible: David Phoenix</p> <p>To be implemented by: 31/07/2015</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
362	Poor staff engagement with University	<p>Cause & Effect: Causes:</p> <ul style="list-style-type: none"> •Bureaucracy involved in decision making at the University •No teamwork amongst departments at the University •Staff feeling that they do not receive relevant information directly linked to them and their jobs •Poor pay and reward packages •Poor diversity and inclusion practises <p>Effects:</p> <ul style="list-style-type: none"> •Decreased customer (student) satisfaction •Overall University performance decreases •Low staff satisfaction results •Increased staff turnover •Quality of service delivered decreases 	3 3 High	<p>Departmental Business Planning process</p> <hr/> <p>Direct staff feedback is encouraged through the "asktheVC@" email address and through feedback forms on intranet and 'developing our structures' microsite.</p> <hr/> <p>Scheduled Team meetings</p> <hr/> <p>Regular Business review meetings</p>	3 2 High	<p>Develop and launch Stakeholder Change Network in conjunction with HR</p> <p>Person Responsible: Tom Kelly To be implemented by: 28/11/2014</p> <hr/> <p>Develop Key Message Cascade Framework for Face-to-Face dissemination of staff communications relating to the Corporate Change Programme from the Operations Board.</p> <p>Person Responsible: Tom Kelly To be implemented by: 23/10/2014</p> <hr/> <p>Establish Change Programme Microsite linked to existing Staff Gateway to provide all relevant change programme materials to staff as detailed in Programme Comms Strategy.</p> <p>Person Responsible: Tom Kelly To be implemented by: 31/10/2014</p> <hr/> <p>Launch Behavioural Framework & embed within HR processes and documents at start of 14/15 Academic Year</p> <p>Person Responsible: Mike Molan To be implemented by: 15/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
397	Effectiveness of delivery impaired as Institution goes through restructuring process Risk Owner: David Phoenix Last Updated: 17/09/2014	<p>Cause & Effect:</p> <p>Cause: The structural re-organisation of academic groupings from 4 faculties to 7 schools. The re-focusing of support departments into professional service clusters. - undertaken to underpin academic and business effectiveness.</p> <p>Effect: Staff morale could be impacted negatively by process of change, and by perceived threats to job security, which impairs enthusiasm and contribution in role. In turn this can cause high performing staff to seek employment elsewhere, which can cause skills shortages and loss to the institutional knowledge base. Service levels - to staff and students - could be impacted negatively by teams trying to deliver business as usual whilst also going through the change process. Data reliability might be impaired if the translation process encounters issues such as limitations with the flexibility of existing software solutions, unforeseen time or money resource implications or error in the relocation process.</p>	3 3 High	<p>The Executive team have taken a Project Management Approach to the Change, appointing as Executive Director of HR an expert on Organisational change, and freeing up staff from within the organisation to act as a change team for the Programme Director, whom reports directly to the Executive.</p> <hr/> <p>The Executive have developed a Communications Strategy to ensure significant consultation with internal and external stakeholders.</p> <hr/> <p>New Professional Service groupings will be created from existing business units to minimise impact on service delivery.</p>	3 2 High	<p>New action - 15 Change Programme Projects to be monitored by the Executive through the Project Office, with regular updates to the Board.</p> <p>Person Responsible: Amir Rashid To be implemented by: 30/03/2015</p> <hr/> <p>Oversee assembly of a high level action tracker (to be monitored at Operations Board) to provide assurance that the activities necessary to implement the transition to schools and professional service functions are being progressed.</p> <p>a) Identifying the key activities that have been progressed in individual areas b) Noting when the activity was complete, or is due for completion; c) Any gaps which will need to be addressed</p> <p>Person Responsible: David Phoenix To be implemented by: 09/10/2014</p> <hr/> <p>Establish a format for a regular report to the Operations Board on the opportunities risks and issues to business as usual in the "Creating the Schools" project</p> <p>Person Responsible: Pat Bailey To be implemented by: 18/11/2014</p>

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #8 Strategic Enabler – Infrastructure: Investing in first class facilities underpinned by outcome focused services responsive to academic need
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
2	Loss of revenue if recruitment targets not met Risk Owner: Phil Cardew Last Updated: 12/09/2014	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees mechanisms for UGFT - Increased competition (removal of SNC cap in 15/16) - Failure to develop and communicate brand & lsbu graduate attributes - Lack of accurate real-time reporting mechanisms - LSBU late entrant to international student market and fails to catch-up - Poor league table position - Portfolio or modes of delivery do not reflect market need - Tighter tariff policy during clearing <p>Effects:</p> <ul style="list-style-type: none"> - Under recruitment - Loss of HEFCE contract numbers - Failure to meet income targets for non-HEFCE students 	4 3 Critical	<p>Report on student recruitment presented to every monthly Executive meeting and also reviewed by Board of Governors</p> <hr/> <p>League Table action plan & related actions and monitoring by the HESA Board</p> <hr/> <p>Modelling of student recruitment numbers, including worse case scenarios which aid the planning process.</p> <hr/> <p>Differentiated campaigns started for postgraduate and part-time students</p>	4 2 Critical	<p>Business Intelligence Unit to produce analysis / reports for Executive to guide internal process and reporting changes with the aim of supporting League Table score improvement.</p> <p>Person Responsible: James Stevenson</p> <p>To be implemented by: 29/08/2014</p> <hr/> <p>Develop partnership strategy for working with local schools</p> <p>Person Responsible: Tere Daly</p> <p>To be implemented by: 30/09/2014</p> <hr/> <p>Develop strategy for LSBU Graduate Attributes at all award levels to ensure continued course competitiveness, to be generated through the learning pathway.</p> <p>Person Responsible: Phil Cardew</p> <p>To be implemented by: 30/11/2014</p> <hr/> <p>International strategy to be refocused into an Internationalisation Plan to deliver a step-change in recruitment at both UG and PG.</p> <p>Person Responsible: Jennifer Parsons</p> <p>To be implemented by: 30/09/2014</p> <hr/> <p>Support and engage with University Academy of Engineering & support development of University Technical College.</p> <p>Person Responsible: Rao Bhamidimarri</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
To be implemented by: 28/11/2014						
3	Staff pension scheme deficit increases Risk Owner: Richard Flatman Last Updated: 11/08/2014	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Increased life expectancies - Reductions to long term bond yields, which drive the discount rate - Poor stock market performance - Poor performance of the LPFA fund manager relative to the market - TPS/USS schemes may also become subject to FRS17 accounting <p>Effects:</p> <ul style="list-style-type: none"> - Increased I&E pension cost means other resources are restricted further if a surplus is to be maintained - Balance sheet is weakened and may move to a net liabilities position, though pension liability is disregarded by HEFCE - Significant cash injections into schemes may be required in the long term 	3 3 High	<p>Switch of inflator from RPI to CPI (expected to be lower in the long term)</p> <hr/> <p>Regular monitoring of national/sector pension developments and attendance at relevant conferences and briefing seminars</p> <hr/> <p>Regular valuation of pension scheme (actuarial and FRS 17).</p> <hr/> <p>Regular Reporting to HR committee.</p> <hr/> <p>DC pension scheme now established for SBUEL staff.</p> <hr/> <p>Tight control of staff costs in all areas (and reported to committee and Board via agreed KPIs)</p> <hr/> <p>New LPFA scheme, effective April 2014</p> <hr/> <p>Strict control on early access to pension at redundancy/restructure</p> <hr/> <p>Active monitoring in year of trends in discount rate, life expectancy assumptions etc to ensure year-end adjustments are minimised</p>	3 2 High	<p>Ongoing participation in sector discussions regarding employer categorisation.</p> <p>Person Responsible: Richard Flatman</p> <p>To be implemented by: 31/03/2015</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
6	<p>Ineffective data systems provide Management Information that is not meaningful and reliable, either for internal decision or for external reporting</p> <p>Risk Owner: Richard Flatman</p> <p>Last Updated: 18/09/2014</p>	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Data in systems is inaccurate - Data systems are insufficient to support effective delivery of linked management information - Resource constraints & insufficient staff capability delay system improvement - unclear data during clearing - Lack of data quality control and assurance mechanisms <p>Effects:</p> <ul style="list-style-type: none"> - Insufficient evidence to support effective decision-making at all levels - Inability to track trends or benchmark performance - Internal management information insufficient to verify external reporting - over-recruitment penalties - HESA/HESES returns not credible - League table position impaired by wrong data - UKBA licence revocation if conditions not satisfied = loss of £8m+ revenue/year, & reputation damage - Failure to satisfy requirements of Professional, Statutory and Regulatory bodies (NHS, course accreditation etc) 	<p>3 3</p> <p>High</p>	<p>Regular Engagement with internal auditors & 3 year IA cycle to systematically check data in key systems (and related processes):</p> <ul style="list-style-type: none"> - Finance (including student fees) - Student data (& data Quality) - HR systems - Space management systems - UKBA requirements & compliance <hr/> <p>Systematic data quality checks of staff returns by HR in conjunction with faculties.</p> <hr/> <p>Engagement between International Office, Registry & Faculties to ensure UKVI requirement compliance, specifically regarding:</p> <ul style="list-style-type: none"> - Visa applications and issue of Certificate of Acceptance to Study - English language requirements - Reporting of absence or withdrawal <hr/> <p>Systematic data quality checks of student returns by Registry in conjunction with faculties.</p> <hr/> <p>International Office runs annual cycle of training events with staff to ensure knowledge of & compliance with UKVI processes.</p>	<p>3 2</p> <p>High</p>	<p>Develop TOR for Internal Audit review of Home Office HTS Compliance during Student Data review in 14-15 Continuous Audit Programme.</p> <p>Person Responsible: Richard Flatman</p> <p>To be implemented by: 31/10/2014</p> <hr/> <p>Manual attendance monitoring system to be implemented on monthly basis for international students whilst SAM/SPOC reporting & system issues addressed in conjunction with Registry & School Admin teams.</p> <p>For details of the project team and plan see the note attached to this risk (31/07/2014) and project SharePoint site.</p> <p>As a result of carrying out the project issues relating to the performance of the LSBU network have become apparent. There is a risk that poor network performance will result in ID card data not being transferred to the database, queues of students at turnstiles resulting in security staff opening gates to let students in resulting in loss of data (this has happened in the past). The ICT Network team should carry out a survey of the network to identify bottlenecks and resolve these.</p> <p>Person Responsible: Mike Molan</p> <p>To be implemented by: 31/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
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Construct a 'master data view' for all student data as part of EDISON & report system exceptions, including:

- * Student Demographic Data
- * Student Engagement / Progression
- * Admissions & Enrolment
- * Curriculum
- * Timetable & Estate teaching spaces
- * VLE usage
- * Finance Records

Person Responsible: Francois Contreiras

To be implemented by: 30/05/2014

Oversee production of PID for ICT Strategy / Architecture Change Programme Project - to address system mapping issues and an approach to data warehousing.

Person Responsible: Ian Mehrrens

To be implemented by: 31/10/2014

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
14	Loss of NHS contract income	<p>Cause & Effect: Cause: NHS financial challenges/ structural change is resulting in a total review of educational comissioning by Health Education England with an expected overall 40% reduction in available funding. In addition late decision making over community programmes. Plus London Educational Contracts last intake September 2014 (apart from physio and adult nursing) and possible retenders or preferably a return to National Framework Failure to recruit to target inspite of increased applications due to low numeracy and literacy pass rates. Failure to maintain student numbers on the contract resulting in clawback Effect: Reduction in income Reduced staff numbers Negative impact on reputation</p>	3 3 High	<p>Named Customer Manager roles with NHS Trusts, CCGs and HEE.</p> <hr/> <p>Monitor quality of courses (QCPM and NMC) annually in autumn (QCPM) and winter (NMC)</p> <hr/> <p>Support with numeracy and literacy test preparation Develop BSc Health and Social Care by September 2015 for applicants not meeting course tariffs requirments and to support PGDip recruitment.</p> <hr/> <p>Regular contact with HEE DEQs, None Medical Deans and commissioning contract managers.</p>	3 3 High	<p>Attend consultation events with CoD and HEE (review of LEC and NF, NHS Pre-reg contract benchmark price / move to Outcome Based Commissioning could = drop in NHS income)</p> <p>Person Responsible: Warren Turner To be implemented by: 15/11/2014</p> <hr/> <p>Continue contract discussions with HEE/ LETB's as LEC last intake for all by Physio and adult nursing September 2014. Attempt to extend contracts or revert to National Framework</p> <p>Person Responsible: Warren Turner To be implemented by: 01/11/2014</p> <hr/> <p>Ensure a quality campus in each HEE/ LETB area. Plan for none renewal of Havering lease in 2018. Negotiate re inclusion in Care City plans with NELFT and Barking</p> <p>Person Responsible: Warren Turner To be implemented by: 01/11/2014</p> <hr/> <p>Grow into new markets for medical and private sector CPPD provision</p> <p>Person Responsible: Warren Turner To be implemented by: 30/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
						<p>Develop opportunities for further International 'in-country' activity in Malaysia, Singapore, Hong Kong, India and Saudi.</p> <p>Person Responsible: Mary Lovegrove</p> <p>To be implemented by: 30/12/2014</p> <hr/> <p>Increase uptake in band 1-4 activity Support Trusts in seeking external (non NHS) funding</p> <p>Person Responsible: Sheelagh Mealing</p> <p>To be implemented by: 01/12/2014</p> <hr/> <p>Improve NSS participation & scores Develop action plans for Departments and Faculty from results of 2014 NSS</p> <p>Person Responsible: Sue Mullaney</p> <p>To be implemented by: 30/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
37	Negative impact of estates strategy delivery on financial position Risk Owner: Richard Flatman Last Updated: 13/08/2014	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Poor project controls - Lack of capacity to manage/deliver projects - Reduction in agreed/assumed capital funding - Reduction in other government funding <p>Effects:</p> <ul style="list-style-type: none"> - Adverse financial impact - Reputational damage - Reduced surplus - Planned improvement to student experience not delivered - Inability to attract new students 	3 3 High	<p>Regular Reports are provided to both P&R and the Board on planned capital expenditure.</p> <hr/> <p>Full Business Cases prepared; using guidance and process approved by Executive - including clarity on cost and funding, for each element of Estates Strategy, and approved by Board of Governors where cost = >£1M.</p> <hr/> <p>ncluding all capital spend. Guidance developed as part of new process.</p> <hr/> <p>Clear requirement (including authority levels) for all major (>£1m) capital expenditure to have Board approval</p> <hr/> <p>Property Committee is a sub-committee of the Board of Governors and has a remit to review all property related capital decisions.</p> <hr/> <p>Capex reporting routines established and embedded into regular updated financial forecasts & management accounts and regular Board reports.</p> <hr/> <p>LSBU Project methodology & Estates & Facilities Dept project controls, including Governance arrangements applied to all Capex projects.</p>	3 1 Medium	<p>The Terraces Project completed the Anchor Projects in the current development plan, but the potential acquisition of Hugh Astor Court (Peabody Building) on Keyworth Street opens up the opportunity for the redevelopment of the North West quarter & creation of a clear University 'front door'. Plans have been shared with Executive and Governors, and now need to be developed and cross referenced with the Capex schedule of the Five year plan.</p> <hr/> <p>Person Responsible: Ian Mehrtens To be implemented by: 30/11/2013</p> <hr/> <p>Complete report on the final negotiations for the Student Centre. Update: the 12 month defects liability period has past & we're working through the final defect list. No progress on Final Account completion until works are done to ensure completion. POE due by Feb 14.</p> <hr/> <p>Person Responsible: Ian Mehrtens To be implemented by: 30/04/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
305	Student & corporate data not accessed and stored securely or appropriately	<p>Cause & Effect: Cause: Loss or inappropriate access to data, or breach of digital security; either en masse (e.g. address harvesting) or in specific cases (e.g. loss of sensitive files / data)</p> <p>Effect: Reputational damage, regulatory failure, undermining of academic credibility or compromise of competitive advantage.</p>	3 2 High	Responsibility for control over data protection risks at an institutional level allocated to Director of ICT.	3 2 High	<p>To develop a strategy to enable pop up screen type messages, to deliver and track critical corporate communications to staff outside of e-mail, if possible working with the Marketing project which aims to restructure the staff gateway towards an enterprise content management home for key documents, records and processes.</p> <p>Person Responsible: Rob McGeechan To be implemented by: 26/12/2014</p> <hr/> <p>Liaise with new HR Deputy Director-Organisational Development to consider and deliver strategy to increase awareness of this risk to all staff, especially including the dangers of phishing and enforcement action for non-compliance with university policy.</p> <p>Person Responsible: Mandy Eddolls To be implemented by: 31/10/2014</p>

	PAPER NO: AC.61 (14)
Paper title:	Corporate Risk Register
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	John Baker, Corporate & Business Planning Manager
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To provide the Audit Committee with an updated corporate risk register

Executive Summary	
Context	The risk register is presented to each meeting of the Audit Committee for review.
Question	What changes have been made to the risk register since the last Audit Committee meeting?
Conclusion & Recommendation	No additional risks have been added to the register since the Audit Committee meeting of 25 September. No risk ratings have changed. Changes to actions and controls are set out in the 2 nd page of the register.

