Meeting of the Board of Directors of South Bank University Enterprises Ltd

2pm on Wednesday, 5 November 2014
held in DCG08, Clarence Centre for Enterprise and Innovation,
London South Bank University

Agenda

		Paper No.	*Presenter*
1.	Welcome and Apologies		Chair
2.	Declarations of Interest		Chair
3.	Minutes of the meeting of 6 October 2014 (to approve)		Sec
4.	Matters Arising		Chair
5.	**Year End Approvals**		
6.	Audit Findings (to consider)	UE.22(14)	Acct.
7.	Statutory accounts to 31 July 2014 (to approve)	UE.23(14)	Acct.
8.	Letter of representation to auditors (to approve)	UE.24(14)	Acct.
9.	Date of Next Meeting – Wednesday 10 December 2014 at 3pm		Chair

---

Members: James Smith (Chair), Julian Beer, Richard Flatman and Gurpreet Jagpal (Interim CEO).

In attendance: Accountant and Governance Manager.

SOUTH BANK UNIVERSITY ENTERPRISES LTD

Minutes of a Meeting of the Board of Directors of South Bank University Enterprises Ltd Held at 3pm on Monday 6 October in Room DCG07, Clarence Centre for Enterprise and Innovation, St George's Circus, London, SE1

Present

James Smith	Chairman
Julian Beer	(*via Conference call*)
Richard Flatman	
Gurpreet Jagpal	Interim Director of Enterprise and CEO

In attendance

Michael Broadway	Governance Manager
Rebecca Warren	Accountant for South Bank University Enterprises Ltd.

Welcome and apologies

1. The Chairman welcomed the directors to the meeting. The Chairman welcomed Gurpreet Jagpal to his first meeting of the Board.

Declarations of interest

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

Minutes of the meeting of 17 June 2014

3. The Board approved the minutes of the meeting of 17 June 2014.

Matters arising

4. All matters arising from the last meeting had been completed.

Appointment of Interim CEO

5. The Board noted that Gurpreet Jagpal had been appointed as interim CEO of the company and Director of Enterprise for the University for a period of six months (paper **UE.18(14)**).

6. The Board appointed Gurpreet Jagpal as a director of the company with immediate effect.

7. The Board approved Gurpreet Jagpal as an authorised signatory and a bank signatory for the company.

Management of the Company

8. The Board discussed a verbal update from the interim CEO on the current position of the company and future plans (paper **UE.19(14)**). It was reported that as part of the University restructuring the University Enterprise department would now include Research and be called “University Research, Enterprise and Innovation”.

9. The current areas of focus for the company were: 1) integrating the research department into enterprise; 2) setting up effective bid development and programme delivery mechanisms that will allow LSBU/SBUEL to effectively bid for and secure the delivery of a larger number of CPD and EU funded projects; 3) improving HEFCE reporting; and 4) improving communications internally and externally.

10. The Board noted that Professor Paul Ivey had been appointed Pro Vice Chancellor (Research and External Engagement) with responsibility for enterprise. Prof Ivey would start on 3 November 2014.

11. It was reported that the core financial controls of the company were delivered by LSBU and had not been impacted by the loss of leadership in the company.

Draft statutory accounts, 2013/14

12. The Board discussed the draft statutory accounts for 2013/14, which showed a loss of £57,000 for the year (paper **UE.20(14)**). It was reported that the audit was almost complete.

13. On the basis that the budget for 2014/15, showed a target surplus of £250k the Board was comfortable that the company was a going concern for 2014/15.

Budget

14. The Board approved the final budget for 2014/15 (paper **UE.21(14)**), following extensive discussion at the last meeting (minutes 10 and 11 of 17 June 2014 refer).

Interest of Interim CEO

15. The Board noted that the interim CEO had declared that he had no interests (paper **UE.21(14)**).

Date of the next meeting

16. The date of the next meeting was noted as 5 November 2014 at 3pm. The Chairman requested that the meeting be moved to 2pm.

The Chairman closed the meeting.

Approved as a true record:

…………………………………………
Chairman

Changes to SBUEL Staff Terms and Conditions

Presented by:
Gurpreet Jagpal
(Interim Director of Enterprise, and CEO South Bank University Enterprises Ltd)

I would like to propose that SBUEL employees receive:

- Access to season ticket loans
- 1 discretionary day each for becoming a First Aider and/or Fire Warden
- An uplift in holiday from 25 days to 26.5 days from January 2015

This would bring SBUEL employees more in line with LSBU employees and as we have both within Research, Enterprise and Innovation it would really help in terms of morale and relationships (particularly as they share offices). For example: the recent email from HR to all staff (including SBUEL who are not eligible) on a 2% pay award opened up 'old' discussions on this and it was evident there was still some level of animosity across the team. This would go some way in beginning to bridge the gap and I will discuss further with Paul the areas around pension.

