

**Meeting of the Group Audit and Risk Committee**

3.30 pm on Thursday, 5 November 2020  
via MS Teams

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
9.	External Audit Findings	385 - 416	JS
10.	External Audit Letter of Rep	417 - 426	JS

**Date of next meeting**  
**4.00 pm on Thursday, 11 February 2021**

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# Agenda Item 9

	CONFIDENTIAL
Paper title:	External Audit Year End Report
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	05 November 2020
Author(s):	KPMG
Sponsor(s):	Richard Flatman, Group Chief Financial Officer
Purpose:	For Review
Recommendation:	The Committee is asked to note the External Audit year end report

The audit of London South Bank University is almost complete and KPMG present a draft of their Year End Report. This will be updated up to the date of signing the accounts as their work and review is completed.

**Recommendation:**

The Committee is asked to note the External Audit year-end report.

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# Year end report 2019/20

London South Bank University

RAFT: 5 November 2020

Page 387

# Introduction

## To the Audit and Risk Committee of London South Bank University

We are pleased to have the opportunity to meet with you on [insert date] to discuss the results of our audit of the consolidated financial statements of London South Bank University (the 'University') and its subsidiaries (the 'Group'), as at and for the year ended 31 July 2020.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on June 2020. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is progressing well with a number of significant areas complete, however we do have some audit testing to complete and work is ongoing in relation to the valuation of the pension liability and going concern assessment. A summary of our outstanding matters is listed on page 3. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion providing the outstanding matters noted on page 3 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report on the financial statements.

We draw your attention to the important notice on page 3 of this report, which explains:

- The purpose of this report;
- Limitations on work performed; and
- Restrictions on distribution of this report.

Yours faithfully,

[Personal signature]

Fleur Nieboer

November 2020

## How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

We define 'audit quality' as being the outcome when audits are:

- Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and
- All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Some of the ways in which we drive audit quality are demonstrated throughout our report and include:



Understanding  
the entity



Quality  
reviews



Robust  
challenge

## Contents

### Important notice

1. Impact of Covid-19	4
2. Summary of findings	5
2. Financial statements audit	6
3. Subsidiaries	17
4. Use of funds	18
Appendices	19



# Important notice

This report is presented under the terms of our audit engagement letter.

- Circulation of this report is restricted.
- The content of this report is based solely on the procedures necessary for our audit.

This report has been prepared for the University's Audit and Risk Committee, in order to communicate matters of interest as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

## Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of London South Bank University (the University) and its subsidiaries, prepared in accordance with UK Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the 2019 Statement of Recommended Practice: Accounting for Further and Higher Education (FEHE SORP), as at and for the year ended 31 July 2020.

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

## Limitations on work performed

This report is separate from our audit report and does not provide an additional opinion on the University's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

The matters reported are based on the knowledge gained as a result of being your auditors. We have not verified the accuracy or completeness of any such information other than in connection with and to the extent required for the purposes of our audit.

## Status of our audit

Our audit is not yet complete and matters communicated in this report may change pending signature of our audit report. We will provide an oral update on the status of our audit at the Audit and Risk Committee meeting but would highlight the following work is still outstanding:

- Valuation of LGPS pension scheme – management have reviewed the assumptions and are challenging the discount rate and pay increase assumptions which would lead to adjustments to the final pension liability in the accounts. Work in this area is ongoing and we will provide an update on this in our finalised report which will be presented to the Group Board.
- Sample Testing - resolution of nine outstanding sampling queries (includes income cut-off, deferred income and journals)
- Tuition Fees - testing of the residual population that we have not been able to cover through Data Analytics testing.
- Completeness of Liabilities – outstanding query in relation to ongoing legal discrimination claim brought forward by 10 defendants on disability grounds.
- Completion of KPMG Internal Review procedures including Technical Team review of the University's Going Concern assessment.
- Review of the final financial statements and Annual Report.
- Receipt of signed management representation letter

## Restrictions on distribution

The report is provided on the basis that it is only for the information of the Audit and Risk Committee of the University; that it will not be quoted or referred to, in whole or in part, without our prior written consent; and that we accept no responsibility to any third party in relation to it.

# Summary: Impact of Covid-19



## Scepticism Challenge

Below we have summarised the impact of Covid-19 on our audit approach for 2019/20:

Area of the audit	Status	Page	Impact on Audit Approach
Financial Statements: Valuations		9	Covid-19 has the potential to have significant impacts on the valuations of investments and properties held at fair value. As the College adopted a valuation accounting policy of deemed cost as part of the FRS 102 transition there have not been any material impacts on valuations. Tangible fixed assets stated at cost less accumulated depreciation and accumulated impairment losses. There are risks relating to the correct categorisation of capital spend, useful economic lives (UELs) applied and recognition of any impairments recognised. The pandemic has not had any material impacts on these judgements.
Financial Statements: Pensions		10	For LGPS schemes, Covid-19 has increased volatility in asset markets. The net pension liability includes an estimate of the institution's share of the overall pension scheme's assets. Initial valuations are prepared based on an estimated rate of return on assets. We reviewed the appropriateness of the key assumptions made by, and validated the methodology used by, the scheme actuaries with the use of a KPMG Actuary. However, we understand that management have reviewed the assumptions and are challenging the discount rate and pay increase assumptions which would lead to adjustments to the final pension liability in the accounts. Work in this area is ongoing.
Financial Statements: Going Concern		11	Covid-19 required the University to cease some of its services in the wake of the lockdown with the UK. For 2020-21 it is expected to still have a significant impact, with tuition delivery continuing to be provided online and the potential for reduced student enrolment as well as reductions in the ability to deliver research and events as a result of social distancing. We have reviewed and challenged management's assumptions underpinning the going concern assessment and provided the initial assessment to KPMG technical team. This is currently with the KPMG technical team for review.
Financial Statements: Events after the reporting period		N/A	We have considered whether it is necessary to disclose any post date events from the effects of the Covid-19 pandemic on the University's operations. We have not identified any subsequent events that require adjustment or disclosure.
Financial Statements: Disclosures		N/A	With increased uncertainty impacting the University's financial statements as set out above it is important that sufficient information is provided to users of the accounts to understand how key estimates and judgments have been made and the uncertainty associated with them. We have worked with management to develop the disclosure provided within the accounting policies and notes to the accounts, especially relating to going concern.
Regularity: impact of Covid-19 on risk assessment		18	As Universities were required to rapidly amend their operations in response to Covid-19 there is a risk that financial control arrangements are not maintained. Similarly, as a result of anticipated reductions in income some providers have been required to implement efficiency programmes. We have not identified any significant risks relating to regularity.



# Summary of findings



## Scepticism Challenge

### Assessment of the control environment

<b>Significant control deficiencies</b>	[1]
<b>Other control deficiencies</b>	[2]
<b>Prior year control deficiencies remediated</b>	[1]

Significant control deficiencies identified during the audit related to:

- Bank Reconciliations - *there were a high number of reconciling items included across the two main Bank Accounts as at 31 July with total reconciling items exceeding 1000 lines and the 2019-20 cash balance understated by £2.9m as a result. We have recommended that the University works to clear this backlog and posts the necessary adjustments to reduce any exposure to fraud risk.*

We have included recommendations to address these deficiencies and followed up the status of recommendations from our prior year audit in Appendix One.

### Representations

You are required to provide us with representations on specific matters such as your going concern assertion. We have provided a draft of this representation letter to the CFO. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We expect to ask management to provide specific representations on the Group's need for any provision for liabilities in respect of claims against the University or its subsidiaries.

### Audit adjustments

We identified four unadjusted audit differences as a result of our audit. If corrected these would increase net assets and surplus by £694k.