Matter previously considered by:	Operations Board	On: 23 October 2014
Further approval required?	Board of Governors (annual detailed review of risk)	On: 20 November 2014

LSBU Corporate Risk Register cover sheet: Risk overview matrix by impact & residual likelihood

Date: 17th September 2014

Author: John Baker – Corporate & Business Planning Manager

Executive Lead: Richard Flatman – Chief Financial Officer

	2: Loss of revenue if recruitment targets not met (PC)	1: Failure to position the university to effectively respond to changes in government policy & the competitive landscape (DP)	4 Critical <i>fail to deliver corporate plan / removal of funding or degree awarding status, penalty / closure</i>	Impact
397: Effectiveness of delivery impaired as institution goes through restructuring process (DP)	6: Ineffective data systems provide Management Information that is not meaningful and reliable, either for internal decision or for external reporting (RF) 14: Potential loss of NHS contract income (WT) 305: Data not used / maintained securely (IM) 362: Poor staff engagement (DP) 3: Increasing pensions deficit (RF) 402: Income from 20:20 Programme unrealised (PB)	37: Potential impact of estates strategy delivery on financial position (RF)	3 High <i>significant effect on the ability for the University to meet its objectives and may result in the failure to achieve one or more corporate objectives</i>	
	398: Academic programmes do not remain engaged with technological and pedagogic developments which support students and promote progression and achievement (PC)		2 Medium <i>failure to meet operational objectives of the University</i>	
			1 Low <i>little effect on operational objectives</i>	
3 - High <i>The risk is likely to occur short term</i>	2 - Medium <i>This risk may occur in the medium to long term.</i>	1 - Low <i>This risk is highly unlikely to occur</i>		
	Residual Likelihood			
Executive Risk Spread: VC – 3, DVC – 1, CFO – 3, PVC-S&E – 2, COO – 1, PVC/Health – 1, ExD-HR – 0, US - 0				

Changes since presentation at June Audit Committee meeting detailed below:

<i>Risk reference</i>	<i>Risk area</i>	<i>Changes made</i>
Goal 3: Real World Impact - Teaching & Learning: Ensuring teaching is highly applied, professionally accredited & linked to research & enterprise		
398 (PC)	Academic programmes not engaged with technology or pedagogic dev.	New action added relating to implementing the TEL strategy.
Goal 4: Real World Impact - Research & Enterprise: Delivering outstanding economic, social and cultural benefits from our intellectual capital.		
402 (PB)	2020 income growth through Research & Enterprise	Risk allocated to Pat Bailey pending Paul Ivey joining LSBU as PVC Research and External Engagement.
Goal 7: Strategic Enabler - People & Organisation: Attracting proud, responsible staff, & valuing & rewarding their achievements.		
1 (DP)	Response to environment change	New controls added – appointment of Ketchum as external strategic consultant & production of Horizon scanning reports by Mike Simmons - Director of Strategic Stakeholder Engagement.
362 (DP)	Staff Engagement	Actions added for Louise Delaney, relating to implementing the Comms strategy for the Change Programme, re-allocated to Tom Kelly following staff departure.
397 (DP)	Restructuring impact on service	2 New Actions – Creation of report format for Creating the Schools project Opportunities ,Risks & Issues for Ops Board, and high level action tracker for transition activities and gaps.
Goal 8: Strategic Enabler - Infrastructure: Investing in first class facilities and outcome focused services, responsive to academic needs.		
2 (PC)	Recruitment & income targets including International	International strategy re-allocated to Jenni Parsons pending arrival of Paul Ivey.
3 (RF)	Pensions deficit	No changes made.
6 (RF)	Ineffective data	New action around ICT strategy & other CPO projects – IM.
14 (JE)	Loss of NHS income	No changes made.
37 (RF)	Estates strategy £ impact	No changes made. (Action update notes present on 4-Risk system reported previously)
305 (IM)	Data Security	Risk title amended to data access and storage for clarity as regards risk #6. New action around enforcement through Line Management for any staff who do not comply with policy – via staff comms

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #3 Real World Impact - Teaching & Learning: Ensuring teaching is highly applied, professionally accredited & linked to research & enterprise
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
398	Academic programmes do not remain engaged with technological and pedagogic developments which support students and promote progression and achievement	<p>Cause & Effect:</p> <p>Cause: LSBU does not effectively exploit the learning potential of new technologies. Curriculum do not adapt sufficiently to give students the knowledge and skills valued by employers Support mechanisms do not provide some students with the learning support they need to navigate and succeed in the learning environment.</p> <p>Effect: Retention does not meet the targets within the 5 year forecast. Employability of LSBU graduates does not improve. Market appeal of courses is impaired</p>	2 3 Medium	Delivery of the Teaching Enhanced Learning Strategy (TEL) through Academic Board and related committees.	2 2 Medium	<p>Actively pursue the long term objectives of the TEL strategy:</p> <ol style="list-style-type: none"> 1. Promote active learning methods that go beyond a 'filing cabinet' use of a VLE; 2. Promote electronic submission, assessment and feedback; 3. Promote aspects of staff development focused towards developing effective and technology enhanced learner-centred approaches to curriculum design, learning and assessment; 4. Support all staff in professional development and other learning and teaching activities; 5. Identify common technologies and develop information repositories; 6. Actively engage students in the further development of the VLE and in evaluating the use of technology in support of learning. <p>Person Responsible: Phil Cardew To be implemented by: 30/09/2015</p> <hr/> <p>Implement 'Exceptional Student Experience' aspect of the EDISON Investment program to deliver a step change in the institutional use of personal in year data to drive communications to students concerning their academic performance.</p> <p>Person Responsible: Francois Contreiras To be implemented by: 31/07/2015</p>

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #4 Real World Impact – Research & Enterprise: Delivering outstanding economic, social and cultural benefits from our intellectual capital.
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
402	<p>New income expectations from 16/20 programme are not met</p> <p>Risk Owner: Phil Cardew</p> <p>Last Updated: 21/08/2014</p>	<p>Cause & Effect:</p> <p>Cause: Academic staff Fail to engage with research and enterprise activities that have potential to deliver additional income. Enterprise department encounter resistance from academic staff to a more commercial approach or are not able to provide the support or development required. The outcome of the REF is not as positive as was hoped.</p> <p>Effect: Income growth expectations of the 5 year forecast are unrealised. Research funding opportunities are harder to come by. A market based approach to costing academic activity to slow to develop.</p>	<p>3 2</p> <p>High</p>	<p>Reports on the 16-20 Challenge Programme (Financial & Narrative) will be provided to each Executive Meeting to aid constant scrutiny of this initiative and review of progress against 5 year income targets.</p> <hr/> <p>Enterprise Business Plan & strategy submitted for approval annually to SBUEL Board (which has 2 Non-Executive Directors) for monitoring & quarterly updates provided at LSBU Board meetings.</p>	<p>3 1</p> <p>Medium</p>	<p>16/20 Pipeline: research, identify, prioritise & develop a range of major long term Research & Enterprise investment opportunities with potential to generate significant income and contribution over 5 years, progress to be reported to Executive monthly.</p> <p>Person Responsible: Yvonne Mavin</p> <p>To be implemented by: 31/07/2014</p>

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #7 Strategic Enabler - People & Organisation: Attracting proud, responsible staff, & valuing & rewarding their achievements.
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
1	<p>Failure to position the university to effectively respond to changes in government policy and the competitive landscape</p> <p>Risk Owner: David Phoenix</p> <p>Last Updated: 18/09/2014</p>	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees and funding models - Increased competition from Private Providers - Government policy changes and SNC cap removal - Failure to anticipate change - Failure to position (politically) - Failure to position (capacity/structure) - Failure to improve League Table position <p>Effects:</p> <ul style="list-style-type: none"> - Further loss of public funding - Loss of HEFCE contract numbers - Failure to recruit students - Business model becomes unsustainable 	<p>4 3</p> <p>Critical</p>	<p>Ketchum appointed to advise LSBU on the ongoing changes to the political environment for higher education & its external communications in response to these changes.</p> <hr/> <p>Financial controls (inc. forecasting/modelling, restructure) to enable achievement of operating surplus target</p> <hr/> <p>Regular scrutiny of press packs by Board & Executive to monitor Institutional Esteem, and direct PR activity as appropriate.</p> <hr/> <p>A horizon scanning report produced by the Director of Strategic Stakeholder Engagement is provided to each meeting of the Executive.</p> <hr/> <p>Maintain relationships with key politicians/influencers, boroughs and local FE</p> <hr/> <p>Annual review of corporate strategy by Executive and Board of Governors</p> <hr/> <p>Student Access & Success Strategy for 14/15 through OFFA</p> <hr/> <p>Modelling work regularly updated to establish a fee position net of fee waivers less than £7500 for the 12/13 entry cohort, using allocation of fee waivers and bursaries as required.</p>	<p>4 1</p> <p>High</p>	<p>Realign academic offering to market through restructuring of Faculties into Schools, and appointment of 6 new Deans of School.</p> <p>Person Responsible: David Phoenix</p> <p>To be implemented by: 29/08/2014</p> <hr/> <p>Full review of organisational processes to ensure clarity of roles and functions, and alignment with key deliverables of Corporate Delivery plan.</p> <p>Person Responsible: David Phoenix</p> <p>To be implemented by: 31/07/2015</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
362	Poor staff engagement with University	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> •Bureaucracy involved in decision making at the University •No teamwork amongst departments at the University •Staff feeling that they do not receive relevant information directly linked to them and their jobs •Poor pay and reward packages •Poor diversity and inclusion practises <p>Effects:</p> <ul style="list-style-type: none"> •Decreased customer (student) satisfaction •Overall University performance decreases •Low staff satisfaction results •Increased staff turnover •Quality of service delivered decreases 	3 3 High	<p>Departmental Business Planning process</p> <hr/> <p>Direct staff feedback is encouraged through the "asktheVC@" email address and through feedback forms on intranet and 'developing our structures' microsite.</p> <hr/> <p>Scheduled Team meetings</p> <hr/> <p>Regular Business review meetings</p>	3 2 High	<p>Develop and launch Stakeholder Change Network in conjunction with HR</p> <p>Person Responsible: Tom Kelly To be implemented by: 28/11/2014</p> <hr/> <p>Develop Key Message Cascade Framework for Face-to-Face dissemination of staff communications relating to the Corporate Change Programme from the Operations Board.</p> <p>Person Responsible: Tom Kelly To be implemented by: 23/10/2014</p> <hr/> <p>Establish Change Programme Microsite linked to existing Staff Gateway to provide all relevant change programme materials to staff as detailed in Programme Comms Strategy.</p> <p>Person Responsible: Tom Kelly To be implemented by: 31/10/2014</p> <hr/> <p>Launch Behavioural Framework & embed within HR processes and documents at start of 14/15 Academic Year</p> <p>Person Responsible: Mike Molan To be implemented by: 15/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
397	Effectiveness of delivery impaired as Institution goes through restructuring process Risk Owner: David Phoenix Last Updated: 17/09/2014	<p>Cause & Effect:</p> <p>Cause: The structural re-organisation of academic groupings from 4 faculties to 7 schools. The re-focusing of support departments into professional service clusters. - undertaken to underpin academic and business effectiveness.</p> <p>Effect: Staff morale could be impacted negatively by process of change, and by perceived threats to job security, which impairs enthusiasm and contribution in role. In turn this can cause high performing staff to seek employment elsewhere, which can cause skills shortages and loss to the institutional knowledge base. Service levels - to staff and students - could be impacted negatively by teams trying to deliver business as usual whilst also going through the change process. Data reliability might be impaired if the translation process encounters issues such as limitations with the flexibility of existing software solutions, unforeseen time or money resource implications or error in the relocation process.</p>	3 3 High	<p>The Executive team have taken a Project Management Approach to the Change, appointing as Executive Director of HR an expert on Organisational change, and freeing up staff from within the organisation to act as a change team for the Programme Director, whom reports directly to the Executive.</p> <hr/> <p>The Executive have developed a Communications Strategy to ensure significant consultation with internal and external stakeholders.</p> <hr/> <p>New Professional Service groupings will be created from existing business units to minimise impact on service delivery.</p>	3 2 High	<p>New action - 15 Change Programme Projects to be monitored by the Executive through the Project Office, with regular updates to the Board.</p> <p>Person Responsible: Amir Rashid To be implemented by: 30/03/2015</p> <hr/> <p>Oversee assembly of a high level action tracker (to be monitored at Operations Board) to provide assurance that the activities necessary to implement the transition to schools and professional service functions are being progressed.</p> <p>a) Identifying the key activities that have been progressed in individual areas b) Noting when the activity was complete, or is due for completion; c) Any gaps which will need to be addressed</p> <p>Person Responsible: David Phoenix To be implemented by: 09/10/2014</p> <hr/> <p>Establish a format for a regular report to the Operations Board on the opportunities risks and issues to business as usual in the "Creating the Schools" project</p> <p>Person Responsible: Pat Bailey To be implemented by: 18/11/2014</p>

Corporate Level - Risk Register

Date	14/10/2014
Risk Status	Open
Corporate Objective	A 15-20 #8 Strategic Enabler – Infrastructure: Investing in first class facilities underpinned by outcome focused services responsive to academic need
Risk Area	Corporate

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
2	Loss of revenue if recruitment targets not met Risk Owner: Phil Cardew Last Updated: 12/09/2014	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Changes to fees mechanisms for UGFT - Increased competition (removal of SNC cap in 15/16) - Failure to develop and communicate brand & lsbu graduate attributes - Lack of accurate real-time reporting mechanisms - LSBU late entrant to international student market and fails to catch-up - Poor league table position - Portfolio or modes of delivery do not reflect market need - Tighter tariff policy during clearing <p>Effects:</p> <ul style="list-style-type: none"> - Under recruitment - Loss of HEFCE contract numbers - Failure to meet income targets for non-HEFCE students 	4 3 Critical	<p>Report on student recruitment presented to every monthly Executive meeting and also reviewed by Board of Governors</p> <hr/> <p>League Table action plan & related actions and monitoring by the HESA Board</p> <hr/> <p>Modelling of student recruitment numbers, including worse case scenarios which aid the planning process.</p> <hr/> <p>Differentiated campaigns started for postgraduate and part-time students</p>	4 2 Critical	<p>Business Intelligence Unit to produce analysis / reports for Executive to guide internal process and reporting changes with the aim of supporting League Table score improvement.</p> <p>Person Responsible: James Stevenson</p> <p>To be implemented by: 29/08/2014</p> <hr/> <p>Develop partnership strategy for working with local schools</p> <p>Person Responsible: Tere Daly</p> <p>To be implemented by: 30/09/2014</p> <hr/> <p>Develop strategy for LSBU Graduate Attributes at all award levels to ensure continued course competitiveness, to be generated through the learning pathway.</p> <p>Person Responsible: Phil Cardew</p> <p>To be implemented by: 30/11/2014</p> <hr/> <p>International strategy to be refocused into an Internationalisation Plan to deliver a step-change in recruitment at both UG and PG.</p> <p>Person Responsible: Jennifer Parsons</p> <p>To be implemented by: 30/09/2014</p> <hr/> <p>Support and engage with University Academy of Engineering & support development of University Technical College.</p> <p>Person Responsible: Rao Bhamidimarri</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
To be implemented by: 28/11/2014						
3	Staff pension scheme deficit increases Risk Owner: Richard Flatman Last Updated: 11/08/2014	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Increased life expectancies - Reductions to long term bond yields, which drive the discount rate - Poor stock market performance - Poor performance of the LPFA fund manager relative to the market - TPS/USS schemes may also become subject to FRS17 accounting <p>Effects:</p> <ul style="list-style-type: none"> - Increased I&E pension cost means other resources are restricted further if a surplus is to be maintained - Balance sheet is weakened and may move to a net liabilities position, though pension liability is disregarded by HEFCE - Significant cash injections into schemes may be required in the long term 	3 3 High	<p>Switch of inflator from RPI to CPI (expected to be lower in the long term)</p> <hr/> <p>Regular monitoring of national/sector pension developments and attendance at relevant conferences and briefing seminars</p> <hr/> <p>Regular valuation of pension scheme (actuarial and FRS 17).</p> <hr/> <p>Regular Reporting to HR committee.</p> <hr/> <p>DC pension scheme now established for SBUEL staff.</p> <hr/> <p>Tight control of staff costs in all areas (and reported to committee and Board via agreed KPIs)</p> <hr/> <p>New LPFA scheme, effective April 2014</p> <hr/> <p>Strict control on early access to pension at redundancy/restructure</p> <hr/> <p>Active monitoring in year of trends in discount rate, life expectancy assumptions etc to ensure year-end adjustments are minimised</p>	3 2 High	<p>Ongoing participation in sector discussions regarding employer categorisation.</p> <p>Person Responsible: Richard Flatman</p> <p>To be implemented by: 31/03/2015</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
6	<p>Ineffective data systems provide Management Information that is not meaningful and reliable, either for internal decision or for external reporting</p> <p>Risk Owner: Richard Flatman</p> <p>Last Updated: 18/09/2014</p>	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Data in systems is inaccurate - Data systems are insufficient to support effective delivery of linked management information - Resource constraints & insufficient staff capability delay system improvement - unclear data during clearing - Lack of data quality control and assurance mechanisms <p>Effects:</p> <ul style="list-style-type: none"> - Insufficient evidence to support effective decision-making at all levels - Inability to track trends or benchmark performance - Internal management information insufficient to verify external reporting - over-recruitment penalties - HESA/HESES returns not credible - League table position impaired by wrong data - UKBA licence revocation if conditions not satisfied = loss of £8m+ revenue/year, & reputation damage - Failure to satisfy requirements of Professional, Statutory and Regulatory bodies (NHS, course accreditation etc) 	<p>3 3</p> <p>High</p>	<p>Regular Engagement with internal auditors & 3 year IA cycle to systematically check data in key systems (and related processes):</p> <ul style="list-style-type: none"> - Finance (including student fees) - Student data (& data Quality) - HR systems - Space management systems - UKBA requirements & compliance <hr/> <p>Systematic data quality checks of staff returns by HR in conjunction with faculties.</p> <hr/> <p>Engagement between International Office, Registry & Faculties to ensure UKVI requirement compliance, specifically regarding:</p> <ul style="list-style-type: none"> - Visa applications and issue of Certificate of Acceptance to Study - English language requirements - Reporting of absence or withdrawal <hr/> <p>Systematic data quality checks of student returns by Registry in conjunction with faculties.</p> <hr/> <p>International Office runs annual cycle of training events with staff to ensure knowledge of & compliance with UKVI processes.</p>	<p>3 2</p> <p>High</p>	<p>Develop TOR for Internal Audit review of Home Office HTS Compliance during Student Data review in 14-15 Continuous Audit Programme.</p> <p>Person Responsible: Richard Flatman</p> <p>To be implemented by: 31/10/2014</p> <hr/> <p>Manual attendance monitoring system to be implemented on monthly basis for international students whilst SAM/SPOC reporting & system issues addressed in conjunction with Registry & School Admin teams.</p> <p>For details of the project team and plan see the note attached to this risk (31/07/2014) and project SharePoint site.</p> <p>As a result of carrying out the project issues relating to the performance of the LSBU network have become apparent. There is a risk that poor network performance will result in ID card data not being transferred to the database, queues of students at turnstiles resulting in security staff opening gates to let students in resulting in loss of data (this has happened in the past). The ICT Network team should carry out a survey of the network to identify bottlenecks and resolve these.</p> <p>Person Responsible: Mike Molan</p> <p>To be implemented by: 31/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
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Construct a 'master data view' for all student data as part of EDISON & report system exceptions, including:

- * Student Demographic Data
- * Student Engagement / Progression
- * Admissions & Enrolment
- * Curriculum
- * Timetable & Estate teaching spaces
- * VLE usage
- * Finance Records

Person Responsible: Francois Contreiras

To be implemented by: 30/05/2014

Oversee production of PID for ICT Strategy / Architecture Change Programme Project - to address system mapping issues and an approach to data warehousing.