Aside from the implications of administering the season ticket loan and the lost days for the uplift in holiday and discretionary days I think the benefits this would yield in terms of a happier and enthusiastic team would be great!

Kind Regards,

Gups

Gurpreet Jagpal
Interim Director of Enterprise, and CEO South Bank University Enterprises Ltd

University Research, Enterprise and Innovation/South Bank University Enterprise Ltd
Clarence Centre for Enterprise and Innovation
St George's Circus
London
SE1 0AE

SBUEL
Bonus Recommendations and Calculation

	Salary	Bonus %	Time Eligible for Bonus (months)	Bonus Amount	Spot Bonus	Total Bonus	Comments
General:							
Cynthia Martin	£25,000.00	2%	4	£166.67	£0.00	£166.67	Approximate salary as paid through Spring and can't see the actuals from their invoices
Business Development:							No collective bonus for the BD Team as performance has been low
Yvonne Mavin	£64,500.00	4%	12	£2,580.00	£0.00	£2,580.00	
Peter Hadfield	£43,000.00	2%	12	£860.00	£0.00	£860.00	
Howard Thomas	£43,000.00	2%	12	£860.00	£0.00	£860.00	
David Woods	£43,000.00	2%	12	£860.00	£0.00	£860.00	
Peter Benson	£43,000.00	4%	5	£716.67	£0.00	£716.67	
Neil Pearce	£43,000.00	4%	3	£430.00	£0.00	£430.00	
Mark Smith	£26,000.00	2%	4	£173.33	£0.00	£173.33	
Martha Crawford	£34,400.00	0%	N/A	£0.00	£0.00	£0.00	In development at 80%, so not entitled to a bonus. Recommendation that she is made 90% from 1st January 2015 onwards
Programme Management:							
Sarah Morgan	£50,000.00	2%	10	£833.33	£0.00	£833.33	
Lee Harvey	£27,000.00	4%	12	£1,080.00	£0.00	£1,080.00	Salary to 31 July. Lee is on an extra £2k since then for working on the ERDF project
Kajal Gotecha	£23,500.00	2%	4	£156.67	£0.00	£156.67	Increase in salary by 1% also
Richard Howarth	£25,650.00	0%	N/A	£0.00	£513.00	£513.00	In development with 95%, so not entitled to a bonus. Recommendation that he is made 100% and awarded a spot bonus equivalent to 2% of his salary
Tenants:							
Adrian Tindall	£34,750.00	0%	N/A	£0.00	£2,780.00	£2,780.00	In development at 93%, so not entitled to a bonus. Recommendation that he is awarded a spot bonus equivalent to 8% which takes him to the 100% of his salary
Adam Udeogba	£21,000.00	8%	12	£1,680.00	£0.00	£1,680.00	
				£10,396.67	**£3,293.00**	**£13,689.67**	

Bonus % Key:

0%	Unacceptable
2%	Satisfactory
4%	Good
8%	Outstanding

Not eligible:

Gurpreet Jagpal	Separate agreement via contract
Daisy Chatterton	Separate agreement via her contract
Ivana Belenova	LSBU contract. Paid via Marketing in 2013.

SOUTH BANK UNIVERSITY ENTERPRISES LTD

	PAPER NO: UE.22(14)
Board:	Board of Directors
Date:	5 November 2014
Paper title:	Audit findings
Author:	Rebecca Warren
Recommendation:	The Board is requested to consider the audit findings relevant to SBUEL.

The Audit Findings document for LSBU is attached, which applies, where relevant, to SBUEL. References to SBUEL are on:

- Page 14 – Difference on the opening reserves
- Page 25 – Unadjusted misstatements

The Board is requested to consider the audit findings relevant to SBUEL.