We identified 0 audit differences that have been adjusted.

Further details are set out in Appendix Two.

### Risks

#### Significant Risks

1. Revenue Recognition	No change	■
2. Management override of controls	No change	■
3. Carrying Value of Land and Buildings	No Change	■
4. Valuation of LGPS Pension Liabilities	No Change	■

5. Going Concern	Increased	▲
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#### Other areas of audit focus

5. Access and participation expenditure	New	★
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#### Key accounting estimates

Net pension liability	Cautious
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### Our findings

#### Page 6-11

The results of testing to date are satisfactory. We consider the amount of revenue recognised to be acceptable.

We have no issues to report in respect of this work.

We concluded that the carrying value of land and buildings is materially correct.

The core assumptions used to calculate the initial pension liability are within KPMG's reasonable range. We note that management have reviewed the assumptions and are challenging the discount rate and pay increase assumptions which would lead to adjustments to the final pension liability in the accounts. Work in this area is ongoing.

Work on this area is ongoing. We have reviewed and challenged assumptions underpinning the going concern assessment. This is currently with the KPMG technical team for their review and sign off.

#### Page 12

We have no issues to report in respect of this work to date but work is ongoing.

#### Page 13

We assessed the assumptions made in determining the initial value of the pension liability against KPMG's benchmarks. Assumptions were found to be cautious. We note that management intend to challenge some of the assumptions which would lead to an adjustment to the liability.

# Financial statements audit – significant risks



Scepticism Challenge

## Revenue recognition

Related risk register risks

625. Impact of Govt. Education Review on HE funding (among others, including risks related to recruitment targets and progression rates)

### Significant audit risk

#### The risk

- Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

Page 392

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures:

##### Tuition fee income (University only)

- We have reviewed the completeness of fee income through reconciliations with the student record system and confirmed the appropriateness of bursary/scholarship and fee waiver recognition through review of relevant schemes and policies. We have reviewed procedures in place regarding the determination of tuition fee income and will perform Data and Analytics procedures to provide assurance over tuition fee income.
- We have reviewed the income recognition for programmes crossing the year end and any other flexible provision, as well as considering the income recognition and debtor recoverability.

##### Funding council income

- Although we have rebutted the presumed risk of fraud from revenue recognition in respect of grant income at Group level we have remained alert to indications of fraud during the course of the audit. We have agreed the income received by the University and South Bank Colleges to the notification from the Office for Students and the ESFA and verify the amount received to cash receipts.

#### Outcome from audit work

##### – Tuition fee income

We were able to test the majority of tuition fee income using data and analytics routine and no issues have been identified to date. **Testing of the residual population is outstanding and we will provide results of our Data and Analytics work in our final Audit Completion Report.**

##### - Funding council income

We were able to agree a sample of funding council income to underlying documentation to confirm the existence and completeness of income reviewed. No misstatements were identified.

# Financial statements audit – significant risks



Scepticism Challenge

## Revenue recognition

Related risk register risks

625. Impact of Govt. Education Review on HE funding (among others, including risks related to recruitment targets and progression rates)

### Significant audit risk

#### The risk

- Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

Page 393

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures:

##### Research grants and contracts

Although we have rebutted the presumed risk of fraud from revenue recognition in respect of the three income streams we will remain alert to indications of fraud during the course of the audit.

For material research income we will assess whether research income has been recognised in line with the grant agreement and accounting standards, and classified in the correct reporting period.

##### Other operating income

We will carry out substantive procedures over other operating income based upon the nature of the income to confirm the completeness and accuracy of the income.

#### Outcome from audit work

##### Other Income

We agreed a sample of other income transactions to underlying documentation to confirm that it had been recorded accurately and in the correct period. No issues were identified during this testing.

##### Research grants and contracts

We concluded that the sample of grant income reviewed had been recognised in line with the grant agreement and in accordance with accounting standards. All items tested had been recorded in the correct period.

# Financial statements audit – significant risks



Scepticism Challenge

## Management override of controls

Related risk register risks

N/A

### Significant audit risk

#### The risk

- Professional standards require us to communicate the fraud risk from management override of controls as significant.
- Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.
- We have not identified any specific additional risks of management override relating to this audit.

Page 394

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures:

- We assessed the controls in place for the approval of manual journals posted to the general ledger.
- We analysed all journals through the year using data and analytics and focused our testing on those with a higher risk.
- We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We reviewed the appropriateness of the accounting for significant transactions that are outside the University's normal course of business, or are otherwise unusual.

#### Outcome from audit work

- As a result of our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud or management override were identified.
- No issues were noted in respect of accounting policies. There have been no significant changes to the methods used to prepare assumptions. No significant transactions that were outside the Group's normal course of business, or that were otherwise unusual, were identified.

# Financial statements audit – significant risks



Scepticism Challenge

## Carrying value of fixed assets

Related risk register risks

37. Affordability of Capital Expenditure Investment plans

### Significant audit risk

#### The risk

- At 31 July 2019 the Group had £295.7m of fixed assets. The University adopted a valuation accounting policy of deemed cost as part of the FRS 102 transition there are risks around the valuation, depreciation and impairment of the University's assets. The University has a significant capital programme, which comprises significant work on the London Road building, project LEAP which will include the procurement of a new student record system and CRM, and there are plans to refurbish the chapel and conduct capital work at the Skills Centre at South Bank Colleges.
- Further, South Bank Colleges has a strategy in place to review the make up of its estate which will support the College's long term financial future. It is important that the University ensures costs are capitalised appropriately and classified correctly in the Group financial statements.

Page 395

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures:

- Vouched the accuracy of any capital additions;
- Reviewed the appropriateness of the useful economic lives for a sample of assets and any impairments identified by the Group, the University and South Bank Colleges, and recalculated the University and South Bank Colleges depreciation figure as stated in the accounts;
- Reviewed the reconciliation that takes place between the University's fixed asset register and general ledger;
- Considered the process and controls in place for capitalising expenditure and reviewed a sample of capitalised assets to assess whether they have been appropriately capitalised at the University and South Bank Colleges;
- Assessed whether assets are presented correctly between asset categorisations (such as land, building, and equipment) and assets under construction; and
- Agreed the consolidated fixed assets note to the fixed asset notes of the University and South Bank Colleges.

#### Outcome from audit work

Our testing of capital additions identified a number of transactions included as negative additions to assets under construction (AUC) that related to assets that had previously been brought into use (and should now be fully depreciated).

The total amount written off in year of £692k has been included as an error on slide 23 as the amount should have been written off in previous periods.

No other misstatements were identified through our work testing of fixed assets, therefore we have concluded that balances are materially correct. We did note a number of areas where controls could be enhanced, however, and have included a recommendation on page 21.

# Financial statements audit – significant risks



Scepticism Challenge

## Valuation of LGPS pension scheme

Related risk register risks

3. Sustainability of current pension schemes

### Significant audit risk

#### The risk

- Page 396
- The University and South Bank Colleges are members of the LGPS defined benefit pension scheme. The valuation of defined benefit schemes relies on a number of assumptions, most notably around the actuarial assumptions. At 31 July 2019 the net pension liability for the Group was valued at £133.5m.
  - It is critical that the assumptions reflect the profile of the University's employees and are based on most recent actuarial valuations. It is also important that assumptions are derived on a consistent basis year to year, or updated to reflect the University's current position. The value of assets within the scheme may be significantly affected by the impact of Covid-19 on investment values.