Person Responsible: Ian Mehrrens

To be implemented by: 31/10/2014

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
14	Loss of NHS contract income	<p>Cause & Effect: Cause: NHS financial challenges/ structural change is resulting in a total review of educational comissioning by Health Education England with an expected overall 40% reduction in available funding. In addition late decision making over community programmes. Plus London Educational Contracts last intake September 2014 (apart from physio and adult nursing) and possible retenders or preferably a return to National Framework Failure to recruit to target inspite of increased applications due to low numeracy and literacy pass rates. Failure to maintain student numbers on the contract resulting in clawback Effect: Reduction in income Reduced staff numbers Negative impact on reputation</p>	3 3 High	<p>Named Customer Manager roles with NHS Trusts, CCGs and HEE.</p> <hr/> <p>Monitor quality of courses (QCPM and NMC) annually in autumn (QCPM) and winter (NMC)</p> <hr/> <p>Support with numeracy and literacy test preparation Develop BSc Health and Social Care by September 2015 for applicants not meeting course tariffs requirments and to support PGDip recruitment.</p> <hr/> <p>Regular contact with HEE DEQs, None Medical Deans and commissioning contract managers.</p>	3 3 High	<p>Attend consultation events with CoD and HEE (review of LEC and NF, NHS Pre-reg contract benchmark price / move to Outcome Based Commissioning could = drop in NHS income)</p> <p>Person Responsible: Warren Turner To be implemented by: 15/11/2014</p> <hr/> <p>Continue contract discussions with HEE/ LETB's as LEC last intake for all by Physio and adult nursing September 2014. Attempt to extend contracts or revert to National Framework</p> <p>Person Responsible: Warren Turner To be implemented by: 01/11/2014</p> <hr/> <p>Ensure a quality campus in each HEE/ LETB area. Plan for none renewal of Havering lease in 2018. Negotiate re inclusion in Care City plans with NELFT and Barking</p> <p>Person Responsible: Warren Turner To be implemented by: 01/11/2014</p> <hr/> <p>Grow into new markets for medical and private sector CPPD provision</p> <p>Person Responsible: Warren Turner To be implemented by: 30/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
						<p>Develop opportunities for further International 'in-country' activity in Malaysia, Singapore, Hong Kong, India and Saudi.</p> <p>Person Responsible: Mary Lovegrove</p> <p>To be implemented by: 30/12/2014</p> <hr/> <p>Increase uptake in band 1-4 activity Support Trusts in seeking external (non NHS) funding</p> <p>Person Responsible: Sheelagh Mealing</p> <p>To be implemented by: 01/12/2014</p> <hr/> <p>Improve NSS participation & scores Develop action plans for Departments and Faculty from results of 2014 NSS</p> <p>Person Responsible: Sue Mullaney</p> <p>To be implemented by: 30/10/2014</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
37	Negative impact of estates strategy delivery on financial position Risk Owner: Richard Flatman Last Updated: 13/08/2014	<p>Cause & Effect:</p> <p>Causes:</p> <ul style="list-style-type: none"> - Poor project controls - Lack of capacity to manage/deliver projects - Reduction in agreed/assumed capital funding - Reduction in other government funding <p>Effects:</p> <ul style="list-style-type: none"> - Adverse financial impact - Reputational damage - Reduced surplus - Planned improvement to student experience not delivered - Inability to attract new students 	3 3 High	<p>Regular Reports are provided to both P&R and the Board on planned capital expenditure.</p> <hr/> <p>Full Business Cases prepared; using guidance and process approved by Executive - including clarity on cost and funding, for each element of Estates Strategy, and approved by Board of Governors where cost = >£1M.</p> <hr/> <p>ncluding all capital spend. Guidance developed as part of new process.</p> <hr/> <p>Clear requirement (including authority levels) for all major (>£1m) capital expenditure to have Board approval</p> <hr/> <p>Property Committee is a sub-committee of the Board of Governors and has a remit to review all property related capital decisions.</p> <hr/> <p>Capex reporting routines established and embedded into regular updated financial forecasts & management accounts and regular Board reports.</p> <hr/> <p>LSBU Project methodology & Estates & Facilities Dept project controls, including Governance arrangements applied to all Capex projects.</p>	3 1 Medium	<p>The Terraces Project completed the Anchor Projects in the current development plan, but the potential acquisition of Hugh Astor Court (Peabody Building) on Keyworth Street opens up the opportunity for the redevelopment of the North West quarter & creation of a clear University 'front door'. Plans have been shared with Executive and Governors, and now need to be developed and cross referenced with the Capex schedule of the Five year plan.</p> <hr/> <p>Person Responsible: Ian Mehrtens To be implemented by: 30/11/2013</p> <hr/> <p>Complete report on the final negotiations for the Student Centre. Update: the 12 month defects liability period has past & we're working through the final defect list. No progress on Final Account completion until works are done to ensure completion. POE due by Feb 14.</p> <hr/> <p>Person Responsible: Ian Mehrtens To be implemented by: 30/04/2013</p>

Risk Ref	Risk Title	Cause & Effect	Inherent Risk Priority	Existing Controls	Residual Risk Priority	Action Required
305	Student & corporate data not accessed and stored securely or appropriately	<p>Cause & Effect: Cause: Loss or inappropriate access to data, or breach of digital security; either en masse (e.g. address harvesting) or in specific cases (e.g. loss of sensitive files / data)</p> <p>Effect: Reputational damage, regulatory failure, undermining of academic credibility or compromise of competitive advantage.</p>	3 2 High	Responsibility for control over data protection risks at an institutional level allocated to Director of ICT.	3 2 High	<p>To develop a strategy to enable pop up screen type messages, to deliver and track critical corporate communications to staff outside of e-mail, if possible working with the Marketing project which aims to restructure the staff gateway towards an enterprise content management home for key documents, records and processes.</p> <p>Person Responsible: Rob McGeechan To be implemented by: 26/12/2014</p> <hr/> <p>Liaise with new HR Deputy Director-Organisational Development to consider and deliver strategy to increase awareness of this risk to all staff, especially including the dangers of phishing and enforcement action for non-compliance with university policy.</p> <p>Person Responsible: Mandy Eddolls To be implemented by: 31/10/2014</p>

	PAPER NO: AC.62(14)
Paper title:	Risk Appetite
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	John Baker, Corporate and Business Planning Manager
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To provide a framework for assessing the Board's appetite for Risk

Executive Summary	
Context	The attached framework for Risk Appetite has been developed in consultation with PwC, our internal auditors, to enable the Board of Governors to express risk appetite across different aspects of operations.
Question	What framework is used to assess the Board's appetite for risk?
Conclusion & Recommendation	<p>The framework describes six potential levels of risk appetite for four specific types of risk, which could be used by Governors to assess the Board's appetite for risk. This will then enable more detailed assessment of current risk exposure.</p> <p>The proposed format offers more flexibility than the previous statement of risk tolerance, which was based simply on an aggregate score for the corporate risk framework.</p> <p>The Audit Committee is requested to review the proposed approach and recommend to the Board for approval.</p>

Matters previously considered by:	Board of Governors & Audit Committee in July 2014.	
Further approval required?	Audit Committee & Board of Governors	

London South Bank University: Draft Proposal for Risk Appetite selection and prioritisation: September 2014

	Avoid / Averse Avoidance of risk and uncertainty is a Key Organisational objective	Minimal (as little as reasonably possible) Preference for ultra-safe delivery options that have a low degree of inherent risk and only for limited reward	Cautious Preference for safe delivery options that have a low degree of inherent risk and may only have limited potential for reward	Open Willing to consider all potential delivery options and choose while also providing an acceptable level of reward (and Vfm)	Seek Eager to be innovative and to choose options offering potentially higher business rewards (despite greater inherent risk)	Mature Confident in setting high levels of risk appetite because controls, forward scanning and responsiveness systems are robust
Financial Operation & Investment	Avoidance of financial loss is a key objective.	Only prepared to accept the possibility of very limited financial loss if essential.	Prepared to accept possibility of some limited financial loss. Resources generally restricted to existing commitments.	Prepared to invest for return and minimise the possibility of financial loss by managing the risks to a tolerable level. Resources allocated in order to capitalise on opportunities.	Investing for the best possible return and accept the possibility of financial loss (with controls may in place). Resources allocated without firm guarantee of return – ‘investment capital’ type approach.	Consistently focused on the best possible return for stakeholders. Resources allocated in ‘social capital’ with confidence that process is a return in itself.
Legal Compliance	Play safe; avoid anything which could be challenged, even unsuccessfully.	Want to be very sure we would win any challenge. Similar situations elsewhere have not breached compliances.	Limited tolerance for sticking our neck out. Want to be reasonably sure we would win any challenge.	Challenge would be problematic but we are likely to win it and the gain will outweigh the adverse consequences.	Chances of losing any challenge are real and consequences would be significant. A win would be a great coup.	Consistently pushing back on regulatory burden. Front foot approach informs better regulation.
Delivery of Teaching & Learning	Defensive approach to objectives – aim to maintain or protect, rather than innovate. Priority for tight management controls & limited devolved authority. General avoidance of systems/ technology developments.	Innovations always avoided unless essential or commonplace elsewhere. Decision making authority held by senior management. Only essential systems / technology developments to protect current operations.	Tendency to stick to the status quo, innovations in practice avoided unless really necessary. Decision making authority generally held by senior management. Systems / technology developments limited to improvements to protection of current operations.	Innovation supported, with demonstration of commensurate improvements in management control. Systems / technology developments used routinely to enable operational delivery. Responsibility for non-critical decisions may be devolved.	Innovation pursued – desire to ‘break the mould’ and challenge current working practices. New technologies viewed as a key enabler of operational delivery. High levels of devolved authority – management by trust rather than tight control.	Innovation the priority – consistently ‘breaking the mould’ and challenging current working practices. Investment in new technologies as catalyst for operational delivery. Devolved authority – management by trust rather than tight control is standard practice.
Reputation	No tolerance for any decisions that could lead to scrutiny of, or indeed attention to, the organisation. External interest in the organisation viewed with concern.	Tolerance for risk taking limited to those events where there is no chance of any significant repercussion for the organisation. Senior management distance themselves from chance of exposure to attention.	Tolerance for risk taking limited to those events where there is little chance of any significant repercussion for the organisation should there be a failure. Mitigations in place for any undue interest.	Appetite to take decisions with potential to expose the organisation to additional scrutiny/interest. Prospective management of organisation’s reputation.	Willingness to take decisions that are likely to bring scrutiny of the organisation but where potential benefits outweigh the risks. New ideas seen as potentially enhancing reputation of organisation.	Track record and investment in communications has built confidence by public, press and politicians that organisation will take the difficult decisions for the right reasons with benefits outweighing the risks.

	PAPER NO: AC.63(14)
Paper title:	Internal Audit - Progress Report.
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	PricewaterhouseCoopers, Internal Auditors
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To provide an update on the internal audit plan for 14/15.

Executive Summary	
Context	The attached report provides an update on the internal audit plan for 14/15.
Question	Is internal audit progress in accordance with the agreed plan?
Conclusion & Recommendation	<p>The 14/15 plan is now 25% complete, with the phase 1 Audit report into the Change Programme presented to this Audit Committee, with a medium risk rating.</p> <p>Four actions from previous reports fell due by this period, and they are all partially implemented, so revised dates have been agreed with all areas.</p> <p>The Student Data TOR document is now in the process of being scoped, and the results of the first audit in November will come to the Audit Committee meeting of 26 February 2015.</p> <p>The Executive recommends that Committee note this report</p>

Matter previously considered by:	N/A	N/A
Further approval required?	No	N/A

*London South Bank
University*

Internal Audit
Progress Report
2014/15

October 2014

London South Bank
University

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Overview

Progress Summary

We have completed 25% of our internal audit programme for the year, which is in line with the agreed profile for our work. An outturn statement detailing assignments undertaken and actual activity for 2014/15 is shown in Appendix 1.

For this Audit Committee, we present:

- One final report:
 - Change Programme.
- Our final Internal Audit Annual Report 2013/14.

Findings of our Follow Up Work

We have undertaken follow up work on actions with an implementation date of 30/09/2014 or sooner. We have discussed with management the progress made in implementing actions falling due in this period. Where the finding had a priority of low or advisory, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.

A total of 4 agreed actions have been followed up this quarter. While some progress has been made against all actions, all actions remain only 'partially implemented' at the time of reporting. Revised implementation deadlines have been agreed for each area. Progress details are summarised at Appendix 2.

Other Matters

We have begun scoping our 2014/15 internal audit review of Continuous Auditing: Student Data.

Recommendations

- That the Audit Committee **notes** the progress made against our 2014/15 Internal Audit Plan.
- That the Audit Committee **comments** on our report of Change Programme.
- That the Audit Committee **approves** the final Internal Audit Annual Report 2013/14.

Reporting Activity and Progress

Final reports issued since the previous meeting

Change Programme - Medium Risk

London South Bank University's Corporate Strategy for 2015-2020 states that, by 2020, London South Bank University will be London's top modern university. The Corporate Strategy describes 'Student success', 'Real world impact', 'Access to opportunity' and 'Strategic enablers' as the outcomes of this Corporate Strategy and defines 8 goals, backed by various performance metrics, which will be used to measure success.

In order to achieve these goals, London South Bank University has implemented the Change Programme to support the delivery of all objectives of the Corporate Strategy 2015-2020. The programme is made up of 17 composite projects, each aligned to a particular strategic goal.

The purpose of this review was to review the key governance controls over the Change Programme, to ensure that the programme and associated projects are subject to appropriate oversight and that appropriate decisions are taken by relevant parties based on complete, accurate and timely information

Our review has seen a number of areas of good practice. For example:

- The programme is supported by a comprehensive suite of programme management tools and controls.
- Detailed terms of reference are in place for the Programme Board and composite projects.
- A comprehensive governance environment is in place.
- Clearly documented and defined roles and responsibilities across the programme.
- There is a documented strategy to identify and escalate programme risks and issues.

Management stated that the control environment of the programme has continued to evolve and as a consequence many of the key programme documents were within a cycle of refinement and review.

Two *medium risk* issues have been identified:

- We believe the process of selecting and approving proposed projects for the Change Programme could be further optimised by ensuring that options analysis, dis-benefits and any assumptions are clearly documented for all projects as part of the approval process.
- London South Bank University has defined 'Appraisal criteria' which are used by management to determine whether project initiation documentation is sufficient. We reviewed the 'Corporate Performance Management of Data PID' against the 'criteria/challenges' contained within the 'Appraisal Criteria' document and found five exceptions.

Three low risk issues have been identified:

- We found areas where the Change Programme's risk and issue management controls could be strengthened to further support the effective identification, analysis and escalation of risks and issues across the programme.
- Highlight reports are presented to the Programme Board but these did not contain some of the areas that we would expect to see to support effective decision making. For example, project dependencies and decisions to be made by the Programme Board.
- The record of Programme Board meetings did not record the decisions that had been made by the Programme Board. We also identified a number of areas where required information was missing, or entries were inconsistent with previous records.

Appendix 1 – Plan Progress

The table below summarises our current progress against the reviews in our 2014/15 Internal Audit Plan.