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

Year ended 31 July 2014

October 2014

David Barnes
Engagement Partner
T 020 7728 2026
E david.barnes@uk.gt.com

Deborah Moorhouse
Manager
T 020 7728 3326
E deborah.moorhouse@uk.gt.com

Omadevi Jani
Supervisor
T 020 7728 2630
E omadevi.jani@uk.gt.com

Grant Thornton

Private and Confidential

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

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

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

Contents

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

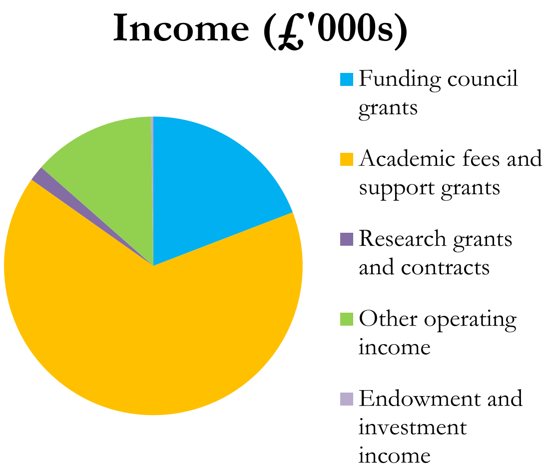
Audit opinion

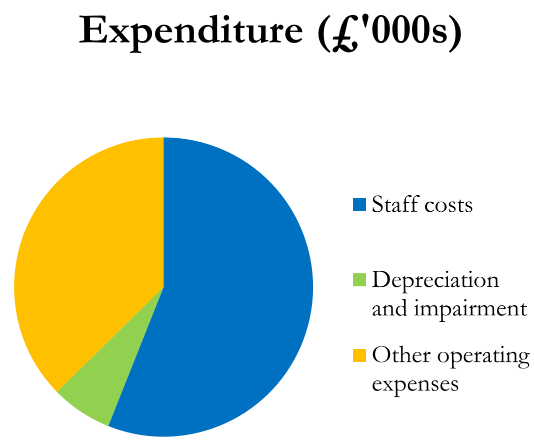
Our anticipated audit report will be unmodified for the following entities:

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

2. Context to our Audit

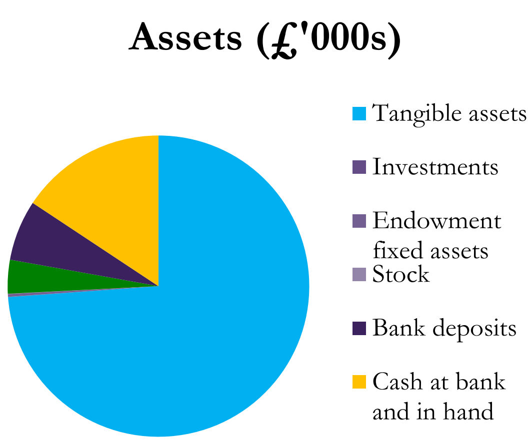
- Actual outturn for the year to 31 July 2014 of £3,097k surplus is ahead of the budgeted surplus of £2,500k which was as submitted to HEFCE.
- There has been a reduction in Funding Council grants going from £34,750k in 2013 to £25,825k in 2014. This reduction is mainly driven by the HEFCE income having 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.

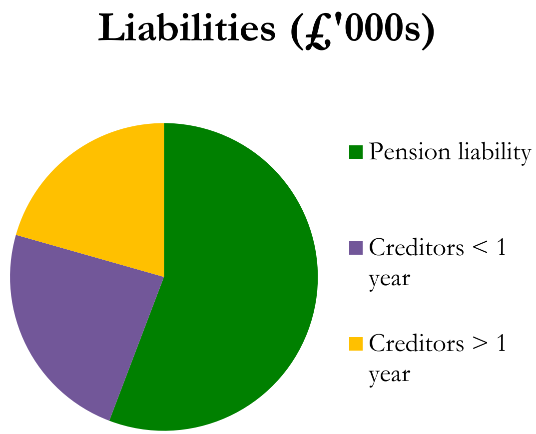




2. Context to our Audit

- 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.





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 incorect 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 fundiability	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.	**Improper revenue recognition** • Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	In addition to the testing detailed in the individual revenue streams below, we have: • reviewed and tested revenue recognition policies for all revenue streams ; • tested key controls and significant revenue streams. Please refer to point 4 for further details of our testing in this area. **Conclusion** Revenue is recognised appropriately and in accordance with the accounting policies.
2.	**Management override of controls** • Under ISA 240 it is presumed that that the risk of management over-ride of controls is present in all entities.	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: • 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. **Conclusion** 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.

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

	Risks identified in our audit plan	Audit findings and conclusions
3.	Valuation of properties	**Impairment review of the Enterprise Centre** 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. 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. 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. **Assets under construction** 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. **Conclusion** We are pleased to conclude that there were no issues noted during our testing in this area.
4.	Recognition, recoverability and existence of tuition fees and other fees	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. 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. 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. **Bad debt review** We have reviewed the recoverability of the debtors in respect of tuition fees, halls accommodation fees and sales ledger debtors.