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures:

- Evaluated the competency and objectivity of the Scheme actuaries
- Reviewed the input from the University into the calculation of the LGPS valuation;
- Utilised KPMG actuarial specialists to evaluate the key assumptions used in valuing the net liability;
- Agreed the total assets held in the LGPS at the year end to confirmation from the Fund's auditors;
- Reviewed the records of membership of the scheme as at 31 March 2019 and reconciled this to the membership figures used by the actuaries in the preparation of the net liability;

#### Outcome from audit work to date

- We have included our high level assessment of key judgements on page 26.
- The key assumptions used are within KPMG's benchmark range. We consider the assumptions used to be towards the cautious end of our range.
- **We understand that management have reviewed the assumptions and are challenging the discount rate and pay increase assumptions which would lead to adjustments to the final pension liability in the accounts. Management will also need to ensure there are appropriate disclosures in relation to the change in assumptions in the financial statements. Work in this area is ongoing and we will provide an update on this in our final report that will be presented to the Group Board.**

# Financial statements audit – Significant Risks



Scepticism Challenge

## Going concern

Related risk register risks

2. Revenue Reduction if course portfolio, and related marketing activity, does not achieve recruitment targets

### Significant audit risk

#### The risk

- The Group budgeted income for 2019/20 to be approx. £176.5m across the University and the College. The Group maintains a high level of cash reserves (£47.1m at 31 July 2019). At the time of preparing this plan the University is anticipating a small impact to budgeted income due to having to refund accommodation fees for term three due to Covid-19, but still anticipates it will deliver a surplus position. The College is also expecting a small impact on the year-end outturn.
- The impact of Covid-19 remains uncertain at the time of preparing our plan, however it could lead to significant reductions in student enrolment for the 2020-21 academic year and a corresponding impact on the University's income as well as the ability to deliver teaching, research and other services.

Page 397

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures:

- Critically assessed the key assumptions made in determining the financial forecast for 2020/21;
- Assessed the need for borrowings during 2020/21 and the [University/College]'s forecast performance against loan covenants;
- Critically assessed the recurrent level of operating cash flows expected to be generated during 2020/21;
- Critically assessed the scenarios identified by the University resulting from the covid-19 pandemic and the University's ability to continue operations; and
- Reviewed the disclosures made by the University to explain the assumptions made in determining whether it is a going concern.

#### Outcome from audit work to date

- We have reviewed the overall financial position at the period end, and found that the forecast outturn was in line with the budgeted position once one off items were adjusted for.
- We reviewed management's assessment of going concern which supported the going concern basis of accounting.
- We critically evaluated assumptions underpinning the going concern assessment and consider that they are appropriate and downside scenario is manageable.
- **This work is ongoing with the initial assessment now provided to the KPMG Technical team for review.**

# Financial statements audit – areas of focus



Scepticism Challenge

## Access and participation expenditure

Related risk register risks

None identified

### Other area of audit focus

#### The risk

- Office for Students (OfS) registered providers were required to prepare an access and participation plan as part of their registration conditions with the OfS. These include a plan of how much will be invested by the provider in widening participation activities.
- From 2019/20 onwards providers are required to include a note to the accounts to set out the level of investment that has been made in widening participation activities.
- Access and participation expenditure is required to be analysed in four categories: access investment; financial support provided to students; support for disabled students; and research and evaluation.

#### Planned response

As presented to you in our audit plan dated June 2020 we agreed to perform the following audit procedures (note any that changed as a result of findings at interim etc):

- Determined how the provider has identified the expenditure that has been incurred in delivering the access and participation plan during the year;
- Critically assessed the methodology in place for analysing expenditure between the categories of access and participation expenditure;
- Tested a sample of expenditure items in order to assess whether they correctly relate to expenditure on access and participation; and
- Verified that required disclosures as set out within the Accounts Direction have been accurately made.

#### Outcome from audit work to date

- We have reviewed how the provider has identified the expenditure that has been incurred in delivering the access and participation plan during the year and critically assessed methodology in place for analysing expenditure between the categories of access and participation expenditure, including allocation of staff costs. We consider the methodology used to be appropriate.
- We have tested a sample of expenditure items in order to assess whether they were correctly related to expenditure on access and participation.
- **Testing has not identified any misstatements to date. We are now in the process of finalising our reporting requirements to the OfS.**



# Financial statements audit - judgements



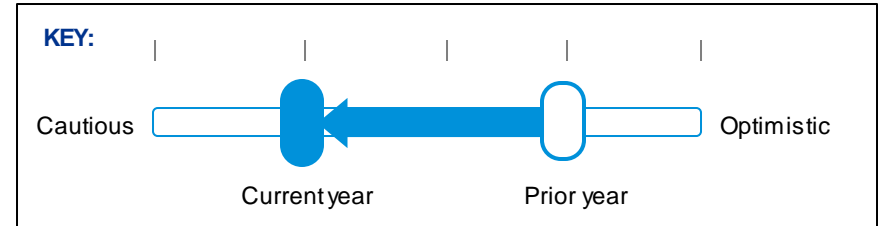
Scepticism Challenge

We understand that management has reviewed the assumptions provided by the scheme actuary and are challenging the discount rate and pay increase assumptions which will likely lead to adjustments to the final pension liability in the accounts. Work in this area is ongoing and we will provide an update on our assessment of the final liability in our final report that will be presented to the Group Board.

### Our view of management judgement

Our views on management judgments with respect to accounting estimates are based solely on the work performed in the context of our audit of the financial statements as a whole. We express no assurance on individual financial statement captions.

Cautious means a smaller asset or bigger liability; optimistic is the reverse. We have only considered material judgements for the purpose of our reporting here.



Asset/liability class	Our view of management judgement			Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates			Further comments
	Cautious	Neutral	Optimistic			Needs improvement	Neutral	Best practice	
Valuation of net pension liability				191	62				<p>Our review of the actuarial assumptions in the prior year to July 2019 concluded that the assumptions were slightly cautious at both a Group and University. For the current year to July 2020 our initial assessment of the assumptions is that these are, overall more cautious than in the prior year and when compared to the central assumptions considered by our actuarial specialists. Management is in the process of reviewing the actuarial assumptions and is challenging the discount rate and salary inflation assumptions which we will need to review again before we conclude our work on this area.</p>

Page 399

## Financial statements audit – audit misstatements



A summary of the uncorrected audit misstatements is detailed on page 23. There are no adjusted audit misstatements.

The misstatements identified, and their estimated financial impact on the surplus, are summarised in the table on the right.

The most significant disclosure misstatements relate to

- Various corrections to the pensions note disclosures
- Additional disclosures in relation to Covid 19 risks and impact on the going concern assessment

In line with ISA (UK) 450 we request that you correct uncorrected misstatements.

#### Key comments

If the uncorrected factual audit misstatements were posted, they would increase the surplus by £694k.

- For our views on management estimates – see Page 13. We identified that pension liability was cautious.
- A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in Appendix Two.

#### Audit misstatements – Surplus

	Type	£'000	Comment
<b>Reported in FS</b>		<b>(1,438)</b>	
<i>Uncorrected misstatements (see page 23)</i>			
– Cash Balance	Factual	(2)	Net impact of a high number of reconciling items included on the year end bank reconciliations that should have been posted in 2019-20
– Review of AUC	Factual	(692)	AUC balances written off in year that should have been expensed in prior period
<b>Our assessment</b>		<b>2,132</b>	
<b>Adjusted Surplus</b>			

# Financial statements audit - other matters



## Scepticism Challenge

### Annual report

We have read the contents of the Annual Report and checked compliance with the requirements of the Annual Report and financial statements with the Accounts Direction published by the Office for Students. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Annual Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the statements. As Governors you confirm that you consider that the annual report and accounts taken as a whole are fair, balanced and understandable and provides the information necessary for regulators and other stakeholders to assess the University's performance, business model and strategy.
- The Statement of Corporate Governance and Statement of Internal Control were consistent with the financial statements and comply with the guidance set out within the Accounts Direction, including the addition of new required disclosures introduced in the Accounts Direction for 2019/20.