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings						
							Critical	High	Medium	Low	Advisory		
Quarter 1: August 2014 – October 2014													
Continuous Auditing – Financial Controls (May 2014 to July 2014)													
14 (14)	06/08/2014	11/08/2014	22/08/2014	08/09/2014	N/A	1	-	-	-	1	-		
Change Programme – Phase 1													
6 (6)	12/08/2014	13/08/2014	04/09/2014	16/10/2014	Medium	5	-	-	2	3	-		
Quarter 2: November 2014 – January 2015													
Change Programme – Phase 2													
9 (0)						-	-	-	-	-	-		
Continuous Auditing – Financial Controls (August 2014 to December 2014)													
13 (0)						-	-	-	-	-	-		
Continuous Auditing – Student Data Controls (August 2014 to October 2014)													
15 (2)						-	-	-	-	-	-		
Data Security													
10 (0)						-	-	-	-	-	-		
Quarter 3: February 2015 – April 2015													
Continuous Auditing – Student Data Controls (November 2014 to May 2015)													
15 (0)						-	-	-	-	-	-		
Quarter 4: May 2015 – July 2015													
Continuous Auditing – Financial Controls (January 2015 – April 2015)													
13 (0)						-	-	-	-	-	-		
Risk Management													
10 (0)						-	-	-	-	-	-		
Other													
20 (9)	Planning, contract management, reporting, value for money and follow up												
Total	125 (31)												

Appendix 2 – Follow Up

Partially Implemented

<i>Review</i>	<i>Agreed action</i>	<i>Risk rating</i>	<i>Status</i>	<i>Original due date</i>	<i>Revised due date</i>
Payroll Implementation 2012/13	A system change document will be developed and any changes made to i-Trent post-implementation will be authorised appropriately and recorded for future reference.	Advisory	London South Bank University has asked their supplier to do this work before the end of September but this has not been done. London South Bank University is currently chasing the supplier for a revised date, ideally before the end of October.	30/04/14 30/09/14	31/10/14
Business Continuity 2013/14	We will develop a detailed programme plan with completion dates for approval by the Business Continuity Steering Group (BCSG). Achievement against this will be monitored via a high level RAG chart which will be published periodically to relevant parties. The BCSG Terms of Reference will be updated to reflect a wider scope of activities. This will include coordination of exercises and review of business continuity risk. The production of a Business Continuity Management programme plan, aligned to the strategy identified in the BCM Framework will provide a clear indication of the activities required. The BCSG will manage an actions log to ensure delivery of the programme, holding management to account where activities are not completed and escalating issues where required.	Medium	The strategic planning paper for business continuity management is in place. The BCSG, chaired by a senior officer of the University, will be formed before the end of December. The BCSG will endorse the RAG criticality status proposed for this organisation's activities and processes. The Safety, Compliance and Business Continuity team will monitor and report on the progress of this.	30/09/14	31/01/15
Office of the Independent Adjudicator (OIA) 2013/14	London South Bank University 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.	Advisory	This has been piloted however the iCasework system was not ready for the July 2014 appeals deadline, so London South Bank University only has partial implementation at the moment (the new form, produced by London South Bank University, was ready but the workflow, provided by iCasework, was not). Once the September appeals round is over, London South Bank University will re-engage with iCasework and complete the full implementation during 2014/15 as planned.	31/08/14	30/04/15
Risk Management 2013/14	The Change Programme risk register will be updated to capture the operational risks relating to the transition process following the university's planned restructure in August 2014	Low	An initial report has been prepared. This is currently being developed in more detail with the intention of representation at Operations Board.	30/09/14	30/11/14



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 21/07/2010. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

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	PAPER NO: AC.64(14)
Paper title:	Internal Audit report -Change Programme.
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	PricewaterhouseCoopers, Internal Auditors
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To provide the initial internal audit report into the Change Programme.

Executive Summary	
Context	The attached report provides the results of this initial review of the Change Programme – undertaken as part of the planned LSBU internal audit continuous audit programme in 13/14. The plan includes a second review in Q3 to analyse some projects of the programme in more detail.
Question	What were the findings of the internal audit report into the change programme?
Conclusion & Recommendation	The Audit found many areas of good practice, but identified five findings relating to the project approval process & programme management documentation, and the overall report classification is medium. The Executive recommends that Committee note this report.

Matter previously considered by:	Operations Board	23 October 2014
Further approval required?	No	N/A

Internal Audit Report 2014/2015

Change Programme

FINAL

October 2014

London South Bank
University

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Distribution List

For action:	Dave Phoenix (Vice Chancellor and Audit Sponsor) Amir Rashid (Change Programme Director) Richard Flatman (Chief Financial Officer) John Baker (Corporate & Business Planning Manager) Tom Kelly (Programme Management Office)
For information:	Audit Committee

This report has been prepared by PwC in accordance with our contract dated 21/07/2010.

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) Memorandum of Assurance and Accountability (MAA). 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

Report classification	Trend	Total number of findings					
		Critical	High	Medium	Low	Advisory	
Medium Risk 	N/A – there has not been a previous review of this area.	Control design	0	0	2	3	0
		Operating effectiveness	0	0	0	0	0
		Total	0	0	2	3	0

Summary of findings

Background

London South Bank University’s Corporate Strategy for 2015-2020 states that, by 2020, London South Bank University will be London’s top modern university. The Corporate Strategy describes “Student success”, “Real world impact”, “Access to opportunity” and “Strategic enablers” as the outcomes of this Corporate Strategy and defines 8 goals, backed by various performance metrics, which will be used to measure success.

In order to achieve these goals, London South Bank University has implemented the “Change Programme” to support the delivery of all objectives of the Corporate Strategy 2015-2020. The programme is made up of 17 composite projects, each aligned to a particular strategic goal.

Key findings

Our review has seen a number of areas of good practice. For example:

- The programme is supported by a comprehensive suite of programme management tools and controls.
- Detailed terms of reference are in place for the Programme Board and composite projects.
- A comprehensive governance environment is in place.
- Clearly documented and defined roles and responsibilities across the programme.
- There is a documented strategy to identify and escalate programme risks and issues.

Management stated that the control environment of the programme has continued to evolve and as a consequence many of the key programme documents were within a cycle of refinement and review.

However, there are some areas for improvement, for example:

- We reviewed the process of selecting and approving proposed projects for the Change Programme. We believe this could be further optimised to support effective decision making before early investment into projects is committed. For example: carrying out full options appraisals for each project; more detailed consideration of business justifications; identification of potential dis-benefits; and the early alignment to the Corporate Strategy. This has been classified as *medium risk*, **see finding #1**;
- We reviewed how a sample Project Initiation Document (PID) was assessed against the programme’s PID appraisal criteria and noted a number of exceptions against this, for example not all project benefits and dependencies had been clearly defined. This has been classified as *medium risk*, **see finding #2**.

Without these controls the programme is at risk of investing in projects without considering whether the projects

are optimised to represent value for money or whether they are likely to best meet the goals and strategic enablers underpinning the corporate strategy.

Three *low risk* findings were also identified:

- We found areas where the Change Programme's risk and issue management controls could be strengthened to further support the effective identification, analysis and escalation of risks and issues across the programme. For example, by introducing additional fields into the risk and issues log. **See finding #3;**
- Highlight reports are presented to the Programme Board but these did not contain some of the areas that we would expect to see to support effective decision making. For example, project dependencies and decisions to be made by the Programme Board. **See finding #4;** and
- The record of Programme Board meetings did not record the decisions that had been made by the Programme Board. We also identified a number of areas where required information was missing, or entries were inconsistent with previous records. **See finding #5.**

2. Detailed current year findings

1. Project Approval Process – Control Design

Finding

We reviewed the process of selecting and approving proposed projects for the Change Programme. We believe this could be further optimised to support effective decision making before early investment into projects is committed.

- The Change Programme has a documented process by which projects are approved; this was contained within the “Programme Information Pack August 2014”. This process commences with a requirement for a “High level scope” to be developed with the Sponsor, signed off by the Executive and then resourced with staff for the development of the PID. The “High level scope” acts as the Project Mandate for each composite project.
- The more detailed justifications for composite projects were detailed within the PID approval stage. We reviewed the “Streamlining International Applications PID”, dated September 2014, and noted that it contained the following areas of good practice:
 - A detailed list of deliverables and explanations of how they would be achieved.
 - Scope and scope exclusions.
 - Alignment to the Corporate Strategy (labelled as “Corporate key performance indicators” and “Project success measures”).
 - Constraints upon the project.
 - A breakdown of the project’s financial resources.
 - A high-level options appraisal.
- We also reviewed the Business Cases for the “EDISON” project, produced for this project alongside the PID, and noted that these documents included a detailed options appraisal.

However, we found a number of areas where the Change Programme’s project selection documentation should be improved.

PID content

We reviewed the “Portfolio Review PID”, dated July 2014, and the “Corporate Performance Management of Data PID”, dated July 2014, and noted that the documents did not contain the following information that we would expect to see to effectively provide management with sufficient information to approve a project to move into the delivery stage. This included:

- Options analysis concerning investment into the project (or a clear statement to explain why only one option was applicable).
- Expected dis-benefits.
- A clear list of assumptions underpinning the programme plan and deliverables.

This information is required to provide the Executive with sufficient information to approve a project to move into the design phase, and support the early resource investment decisions.


Management stated that the Change Programme seeks to align projects to the Corporate Strategy via the Key Performance Indicators (KPIs), which are aligned to benefits contained within the PIDs. The next stage of the corporate planning process – which involves implementation of the “Corporate Delivery Plan” - seeks to clarify this process further by setting out the corporate outcomes, goals, KPIs and specifying where projects contribute to corporate objectives. At the time of reporting this document was still in the draft stage.

Risks

If options appraisals are not routinely considered at this early stage, the programme is at risk of investing in projects without considering whether the project is optimised to represent value for money, or whether it is likely to best meet the goals and strategic enablers underpinning the corporate strategy.

Without a clear understanding of the anticipated benefits and dis-benefits as well as the assumptions underpinning the project plan, management may not be able to ensure that the programme activities will support the realisation of the relevant elements of the Corporate Strategy.

Action plan

<i>Finding Rating</i>	<i>Agreed Action</i>	<i>Responsible person / title</i>
<p>Medium Risk</p> 	<p>The design phase is the preparatory work undertaken prior to project implementation. Options analysis is undertaken and presented in the financial business case, previously done alongside development of the PID – for example, for the EDISON project. For the two identified in the finding above, the finding didn't require a financial business case. The PID and financial business case are now being amalgamated. All PIDs going forward will now include a space for options analysis.</p> <p>Management will consider expanding the PID template to provide the Executive with further information to inform a decision to approve that a project moves into delivery, and support the early resource investment decisions. This will include:</p> <ul style="list-style-type: none"> • Expected dis-benefits; benefits are clearly stated in Project Initiation Documents and quantified wherever possible. • We note that deliverables are already detailed in the PID with a statement of how they will be achieved, including assumptions. However, we will consider if this can be expanded to include a clear list of the assumptions upon which the programme plan and deliverables were underpinned. 	<p>Amir Rashid, Change Programme Director</p> <hr/> <p><i>Target date</i></p> <p>30/11/2014</p> <hr/> <p><i>Reference number</i></p> <p>1</p>

2. Project Approval Process – Operating Effectiveness

Finding

Sample PID reviewed against the Programme’s PID “Appraisal criteria”

We reviewed the “Appraisal criteria” as used by management to determine whether project initiation documentation was sufficient to allow management to approve that a project is ready to move to the delivery stage.

We reviewed the “Corporate Performance Management of Data PID”, dated July 2014, against the “criteria/challenges” contained within the “Appraisal Criteria” document and found there were a number of exceptions:

- The document did not state whether there had been any changes to the scope from the previously agreed high level scope, and the “Appraisal Criteria” sheet did not RAG rate this criterion to note compliance.
- The document did not state whether there had been any changes to the high level plan from the previously agreed plan, and the “Appraisal Criteria” sheet did not RAG rate this criterion to note compliance.
- Not all benefits were clearly identified, for example “potential for local systems to be dismantled” was recorded as a benefit without determining what the measurable improvement to the organisation would be as a consequence of this change.
- No dis-benefits were identified.
- Dependencies were not always clear in their description, for example “EDISON/MDM” was recorded as a dependency with no further explanation as to what the specific reliance was.

Risks

If projects approved without fully satisfying the programme’s PID appraisal criteria, the programme is at further risk of investing in projects without considering whether the project represents value for money, nor whether it is likely to meet the goals and strategic enablers underpinning the corporate strategy.

Action plan

Finding Rating

Agreed Action

Responsible person / title

Medium Risk



PIDs are appraised against criteria to highlight any significant gaps for reworking before submission and approval by the Programme Board (including all Executive members). Feedback to project managers, following appraisal, is logged. A fuller audit trail of all appraisal comments, revisions and reappraisals, will be maintained going forward.

The programme recognises the learning points suggested against the Performance Management PID, and will ensure the relevant quality criteria are better observed by future projects.

Amir Rashid, Change Programme Director

Target date

With immediate effect

Reference number

2

3. Risk and Issue Management – Control Design

Finding

We reviewed the “Risks and Issues log”, dated 15 September 2014, and noted that it contained the following fields supporting the effective identification, analysis and escalation of risks and issues across the programme:

- Current status.
- Description.
- Measures (Probability, Impact and RAG rating).
- Trend
- Mitigation activity.
- Residual risk/issue description post-mitigation activity.
- Link to the Corporate Risk Register.
- Resolution.

However, we found a number of areas where the Change Programme’s risk and issue management controls and documentation could be strengthened to further support the effective identification, analysis and escalation of risks across the programme.

Recording of Risks

The “Risks and Issues log”, dated 15 September 2014, did not contain the following information:

- A distinct risk cause (to supplement the risk description).
- The treatment strategy (for example “Tolerate” or “Accept”).
- The date of next required review for each risk.
- Any related issues.

Recording of Issues


The “Risks and Issues log”, dated 01 September 2014 did not contain the following information:

- Issue category (for example “Technical issue” or “Resource issue”).
- The effect of the issue (to supplement the issue description).
- The date by which each mitigation action should be completed.
- Any related risks.

Risks

Current risk and issue management processes may not provide adequate mechanisms to identify and manage risks or issues facing individual projects or the overall programme. This may mean that early warning indicators are missed resulting in avoidable risks materialising, delays, unexpected costs or reduced quality.

Action plan

<i>Finding Rating</i>	<i>Agreed Action</i>	<i>Responsible person / title</i>
Low Risk	PwC recommendation We would suggest that management: A) Expand the Risk and Issues Log to include (for Risks): <ul style="list-style-type: none"> • The risk cause (to supplement the risk description); • The treatment strategy (for example 	Amir Rashid, Change Programme Director
		<i>Target date</i> 31/12/2014 <i>Reference number</i>

“Tolerate” or “Accept”);

3

- The date of next required review (for each Risk); and
 - Any related issues.
- B) Expand the Risk and Issues log to include (for Issues):
- Issue category (for example “Technical issue” or “Resource issue”);
 - The effect of the issue (to supplement the issue description);
 - The date by which the mitigation action should be completed (for every Issue); and
 - Any related risks.

Management response

We do not agree that adding these fields will strengthen our risk/issue approach, but will complicate it. The risk/issue management approach is designed to focus on specific problem and practical responses, rather than the more theoretical elements, for example treatment strategy.

The date of the next risk review is always the next Programme Board, and dates for mitigation actions are set and tracked.

4. Highlight Reporting – Control Design

Finding

We reviewed the “Project report v1.1” template and noted that, at the time of reporting, it contained the following areas of good practice:

- Overall RAG-rating for the entire project.
- Progress against milestones (including RAG status and commentary).
- Financial progress (including RAG status and commentary).
- High/Critical risks and issues.

However, the template did not include the following fields:

- Dependencies.
- Decisions for the programme board.

Inclusion of these fields would help capture more information to support effective decision making.

We note that at the time of fieldwork, management stated that the format of highlight reports had been undergoing review and change, and would ultimately be replaced by a reporting process held on SharePoint – albeit using the same headings as the version template reviewed.

Risks

If comprehensive reports are not presented to the Programme Board there is a risk that the Board is not supplied with adequate information to ensure that appropriate decisions and mitigations are made.

Action plan

<i>Finding Rating</i>	<i>Agreed Action</i>	<i>Responsible person / title</i>
-----------------------	----------------------	-----------------------------------

Low Risk



Decisions for the Programme Board are now included in the highlight report template.

Dependencies will be added to the template.

Amir Rashid, Change Programme Director

Target date

31/10/2014

Reference number

4

5. Record of Programme Board Minutes – Control Design and Operating Effectiveness

Finding

We reviewed a sample of “Decisions logs” from recent Programme Board meetings and found that there were a number of areas where controls were designed to facilitate the accurate recording of key discussions and outcomes of Programme Board meetings:

- Date of the meeting.
- Relevant project.
- Action.
- Sponsor.
- Owner.
- Completion Date.

However, there were a number of areas where recording of minutes could be strengthened.

Meeting Minutes (design)

We reviewed the “Decision log 18/08/14” and noted that it did not require the following key information to be recorded:

- Distinct key decisions (independent from actions).

Meeting Minutes (completeness)

We reviewed a sample of decisions logs from recent Programme Board meetings and found a number of areas where required information was missing, or entries were inconsistent with previous records.