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

	Risks identified in our audit plan	Audit findings and conclusions
4.	**Recognition, recoverability and existence of tuition fees and other fees (continued)**	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. Based on our review of the ageing of the debtors profile and historic cash recoveries, the bad debt provision appears to be reasonable. No provision has been made against the Student Loan Company (SLC) or Sponsored student debt, these debtors ae 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. **SLC creditor balance** 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. 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 rational 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. **Conclusion** 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. 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. **Management response** 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.

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

	Risks identified in our audit plan	Audit findings and conclusions
5.	**Appropriate application of funds in accordance with relevant legislation**	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. 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. We conclude that the university funds have been applied for the proper purposes and in accordance with the Financial Memorandum. **Conclusion** We are yet to review your HESA reconciliation once this has been submitted in October 2014. All other testing in this area proved satisfactory.
6.	**Operating expenses and creditors**	We have: • 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. 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. **Conclusion** No other issues were noted from our testing in this area.

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

	Risks identified in our audit plan	Audit findings and conclusions
7.	Employee costs	To gain assurance over this significant expenditure balance we: • 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. 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. **Conclusion** Other than the above control point, we have gained assurance that the employee costs appears reasonable.
8.	Pension liability	We have reviewed the actuarial assumptions suggested by Barnett Waddingham and agree that these assumptions appear reasonable. We have carried out a review of the detailed disclosures within the financial statements to ensure that full compliance with FRS 17 is met. For further details of benchmarking of the assumptions compared to other educational institutions please see Section 9. **Conclusion** No issues were noted from our testing in this area.

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**	During our review of the reserves, we noted a difference of approximately £534,000 on the opening reserves within the University. 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. 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. Management have agreed to amend this through the surplus for 2013/14 to ensure all balances are corrected at the year end. **Conclusion** We conclude that this is the correct treatment.
3.	**VAT**	We are awaiting to finalise our VAT review and will update this section once this has been completed.

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**	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. The amount of the loan was £350,000 and was for the purpose of purchasing a property within reasonable commuting distance to the University. 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.
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**	As in previous years we will include a representation on data assurance in addition to our standard representations: "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."
5.	**Disclosures**	We are yet to carry out a detailed technical review of the financial statements and our work in this area is pending. These will be communicated to the finance team and their resolution will be discussed and reviewed in the final set of financial statements.
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.	● (Deficiency)	**Payroll controls** 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. 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.	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 . **Management response** 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.

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

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.		**Journals authorisation** 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. 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. Our previous recommendations in this area were as follows: • 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.	• 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. **Management response** 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. Journal lines without descriptions included J1 transactions which originate from purchase invoices that are matched to POs. for these journals the description comes form the original requisition. We will issue instructions to those raising requisitions to ensure they include a description.

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.	Amber	**Suspense account** In the prior year, we recommended that all suspense accounts are cleared on a timely basis and allocated to the appropriate areas. 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.	• 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 recommended that all suspense accounts are cleared on a timely basis and allocated to the appropriate areas. **Management response** 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.
3.	Green	**Payroll controls** The following control recommendations were made in this area in the prior year: • 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.	• We are pleased to report that these recommendations have been addressed by management.

Assessment
- Red: Significant improvement still required
- Amber: Improvements noted but room for improvements remains
- Green: Control issue resolved

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.

	Assessment	Issue and risk	Recommendations
1.	●	**Proactive reviews of logical access within iTrent and network domain** User accounts and associated permissions within iTrent and network domain access are not proactively reviewed for appropriateness. **Implication** a) No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts b) Access privileges may become disproportionate with respect to end users' job duties	• 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). **Management response** • 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.		**Lack of information security policies and procedures** We note that following procedures are not documented • User creation process • User termination process • User access review process 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. **Implication** 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.	• 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. **Management response** • 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.	●	**Acknowledgement of IT security policy** 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 **Implication** 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.	• 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. **Management response** • 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.	●	**Password complexity** Password complexity (i.e. requirement that passwords must contain at least one numeric, number and special character) is not enforced within Active Directory. Users of the QLX application are not forced to routinely change their passwords. **Implication** 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.	• 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). **Management response** • 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.	●	**Terminated user process for QLX application** There are no documented procedures in place to ensure the timely notification to the QLX application manager of terminated employees from the registry team. **Implication** 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.	• 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. **Management response** • We have manual notifications in place but we recognize that an automated feed will increase the accuracy and timeless 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.	●	**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: • 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	We continue to repeat our recommendations until this is completed. **Management response** 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: • minimum password length 6 charterers • account log out set for 3 attempts • lock out period indefinite. the other parameters will be addressed as part of the AIM project.