In the course of our audit work we assessed the quality of your disclosures in the Statement of Corporate Governance in relation to covid-19 in addition to assessing the quality of disclosures generally. We have requested additional disclosures in the Corporate Governance Statement provide a clear description of the nature of the impact on the business model and strategy, the impact on financial performance and forecasts, the principal risks arising from Covid-19 and how these are monitored.

### Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

### Other matters

We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest.

### Reconfirming materiality

We can confirm that we have completed all our audit work to the materiality that we proposed at the planning stage of the audit, which was a total performance materiality of £3.3m with an audit differences posting threshold of £140k.

### Audit Fees

Our fee for the audit was £121,564 plus VAT (£99,866 in 2018/19). Our audit work is ongoing and additional procedures have been required in some areas, including those related to the pension assumptions. We will provide confirmation of our final fee once we have concluded our audit for the Group. We have also completed non audit work during the year on tax compliance services and have included in Appendix 5 confirmation of safeguards that have been put in place to preserve our independence.



## South Bank Colleges

For the year ended 31 July 2020 we have undertaken the statutory audit of South Bank Colleges. South Bank Colleges is an exempt charitable company limited by guarantee. We have carried out our audit on the College pursuant to International Auditing Standards and issue an opinion in accordance with the Companies Act 2006.

Our group audit has considered the accuracy of the consolidation of this company into the group Accounts. A separate report will be presented to the company's Audit Committee providing detailed results of our audit.

**Planned response***Significant risks*

As set out in our audit plan presented on June 2020 we recognised significant risks relating to:

- Revenue Recognition
- Going Concern
- Management Override of controls
- Valuation of Pension Liability
- Valuation of Fixed Assets

**Outcome from audit work***Outstanding matters*

Our audit of this company remains ongoing. The following are the principal matters outstanding:

Pensions Testing – we understand that management are challenging the assumptions used by the scheme actuary which may result in an adjustment in the Accounts. We will need to review the revised assumptions applied to confirm that they are appropriate.

Review of Internal Review procedures and review of Final Accounts

*Findings in response to significant risks*

- Revenue Recognition – we agreed all grant income to funding agreement which resulted in a conclusion that funding income was completely and accurately stated. Our sample testing of tuition fee income and year end testing found that transactions were recorded in the correct period.
- Going Concern – we did not identify any issues through this review.
- Valuation of Pension Liability – we concluded that the key assumptions were within KPMG's benchmark range (though we considered the assumptions used by SBC to be towards the cautious end). We understand that management are reviewing these assumptions which may result in an updated valuation of the pension liability. We will provide an update on this in our final report to the Group Board.
- Management override of controls – we did not identify any instances of management override.
- Valuation of Fixed Assets – we identified one item of capital expenditure £23k within our sample test that had been expensed in year. No other misstatement were identified.

We raised two unadjusted misstatements, relating to correction of capital expenditure £23k that had been expensed in year and a classification error between prepayments and creditors.



SW4

For the year ended 31 July 2020 we have undertaken the statutory audit of SW4.

We have carried out our audit on SW4 pursuant to International Auditing Standards and issue an opinion in accordance with the Companies Act 2006.

Our group audit has considered the accuracy of the consolidation of this company into the group accounts.

#### Planned response

##### *Significant risks*

As set out in our audit plan presented on we recognised significant risks relating to management override of controls and fraud from revenue recognition.

#### Outcome from audit work

*Outstanding matters:* Completion of KPMG internal review checks and review of final Accounts

##### *Findings in response to significant risks:*

- *Management override – as a result of our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud or management override were identified.*
- *Fraudulent Revenue Recognition - We did not identify any instances of fraudulent revenue recognition through testing of SW4 income.*

We raised one audit adjustment relating to posting error where £141k of SW4 staff costs were posted to SBC. This has eliminated on consolidation, therefore no net impact on the LSBU Group Accounts.

There are no other significant findings.

Page 403

SBUEL

For the year ended 31 July 2020 we have undertaken the statutory audit of SBUEL.

We have carried out our audit on SBUEL pursuant to International Auditing Standards and issue an opinion in accordance with the Companies Act 2006.

Our group audit has considered the accuracy of the consolidation of this company into the group accounts.

#### Planned response

##### *Significant risks*

As set out in our audit plan presented on we recognised significant risks relating to management override of controls and fraud from revenue recognition.

#### Outcome from audit work

*Outstanding matters:* Completion of KPMG internal review checks and review of final Accounts

- Management Override of control – we have not identified any instances of management override.
- Fraudulent Revenue Recognition – we identified two misstatements. There were several invoices raised on 31/7/2020 amounting to a total value of £33k which related to August 2020. This has not yet been adjusted. We also identified that adjustment to provide for 90% of all sales ledger debts still outstanding had not been processed.



**Scepticism Challenge**

As the University receives funding from the Office for Students and Research England we are required to provide an opinion as to whether public sector funding received has been utilised in accordance with the associated terms and conditions. We have set out below a summary of the work performed and findings from our work:

Risk assessment	Controls	Substantive procedures
<p>We compared the financial performance for the year to budget and the cause of variances. No issues raised.</p> <p>We reviewed the University's correspondence with the Office for Students during the year. We have not identified a use of funds risk through this.</p> <p>We reviewed the reports produced by internal audit during the year to consider whether there were any matters raised that may demonstrate funds were not used appropriately. We noted that there were a number of critical recommendations raised during the year relating to core financial systems including payroll, accounts payable, journals approval. However, these did not result in funds not being spent in line with funding conditions and do not impact on our use of funds opinion. Within our audit we did not place reliance on any of these such controls and have instead performed substantive testing over the income, expenditure, debtors and creditors balances as a result.</p> <p>We confirmed that there are appropriate policies and procedures in place, including provision of whistleblowing and anti-fraud and bribery requirements.</p>	<p>We assessed whether there were appropriate controls in place for the management of expenditure, including findings from our payroll and non-pay expenditure work. We did not identify any controls deficiencies that impacted the use of funds opinion.</p> <p>We confirmed that an up to date register of interests was in place and whether there had been any transactions with related parties during the year. No risks were identified relating to transactions with related parties.</p>	<p>As part of our substantive audit procedures we undertook sample testing of research income and expenditure. We confirmed that expenditure incurred against funding received was utilised for appropriate purposes/comment on any exceptions identified and impact.</p> <p>We reviewed a sample of manual journals posted during the year to verify that they were appropriate and that controls had operated as expected.</p> <p>From our journal substantive testing at South Bank Colleges, we identified a payment of £2,500 that was made to an employee legal cost. We found that the College had not completed assessment as to whether this was in line with funding agreement prior to payment. KPMG is of the opinion that the College is not allowed to make such payments out of the funding received from ESFA, and that this falls outside the remit of the College. As no other issues were identified in respect of use of funds we consider this to not be material misuse of funds, therefore there is no impact on the audit opinion.</p>

We have not identified any matters that would require us to modify our opinion in respect of use of funds.