We reviewed the “Decision Log”, dated 02/07/14, and noted that:

- Two actions did not record a sponsor.
- One action remained open, and the completion date pushed back to 29/7/14, contrary to the record from the previous meeting (dated 17/06/14) which stated that it was meant to be closed on 23/06/14. The log records that management should “Complete benchmark position, put in revised targets and data quality owner” which does not explain why the completion date had slipped.


We reviewed the “Decision Log”, dated 29/07/14, and noted that:

- Two actions did not record a sponsor.
- The open action from the previous log, dated 02/7/14, remained open with no clear explanation.
- The sponsor from the above record had also changed from JS to RF with no explanation.

Risks

Without a clear and comprehensive record of Board Meetings, management are at risk of being unable to ensure the prompt resolution of any outstanding actions, risks and issues.

Without an accurate record of decisions being made at the Programme Board, management may not be able to place reliance on decisions that have been passed by the Board attendees. This could result in further delay, cost or the possible invalidation of previously agreed decisions.

<i>Action plan</i>		
<i>Finding Rating</i>	<i>Agreed Action</i>	<i>Responsible person / title</i>
<p>Low Risk</p> <p></p>	<p>The Change Programme office have already included key decisions in documents from change programme meetings.</p>	<p>Amir Rashid, Change Programme Director</p> <hr/> <p><i>Target date</i></p> <p>With immediate effect</p> <hr/> <p><i>Reference number</i></p> <p>5</p>

Appendix 1. Basis of our classifications





A. Individual finding ratings

Finding rating	Points	Assessment rationale
Critical	40 points per finding	<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	10 points per finding	<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	3 points per finding	<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	1 point per finding	<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 of £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	0 points per finding	A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Each individual finding is given points, based on the rating of the finding (Critical, High, Medium, Low or Advisory). The points from each finding are added together to give the overall report classification of Critical risk, High risk, Medium risk or Low risk, as shown in the table on the next page.

Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Report classification</i>	<i>Points</i>
 Low risk	6 points or less
 Medium risk	7– 15 points
 High risk	16– 39 points
 Critical risk	40 points and over

Appendix 2. Terms of Reference

Final Terms of reference – Change Programme

To: Richard Flatman – Chief Financial Officer

From: Justin Martin – Head of Internal Audit

This review is being undertaken as part of the 2014/2015 internal audit plan approved by the Audit Committee.

Background

London South Bank University's Corporate Strategy for 2015-2020 states that, by 2020, London South Bank University will be London's top modern university. The Corporate Strategy describes 'Student success', 'Real world impact', 'Access to opportunity' and 'Strategic enablers' as the outcomes of this Corporate Strategy and defines 8 goals, backed by various performance metrics, which will be used to measure success.

In order to achieve these goals, London South Bank University has implemented the 'Change Programme' to support the delivery of all objectives of the Corporate Strategy 2015-2020. The programme is made up of 17 composite projects, each aligned to a particular strategic goal.

Our work touches upon the following areas that form part of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
15*	x			x	x

x = area of primary focus

x = possible area of secondary focus

(* NB: The number of days assigned to this Terms of Reference is 6. An additional 9 days will be assigned to a further Terms of Reference, agreed later in 2014/15, focussing on the constituent projects under the Change Programme. Please see reference below in the "Limitations of scope").

Scope

The objective of this review is to assess the key governance controls in place to manage the Change Programme.

The sub-processes, related control objectives and key risk areas included in this review are:

Sub-process	Objectives	Work to be completed
Governance and reporting	To ensure that the programme and associated projects are subject to appropriate oversight and that appropriate decisions are taken by relevant parties based on complete, accurate and timely information.	<ul style="list-style-type: none"> We will review programme documentation to ensure that the programme board is supported by a clearly defined Terms of Reference which underpins its expected inputs, outputs and decision making responsibilities; We will review programme documentation to understand the planned programme governance environment and assess whether the controls set out will support an effective governance structure, including representation at the appropriate level and frequency from all relevant functions and stakeholders

-
- on key boards;
 - We will review programme documentation to ensure that roles and responsibilities are clearly documented and defined across the programme to support clear decision making;
 - We will interview an agreed sample of the programme team to identify any areas of risk or issues with the governance structures in practice;
 - We will test a sample of minutes and papers from meetings to ensure that meetings take place regularly, with agreed actions being documented and followed up appropriately;
 - We will review the documentation of the mechanisms in place to identify and mitigate the potential risks and issues facing the programme, as well as the processes followed to escalate issues promptly, or to an appropriate level, to identify any gaps in control;
 - We will review an agreed sample of risk and issue documentation to test whether they have been fully completed;
 - We will review programme reports to assess whether they will support the requirements of the governance boards roles and responsibilities, and whether they have been completed;
 - We will interview an agreed sample of the programme team to understand how reports are compiled and how the information included in them is collected and authenticated to ensure management decisions are based on accurate and up to date information;
 - We will review an agreed sample of reports to test whether they have been fully completed;
 - We will review documentation which describes the process by which the projects within the Change Programme are assessed and selected for initiation to identify any gaps in control; and
 - We will review an agreed sample of project selection documentation to test whether projects have been assessed and selected in accordance with the prescribed process.

Limitations of scope

The scope of our work will be limited to Governance and Reporting, as outlined above; all other areas will be excluded from the scope.

This review will focus on the overall controls in place surrounding Governance and Reporting for the Change Programme. It does not include any assessment of controls for constituent projects.

We will perform another review later in 2014/15 which will focus on other project and programme management controls for constituent projects – the scope of this work will be agreed with management at a later date.

Audit approach

Our audit approach is as follows:

- Obtain an understanding of programme management processes through discussions with key personnel and review of key documentation;
- Identify the key risks surrounding programme management governance;

- Evaluate the design of the controls in place to address the key risks
- Test the operating effectiveness of the key controls (where appropriate to do so).

Internal audit team

Name	Role	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 justin.f.martin@uk.pwc.com
David Wildey	Engagement Manager	0207 213 2949 / 07921 106 603 david.w.wildey@uk.pwc.com
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Adam Brown	Programme Auditor	07952 141 946 adam.c.brown@uk.pwc.com

Key contacts – London South Bank University

Name	Title	Contact details	Responsibilities
Dave Phoenix	Vice Chancellor (Audit Sponsor)	0207 815 6001 phoenixd@lsbu.ac.uk	Review and approve terms of reference Review and approve draft and final reports
Amir Rashid	Change Programme Director	0207 815 6825 rashia15@lsbu.ac.uk	Hold initial scoping meeting Review and meet to discuss issues arising and develop management responses and action plan Review draft report Review and approve final report
Richard Flatman	Chief Financial Officer	0207 815 6301 richard.flatman@lsbu.ac.uk	Review terms of reference Review draft and final reports
John Baker	Corporate and Business Planning Manager	0207 815 6003 j.baker@lsbu.ac.uk	Review terms of reference Review draft and final reports

Timetable

Fieldwork start	13/08/2014
Fieldwork completed	26/08/2014
Draft report to client	09/09/2014
Response from client	16/09/2014
Final report to client	23/09/2014

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 3. Limitations and responsibilities

Limitations inherent to the internal auditor's work

We have undertaken the review of the Change Programme 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.



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	PAPER NO: AC.65(14)
Paper title:	Change Programme risks and issues report
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	Amir Rashid, Programme Director
Executive/Operations sponsor:	David Phoenix, Vice Chancellor
Purpose:	To provide an update on the change programme covering: <ul style="list-style-type: none"> • High level dashboard • Programme risks and issues

Executive Summary	
Context	<p>This paper gives:</p> <ul style="list-style-type: none"> • a high level overview (dashboard) of programme performance • key risks and issues being managed by the programme <p>The information presented is correct as of 23 October 2014.</p> <p>The change programme is delivering a range of projects – i.e. interventions outside our business-as-usual, defined by time and scope – to achieve those aspects of the corporate strategy that represent significant change.</p>
Question	What is the current progress of the change programme?
Conclusion & Recommendation	That the committee note progress to date.

Programme Status

At this stage there are 17 distinct projects:

- 3 projects are at 'concept' stage (shaded grey on the dashboard overleaf) – developing an initial, high level, scope of activity
- 4 projects are in the process of developing detailed project initiation documents
- 4 projects are in design (extensive analysis required for highly complex projects)
- 5 projects are in delivery
- 1 area of work (leadership and workforce development) will be delivered as business as usual – it is also shaded grey on the dashboard.

High level commentary on the status of projects is provided on the dashboard.

Key risks and issues

Risks/issues that are rated as critical or high are reported to each Executive Change Programme Board and mitigations are set and tracked by the programme team.

At this point, the key risks and issues to the programme relate to staff engagement and communications. Extensive activity is underway, including a revised reporting approach to subcommittees, development of key communication channels such as the VC email to all staff, and face-to-face roadshow events being set up for November. Additional resources are being brought in to enhance this approach.

Programme Dashboard – October 2014

	Project	Sponsor	Project Lead	RAG status	Overall status	Commentary	
Developing the academic environment	1	Portfolio review	Mike Molan	Simon Houlding	G	In delivery	Portfolio review panels underway, from 22/10/14-3/11/14
	2	Learning pathway: curriculum structure	Phil Cardew	TBD	G	PID in development	PID scheduled for discussion at Programme Board 13/01/15
	3	Partnerships, collaboration and reputation	Paul Ivey	TBD		HLS needs development	HLS scheduled for Programme Board 29/10/14
	4	Developing scholarship	Paul Ivey	TBD		HLS needs development	
Support for the academic environment	5	Learning pathway: student support	Pat Bailey	TBD	A	PID in development	PID delayed to 11/11/14, recruitment of project manager in progress
	6	Student journey	Pat Bailey	Paul Grosart	G	In design phase	On track
	7	Professional service models	Mike Molan	Paul Grosart	G	In design phase	On track
Informed decision making	8	League table	James Stevenson	Hannah Le Vay	A	In delivery	
	9	Management committee review	James Stevenson	Michael Broadway	A	PID in development	PID deferred to Programme Board 11/11/14
	10	Corporate performance management	Richard Flatman	Hannah Le Vay	A	In delivery	Further development of KPIs underway following Board of Governors awayday
	11	Data quality and management	Richard Flatman	TBD	G	PID in development	PID scheduled for 29/10/14
ICT and infrastructure	12	Information management	Ian Mehtens	Paul Grosart	G	In design phase	On track
	13	ICT strategy	Ian Mehtens	ICT technical delivery	G	In design phase	On track
	14	Edison	Phil Cardew / Ian Mehtens	Francois Contreiras	A	In delivery	Options to resolve issues during testing of IAM system are being explored
	15	Estates	Ian Mehtens	Carol Rose		HLS needs development	
People	16	Leadership and workforce development	Mandy Eddolls		BAU		Delivered through BAU with reporting on key milestones at Programme Board
	17	Communications	Phil Cardew	Caroline Shaw	A	In delivery	Programme communications manager in post 20/10/14

Programme risks (rated as high or critical)

No	Description	Li	Im	Rating	Trend	Mitigations	Timescale	Residual			Current status	R/I owner
								Li	Im	Rating		
1	Delivery of business as usual disrupted by scale of change activity	M	C	Critical	Same	Engagement and communications are planned and into delivery Clear performance and reporting framework in place Key BAU plans in place Ensure adequate resources are identified at project initiation	In place Feb 15 Immediate Feb 15	L	C	High	Communications plan and messaging agreed 09/09/14 Reporting cycle on track BAU to be monitored through Ops Board Business case being built into PID, PID development planned across projects. Recruitment for PR2 and DQ project managers underway	Dave Phoenix
4	Organisation-wide, dependence on key staff	M	H	High	Same	Monitoring resource constraints through continuous senior stakeholder engagement	Ongoing	M	M	Medium	Mapped project-level governance: PD overseeing resources/pinch points	Amir Rashid
5	New senior managers and stakeholders may not take ownership of change and effectively lead and drive across the organisation	M	C	High	Better	Ongoing engagement and communication with Ops Board Robust governance and reporting process to be embedded	Ongoing Feb 15	L	H	Medium	Deans induction held 12 August; further engagement session scheduled 7 October. Ops Board special session scheduled 22 October. Subcommittee updates being planned.	Dave Phoenix
6	Failure to manage interdependencies across the programme may result in projects being delayed	M	H	High	Same	All projects to have detailed project plans Interdependencies to be mapped and monitored via regular project reporting and Programme Delivery Group	Feb 15 All	M	M	Medium	PIDs for design phase projects planned Dec 14 Programme Delivery Group launched, meeting monthly to map interdependencies	Amir Rashid

Programme issues (rated as high or critical)

No	Description	Rating	Trend	Mitigations	Timescale	Residual Rating	Current status	R/I owner
7	Communications need to manage significant scale of messages at all levels: enhanced capacity and capability needed	High	Better	Detailed communication plan developed Delivery of communications plan - channels and key messages established Comms effectiveness tested via staff/student networks	In place Ongoing Ongoing	Low	Additional resource to manage comms to be recruited October 2014 VC weekly email in place Key programme messages in development Networks to be established by Head of OSDT (Oct 14)	Amir Rashid / Lynn Grimes
8	Employee and student engagement needs to be built to ensure successful change	Critical	Better	Staff/student change networks in place Manager's Cascade in place Staff roadshows	Oct 14 Oct 14 Ongoing	High	Networks to be established by Head of OSDT (Oct 14) Cascade in place VC Addresses Oct 14, programme roadshows planned Nov 14	Head of OSDT
9	Organisation-wide golden thread needs to be strengthened to ensure collective ownership of change	High	Better	Corporate Strategy published Corporate Delivery Plan published Local Delivery Plans developed Workforce requirements identified and appraisal process enhanced	In place Oct 14 Jan 15 May 15	Low	Corporate Delivery Plan discussed by Executive, Ops Board, Leadership Forum Sept-Oct, to be presented to Governors 15 Oct Local Delivery Plan template and guidance in progress	Amir Rashid
96	Data quality, and complexity of data architecture and ownership, is a major threat to projects, particularly within the Informed Decision Making theme	High	New	Data Quality project planned	Oct 14	Low	PID deferred to Programme Board 29/10/14 - startup activities to be progressed as possible	Hannah Le Vay

	PAPER NO: AC.66(14)
Paper title:	Change Programme – informed decision making report
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	Richard Flatman, Chief Financial Officer
Executive/Operations sponsor:	David Phoenix, Vice Chancellor
Purpose:	To provide an update on projects within the Informed Decision Making theme of the change programme.

Executive Summary	
Context	<p>This paper gives:</p> <ul style="list-style-type: none"> • An update on project progress, key successes, risks and issues. <p>This information is correct as of 20 October 2014.</p> <p>The change programme is delivering a range of projects – i.e. interventions outside our business-as-usual, defined by time and scope – to achieve those aspects of the corporate strategy that represent significant change.</p> <p>The Informed Decision Making projects aim to enable better reporting and governance, ensuring decisions are based on robust data and information. These projects are currently:</p> <ul style="list-style-type: none"> • League Table • Management Committee Review • Corporate Performance Management of Data • Data Quality and Management
Question	What is the current progress of Informed Decision Making projects?
Conclusion & Recommendation	That the committee note progress to date.

Informed Decision Making – status of projects

Projects delivering the Informed Decision Making theme are moving forward. Project Initiation Documents are in development for the Management Committee Review, and the Data Quality project, which will address data quality and management issues and be key to achieving other improvements. Once the PIDs are agreed, these projects will begin regular reporting.

Reports are presented for the League Table and Performance Management projects. The League Table team have identified significant improvements that can now be made to our data submissions, and modelled the preparation of the leagues, enabling a more sophisticated understanding of our position and opportunities.

Under the Performance Management project, a draft suite of key performance indicators has been developed and was presented to the Board on 15 October. Appropriate benchmarking groups were agreed by Executive, enabling more informed analysis of our performance. This work will continue in a time limited working group established with governor representation and a final recommendation will be made via that group to Board for approval.

A set of operational PIs for monitoring by the Executive is also in development with the initial focus on recruitment, student satisfaction, retention and progression and employability.

During September and October 2014, the League Table project has been focussing on the optimisation of the HESA staff return, liaising closely with the HR team. The team is working to validate the staff return (which is submitted in draft in HESA's system) prior to final checks and approval by the VC before the final HESA deadline of 12 November 2014.

The League Table project is also working on optimisation of the HESA student and finance returns to understand the likely impact on LSBU's position.

Informed Decision Making – risks and issues

The Corporate Performance Management and League Table projects are flagged as amber, as the timescales for delivery to milestone dates has been threatened by resourcing issues. These issues are being resolved.

Progress on projects that are in delivery is further detailed in the monthly highlight reports, attached to this paper.

