

Meeting of the South Bank University Enterprises Ltd Board

2.00 pm on Tuesday, 16 November 2021
in MS Teams - MS Teams

Agenda

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
4.	Year end reports <ul style="list-style-type: none">• External audit findings (to follow)• External audit letter of representation• Draft annual report and accounts, 2020/21	3 - 16	RW

Members: Paul Ivey (Chair) and Richard Flatman

In attendance: Michael Broadway, Alex Elkins and Rebecca Warren

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Subsidiaries

South Bank University Enterprises Limited

For the year ended 31 July 2021 we have undertaken the statutory audit of South Bank University Enterprises Limited.

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

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

Planned response

Significant risks

As set out in our audit plan presented in June 2021 we recognised significant risks relating to:

- Revenue recognition; and
- Management override of controls;

Outcome from audit work

Outstanding matters

Our audit of this company remains ongoing. A summary of outstanding matters is included on the following slide.

Findings to date in response to significant risks

Revenue Recognition – testing to date has not identified any instances of fraudulent revenue recognition

Management Override of Controls – testing to date has not identified any instances of management override.

Other Findings

Bank Reconciliation – we identified a high number of reconciling items (in excess of 300 lines) across the two main Bank Accounts as at 31 July 2021. This is due to a backlog of unmatched transactions. We have included the net difference of £8k between the cash balance per the GL and the Bank Statements as an unadjusted error. This being an overstatement of cash in the Accounts.

Cut off – we identified as part of our cut off procedures an item of expenditure relating to 2020-21 that had not been accrued. Expenditure and accruals were understated £8k as a result.

Debtors – we identified £54k relating to unsupported credit balances included within the debtors listing. Debtors were understated as a result.

Summary of outstanding work

Our audit is not yet complete and matters communicated in this report may change pending signature of our audit report. We will provide an oral update on the status at the Audit and Risk Committee. A summary of outstanding work at time of writing is included below.

SBUEL

Substantially complete:

- Property, contract and other income testing – supporting evidence for tenant refunds due to Covid lock down.

In Progress:

- Completion of creditors testing (including deferred income)
- Completion of debtors (including accrued income)
- Resolution of queries on payroll testing
- Going concern (technical team sign off)

Completion procedures:

- Partner and Manager review
- Review of final financial statements

Recommendations raised

Priority rating for recommendations			
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.
3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.		
#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
Financial Statements			
Page 5	2	<p>Going Concern Assessments</p> <p>Management prepared formal assessments of going concern for both South Bank Colleges and the University, which were presented at the relevant Audit Committee. We note that the University assessment was presented to the October Audit and Risk Committee which is earlier than in the previous year. However, we did identify a number of areas in which the documentation of these assessments could be further enhanced:</p> <ul style="list-style-type: none"> The assessments presented did not include details of the plausible downside scenarios considered and the impact on both cash flows and compliance with loan covenants. We subsequently obtained details of scenarios considered and additionally performed our own analysis to confirm the conclusions reached by management were appropriate. The assessments had omitted to include formal consideration of whether the going concern assumption remained appropriate for South Bank University Enterprises Limited. We have not identified any specific concerns in relation to SBUEL but have requested management's formal assessment of this subsidiary. This assessment is pending at the time of writing. <p>We recommend that management enhances documentation around its assessment of going concern to ensure this includes consideration of the impact of plausible downside scenarios on both cash flows and loan covenants. Management should also ensure that the assessment includes formal consideration of all subsidiaries individually.</p>	<p>We do a range of scenario analysis and at the time of budget setting we consider these downside scenarios in detail, including the impact on covenants. These are presented and discussed at the Spring board strategy day every year. We accept that the going concern paper presented to GARC makes no reference to these scenarios. and we and will include in our future assessments.</p> <p>Responsible – Ralph Sanders Due date – July 2022</p>

Recommendations raised and followed up

Total number of recommendations	Recommendations fully implemented	Number partially implemented:	Number outstanding:
4	0	1	3

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (October 2021)
1	●	<p>Bank Reconciliations</p> <p>There were a high number of reconciling items included on the two main bank accounts as at 31 July 2020 with total gross reconciling items across the two statements exceeding 1000 lines and the 2019-20 cash balance understated by £2.9m as a result.</p> <p>We recommend the University works to clear this backlog and post the necessary adjustments to reduce exposure to fraud risk. The University should ensure that there are appropriate processes in place to complete reconciliations on a timely basis going forward.</p>	<p>ICT, supported by an external supplier is working to deliver a solution to the problems the team have had with posting and reconciling bank transactions. Work is underway and was originally due to be completed by the end of July but has proved to be more complex than thought. The project team now have a detailed understanding of the data and expect to be able to start testing. A revised date is shown as 30 November to allow time to fully test the solution and ensure that it facilitates the accurate posting and reconciliation of bank transactions.</p> <p>Responsible: Natalie Ferer/Julian Rigby Due Date : 30th November 2020.</p>	<p>Outstanding</p> <p>There remains a high number of reconciling items included on the two main bank accounts as at 31 July 2021 with gross reconciling items across the two statements exceeding £10 million. We are substantively testing unmatched items and included the net difference of £0.2 million as an unadjusted error. <i>We also note that there were a high number of reconciling items on the two main SBUEL bank Accounts as at 31 July 2021 proportionate to the size of the entity. The net difference of £8k has also been included as an unadjusted error.</i></p> <p>We understand management are continuing to work towards delivering an automated solution. However, at time of writing there is no confirmed date for implementation.</p>