# Appendices

## Contents

	Page
Recommendations raised and followed up	20
Audit differences	23
Required communications with the Audit and Risk Committee	24
Pensions	25
Audit independence	27
Audit quality	29



# Recommendations raised and followed up

Priority rating for recommendations					
<b>1</b>	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	<b>2</b>	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	<b>3</b>	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

The recommendations raised as a result of our work in the current year are as follows:

Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
<p>Page 406</p> <p style="text-align: center;"><b>1</b></p>	<p><b>Bank Reconciliations</b></p> <p>There were a high number of reconciling items included on the two main bank accounts as at 31 July 2020 with total reconciling items across the two statements exceeding 1000 lines and the 2019-20 cash balance understated £2.9m as a result. We understand that the high level of reconciling items resulted from a backlog of transactions following an issue whereby card payments had initially been processed to the old bank accounts, compounded by staff absence.</p> <p>We recommend that the University works to clear this backlog and posts the necessary adjustments to reduce any exposure to fraud risk. The University should ensure that there are appropriate processes in place to complete reconciliations on a timely basis going forward.</p>	<p>ICT, supported by an external supplier is working to deliver a solution to the problems the team have had with posting and reconciling bank transactions. Work is underway and was originally due to be completed by the end of July but has proved to be more complex than thought. The project team now have a detailed understanding of the data and expect to be able to start testing by 5<sup>th</sup> November. A revised date is shown as 30 November to allow time to fully test the solution and ensure that it facilitates the accurate posting and reconciliation of bank transactions.</p> <p>Responsible: Natalie Ferer/Julian Rigby Due Date : 30<sup>th</sup> November 2020.</p>



# Recommendations raised and followed up



#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
2	2	<p><b>Management of Fixed Assets</b></p> <p>We identified a number of areas in which controls around management of fixed assets could be enhanced:</p> <ul style="list-style-type: none"> <li>- We recommend that the process for undertaking an annual impairment review is formalised, and considers the full University estate. This was not in place in advance of the year end audit, though we note that the review was subsequently completed. We recommend that management ensures formal process are in place to complete and document the impairment review. This review should consider each of the indicators of impairment listed in FRS 102 section 27.0.</li> <li>- Given the extent of capital works currently being undertaken both at University and Group level, we further recommend that this review also includes balances held within AUC. This should include consideration of impairment and whether any assets are now brought into use. Our testing of capital transactions identified a number of negative additions relating to assets that had previously been brought into use (and should now be fully depreciated), thus highlighting failure to review AUC balances on a timely basis. The £692k written off in year has been included as an error on slide 26.</li> <li>- At the time of our interim audit in June South Bank College had not processed capital additions due to workload, and while an exercise was subsequently performed at year end we did identify one addition below our reporting threshold that was not included. We recommend that processes are put in place to ensure assets are capitalised on a timely basis.</li> </ul>	<p>Agreed, the recommendation will be implemented in full</p> <p>Responsible: Natalie Ferer</p> <p>Due date: June 2021 for 2020/21 year end</p>
3	2	<p><b>Journal Approval</b></p> <p>An automated approval workflow is in place for all G6 journals. However, as the user is required to select the type of journal, if the journal type G6 is not selected the automated approval workflow is not triggered. Management have introduced a review of non-G6 journals on a monthly basis, however due to workload we did not see evidence that this had operated throughout the period. We recommend that the review of non-G6 journals on a monthly basis is reintroduced. This should be reviewed by the Financial Controller or Head of Financial Accounting to provide assurance that the control has operated effectively.</p>	<p>In line with the GL journal procedure, the team will continue to monitor use of the unapproved G5 journals which will be reviewed retrospectively and cases on non compliance addressed. will be reviewed o ensure someone in the Financial Accounting team carries out this task each month.</p> <p>Responsible person : Sally Black/Rebecca Warren</p> <p>Due date: December 2020</p>

Page 407

# Recommendations raised and followed up



We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
2	0	2

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2020)
1	2	<p><b>Impairment review</b></p> <p>Management's review of buildings to assess whether they show signs of impairment has historically focused on the Clarence Centre as the only building held for commercial purposes. Given the extent of capital works being undertaken both at University and Group level the University will maintain an increased number of assets for varying purposes.</p> <p>We recommend that the process for undertaking the annual impairment review is formalised, and considers the full University estate. Management should consider each of the indicators of impairment listed in FRS 102 section 27.9 to consider whether any indicators apply as part of this process.</p>	<p><b>Agreed</b></p> <p>The entire estate will be reviewed at least annually for impairment and this process will be documented as a financial procedure.</p> <p>Responsible officer: Natalie Ferer</p> <p>Due date: 31 January 2020</p>	<p><b>Superseded</b></p> <p>We did not see evidence of formal process for undertaking the annual impairment review prior to the year end audit. See recommendation #2 on slide 23.</p>
2	2	<p><b>Review of pension assumptions</b></p> <p>The pensions assumptions used by Barnett Waddingham are derived by qualified actuaries based on a number of factors. The judgement involved in forming these assumptions and the size of the University's pension liability mean that a small variance could result in a material impact on the financial statements.</p> <p>Management currently present the assumptions used in the calculation of the pension provision to the Audit Committee for approval, however this does not contain detail on the extent to which management has challenged the assumptions to ensure they are appropriate for LSBU. We recommend that management document in more detail the precision with which they review the pensions assumptions and challenge the actuaries on the assumptions they have set. Specifically, they should perform an assessment of membership numbers to ensure that the rolled forward number and assumptions applied are in line with current year figures. Additionally, management should challenge the actuary on their estimate of the return on investment to determine if there would be a material impact if actual data as received subsequent to year end was used.</p>	<p><b>Agreed</b></p> <p>We will continue to review the indicative assumptions final assumptions used by the actuaries to ensure that they are appropriate to the University and subsidiaries, including use of estimates as they impact on returns on investments.</p> <p>Responsible officer: Natalie Ferer</p> <p>Due date: 30 June 2020</p>	<p><b>Ongoing</b></p> <p>We note that management have reviewed and challenged assumptions included in this year's pension Accounts where there is a material impact on the Accounts.</p> <p>Management in particular have challenged the discount rate and pay increases after reviewing against other relevant assumptions.</p> <p>However, management also needs to put in place a framework for reviewing assumptions on a consistent basis.</p>

# Audit differences



Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Risk Committee, details of all adjustments greater than £140k are shown below:

Unadjusted audit differences (£'000)					
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments	
Page 409	1	Dr Cash		2,968	There were a high number of reconciling items included on the year end bank reconciliation that should have been posted in 2019-20 but were not, as a result cash was understated.
		Cr Creditors		(562)	
		CR Debtors		(699)	
		CR Deferred Income		(1,705)	
		CR Grant Income	(31)		
		DR Exchange Losses	16		
		DR Other Expenditure	13		
	DR Retained Earnings		692	Our testing of capital additions identified a number of transactions included as negative AUC additions that related to assets that had previously been brought into use (and should now be fully depreciated). The total amount written off in year of £692k has been included as an error as the amount should have been written off in previous periods, therefore expenditure in year is overstated and prior year expenditure (brought forward retained earnings) understated.	
	CR Expenditure	(692)			
3	DR Creditors (deferred income) > 1 year		310	<b>South Bank Colleges</b> - £310k should have been released against Deferred Capital Grant > 1 year rather than TU Advances < 1 year. As a result there was a disclosure error with Capital Grants overstated £310k in version 1.	
	CR Creditors (deferred income) < 1 year		(310)		
4	DR Payable		462	<b>South Bank Colleges</b> - Classification error resulting from the incorrect invoice being issued by LSBU to SBC. A credit note was not issued by year end so expenditure was moved to 7005 which maps to prepayment.	
	CR Accrued Income		(462)		
Total		£(694)	£694		

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements. There are no corrected misstatements.

# Required communications with the Audit and Risk Committee



Under UK auditing standards (ISA (UK) 260) we are required to set out certain communications to the Audit and Risk Committee. We have summarised below the required communications and the status of these.