Project	Corporate Performance Management
Manager	Hannah Le Vay
Report date	06/10/14

Overall
A

Milestone	Due Date	RAG status	Commentary
D1.1 Suite of corporate KPIs agreed with Executive	31/8/14		Delayed due to annual leave and staff changes. Revised version of KPIs went to Exec 1 st Oct – some minor issues to be resolved.
D1.2 Operational PIs, targets and owners agreed with Exec / Leads	30/11/14		Workshop end of this month to agree operational PIs which will then be reported to Operations Board. Once agreed work will begin on establishing baseline and definitions/location of data.
D1.3: Dashboard report formats agreed in principle	31/12/14		Draft dashboard produced for Exec/Board.
D1.4: Reporting cycle signed off by Executive	31/12/14		Draft reporting framework produced for Exec/Board
D1.5: Development of reporting mechanisms to populate dashboards	31/7/15		
D1.6: Framework for incorporation of dashboard data into operational planning and appraisal processes signed off	31/7/15		
D1.7: Process in place for escalating poor performance against target PIs	31/7/15		

Progress this month:

- Second meeting of working group held – workshop format which reviewed proposed operational PIs – significant buy-in achieved
- Benchmarking groups agreed by Exec.
- Reporting framework including draft dashboard and revised KPIs to Exec/Board

Key activities planned over next month:

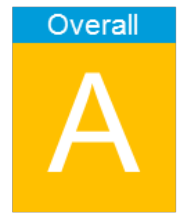
- Finalising KPIs
- Workshop to agree operational PIs – to report to Operations Board in November
- Reporting framework and dashboard at Exec/Board level to be fine-tuned following feedback
- Work starts on defining and establishing baseline for agreed operational PIs

Comms required next month:

- Workshop being held on operational PIs
- Issue final KPIs
- No requirement for broader comms at this point

High/critical risks and issues						Residual					
R/I	Description	P	I	Rating	Trend	Mitigations	Timescale	P	I	Rating	Current status
I	Resourcing required to address challenges re complexity of data – as noted against League Table project			High	Same	Recruitment needs to take place to vacant posts	Immediate			Med	Requires action

Project	League Table
Manager	Hannah Le Vay
Report date	October 2014 (updated 20/10/14)



Milestone	Due Date	RAG	Commentary
1. Executive report on league table priorities and action plan	24/6/14	Green	Achieved
2. Working group – first meeting	7/7/14	Green	Achieved
3. Working group – second meeting	23/7/14	Green	Achieved
4. Working group – third meeting	w/c 4/8/14	Green	Achieved
5. Review of draft staff and student returns by BIU	tbc	Yellow	Reviews underway. Potential areas for optimisation identified for both returns and are being implemented. HR data quality improved but significant work remains.
6. Executive meeting report	3/9/14	Yellow	Verbal update provided 3 rd & 23 rd Sept. Model for all 3 tables now in place at institutional level. Subject analysis started. To be reported to Executive 4 November
7. VC to Sign off staff and student return	tbc	Yellow	Date for first reviews in VC's diary.
8. Submission and validation of staff and student return	tbc	Yellow	Optimisation of data in progress by HR team. Final checks, approval and sign off by 12/11/14

<p>Progress this month:</p> <ul style="list-style-type: none"> LT Models produced for VC review Additional staff in PSGs identified to reduce SSR Problem in terms of maximising academic spend due to HR data movement and lack of audit trail of movements (journals overdue) Interim senior data analyst in post 	<p>Key activities planned over next month:</p> <ul style="list-style-type: none"> Ongoing review/oversight of student and staff returns League table models presentation to VC HR data cleansing to continue and SSR fine-tuned. Finance return review to start. 	<p>Comms required next month:</p> <ul style="list-style-type: none"> Open door session being set up
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High/critical risks and issues							Residual				
R/I	Description	P	I	R	Trend	Mitigations	Timescale	P	I	R	Current status
I	Project milestones are being impacted by: Inadequate resources in place			C	New	Recruitment needs to take place to vacant posts	Immediate			H	Requires action
	Governance arrangements no longer effective					League Table Working Group to be reconvened, focused to ensure priority 13/14 returns	Immediate				Requires action
	Availability of data					Key data needs to be made available for quality assurance	Immediate				Staff return data to be released for timely review for 'Commit' stage

	PAPER NO: AC.67(14)
Paper title:	Funding Assurance Report
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	Ralph Sanders, Director of Planning, Information & Reporting
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To brief the Audit Committee on the result of the AASG assurance assignment.

Executive Summary	
Context	<p>AASG Funding Assurance provides independent assurance to Research Council Accounting Officers, Audit Committees and the National Audit Office over funding made by the Research Councils in respect of research grants, fellowships and Doctoral Training Grants.</p> <p>AASG conducted an assurance assignment of London South Bank University.</p> <p>Within this assignment, the following areas were reviewed:</p> <ul style="list-style-type: none"> • Regularity of expenditure for research grants and Doctoral Training Grants and research grant administration processes: Satisfactory Assurance. • Research Integrity and Ethics: Satisfactory Assurance.
Question	What was the result of the result of the recent assurance audit and will LSBU still be eligible for Research Council Funding?
Conclusion & Recommendation	<p>Assurance Opinion</p> <p>Based on the work undertaken with the information provided, the overall classification of assurance that can be provided is Satisfactory Assurance.</p> <p>The Audit Committee note the report and the positive findings.</p>

Matter previously considered by:	N/A	N/A
Further approval required?	No	On:



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Providing Added Value Assurance

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2014-15 Final Funding Assurance Report

London South Bank University

(DBR-0076-1415)

Desk Based Review
Issued: 23 September 2014

**London South Bank
University**

Assignment Timetable and Distribution

Assignment Timetable

Milestone	Target	Actual
Initial Introductory Letter Issued:	12 June 2014	12 June 2014
Documents Received:	21 July 2014	23 July 2014
Final Queries Resolved:	14 August 2014	22 August 2014
QA of Draft Report:	28 August 2014	03 September 2014
Draft Report Issued:	08 September 2014	04 September 2014
Management Response Received:	02 October 2014	19 September 2014
Final Report to QA:	26 September 2014	22 September 2014
QA of Final Report:	25 September 2014	22 September 2014
Final Report Issued:	03 October 2014	23 September 2014

Principal Distribution List

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		Nigel Yates	AASG, Director

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Appendices

- Annex A. Independence, Integrity and Objectivity
- Annex B. Assurance and Risk Category Definitions

AASG Funding Assurance Report Structure - Usage Guidelines

AASG Funding Assurance reports consist of three main sections: the Executive Summary; the Detailed Assurance Findings; and the Action Plan.

The **Executive Summary** is designed to enable it to be separated from the main report (Detailed Assurance Findings) and read as a stand-alone document. It contains an overall assurance opinion and the **Summary of Funding Assurance Findings** which have been made.

The **Detailed Assurance Findings** section reports on the main findings of the assignment fieldwork. It identifies the areas that were reviewed and substantiates the audit assurance for each area. Where recommendations have been made they are cross referred to on a section by section basis.

The **Summary of Funding Assurance Findings** provides a formal record of the recommendations made. It is intended to be used as a process for Management to provide an official response to each recommendation. Additionally, it allows AASG to analyse recommendations for statistical purposes. Assurance Findings are cross referenced to the relevant section within the Detailed Assurance Findings section.

1. Executive Summary

- 1.1 AASG Funding Assurance provides independent assurance to Research Council Accounting Officers, Audit Committees and the National Audit Office over funding made by the Research Councils in respect of research grants, fellowships and Doctoral Training Grants. A statement regarding independence, integrity and objectivity can be found at Annex A. Funding Assurance activity is designed to provide an explicit and robust opinion to allow the Accounting Officers assurance to discharge their personal responsibility in safeguarding public funds and achieving value for money.
- 1.2 In accordance with the approved Funding Assurance Plan, AASG have conducted an assurance assignment of London South Bank University.
- 1.3 Within this assignment, the following areas have been reviewed:
- Regularity of expenditure for research grants and Doctoral Training Grants and research grant administration processes: **Satisfactory Assurance**.
 - Research Integrity and Ethics: **Satisfactory Assurance**. This assurance rating is based on a desk based review of the organisations responses in the questionnaire, the Ethics policies on their website and supplementary information provided by the university.

Assurance Opinion

- 1.4 Based on the work undertaken with the information provided, the overall classification of assurance that can be provided is **Satisfactory Assurance**. The risk and assurance categories used in this report are explained at Annex B.

Introduction

- 1.5 The previous desk based review of research grant administration took place in July 2008 and resulted in a rating of **Satisfactory Assurance**.
- 1.6 This desk-based review focussed on research grants and Doctoral Training Grants (there are no current Research Council funded Fellowships held at the university) and research grant administration processes. No detailed scrutiny was undertaken of TRAC assurance in the course of this assignment as there are plans to undertake a national Quality Assurance and Validation of TRAC in the 2014-15 Financial Year.
- 1.7 The overall opinion is based on substantive testing of 10 research grants and Doctoral Training Grants.

Summary of Assurance Findings

- 1.8 Two findings have emerged from this assignment:-
- ASF1 Ineligible costs
 - ASF2 Retention of invoices and supporting receipts for expenditure
- 1.9 Further details of these are recorded in full within Section 3 of the report and are classed by risk category. Annex B contains the definitions which underpin these.
- 1.10 Each assurance finding is drawn from an observation and an associated risk. An action is then recorded to which the research organisation is invited to comment accordingly. The university is requested to respond to each of these in turn and comment on any matters of factual inaccuracy or actions taken as appropriate.
- 1.11 Income versus expenditure analysis highlighted 3 cases where the AASG tolerance of 20% or greater was exceeded. These are recorded in section 2 'Assurance Findings – Payments in advance of need' along with the explanations provided by London South Bank University.

2. Detailed Assurance Findings

Summary of Scope

- 2.1 To provide assurance on the regularity of expenditure for research grants and Doctoral Training Grants at the university, and whether there is an adequate control environment supporting compliance with Research Council terms and conditions.
- 2.2 To report on compliance with Research Council terms and conditions with reference to non-financial terms and conditions.

Overview

- 2.3 London South Bank received £461k from the Research Councils in Research Grant and Fellowship income in 2012-13 and £127k for Doctoral Training Grants. The table below shows income received split between Research Councils.

Table 1: Research Council funding analysis for London South Bank University in 2012-13

Research Council	Research Grants / Fellowships £k	Doctoral Training Grants £k	Total £k
AHRC	18	40	58
EPSRC	195	49	244
ESRC	248	38	286
TOTAL	461	127	588

Research Integrity and Ethics

- 2.4 The university has the following policies in place:-
- Safeguarding good scientific practice (Jan 14)
 - Investigating scientific misconduct (Jan 14)
- 2.5 These policies are reviewed every two years and approved by the Research Committee.
- 2.6 The policies are included in an employment information pack for new staff and for existing staff; newsletters are issued and routine training events held. There is also reference material and information available on the university's website. Research Integrity and Ethics is part of the key skills training programme for students.
- 2.7 A Research Governance Group will be set up during the first part of the academic year 2014/15 with a remit of raising and maintaining standards of research integrity across the university. Although the terms of reference, group membership and frequency of meetings have yet to be agreed, the proposed scope, objectives and structure of the group has been drafted and London South Bank provided further information for this review.
- 2.8 The university updated its policy on investigating Scientific Misconduct in January 2014 following a case of alleged misconduct (not Research Council related). This identified areas where improvements to procedures were needed and included:
- greater clarity around when and how the procedure for investigating misconduct should be applied
 - greater clarity and consistency around the terminology applying to misconduct and the timescales involved in any investigation
 - clearer guidance to the Investigation Panel on the conclusions they can arrive at and the level of proof required
 - clearer actions arising from each of the possible outcomes

Administration Processes

- 2.9 A review of the questionnaire and other documentation relating to the structure and management of research grants was undertaken. From the information provided, overall the processes and procedures in place are adequate to managing grants effectively.
- 2.10 Monthly transaction report reviews are carried out by Business Support Managers and PIs and monthly income v expenditure reconciliations.
- 2.11 The Pro Vice Chancellor has overall responsibility for the management of research grants with the Chief Financial Officer ensuring financial compliance. Pre and post award grant administration is managed by the Research Support team (RST) within the Central Research Support Office (CRS). Day to day management of research awards is the responsibility of the Principal Investigator with assistance from the Faculty's Business Support Manager (BSM).
- 2.12 The BSMs offer on-site support and expertise to the project managers, reviewing budgets and spend and offering guidance to the PI on the management of research grants.
- 2.13 Expenditure is monitored jointly by the PI, BSM and RST with the Faculty heads overseeing research project activities. Monthly statements and transaction activity reports are produced and reviewed by the BSM and PI to monitor spend and ensure only eligible costs are charged to the project.
- 2.14 Income v expenditure reconciliations are performed on a monthly basis and deferrals or accruals processed as appropriate.
- 2.15 Research activity reports are reviewed by the Executive Deans, Directors of Research, BSMs and Head of CRS and RST team. Quarterly meetings with key project stakeholders are held to review grant progress and status and highlight and address issues.
- 2.16 PIs can request transaction reports via the financial system Agresso web which has a drill down facility to enable them to scrutinise project spend and activity. Agresso web training is available to new PIs to learn about the financial management packages available to them as project managers.
- 2.17 London South Bank is a member of the London Universities Purchasing Consortium. Procurement web pages provide guidance and advice on purchasing procedures and are also a source of information for purchasing activities across departments raising awareness of procurement category areas and expertise.
- 2.18 The Corporate Procurement Unit is consulted before the purchase of any goods or services for which the university is receiving external funding.
- 2.19 London South Bank's internal audit services are provided by Price Waterhouse Coopers. The last audit specifically reviewing research activities was carried out in 2011/12.
- 2.20 One of the low risk findings of this review was that in some faculties projects were not reviewed regularly and issues identified in a timely manner and in some cases PIs were not fully aware of the extent of their responsibilities. Actions were agreed by management and from the responses in the questionnaire completed for this review and additional supporting documentation requested, it appears that the university has addressed this risk and implemented enhancements to its practices and procedures to address this point. This includes system training for PIs, guidance in the welcome pack for new starters and formalising roles and responsibilities of the PIs and BSMs.

Regularity of Expenditure

- 2.21 Ten research grants and Doctoral Training Grants were selected as a sample for testing. Awards are selected on a random basis, whilst ensuring all Research Councils (where applicable) are included in the sample. The sample is refined to ensure that awards are selected from across the life-cycle of the award, including some which will have submitted final expenditure statements. Individual Research Councils may request specific awards be included in the sample surveyed.

2.22 Table 2 below shows a breakdown of awards selected for testing by Research Council.

Table 2: Breakdown of research awards examined by Research Council

Research Council	Research Grants / Fellowships / Training Grants
AHRC	3
EPSRC	3
ESRC	4
TOTAL	10

2.23 Ten transaction listings were examined in detail. From this, 15 items were selected for testing and copies of invoices, back up documentation and/or explanation of costs requested. The following issues were identified during the review of the transaction listings:

- EP/I501533/1 – costs of £2,832 were posted to the grant for conference fees for 4 members of staff. Two of these staff were not supported by the grant and therefore the costs should not have been charged. The university has confirmed that these costs will be removed (**Assurance Finding 1**);
- EP/I501533/1 - costs of £423.24 were charged to the grant for accommodation for two members of staff. This cost was charged against the account as a temporary measure by the PI whilst a European project account was set up and should have subsequently been transferred out. The university confirmed the error will be rectified and costs removed (**Assurance Finding 1**);
- EP/K002473/1 - costs of £3,354.02 were posted to the miscellaneous category of the grant when they should have been included in the overhead charges. The university have confirmed that these costs will be removed from the grant. (**Assurance Finding 1**);
- EP/H50169X/1 – AASG requested source documents for 2 items of expenditure charged to the grant: £250 for 'Conference and Seminar Expenses' and £53.75 for 'Entertaining – Students'. The university were unable to locate this documentation which at the time of processing was sent to an external organisation to be scanned. (**Assurance Finding 2**).

2.24 Grant portfolios of sampled grants were reconciled to the Research Council records. As a result of this reconciliation, 8 differences between start and end dates were identified and queried with the university. These are listed below:-

- AH/I024534/1 – RC start date 07/10/11, LSBU 01/10/11; RC end date 06/10/14, LSBU 30/09/14
- AH/I507337/1 – RC end date 30/09/13, LSBU 30/12/13
- ES/H030042/1 – RC end date 03/09/13, LSBU 03/03/14
- ES/J02189X/1 – RC start date 18/01/13, LSBU 03/09/12; RC end date 17/01/15, LSBU 02/09/14
- ES/J020893/1 – RC start date 14/01/13, LSBU 01/06/12; RC end date 15/09/13, LSBU 31/05/15 (grant transferred to City 16/09/13)

These dates have now been reconciled and the university has confirmed the correct dates are held on their system.

Payments in advance of need

2.25 The following table records the variance analysis for grants sampled of income and expenditure made to date. This identified three grants where income exceeded expenditure by 20% or more, indicating that grant income had been received but appeared not to have been put to research use.

2.26 The details of these variance amounts are set out in Table 3 below, along with the explanations received from London South Bank University.

Table 3: Exception report of significant variations (>20%) between income and expenditure on Research Council grants

Research Council Grant Reference	Research Council	London South Bank University Income (£)	London South Bank University Expenditure (£)	Variance (£)	Variance (%)	Explanation from London South Bank
AH/I024534/1	AHRC	60,250.00	25,431.00	-34,819.00	-58	The student on the project was not eligible for a stipend only fee from the award as a result of her EU student status.
EP/K002473/1	EPSRC	395,019.00	253,692.00	-141,327.00	-36	The underspend is due to a rephrasing of the original project spend. The PI has yet to purchase all the consumables for the project as some commercial technology changes occurred with an increased interest in energy monitoring. To avail of the best products and consumables, the PI has concentrated on more rigorous simulation improvements before finalising the purchases and developments which will be taking place in the next three months.
ES/J02189X/1	ESRC	12,251.00	5,008.00	-7,243.00	-59	The expenditure slippage is due to the late payment speaker's expenses and accommodation provided at nil cost to the project.