Assessment

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

7. Adjusted misstatements

London South Bank University

		Income Statement		Balance sheet		
Journal	**Detail**	**Debit**	**Credit**	**Debit**	**Credit**	**Profit effect**
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

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

South Bank University Enterprise Limited

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

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 to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements
- we confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

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	
Specific impact on the University	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.

Alignment of UK and International Financial Reporting (continued)

Impact	
Specific impact on the University	**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.

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:

Complexity ↑ / Urgency →		
• None anticipated	• Defined benefit pension schemes – multi-employer schemes	• Loans/financial instruments • Intra-group loans • Hedge accounting • Service concession arrangements
• Discontinued operations	• Business combinations • Holiday pay accruals • Tangible fixed assets – other grants	• Investment property used by group • Government grant funding
• Narrative reporting and disclosures • Investments in subsidiaries, associates and joint ventures • Goodwill and intangible assets – amortisation • Foreign currency translation • Tangible fixed assets under cost model • Endowment assets • Revaluation reserves • Related party disclosures	• Leases • Financial statements – presentation	• Tangible fixed assets under revaluation model • Revenue recognition

Complexity

Urgency

Alignment of UK and International Financial Reporting (continued)

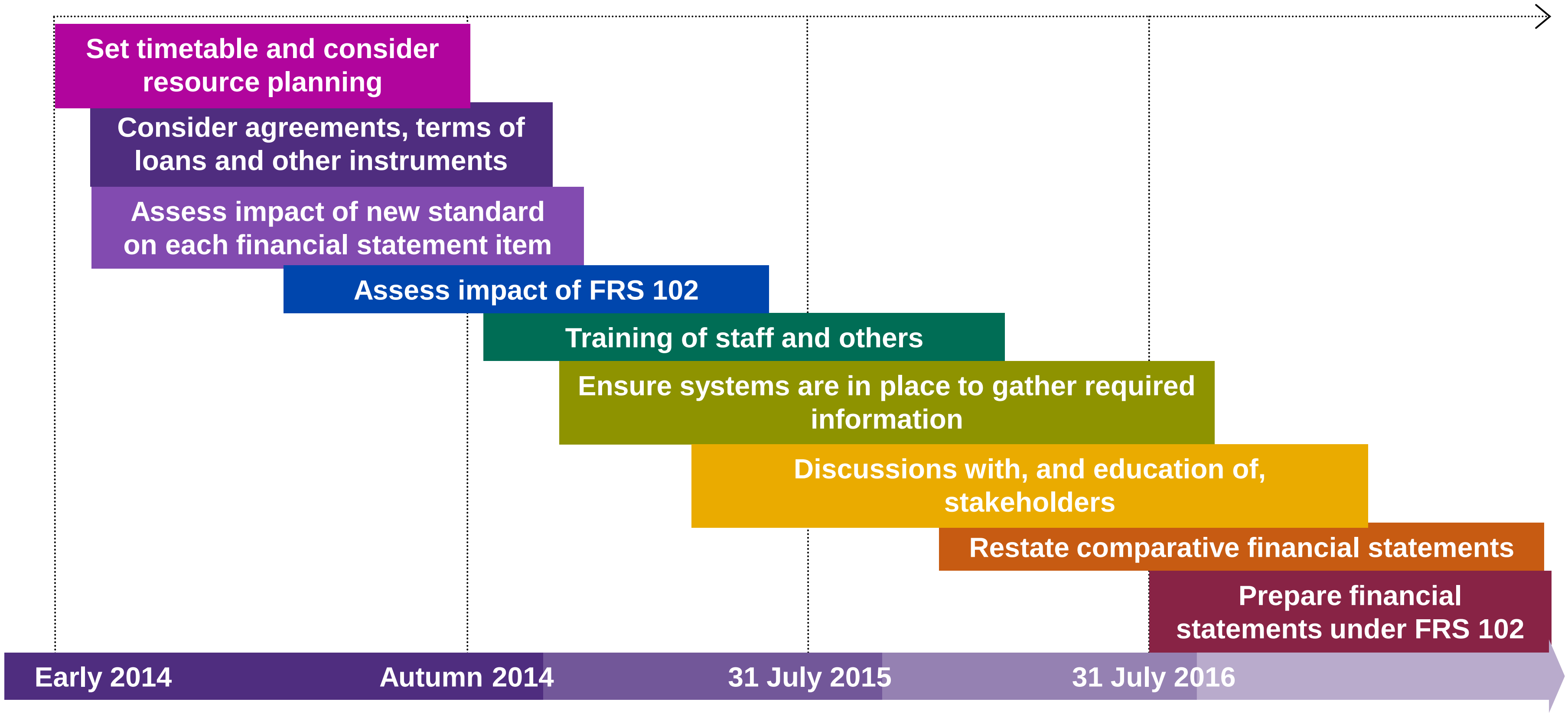
Practical issues

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 an 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.