Type	Status	Response
<b>Our draft management representation letter</b>		Our draft representation letter is included for the Committee's review. We have requested additional representations relating to: to the best of the Group's knowledge, no provision expense is required in the group accounts in respect of the claim brought against South Bank Colleges.
<b>Adjusted and unadjusted audit differences</b>		We have provided a summary of audit differences in Appendix Two.
<b>Control deficiencies</b>		We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit. Details of our recommendations are provided in Appendix One.
<b>Related parties</b>		There were no significant matters that arose during the audit in connection with the entity's related parties.
<b>Other matters warranting attention by the Audit and Risk Committee</b>		There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
<b>Actual or suspected fraud, non-compliance with laws or regulations or illegal acts</b>		No actual or suspected fraud involving group or component management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
<b>Significant difficulties</b>		No significant difficulties were encountered during the audit.
<b>Modifications to auditor's report</b>		None anticipated however our work on going concern has not yet concluded.
<b>Disagreements with management or scope limitations</b>		The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
<b>Other information</b>		No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. We have provided a summary of our findings on page [9].
<b>Breaches of independence</b>		No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
<b>Accounting practices</b>		Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
<b>Significant matters discussed</b>		The were no significant matters arising from the audit.



We understand that management has reviewed the assumptions provided by the scheme actuary and are challenging the discount rate and pay increase assumptions which will likely lead to adjustments to the final pension liability in the accounts. Work in this area is ongoing and we will provide an update on our assessment of the final liability in our final report that will be presented to the Group Board

With the triennial valuation impacting the financial statements for the year ending 31 July 2020 and volatility in asset values associated with the impact of covid-19 it is important that the University has appropriately assessed the assumptions used to value the net defined benefit pension obligation.

The table below shows the movement in the net pension liability from 31 July 2019:

Liability	31 July 2020 (£'000)	31 July 2019 (£'000)
Present value of funded liabilities	(390,082)	(324,227)
Fair value of plan assets	209,527	205,757
Net pension liability	180,555	118,470

Source: draft financial statements

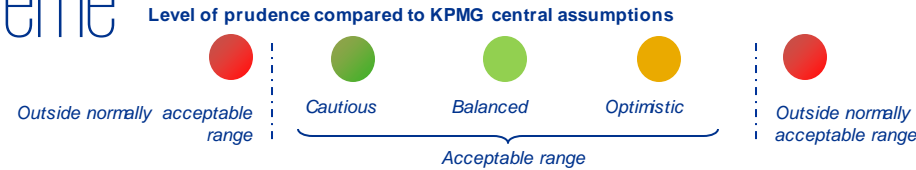
\* Excluding unfunded obligations totalling £10,800k in 2019-20 (£10,885 in 2018-19)

### Assumptions

We have set out the findings from our review of the assumptions used by the actuary on the following page. The scope of this report is restricted to a review of the assumptions adopted for determining the value of the pensions obligations under FRS102 only. In our view the overall set of assumptions proposed by the employer can be considered to be cautious relative to our central rates for a typical UK scheme with a duration of 20 years but within our normally acceptable range. We note that these will be updated when we receive management's actuarial report.

# Pensions – Local Government Pension Scheme

We have presented below our initial assessment of the actuarial valuation assumptions. This will be updated in our final report to take into account any changes that are made by management as noted earlier in our report.



Employer: London South Bank University		OVERALL ASSESSMENT OF ASSUMPTIONS FOR FRS 102			
Fund: London South Bank University – LGPS participation		The overall set of assumptions proposed by the Employer can be considered to be cautious relative to our central rates for a typical UK scheme with a duration of 20 years but within our normally acceptable range.			●
Fund Actuary: Barnett Waddingham					<i>cautious</i>
Assumption	University	KPMG central	Commentary	Assessment vs. KPMG central	
Discount rate	1.35%	1.42%	The Employer's proposed assumption is considered to be cautious but within our normally acceptable range.	●	
Pension Increases	2.25%	2.00%	The Employer's proposed assumption is considered to be balanced and within our normally acceptable range.	●	
Salary increases	CPI plus 1%	In line with long-term remuneration policy	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. The Employer's assumption is therefore balanced and in line with expectations of future salary growth.	●	
Mortality – Base tables	Club vita curves	In line with best estimate fund experience	The life expectancies are consistent with those used in the most recent LGPS valuation and can be considered acceptable.	●	
Mortality – Future Improvements	CMI2018 projections model, 1.25% long-term trend rate, smoothing parameter of 7 and initial addition of 0.5%	CMI 2019 projections model, 1.25% long-term trend rate and default smoothing and initial addition parameters	The Employer has updated the mortality base table assumptions as at 31 July 2020 following analysis undertaken by the Fund Actuary for the Fund valuation as at 31 March 2019. The proposed assumptions are considered to be cautious but within our normally acceptable range.	●	
Other Demographics	In line with most recent Fund valuation	In line with Fund experience	The Employer has updated the demographic assumptions other than mortality in line with the most recent Fund valuation as at 31 March 2019. The assumptions are considered balanced and within acceptable range.	●	

## Audit independence



Component of audit (all fees exclude VAT)	2019/20	2018/19
<b>Audit services – statutory audit</b>		
Financial Statements Audit	£55,935	£55,000
Going Concern/Covid 19 Impact (Group)	£15,000	£-
Access and Participation Expenditure	£5,000	£-
Auditing of accounts of South Bank Colleges	£40,680	£40,000
Auditing of accounts of SW4 Catering Ltd	£2,034	£2,000
South Bank University Enterprises (SBUEL)	£2,915	£2,866
<i>Sub-total</i>	<i>£121,564</i>	<i>£99,866</i>
<b>Non audit fees</b>		
Covenant compliance	£6,000	£6,000
Subsidiary tax computations	£4,950	£6,475
Other assurance services	£29,850	£33,850
Other non-audit services	£40,800	£34,500
<b>Total fee for Group</b>	<b>£162,364</b>	<b>£180,691</b>

The ratio of non-audit fees to audit fees for the year was 0.3: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out the table on the following slide.

We will confirm our final financial statements audit fee upon conclusion of our audit work.

#### Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit and Risk Committee.

KPMG person present) and can make meeting room bookings subject to certain

#### Other relationships

##### Number 20

During the year, the following employees were members of our client hub, Number 20 Grosvenor Street

##### ■ Steve Balmont

This facility is extended by invitation to senior management of KPMG audit and non-audit clients. Audit client members are provided access to the KPMG business lounge. They are also allowed to use the bar and restaurant if they wish to do so (i.e., without a KPMG person present) and can make meeting room bookings subject to certain restrictions although all food, drink and meeting room bookings must be paid for and are charged in full at normal commercial rates. We do not believe that this facility creates any familiarity threats to our objectivity and independence as auditor.

#### Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the partner and audit staff is not impaired.

This report is intended solely for the information of the Audit and Risk Committee of the University and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

*KPMG LLP*

## Audit independence

Facts and matters related to the provision of non-audit services and the safeguards put in place that bear upon our independence and objectivity, are set out in the following table (costs inclusive of VAT). \*we are confirming final non-audit fees and will provide an update in our Final Audit Completion Report.