3. Assurance Findings

ASF.1		Ineligible costs	
Risk Category Key:		Regularity of Expenditure (RE)	
Observation		Risk	
<p>EP/I501533/1 – costs of £2,832 for conference fees were posted to the grant for 4 participants however only 2 of these were supported by the grant.</p> <p>EP/I501533/1 – costs of £423.24 were posted to the grant whilst an alternative account was being set up. These costs should have subsequently been removed.</p> <p>EP/K002473/1 – an invoice was charged to the miscellaneous code of the grant but the costs should have been posted as an overhead offset.</p>		<p>Costs claimed for staff not supported by the grant or costs charged in error are in breach of Research Council Terms and Conditions and if included in the final expenditure claim could be removed or subsequently reclaimed by the Research Council.</p> <p>In addition, the spend, budget and remaining budget position figures will be incorrect if erroneous expenditure is included (and not promptly removed) from the transaction reports thereby over or understating available funds.</p>	
Recommended Action			
The ineligible costs should be removed from the grant immediately. The university should review the existing controls in the approval and authorisation of expenditure process to identify any potential improvements to procedures to prevent a recurrence of the cases above.			
Management Response [Delete As Appropriate]			
Status:		Risk & Action Accepted	
Action:		The Finance department at LSBU has a culture of continuous improvement and so we welcome specific actions that we can take to improve our processes for the benefit of our customers. Whilst these amounts are relatively small in relation to the totality of LSBU's research income we shall ensure that we take this opportunity to tighten our procedures including structured monthly meetings with key grant holders and applying extra scrutiny before the submission of any research claims. The Finance members of the LSBU Research Team are also now members of ARMA (the Association for Research Managers and Administrators) and we are also using that forum to learn and share best practice. We are also continuing to invest in the level of support that we give the Research Team at LSBU as we recognise the value of this activity to the life of the University.	
Person Responsible:		Ralph Sanders	
Due Date:		Immediately	
AASG Comment:		AASG are satisfied that the university are taking steps to mitigate these issues and ensure procedures are strengthened going forward.	

ASF.2 Retention of invoices and supporting receipts for expenditure	
Risk Category Key:	<u>Regularity of Expenditure (RE)</u> Administration Processes (AP)
Observation	Risk
<p>EP/H50169X/1 – AASG requested copies of source documentation for 2 items of expenditure charged to the grant. One was a £250 cost for ‘Conference and Seminar’ expenses and the other a £53.75 cost under the ‘Entertaining – Students’ heading on the transaction list.</p> <p>LSBU were unable to trace the source documents for these charges as they were sent to an external company for scanning and subsequently cannot be tracked down.</p> <p>LSBU have confirmed that since then the process has changed and scanning and up-loading of documents is done in-house.</p>	<p>If evidence of costs charged against Research Council grants is missing or unobtainable there is a risk these costs will be deemed ineligible and subsequently recovered by the funding Research Council.</p> <p>Missing source documentation also implies a gap in the audit trail that may require further work if a grant is subject to scrutiny by auditors.</p>
Recommended Action	
<p>The university have advised us that new procedures were implemented in 2011/12 and all documentation is now scanned at the in-house and supporting evidence uploaded to the system before expenses are approved. Expenses are also reviewed by the university’s Internal Auditors.</p> <p>The university should endeavour to locate and retain the missing documents for the 2 transactions above in order to comply with the Research Councils’ terms and conditions. Failure to do so and submit to AASG will render these costs ineligible and should not then be charged on the final expenditure statement.</p>	
Management Response [Delete As Appropriate]	
Status:	Risk & Action Accepted
Action:	Since the expenditure in question occurred, the University implemented a new system for the management of expenses processed via purchasing cards and all transactions are now scanned at source and stored electronically before authorisation. Financial Controls include periodic reviews of supporting documentation uploaded, to ensure that they are appropriate and our service level agreement with our supplier includes ensuring the security of supporting documentation. The University is not able to locate supporting documentation for the two amounts of £250 and £53.75 and confirm that they will not form part of the final expenditure statement.
Person Responsible:	Natalie Ferer
Due Date:	Already implemented
AASG Comment:	AASG are satisfied with this response.

Annex A. Independence, Integrity and Objectivity

Funding Assurance is an integral part of the Research Councils Audit and Assurance Services Group. Our work is an independent, objective assurance and consulting activity designed to add value and improve the research administration operations of a research organisation. AASG operate within the framework of the Government Internal Audit Standards and the Code of Ethics.

Relevant Government Internal Audit Standards

1100 Independence and Objectivity

The internal audit activity must be independent and internal auditors must be objective in performing their work, where:

- **Independence** is the freedom from conditions that threaten the ability of the internal audit activity to carry out internal audit responsibilities in an unbiased manner. To achieve the degree of independence necessary to effectively carry out the responsibilities of the internal audit activity, the chief audit executive has direct and unrestricted access to senior management and the board. This can be achieved through a dual-reporting relationship. Threats to independence must be managed at the individual auditor, engagement, functional, and organisational levels.
- **Objectivity** is an unbiased mental attitude that allows internal auditors to perform engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgment on audit matters to others. Threats to objectivity must be managed at the individual auditor, engagement, functional and organisational levels.

1110.A1

The internal audit activity must be free from interference in determining the scope of internal auditing, performing work and communicating results.

1120 Individual Objectivity

Internal auditors must have an impartial, unbiased attitude and avoid any conflict of interest.

Code of Ethics

The purpose of the Code of Ethics is to promote an ethical culture in the profession of internal auditing.

Integrity	The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
Objectivity	Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
Confidentiality	Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
Competency	Internal auditors apply the knowledge, skills and experience needed in the performance of internal auditing services.

Annex B. Assurance and Risk Category Definitions

Assurance Definitions

Assurance Opinion	Definition
Substantial Assurance	Evidence of an effective control environment in place across all aspects of research administration. Less than 1% of sampled transactions (by value or volume) were inaccurate. All journal posting are clear and accurate. Minimal number of corrections identified in the course of awards
Satisfactory Assurance	A basically sound control environment with a few weaknesses identified. More than 1% but fewer than 5% of sampled transactions were inaccurate (by value or volume).
Limited Assurance	Evidence of gaps or weaknesses in the control environment either within some departments or in the central administrative system. More than 5% of sampled transactions were inaccurate (by value or volume). Journal descriptions do not consistently provide clarity or sufficient detail to gain assurance on the eligibility of the transaction.
No Assurance	Unacceptable weaknesses across the control environment with more than 10% of sampled transactions inaccurate (by value or volume).

* AASG Assurance Opinions do not reflect the underlying risk appetite of the Research Organisation.

Risk Category Definitions

Risk Category	Definition
Regularity of Expenditure (RE)	Expenditure charged to awards complies with Research Council terms and conditions
Administration Processes (AP)	Administration procedures which underpin the effective administration of awards e.g., knowledge or application of Research Council terms and conditions.
TRAC (TR)	All TRAC related issues which will relate either to compliance with the statement of minimum requirements or the accuracy of the rates calculated and applied to Research Council awards
Payment in Advance of Need (PIA)	Income received on Research Council award(s) is materially higher than expenditure (>20%)

	PAPER NO: AC.68(14)	
Paper title:	Value for Money report	
Board/Committee:	Audit Committee	
Date:	30 October 2014	
Authors:	Penny Green, Head of Procurement	
Executive sponsor:	Richard Flatman, Chief Financial Officer	
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 2013/14.

2. Introduction

The University's Corporate Strategy 2015-2020 highlights the rapid movements in Higher Education and the need to continue to innovate to keep pace.

"Students do not want to simply sit in a lecture theatre and they will, quite rightly, continue to demand more for their money and they will expect that their investment in education will enhance their future career prospects. It is clear that the institutions who strive to successfully meet and manage these expectations are the ones who will prosper." Corporate Strategy 2015-2020

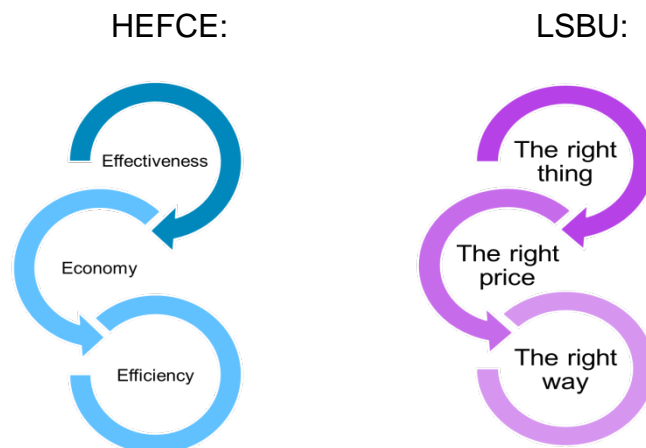
Value for Money continues to be increasingly important in how the University operates, to ensure that we deliver value for money to all stakeholders - doing the right things the right way at the right price.

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.

3. What is Value for Money (VFM)

Value for money is defined by HEFCE as effectiveness, economy, and efficiency. The LSBU Value for Money Working Group agreed an easy to understand LSBU definition.

- 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 2013/14

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 13/14 totalled £2.3 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 £2.3m cashable savings reported include £903,000 of savings made from using LUPC frameworks in 11/12 and 12/13. We are waiting for confirmation of savings figures from using LUPC frameworks in 13/14 – these will be reported in next year's VFM report.

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. In 13/14, 100% of GBP orders were placed electronically or via purchasing card. The volume of electronic purchasing transactions has significantly reduced compared to 12/13. A contributing factor would be the review conducted in 12/13 of purchasing cards in distribution and authorised expenditure limits.

Use of collaborative consortia contracts has increased.

UUK set the sector a collaboration target of 30% by 2016. LSBU's starting baseline was 12% in 12/13. This has increased to 26% in 13/14.

4.3 Change Programme

The Change Programme was launched in summer 2014, to design and implement LSBU's most significant and challenging strategic objectives. Projects are being established within five themes: academic environment,

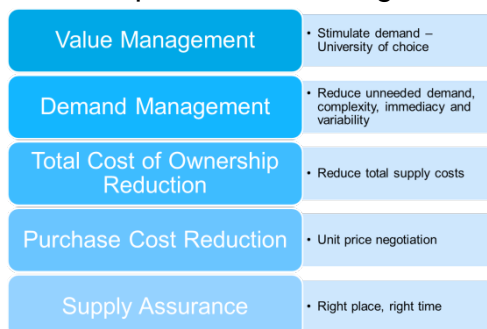
support for the academic environment, ICT and infrastructure, people, and informed decision making.

The three VFM principles of doing the right thing, at the right price, the right way are fundamental to these projects. Initial activity is focussed on the academic environment and informed decision making themes. Within the academic environment theme, the portfolio review project has gathered qualitative information on all courses, including profitability data, to enable management review of teaching activity. In the informed decision making theme, a robust performance management framework is being established. Alongside this, the development of a corporate delivery plan and local delivery plans, to underpin the corporate strategy 2015-2020, will enhance organisational allocation of resources and ensure a golden thread of strategic, tactical and operational objectives.

4.4 VFM Category Management and Knowledge Transfer

Ensuring a holistic view of expenditure and related resourcing is key to optimising VFM. In 2013/14 we have further embedded the Category Management approach and have introduced Procurement maturity reviews at individual category level.

- Category Strategy reports now include baselines and action plans for adding Procurement value in at the five different stages of procurement maturity - supply assurance, purchase cost reduction, total cost of ownership, demand management and value management.



- Categories have been reviewed for opportunities to engage with the University's supply base in student employability initiatives (such as providing work placements, mentoring and lectures). Three initiatives were created in 13/14. These will be further progressed in 14/15.

4.5 Contract Management

Contract Management training was provided to all University contract managers in 13/14, including a series of targeted Action Learning Sets. The training was complimented by a suite of contract management templates and guidance documents, which are available to Contract Managers on the Procurement intranet pages. The electronic contract

management system is now live and updated with key information and documents for all University contracts.

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.

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 14/15:

5.1 Embedding VFM

Opportunities to further embed VFM will be reviewed in 14/15, to align with the new structure and University strategy. This will include a review of the working group membership.

5.2 Change Programme

Longer term projects are being developed under the support for the academic environment, ICT and infrastructure, and people themes. Activity throughout the autumn of 14/15 is focussing on building a solid evidence base for action. This work focusses on the student experience and student retention, and the effective development of ICT infrastructure and systems to drive efficient operations. The evidence base is under development via business analysis and process mapping, and through the period November 2014 – January 2015 will establish a clear picture of issues and solutions, with resource requirements.

5.3 Contract Management

The take up of the new contract management procedures, including use of templates and the contract management system, will continue to be reviewed in 14/15. The level of Procurement support and ongoing training will also be reviewed, to ensure the quality of contract management is reviewed and maintained, particularly for high risk contracts.

5.3 Category Management and Knowledge Transfer

Category Management at LSBU will continue to be developed to ensure that appropriate stakeholder management and supplier relationship management practices are in place. Category related knowledge transfer initiatives will also be implemented, including appropriate levels of training of non-procurement staff.

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.

London South Bank University

Appendix A: Procurement Savings Relating to Projects with Procurement Involvement

Project / Category	Workstream	Cashable Saving Baseline	Id £ (multiple years)	Payback 11/12	Payback 12/13	Payback 13/14	Payback 14/15	Payback 15/16	Payback 16/17	Payback 17/18	
Bravo Contracts Module	Training session for contract managers		1,200			1,200					
Pest Control Services		43000 Budget	91,032			22,758	22,758	22,758	22,758		
Debt Collection		Incumbent supplier rate of 10% for recovery	4,400			1,100	1,100	1,100	1,100		
Estates & Buildings	Enterprise Centre Works and Consultancy	Business Case Budget	800,000			800,000					
ICT	Edison	Approved Budget	95,940			95,940					
Insurance			9,583			9,583					
Professional Services	Print Room Services		20,738			20,738					
Professional Svs - Legal Svs	Legal Services Framework	Previous contract rates - 22% reduction	193,600			24,200	48,400	48,400	48,400	24,200	
All	Retrospective consortia savings confirmation		903,811	378,395	525,416						
ICT	ICT Software	Budget	214,000			214,000					
				Payback 11/12	Payback 12/13	Payback 13/14	Payback 14/15	Payback 15/16	Payback 16/17	Payback 17/18	
				2,334,304	378,395	525,416	1,189,519	72,258	72,258	72,258	24,200

Appendix B: Procurement Non Cashable Efficiency Savings

13/14 Non Cashable Efficiency Savings

			13/14	12/13	Variance
Efficiency Type	Efficiency Saving	Total Transactions	Cash Value of Efficiency		
Procurement Card					
Number of Transactions	£28	6126	£171,528	£279,552	(108,024)
Variation to Previous Year		3858 Decline			
E-Procurement					
Electronic Orders (eMarketplace transactions)	£20	1471	£29,420	£48,940	(19,520)
Electronic Transactions (P2P - Requisitions, Invoice Processing, Payment Authorisation and Payment Transfer	£38	4844	£184,072	£331,380	(147,308)
E-Tendering					
Electronic Tender Documentation via URL (Up to 10 participating suppliers)	£400	35	£14,000	£12,400	£1,600
Electronic Tender Documentation via URL (10-20 participating suppliers)	£600	0	£0	£1,200	(1,200)
Electronic Tender Documentation via URL (Over 20 participating suppliers)	£800	0	£0	£2,400	(2,400)
Secure e-communication	£150	35	£5,250	£5,400	(150)
Electronic Tender Submission (Up to 10 participating suppliers)	£300	35	£10,500	£9,900	£600
Electronic Tender Submission (10-20 participating suppliers)	£450	0	£0	£1,350	(1,350)
Electronic Tender Submission (Over 20 participating suppliers)	£600	0	£0	£0	£0
Consortium Contracts and Framework Arrangements					
Take up of Routine Consortium Contract Arrangement	£6,000	4	£24,000	£24,000	£0
Take up of Complex Consortium Contract Arrangement	£12,000	4	£48,000	£24,000	£24,000
Conducting a mini-competition under a framework	£2,800	24	£11,200	£5,600	£5,600

	PAPER NO: AC.69(14)
Paper title:	Draft Audit Committee Annual Report to the Board and Accountable Officer
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Board sponsor:	Andrew Owen, Chairman of the Audit Committee
Purpose:	To approve the draft report from the Audit Committee to the Board

Executive Summary	
Context	As part of the Audit Code of Practice in the Financial Memorandum with HEFCE (which was effective for 2013/14), the Audit Committee is required to provide an annual report to the Board of Governors and accountable officer (the Vice Chancellor). The report should include the committee's opinion on risk management, control and governance; economy, efficiency and effectiveness (VFM); and management and quality assurance of data.
Question	What is the Audit Committee's opinion on: <ol style="list-style-type: none"> 1) risk management, control and governance; 2) economy, efficiency and effectiveness (VFM); and 3) management and quality assurance of data submitted to HEFCE and HESA?
Conclusion & Recommendation	Draft opinions of the committee (to be discussed at the meeting) are set out below: <ol style="list-style-type: none"> 1) the institution's risk management, control and governance arrangements are adequate and effective; 2) the arrangements for VFM are adequate and effective; and 3) for the management and quality assurance of data

London South Bank
University

	<p>submitted to HEFCE and HESA the University has adequate assurance.</p> <p>The Committee is requested to approve the report for submission to the Board.</p>
--	--

Matter previously considered by:	N/A	N/A
Further approval required?	Board (for information)	On: 20 November 2014

Draft Audit Committee Annual Report to the Board and Accountable Officer

Introduction

The Audit Committee is required under the Financial Memorandum with HEFCE to produce an annual report of the committee to the Board of Governors and the Accountable Officer (the Vice Chancellor). The report will also be submitted to HEFCE in December.