SOUTH BANK UNIVERSITY ENTERPRISES LTD

	PAPER NO: UE.23(14)
Board:	Board of Directors
Date:	5 November 2014
Paper title:	Draft report and accounts, 2013/14
Author:	Rebecca Warren, Accountant
Recommendation:	That the Board approves the draft report and accounts for 2013/14.

Executive summary

The statutory accounts are presented to the Board for approval.

The accounts will be signed on 20 November 2014, following the approval of the University consolidated accounts by the Board of Governors of the University.

Company Registration No. 2307211

South Bank University Enterprises Limited

Report and Financial Statements

31 July 2014

South Bank University Enterprises Limited

Report and financial statements 2014

Contents | Page

South Bank University Enterprises Limited

Report and financial statements 2014

Officers and professional advisers

Directors

Mr James Smith CBE (Chair)

Professor Julian Beer

Mr Richard Flatman

Secretary

Mr James Stevenson

Registered Office

103 Borough Road
London
SE1 0AA

Bankers

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

Solicitors

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

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

Auditors

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

South Bank University Enterprises Limited
Company Registration No. 2307211

Directors' report

Ownership

The Company is a wholly owned subsidiary of London South Bank University.

Review of Activities

The Company's principal activities are consultancy, research contracts, the hire of facilities, and property letting. In addition, the Company is involved with the protection and commercialisation of Intellectual Property (IP) arising out of the University's research activities.

During the year the Company continued to meet the patent application costs relating to its technology licences and in support of new start-up companies in which the Company has an interest.

Result for the year

Turnover of £1,980,892 was a reduction from 2013, and the company incurred an operating loss, due to renovation of the space let to tenants.

Patent costs incurred in support of the Company's licences, company start ups and new opportunities continue to be a part of the Company's annual expenditure.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have to prepare financial statements in accordance with United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The financial statements are required by law to give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

The directors are responsible for keeping adequate accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

In so far as each of the directors is aware:

- there is no relevant audit information of which the company's auditors are unaware; and
- the directors have taken all steps that they ought to have taken to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Future Prospects

The Company foresees trading conditions to remain challenging over the next 12 months. Strong competition from other universities and external organisations, allied to generally tight trading conditions and cutbacks in Central and Local Government expenditure, are expected to impact upon the Company's activities and income. However, the Company's restructure (two years ago) has positioned it better to deliver its objectives in the face of continuing market challenges. While growing research and innovation links with commercial organisations, especially medium and large businesses, remains a priority, the Company is also increasingly focusing on opportunities to deliver professionally accredited Continuing Professional Development. In addition, with the opening during the year of the

South Bank University Enterprises Limited
Company Registration No. 2307211

Directors' report

Clarence Centre for Enterprise and Innovation, the Company is building its commercial engagement with the local community of SMEs in South East London and more widely. The Company will continue to support the protection of and commercialisation of intellectual property generated by the University.

Directors who served during the year

Mr James Smith CBE (Chair)

Professor Julian Beer

Mr Richard Flatman

Mr Timothy Gebbels (resigned 17 June 2014)

Ms Beverley Jullien (resigned 31 July 2014)

Directors' Interests

No Director had any interest in any contract which subsisted during the period of the report, other than in the ordinary course of the Company's business (2013: none).

No Director had any interests in the shares of the Company or any other group company (2013: none).

Employees

As at the year-end the Company had 15 employees. All other persons associated with the Company are employees of London South Bank University.

Auditors

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

In preparing this report, the directors have taken advantage of the small companies exemption in Part 15 of the Companies Act 2006.