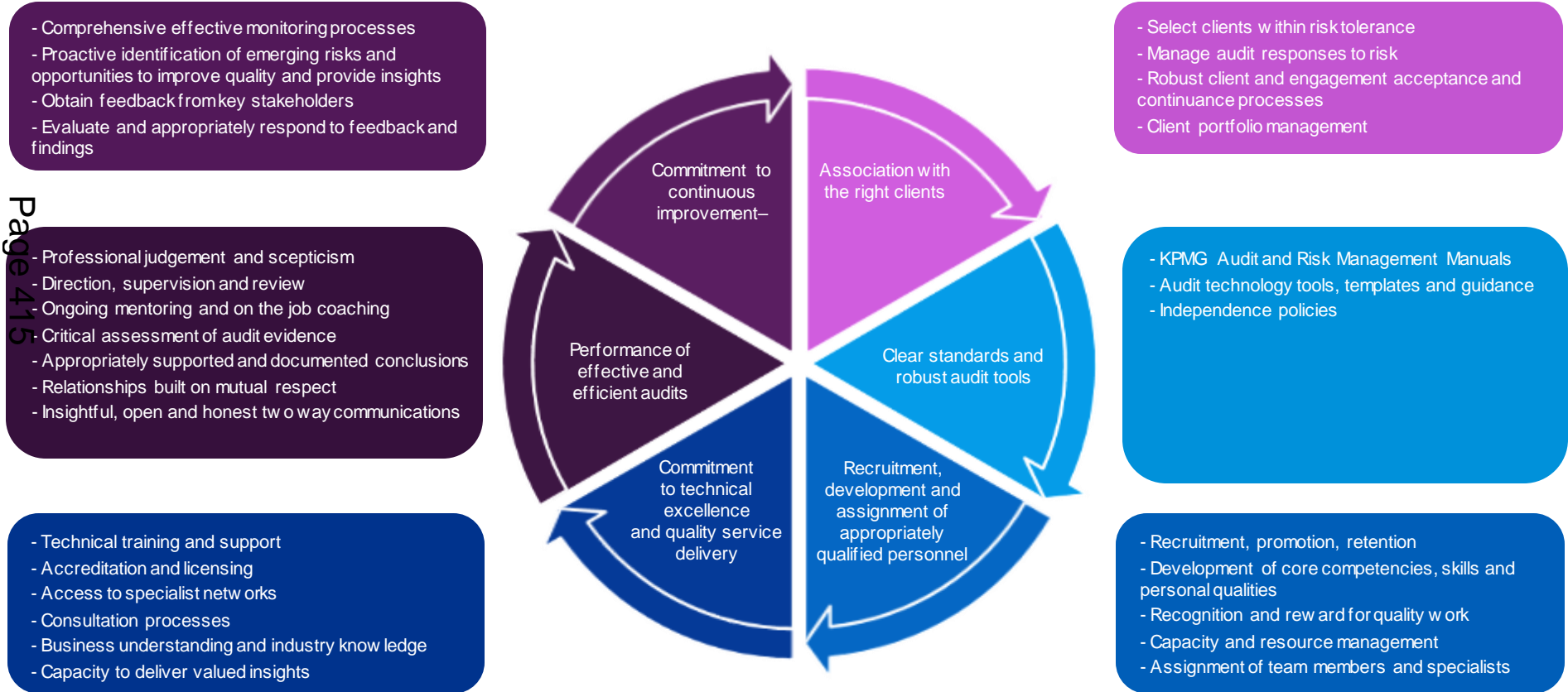
Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the YE 31.07.2020
Covenant Compliance	<ol style="list-style-type: none"> <li>Self Interest</li> <li>Self Review</li> <li>Management</li> </ol>	<ol style="list-style-type: none"> <li>The fee for the work is not dependent on the compliance with the covenants, and is not material to KPMG or LSBU.</li> <li>The work will not involve the preparation of any financial information which will be subject to review.</li> <li>LSBU will be responsible for preparing the covenant compliance statement.</li> </ol>	Fixed fee	£6,000
Advice in relation to IT group	<ol style="list-style-type: none"> <li>Management</li> <li>Advocacy</li> </ol>	<ol style="list-style-type: none"> <li>KPMG will not provide any advice on how the transaction should be recorded in the financial statements from a tax perspective. The advice will be supported by tax law or regulation, other precedent or established practice.</li> <li>The service will be provided by KPMG professionals who are not members of the audit team.</li> </ol>	Fixed fee	£10,000
Subsidiary tax computations	<ol style="list-style-type: none"> <li>Self-review</li> <li>Management</li> </ol>	<ol style="list-style-type: none"> <li>The service will be provided by KPMG professionals who are not members of the audit team.</li> <li>KPMG will not provide any advice on how the transaction should be recorded in the financial statements from a tax perspective. The advice will be supported by tax law or regulation, other precedent or established practice</li> </ol>	Fixed fee	£4,920
International tax services	<ol style="list-style-type: none"> <li>Self-review</li> <li>Management</li> </ol>	<ol style="list-style-type: none"> <li>The service will be provided by KPMG professionals who are not members of the audit team.</li> <li>KPMG will not provide any advice on how the transaction should be recorded in the financial statements from a tax perspective. The advice will be supported by tax law or regulation, other precedent or established practice.</li> </ol>	Time and Materials	£19,850



# KPMG's audit quality framework



Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework



Page 415



[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



[kpmg.com/app](https://kpmg.com/app)



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	CONFIDENTIAL
Paper title:	Letter of Representation
Board/Committee:	Group Audit And Risk Committee
Date of meeting:	05 November 2020
Author(s):	KPMG
Sponsor(s):	Richard Flatman – Group CFO
Purpose:	For Approval
Recommendation:	The Committee is requested to approve the Letter of Representation, relating to the audit of the accounts for the London South Bank University Group, to be signed by the Chair of the Board of LSBU at the November Board meeting.

**Summary:**

The Letter of Representation requires the Board to give specific assurances to the auditors, KPMG, over matters regarding the financial statements and the year end audit. It should be signed by the Chair of the Board at the time of signing the accounts. The attached draft letter contains the following items specific to LSBU, with all other items being standard representations.

- The University’s subsidiary (South Bank Colleges) has received a pre-action claim for re-imburement of costs by a developer in respect of the Vauxhall development project undertaken by South Bank Colleges’ predecessor, Lambeth College Corporation. The Governing Body believes that any claim is unlikely to succeed and cannot be financially quantified at the date of signing. To the best of its knowledge and belief it is satisfied that no provision is necessary in respect of this claim.
  
- The University has a number of ongoing court cases. The University believes that these claims are unlikely to succeed at the date of signing. To the best of its knowledge and belief it is satisfied that no provision is necessary in respect of these claims.

**Recommendation:**

The Committee is requested to recommend that the attached letter of representation be signed by the Chair of the LSBU Board.



(Letterhead of Client)

KPMG LLP  
15 Canada Square  
Canary Wharf  
London  
E14 5GL

[Date]

Dear Fleur

This representation letter is provided in connection with your audit of the Group and University financial statements of London South Bank University (“the University”), for the year ended 31<sup>st</sup> July 2020, for the purpose of expressing an opinion as to whether the financial statements:

- i. give a true and fair view of the state of the Group’s and University’s affairs as at 31<sup>st</sup> July 2020 and of the Group’s and University’s income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;
- ii. have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2019 Statement of Recommended Practice – Accounting for Further and Higher Education (FEHE SORP);
- iii. meet the requirements of the Accounts Direction dated 25 October 2019 issued by the Office for Students; and
- iv. have been prepared in accordance with the Companies Act 2006.