Guidance from HEFCE is that it must include any significant issues and should be considered by the Board before approval of the accounts. It must also include the committee's opinions on the adequacy and effectiveness of LSBU's arrangements for the following:

- Risk management, control and governance;
- Economy, efficiency and effectiveness (value for money);
- Management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies.

Executive Summary

During the year to 31 July 2014, the Audit Committee was chaired by Andrew Owen and met four times.

Work done by the Committee during the year includes:

- review and clearance of the University's annual report and accounts for 2013/14 (paragraph 9);
- approval of the plan for PwC's internal audit review work for the year (paragraph 13);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 14);
- four meetings with PwC and one meeting with Grant Thornton UK LLP in the absence of all University officers;
- consideration of the annual internal audit report;
- regular review of the corporate risk framework;
- approval of a full compliance statement in respect of internal control; and
- a self-assessment of the Committee's effectiveness (paragraphs 36-38).

Draft Opinions

Draft opinions (to be discussed at the meeting) for these areas have been included at the end of the report and are set out below:

- 1) the institution's risk management, control and governance arrangements are adequate and effective;
- 2) the arrangements for VFM are adequate and effective; and
- 3) for the management and quality assurance of data submitted to HEFCE and HESA the University has adequate assurance.

Draft Principal Concerns

The principal concerns of the committee have been updated from last year's report following consultation with the Chairman of the Committee:

"The principal concerns of the Committee, which have been discussed in detail (either in formal committee meetings or in private pre-meetings) during the year, are:

- ICT controls (as highlighted in the PwC internal audit report and the Grant Thornton audit findings report); and
- The interdependencies of the projects in the change programme.

These concerns will be monitored by the Committee in the current financial year 2014/15.

Last year's concern was around ICT security in relation to an internal audit report which was rated as high risk. The committee is satisfied that these have been addressed based on the implementation of the recommendations of the internal audit report".

Additional Information

Additional information not included in the report is set out below:

Internal Audit

During the year 10 internal audits (2013: 14) and one specialist review were undertaken. Of the four that were classified, two were deemed low risk (2013: 3), one medium risk (2013: 3) and one high risk (2013: 1) which was "student module data". A total of 12 recommendations (2013: 29) across the four audits were made of which none were critical (2013: 0), two were high (2013: 5), eight were medium (2013: 13) and eight were low (2013: 11).

The two high risk issues identified as part of the review of Student Module Data were:

- At the time of audit there was no requirement to retain supporting evidence for amendments made to module data or exception investigation. Lack of

independent review of changes to data could mean unauthorised amendments are not identified; and

- Of the 40 students tested who had no modules attached to their data 14 students tested were incorrectly classified as having no modules. We also tested a sample of 40 data mismatches; five exceptions were noted from this test.

The Internal Audit Annual Report states that: management have implemented all agreed actions from the review, including the introduction of monthly exception reporting to identify mis-matches and resolve them. Management have also reminded staff of the need to retain supporting documentation.

Recommendations

The committee is asked to review the draft opinions and concerns of the committee.

The committee is asked to approve the annual report.

Annual Report of the Audit Committee to the Accountable Officer and the Board of Governors 2013/14

Executive summary

During the year to 31 July 2014, the Audit Committee was chaired by Andrew Owen and met four times.

Work done by the Committee during the year includes:

- review and clearance of the University's annual report and accounts for 2013/14 (paragraph 9);
- approval of the plan for PwC's internal audit review work for the year (paragraph 13);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 14);
- four meetings with PwC and one meeting with Grant Thornton UK LLP in the absence of all University officers;
- consideration of the annual internal audit report;
- regular review of the corporate risk framework;
- approval of a full compliance statement in respect of internal control; and
- a self-assessment of the Committee's effectiveness (paragraphs 36-38).

The principal concerns of the Committee, which have been discussed in detail (either in formal committee meetings or in private pre-meetings) during the year, are:

- ICT controls (as highlighted in the PwC internal audit report and the Grant Thornton audit findings report); and
- The interdependencies of the projects in the change programme

These concerns will be monitored by the Committee in the current financial year 2014/15.

Introduction to report

1. This report covers the financial and academic year from 1 August 2013 to 31 July 2014.
2. No member of the Audit Committee has, or has had during the year, a direct role in the management of the University. All members of the Committee are asked to declare any interests in any item of business on the agenda at each meeting.
3. During 2013/14, the Audit Committee was chaired by Andrew Owen, an independent governor. Other members of the committee during the year were: Steve Balmont, Douglas Denham St Pinnock, Mee Ling Ng and Shachi Patel (independent co-opted member). All members of the Committee are independent of management. James Stevenson, University Secretary & Clerk to the Board, served as secretary to the Committee throughout the year.
4. The Committee had four business meetings during the year. The Vice Chancellor, Chief Financial Officer and other members of the Executive were present at all meetings. The internal auditors and the external auditors were present at all four meetings. For the financial & academic year 2014/15 the Committee will also hold four business meetings (September, October, February, June).
5. The Committee's terms of reference are reviewed annually in the autumn. The Committee has an agreed forward business plan which is used to plan its agendas during the year and is reviewed annually.
6. All these arrangements are consistent with HEFCE guidance.

External Audit

[Text in this section subject to meeting]

7. Throughout the year Grant Thornton UK LLP served as the University's external auditors.
8. At its meeting of 12 June 2014, the Committee approved the external audit plan for 2013/14.
9. At its meeting of 30 October 2014, the Committee considered and recommended to the Board for approval the draft Financial Statements for the year ended 31 July 2014. The Committee considered in detail audit findings and audit opinion from Grant Thornton UK LLP. The Committee considered and recommended to the

Board for approval the letter of representation from the Board of Governors to Grant Thornton UK LLP.

10. Performance indicators had been agreed against which the performance of the external auditors would be measured. The Committee received a report on performance against indicators at its meeting of 30 October 2014. The external auditors met all of the agreed performance indicators.
11. The Committee met Grant Thornton UK LLP prior to its meeting of 30 October 2014 in the absence of any University employees to discuss the year end audit and other matters. In addition, private meetings between the Committee and Grant Thornton UK LLP are held, if required, during the year.
12. For the year ended 31 July 2014, Grant Thornton UK LLP provided SBUEL tax calculations with a value of £4,050 including VAT.

Internal Audit

13. The University's Internal Auditors for the year were PricewaterhouseCoopers (PwC). PwC worked to an internal audit plan approved by the Committee.
14. The Committee has received progress reports from PwC at every meeting, which it monitors both with the internal auditors and with management. A protocol agreement is in place which sets out the timetable by which management must respond to the recommendations of the internal auditors.
15. During the year 10 internal audits (2013: 14) and one specialist review were undertaken and the Continuous Audit programme maintained in six areas of operation.
16. The internal auditor's annual report for 2013/14 (dated October 2014) provided a positive assurance statement. The internal audit opinion is that LSBU has adequate and effective arrangements in place to address the risks that management's objectives are not achieved in respect of risk management, control, governance and value for money.
17. The results of the auditor's trend analysis indicate that the control environment has improved from the previous year. The overall volume of recommendations raised per review has reduced and the individual ratings of recommendations have also reduced. Our most recent Continuous Auditing report did not identify any exceptions

providing assurance that the control environment surrounding key financial systems is operating effectively.

18. The internal audit annual report found stability in the control environment: “Our [PwC’s] review of Risk Management has been assigned a low risk rating and our audit fieldwork shows that there has been an improvement in the core control and governance environment.
19. The Committee meets PwC prior to each meeting in the absence of any of the University’s employees.
20. PwC’s contract was extended for a further year by the Audit Committee at the June 2014 meeting based on PwC meeting the agreed performance standards. This is the last extension permitted under the original contract. A tender process is underway for the provision of internal audit services from 1 August 2015.

Students’ Union Finances

21. The audited Financial Statements of the Students’ Union for the year ended 31 July 2014 were noted at the meeting on 30 October 2014.

Risk management, control and governance

22. The Committee received a report on risk management at each meeting. Risk is also reported to the Board of Governors and is considered by the University Executive at its monthly meetings. The University’s corporate risk framework is aligned to the Corporate Plan.
23. A review of the effectiveness of internal control is undertaken annually and a draft report was submitted to the Committee at its meetings of 25 September 2014 and 30 October 2014. At the October meeting, the Committee approved the annual full compliance statement.

Economy, Efficiency and Effectiveness (VFM)

24. Value for money (VFM) is a component in every review undertaken by the internal auditors. The Committee receives an annual VFM report from the Executive. For 2013/14, the principal achievements are:
 - a. cashable savings identified in 13/14 totalled £2.3 million over their respective contract terms;

- b. further embedding the Category Management approach and introducing Procurement maturity reviews at individual category level; and
- c. the overall conclusion of the internal auditors continues to be positive in respect of VFM.

Management and Quality Assurance of Data submitted to HESA and HEFCE

25. During the year the committee considered internal audit reports on HESA Finance Return and student module data. A further independent audit report was delivered by Deloitte on student records and reported positively regarding the development of the student data environment.
26. The HESA Finance Return review identified two low risk findings, and the student module data review found two risk issues surrounding review of amendments and inaccuracy of data. These risks did not affect data reported to HESA and HEFCE and management have improved their exception reporting to ensure compliance with processes. As part of the continuous auditing work no exceptions were identified regarding student financial controls during 2013/14.

HEFCE Assessment of Institutional Risk

27. In May 2014 the Board received HEFCE's assessment of the University's institutional risk, which was that LSBU was "not at higher risk" at this time, and noted that this was the most favourable opinion available for HEFCE to give to any institution. HEFCE has given the same opinion each year since 2007.

HEFCE Assurance Review

28. In July 2011 HEFCE undertook a five yearly assurance review of the University to review how the University exercises accountability for the public funds it receives. HEFCE's conclusion was that they are "able to place reliance on the accountability information". This is the highest rating possible. HEFCE did not make any recommendations for improvement in the report.

Public Interest Disclosure

29. Under the "speak up" policy the University Secretary reported on speak up activity at every business meeting of the Audit Committee. The Chairman of the Audit Committee acts as the independent point of contact for anyone wishing to raise a speak up matter outside line management of the Executive.

30. During 2013/14, one matter was considered to fit the definition of the “speak up” policy. In this instance, the committee was satisfied that due process had been followed by management. Two further speak up matters were considered by the committee at their meeting of 25 September 2014.
31. The independent reporting route within the “speak up” policy was reviewed in September 2014 and the use of an independent helpline is being investigated.

Anti-Fraud

32. Under the anti-fraud policy the Chief Financial Officer reported on fraud at every business meeting. During the year 2013/14 six irregularities were discovered, two of which were notified to HEFCE, and all were reported to the Board.
 - a. A potential fraud in ESBE (reported in February 2014). Twenty-four students had their 2012/13 student records falsely amended by a Faculty Administrator. Evidence suggested that students may have made payments to the administrator in return for records being changed. The employee resigned and the matter was reported to the police who are prosecuting the ex-employee under the Bribery Act 2010.
 - b. One possible misuse of purchasing card by an employee was investigated and the employee was dismissed (reported in September 2013).
 - c. The committee was notified in February 2014 that a Project Manager working in Estates authorised a supplier, Pulsar Electrical, an additional £140,000 (excluding VAT) of boiler replacement work in London Road without the correct authorisation and without issuing a purchase order in advance of commencement of the additional work. Following investigation this was deemed not to be a fraud but a breach of regulations and the employee was dismissed.
 - d. Attempted amendment of supplier bank details (reported in February 2014).
 - e. Financial irregularities in the Confucius Institute (reported in June 2014). Both the Director and the Deputy Director of the Confucius Institute subsequently resigned.
 - f. Theft from halls of residence (reported in June 2014). It was concluded that this was not a fraud but a theft from students

33. A further possible fraud was reported to the Committee in September 2013 relating to misuse of a procurement card by a member of staff who reimbursed the university. The member of staff subsequently resigned.
34. Other than as noted above, no significant instances of fraud, corruption, bribery or other irregularity had been discovered or reported to the Chief Financial Officer during the year.
35. The Audit Committee reviewed and approved the anti-fraud policy in June 2014.

Audit Committee self-assessment

36. The Audit Committee reviewed its own effectiveness during spring/summer 2013. The National Audit Office Audit Committee self-assessment checklist was sent to all committee members and the Vice Chancellor, Chief Financial Officer and Pro Vice Chancellor (Academic). The findings and recommendations were considered at its meeting of 26 September 2013.
37. Key recommendations were:
 - a. an appointment letter for all committee members setting out the expectations of the role;
 - b. a formal and in depth induction plan for new members; and
 - c. quarterly updates on sector developments sent to the committee.
38. These recommendations were implemented during the year.

Principal concerns of the Audit Committee

39. The principal concerns of the Committee, which have been discussed in detail (either in formal committee meetings or in private pre-meetings) during the year, are:
 - ICT controls (as highlighted in the PwC internal audit report and the Grant Thornton audit findings report); and
 - The interdependencies of the projects in the change programme

These concerns will be monitored by the Committee in the current financial year 2014/15.

40. Last year's concern was around ICT security in relation to an internal audit report which was rated as high risk. The committee is satisfied that these have been addressed based on the implementation of the recommendations of the internal audit report.

Opinions of the Audit Committee

Risk Management, Control and Governance

41. [The Committee's opinion on the institution's risk management, control and governance is that these arrangements are adequate and effective.]

42. This opinion is based on:

- the HEFCE (five yearly) assurance review of July 2011 and HEFCE's annual assessment of institutional risk;
- the Internal Audit annual report for 2013/14 which gave the opinion that "we believe London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over risk management, control and governance"; and
- the Executive's detailed review of internal controls and governance arrangements. This review was considered by the Audit Committee on 30 October 2014.

Economy, Efficiency and Effectiveness (VFM)

43. [The Committee's opinion on the arrangements for the economy, efficiency and effectiveness (VFM) of the University is that they are adequate and effective.]

44. This opinion is based on our annual assessment of VFM and the Internal Audit annual report, 2013/14 which gave the opinion that "we believe London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over value for money".

Management and quality assurance of data submitted to HESA and HEFCE

45. [The Committee's opinion on the management and quality assurance of data submitted to HESA and HEFCE is that the University has adequate assurance.]

46. This is based on the internal audit reviews of the HESA Finance Return and student module data, and a further review by Deloitte on student records. The Deloitte review of student records was generally positive and an action plan had been developed to follow up on the recommendations.
47. For the year 2013/14, no exception reports were received from management in relation to the HESA student and staff returns.
48. (N.B. There was no specific requirement for the internal auditors to give an opinion on data quality). From 2014/15, student data quality will be monitored regularly through the continuous auditing programme.

This annual report is recommended to the Audit Committee by the University Executive and approved by the members of the Audit Committee on 30 October 2014.

Signed

Andrew Owen
Chairman of the Audit Committee

	PAPER NO: AC.70(14)
Paper title:	Anti-Fraud, Bribery and Corruption Report
Board/Committee	Audit committee
Date of meeting:	30 October 2014
Author:	Natalie Ferer, Financial Controller
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To alert Audit Committee to any instances of fraud, bribery or corruption arising in the period since the committee last met.

Executive Summary	
Context	The Audit Committee oversee the policy on anti-fraud matters and ask to be notified of any action taken under those policies, including the Anti-Fraud and the Anti-Bribery policy.
Question	Has there been any instance of Fraud, Bribery or corruption since the last meeting?
Conclusion & Recommendation	There has been one instance reported since the last meeting and an update on one matter previously reported.

Matter previously considered by:	N/A	N/A
Further approval required?	None	N/A

New matter arising since the last meeting:

1. A possible breach in regulations around the payment of Student Ambassadors is being investigated. Student Ambassadors are weekly paid workers paid through the University's payroll. The matter concerns a Student Ambassador, who worked on the summer school project, falsifying one or more timesheets which resulted in him being paid for 14 hours which were not actually worked. This money was used to make 3 payments of £50 each to student volunteers outside normal HR and payroll processes. A manager in Marketing and UK Recruitment team agreed this process with the Student Ambassador and authorised the timesheets for payment, knowing that they had been falsified for this purpose.
2. There is so far no evidence that these breaches were ongoing or occurred on more occasions than described above and there is also no evidence that either the Student Ambassador nor the Manager gained personally from their actions. The fraud response plan has not been invoked and the matter is being dealt with under the University's disciplinary procedure. The Student Ambassador has since resigned and is no longer an employee at LSBU but remains a student. The manager in is currently suspended pending the outcome of an internal investigation.

Previous Matters Reported:

3. The committee was notified in September 2014 of the misuse of a purchasing card by an employee including using the card for personal transactions totalling £1,341.32 and the Committee is reminded that the employee concerned has repaid the University in full. A hearing was scheduled in line with the University's disciplinary procedure, but the employee has since resigned and no longer works for the university.

London South Bank
University

	PAPER NO: AC.71(14)
Paper title:	Speak up report
Board/Committee	Audit Committee
Date of meeting:	30 October 2014
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Executive sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors
Purpose:	To update the committee on any speak up matters raised since the last meeting

Executive Summary	
Context	The speak up policy enables employees and students to report any concerns about malpractice, helping to create an open and ethical culture in the workplace.
Question	Have any new speak up matters been raised since the last meeting?
Conclusion & Recommendation	No new matters have been raised under the speak up policy since the last meeting.

Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	No	N/A