Approval

Authorised and approved by the Board of Directors and signed on behalf of the Board by:

Mr James Smith

Chairman and Director

20 November 2014

Independent Auditor's Report to the Members of South Bank University Enterprises Limited

We have audited the financial statements of South Bank University Enterprises Limited for the year ended 31 July 2014 which comprise the profit and loss account, the balance sheet, the principal accounting policies 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 company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members 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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 2, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2014 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the Members of South Bank University Enterprises Limited

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 directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Barnes

Senior Statutory Auditor

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

South Bank University Enterprises Limited

Profit and loss account
Year ended 31 July 2014

	Note	2014 £	2013 £
Turnover	1	1,980,892	2,086,013
Cost of sales		(1,187,325)	(1,083,332)
Gross profit		793,567	1,002,681
Administrative expenses		(855,052)	(446,843)
Operating (loss)/profit	2	(61,485)	555,838
Interest receivable	4	4,607	8,301
(Loss)/profit on ordinary activities before Gift Aid for the financial year		(56,878)	564,139
Gift Aid	5	-	(533,560)
(Loss)/profit on ordinary activities after Gift Aid for the financial year		(56,878)	30,579
Tax on profits on ordinary activities	6	-	-
(Loss)/profit on ordinary activities after taxation for the financial year		(56,878)	30,579

All activities relate to continuing operations.

There are no gains or losses other than those reported in the profit and loss account.

South Bank University Enterprises Limited
Company Registration No. 2307211

Balance sheet
As at 31 July 2014

	Note	2014 £	2013 £
Fixed assets			
Investments	7	69	69
Current assets			
Debtors	8	194,652	69,954
Cash at bank and in hand		963,653	929,319
		1,158,305	999,273
Creditors: amounts falling due within one year	9	(1,069,146)	(853,236)
Net current assets		89,159	146,037
Total assets less current liabilities		89,228	146,106
Net assets		89,228	146,106
Capital and reserves			
Called up share capital	10	10	10
Profit and loss account	11	89,218	146,096
Total equity shareholders' funds/(deficit)		89,228	146,106

These financial statements were authorised and approved by the Board of Directors on 20 November 2014.

Signed on behalf of the Board of Directors

Mr James Smith

Chairman and Director

South Bank University Enterprises Limited

Principal accounting policies
Year ended 31 July 2014

Basis of Preparation

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are consistent with those adopted in the prior year and are described below.

Accounting Convention

The accounts have been prepared under the historical cost convention.

Going Concern

The company has net assets at the year-end. The directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

Turnover

Turnover, net of value added tax, comprises of sales in relation to consultancy work, contract research, sale of materials and letting facilities.

Cost of Sales

Cost of sales comprises costs of consultancy work, contract research, sale of materials and letting facilities.

Fixed Asset Investments

Investments are carried at cost, less provision for any impairment in value.

Cash Flow Statement

As a wholly owned subsidiary, the company is exempt under Financial Reporting Standard number 1 "Cash flow statements" from the requirement to prepare a cash flow statement. The cash flows of the company are included in the consolidated accounts.

Taxation

The Company makes a Gift Aid payment to London South Bank University sufficient to reduce any taxable profit for the year to zero. Taxable profit differs from the net profit/(loss) as reported in the profit and loss account because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation is provided in full on timing differences that 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 tax 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 the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currency

Transactions in foreign currencies are recorded at the rate of exchange at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are reported at the rates of exchange prevailing at that date.

Notes to the accounts
Year ended 31 July 2014

1. Turnover

Turnover and pre-tax profits are attributable to the principal activities of the Company. An analysis of turnover by geographical destination is as follows:

	2014 £	2013 £
United Kingdom	1,902,821	1,983,869
Other European countries	36,798	78,961
North America	4,908	-
Australasia	36,365	23,183
	1,980,892	2,086,013

2. Operating (loss)/profit

	2014 £	2013 £
Operating (loss)/profit is stated after charging		
Fees payable to the Company's auditor:		
- for taxation advice	3,818	3,762

The Company's audit fee of £3,605 has been included in the audit fee charged to London South Bank University. (2013: £3,605).

3. Staff costs and Directors' remuneration

The Company had 15 employees at the year-end (2013: 11). All other persons associated with the Company are employees of London South Bank University.

	2014 £	2013 £
Costs:		
Wages and salaries	788,313	603,988
Social security costs	72,142	66,244
Employers' pension contributions	55,361	56,290
	915,816	726,522

One Director employed by the Company received remuneration totalling £103,000 (2013: £118,995).

4. Interest receivable

	2014 £	2013 £
Bank interest receivable	4,607	8,301

5. Payment under Gift Aid

For the year ending 31 July 2014 the company has approved payment of nil of its taxable profit under the Gift Aid scheme to London South Bank University (2013: £533,560).

Notes to the accounts
Year ended 31 July 2014

6. Taxation

The 2014 tax charge is nil (2013: nil).