These financial statements comprise the Group and University balance sheets as at 31<sup>st</sup> July 2020, the Group and University Statements of Comprehensive Income, the Group and University Statements of Changes in Reserves, and the Group Statement of cash flows, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Governing Body confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Governing Body confirms, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

#### **Financial statements**

1. The Governing Body has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 30 March 2017, for the preparation of financial statements that:
  - give a true and fair view of the state of the Group’s and the University’s affairs as at the end of its financial year and of the Group’s and University’s income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended; and
  - have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102), and the FEHE Statement of Recommended Practice;

- meet the requirements of the Accounts Direction dated 25 October 2019 issued by the Office for Students; and
- have been prepared in accordance with the requirements of the Companies Act 2006

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Governing Body in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which Section 32 of FRS 102 (*Events after the End of the Reporting Period*) requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

#### **Information provided**

5. The Governing Body has provided you with:
  - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
  - additional information that you have requested from the Governing Body for the purpose of the audit; and
  - unrestricted access to persons within the Group and the University from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Governing Body confirms the following:
  - (i) The Governing Body has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- (ii) The Governing Body has disclosed to you all information in relation to:
    - (a) Fraud or suspected fraud that it is aware of and that affects the Group and the University and involves:
      - management;
      - employees who have significant roles in internal control; or
      - others where the fraud could have a material effect on the financial statements;
- and

- (b) allegations of fraud, or suspected fraud, affecting the Group and the University's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Governing Body acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Governing Body acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Governing Body has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Governing Body has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with FRS 102 Section 21, *Provisions and Contingencies*, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Governing Body has disclosed to you the identity of the Group and the University's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with FRS 102 Section 33, *Related Party Disclosures*.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102.

11. The Governing Body confirms that:
- (a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the University's and Group's ability to continue as a going concern as required to provide a true and fair view and to comply with FRS 102.
- (b) No material events or conditions have been identified that may cast significant doubt on the ability of the University and the Group to continue as a going concern.
12. On the basis of the process established by the Governing Body and having made appropriate enquiries, the Governing Body is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with the requirements of section 28 of FRS 102 .
13. The Governing Body further confirms that:
- (a) all significant retirement benefits, including any arrangements that are:
- statutory, contractual or implicit in the employer's actions;
  - arise in the UK and the Republic of Ireland or overseas;
  - funded or unfunded; and
  - approved or unapproved,
- have been identified and properly accounted for; and
- (b) all plan amendments, settlements and curtailments have been identified and properly accounted for.

14. In particular the Governing Body confirms that:

- there are no significant matters that have arisen that would require a restatement of the corresponding figures;
- the Governing Body confirms that costs or credits attributable to the agreement of a deficit recovery plan for the Universities Superannuation Scheme (USS) are calculated using assumptions that are consistent with its knowledge of the business. In particular, the Governing Body confirms that the assumptions for assumed salary inflation in each year during the life of the plan and assumed USS membership changes during the life of the plan are consistent with the University's projected employee population profile;
- we are not aware of any issues or disputes associated with delivery undertaken by partners which would impact on the financial statements;
- we are of the opinion that the land and buildings included within tangible fixed assets have been valued appropriately in accordance with the requirements of FRS 102, and to the best of our knowledge and belief we are satisfied that no impairment provision is necessary in respect of the University's estate.
- To the best of our knowledge and belief the University has complied with the requirements of the Charities Act 2011. In particular, the University has disclosed all payments made in relation to trustees expenses and all "connected institutions and bodies" have been disclosed appropriately. Furthermore, all serious incidents, as defined under the Act, have been captured and recorded appropriately.
- There are no issues arising from the finalisation of student data for the year ending 31 July 2020 which has been used to produce the University's 2019 HESA return which would have a material impact on teaching funding from the Office for Students or English undergraduate fee income recognised in the financial statements.
- We are not aware of any issues relating to the University's other Office For Students or Research England funding streams years (e.g. Higher Education) innovation Fund grants which may lead to a clawback in funding over and above that recognised in the financial statements.
- To the best of our knowledge and belief the University has complied with the terms and conditions of any capital grant funding received during the year and in respect of other capital grant funding received during the year and in respect of other capital grant funding received in prior years. In all instances, the University is satisfied that the agreed outputs against which each project will be assessed will be delivered.
- To the best of our knowledge and belief the University has complied with the terms and conditions of any revenue grant funding (for example research funding) received in recent years and where agreed outputs are to be delivered as part of the grant agreement, the University has or anticipates delivering these.
- In all material respects funds from whatever source administered by the Group and the University for specific purposes have been applied to those purposes during the year ended 31 July 2020.



- to the best of our knowledge and belief the University has complied with the Office for Students guidance for access and participation spend and any spend classified as access and participation spend is in accordance with this guidance.
- The University's subsidiary (South Bank Colleges) has received a pre-action claim for reimbursement of costs by a developer in respect of the Vauxhall development project undertaken by South Bank Colleges' predecessor, Lambeth College Corporation. The Governing Body believes that any claim is unlikely to succeed and cannot be financially quantified at the date of signing. To the best of its knowledge and belief it is satisfied that no provision is necessary in respect of this claim.
- The University has a number of ongoing court cases. The University believes that these claims are unlikely to succeed at the date of signing. To the best of its knowledge and belief it is satisfied that no provision is necessary in respect of these claims.

This letter was tabled and agreed at the meeting of the Governing Body on [insert date].

Yours faithfully,

Jeremy Cope  
Chair of the Board

## **Appendix A to the Representation Letter of South Bank University: Definitions**

### **Financial Statements**

A complete set of financial statements comprises:

- Group and University balance sheets as at the end of the period;
- Group and University Statement of Comprehensive Income for the period;
- Group and University Statement of Changes in Reserves for the period;
- Group Cash Flow Statement for the period; and
- notes, comprising a summary of significant accounting policies and other explanatory information.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* states that:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor.

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

### **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## **Management**

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

## **Related Party and Related Party Transaction**

### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
  - i. has control or joint control over the reporting entity;
  - ii. has significant influence over the reporting entity; or
  - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:
  - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - iii. Both entities are joint ventures of the same third party.
  - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - vi. The entity is controlled, or jointly controlled by a person identified in (a).
  - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

### **Related party transaction**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

## **Appendix B to the Management Representation Letter of XYZ University**

### **Summary of unadjusted audit differences**

Under the requirements of ISA 260 we are required to present any unadjusted audit differences, other than those which are clearly trifling, to the Audit Committee.

Summary of unadjusted audit differences for the year ended 31 July 2020.

<b>Unadjusted audit differences (£'000)</b>				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Cash Cr Creditors CR Debtors CR Deferred Income CR Grant Income DR Exchange Losses DR Other Expenditure		2,968 (562) (699) (1705) (31) 16 13	There were a high number of reconciling items included on the year end bank reconciliation that should have been posted in 2019-20 but were not, as a result cash was understated.
2	DR Retained Earnings CR Expenditure		692 (692)	Our testing of capital additions identified a number of debit transactions included as negative AUC additions that related to assets that had previously been brought into use (and should now be fully depreciated). The total amount written off in year of £692k has been included as an error as the amount should have been written off in previous periods, therefore expenditure in year is overstated and prior year expenditure (brought forward retained earnings) understated.
3	DR Creditors (deferred income) > 1 year CR Creditors (deferred income) < 1 year		310 (310)	<b>South Bank Colleges</b> - £310k should have been released against Deferred Capital Grant > 1 year rather than TU Advances < 1 year. As a result there was a disclosure error with Capital Grants overstated £310k in version 1.
4	DR Payable CR Accrued Income		462 (462)	<b>South Bank Colleges</b> - Classification error resulting from the incorrect invoice being issued by LSBU to SBC. A credit note was not issued by year end so expenditure was moved to 7005 which maps to prepayment.
Total		£(694)	£694	

### **Adjusted audit differences**

ISA 260 also requires us to report differences found during our audit which have been adjusted by management in arriving at the final results for the University. These adjusted amounts need to be considered by the Audit Committee as they may indicate broader failures in systems of controls which will need addressing.

There were no adjusted audit differences.

There were also a number of other presentational adjustments made to the accounts following our review including grossing up of balances and reclassification of other balances. These have all been adjusted for and are reflected in the financial statements.