	2014	2013
	£	**£**
(Loss)/profit on ordinary activities before tax	(56,878)	30,579
Taxation on (loss)/profit on ordinary activities at 22.33% (2013: 23.67%)	(12,702)	7,237
Effects of:		
Fixed asset differences	822	-
Expenses not deductible for taxation purposes	147	4
Depreciation in excess of capital allowances	4,866	(829)
Other short-term timing differences	(6,051)	-
Unrelieved tax losses and other deductions	12,918	(6,412)
Current tax	-	-

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 £24,147 (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.

7. Fixed Asset Investments

	£
At 1 August 2013	69
At 31 July 2014	69

Details of companies, all registered in England, in which South Bank University Enterprises Limited holds more than 20% of the nominal ordinary share capital are as follows:

Name of company	Percentage holding of ordinary shares	Nature of business	Date of last accounts	Profit	Reserves
				£	£
Biox Systems Limited	24%	Development of medical products	31 Oct 2013	79,135	249,613
London Knowledge Innovation Centre Ltd	50%	Start-up business incubator	31 Mar 2013	-	334

Notes to the accounts
Year ended 31 July 2014

8. Debtors

	2014 £	2013 £
Trade debtors	131,367	56,480
Prepayments and accrued income	13,915	10,023
Other debtors	49,370	3,451
	194,652	69,954

9. Creditors: amounts falling due within one year

	2014 £	2013 £
Trade creditors	-	531
Amounts owed to parent company	553,951	550,565
Other creditors	45,918	-
Accruals and deferred income	450,234	302,140
HMRC	19,043	-
	1,069,146	853,236

10. Called up share capital

	2014 £	2013 £
Authorised:		
1,000 ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid		
10 ordinary shares of £1 each	10	10

11. Movement on total reserves

	Share capital £	Profit and loss account £	Total shareholders surplus/ (deficit) £
At 1 August 2013	10	146,096	146,106
(Loss)/profit on ordinary activities after taxation for the financial year	-	(56,878)	(56,878)
At 31 July 2014	10	89,218	89,228

Notes to the accounts
Year ended 31 July 2014

12. Related party transactions

The Company has taken advantage of the exemption which is conferred by Financial Reporting Standard number 8 “Related Party Disclosures” that allows it not to disclose transactions with group undertakings whose voting rights are wholly controlled within the group.

13. Ultimate parent company

South Bank University Enterprises Ltd is a wholly owned subsidiary of London South Bank University, a company limited by guarantee, incorporated in Great Britain and registered in England and Wales.

London South Bank University is the ultimate parent and controlling company and is the parent company of the only group of which the company is a member for which consolidated financial statements are prepared. The consolidated financial statements of London South Bank University can be obtained from 103 Borough Road, London, SE1 0AA.

SOUTH BANK UNIVERSITY ENTERPRISES LTD

	PAPER NO: UE.24(14)
Board:	Board of Directors
Date:	5 November 2014
Paper title:	Letter of Representation to the auditors Grant Thornton
Author:	Rebecca Warren
Recommendation:	The Board is requested to approve the Letter of Representation.

This letter is to be approved. It is to be signed on 20 November 2014, when the accounts are signed.

There are no non-standard representations in the letter.

{**Prepare on client letterhead**}
Our Ref DB/DB/OJ

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

[date of signing the financial statements]

Dear Sirs

South Bank University Enterprises Limited
Financial Statements for the Year Ended 31 July 2014

This representation letter is provided in connection with the audit of the financial statements of South Bank University Enterprises Limited for the year ended year ended 31 July 2014 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

We confirm that to the best of our knowledge and belief having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Financial Statements

i We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 16 July 2014, for the preparation of the financial statements in accordance with UK Generally Accepted Accounting Practice; in particular the financial statements give a true and fair view in accordance therewith.

ii We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.

iii Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

iv Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.

v All events subsequent to the date of the financial statements and for which UK Generally Accepted Accounting Practice require adjustment or disclosure have been adjusted or disclosed.

vi We have not adjusted the misstatements brought to our attention on the audit as per the audit findings report, as they are immaterial to the results of the company and financial position at the year-end. The financial statements are free of material misstatements, including omissions.

vii Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK Generally Accepted Accounting Practice.

Information Provided

viii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the 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 determined it necessary to obtain audit evidence.

ix All transactions have been recorded in the accounting records and are reflected in the financial statements.

x We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

xi We have disclosed to you all information in relation to fraud or suspected fraud that we are aware of and that affects the entity and involves:

a. management;
b. employees who have significant roles in internal control; or
c. others where the fraud could have a material effect on the financial statements.

xii We have disclosed to you all information in relation to allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiii 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 financial statements.

xiv We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware.

xv We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.

Yours faithfully,