Page 6

Appendix Five

Audit Differences - SBUEL

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit and Risk Committee, details of all adjustments greater than £3.5k are shown below:

Unadjusted audit differences (£00)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
University				
1	Bank Reconciliations – unsupported reconciling items Dr I&E Cr Cash	8	(8)	There remains a high number of reconciling items included on the two main bank accounts as at 31 July 2021. We have included the net impact of the unsupported reconciling items as an unadjusted error.
2	Omitted Accrual DR Expenditure Cr Accruals	8	(8)	An item of expenditure relating to 2020-21 had not been accrued for.
4	Debtors DR Debtors CR I&E	(54)	54	Relating to unsupported credit balances included in the debtors listing.
	Total University	38	38	

Page 7

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(Letterhead of Entity we audit)

KPMG LLP
15 Canada Square
Canary Wharf
London E14 5GL
November 2021

This representation letter is provided in connection with your audit of the financial statements of South Bank Enterprises Limited (“the Company”), for the yearended 31 July 2021, for the purpose of expressing an opinion:

- i. as to whether these financial statements give a true and fair view of the state of the Company’s affairs as at year end and of the Company’s profit or loss for the financial year then ended;
- ii. whether the financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice applicable to Smaller Entities (being Section 1A of FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (“Section 1A of FRS 102”); and
- iii. whether the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

These financial statements comprise the Statement of Income and Retained Earnings, the Balance Sheet and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Board confirms that the Company meets the definition of a small entity and therefore is permitted to prepare its financial statements in accordance with Section 1A of FRS 102.

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

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

Financial statements

1. The Board has fulfilled its responsibilities, as set out in the terms of the audit engagement dated 30 March 2017, for the preparation of financial statements that:
 - i. give a true and fair view of the state of the Company’s affairs as at the end of its financial year and of its profit or loss for that financial year;
 - ii. have been properly prepared in accordance with UK Generally Accepted Accounting Practice applicable to Smaller Entities (being Section 1A of FRS 102); and
 - iii. have been prepared in accordance with the requirements of the Companies Act 2006.

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

2. The methods, the data and the significant assumptions used in making accounting estimates and their related disclosures are appropriate to achieve recognition,

measurement or disclosure that is reasonable in the context of the applicable financial reporting framework.

3. All events subsequent to the date of the financial statements and for which section 32 of FRS 102 requires adjustment or paragraph 1AC.39 of Section 1A of FRS 102 requires disclosure (have been adjusted or disclosed).
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Board has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Board for the purpose of the audit; and
 - unrestricted access to persons within the Company from whom you determined it necessary to obtain audit evidence.

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

7. The Board confirms the following:

- i) The Board has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud. [Error! Reference source not found.](#)

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

- ii) The Board has disclosed to you all information in relation to:
 - a) Fraud or suspected fraud that it is aware of and that affects the Company and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements; and
 - b) allegations of fraud, or suspected fraud, affecting the Company's financial statements communicated by employees, former employees, analysts, regulators or others.

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

8. The Board has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Board has disclosed to you and has appropriately accounted for in the financial statements, in accordance with section 21 of FRS 102 all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements and/or disclosed (as under Section 1A of FRS 102 disclosure using the Section 21 of FRS 102 disclosure requirements may be required under paragraph 1A.17 of Section 1A of FRS 102 in order to meet the requirements set out in paragraphs 1A.5 and 1A.16 of Section 1A of FRS 102).
10. The Board has disclosed to you the identity of the Company's related parties and all the related party relationships and transactions of which it is aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with paragraph 1AC.35 of Section 1A of FRS 102 and that may be required to be disclosed under Section 33 of FRS 102 (due to the fact that under paragraph 1A.17 of Section 1A of FRS 102 disclosure may be required under Section 33 of FRS 102 in order to meet the requirements set out in paragraphs 1A.5 and 1A.16 of Section 1A of FRS 102).

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

11. The Board confirms that:

- a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Company's ability to continue as a going concern as required to provide a true and fair view.
- b) No material events or conditions exist that may cast significant doubt on the ability of the Company to continue as a going concern.
n accordance with paragraph 1AD.1 of Section 1A of FRS 102 the directors.

12. On the basis of the process established by the Board and having made appropriate enquiries, the Board is satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and in accordance with the requirements of section 28 of FRS 102.

The Board further confirms that:

- a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;
 - funded or unfunded; and
 - approved or unapproved,have been identified and properly accounted for; and
- b) all plan amendments, curtailments and settlements have been identified and properly accounted for.

This letter was tabled and agreed at the meeting of the Board of Directors on *[date]*.

Yours faithfully,

[Chairman]

[Secretary]

Optional cc: Audit Committee

Appendix to the Board Representation Letter of South Bank University Enterprises Limited: Unadjusted Misstatements

	SOCI £000	SOFP £000	
DR I&E CR Cash	8	(8)	Relating to unmatched reconciling items on the Bank Reconciliations for two main Accounts.
DR Expenditure CR Accruals	8	(8)	Item of Expenditure relating to 2020-21 that had not been accrued for.
DR Debtors CR I&E	(54)	54	Relating to unsupported credit balances included in the debtors listing.
Tota	(38)	38	

Appendix to the Board Representation Letter of South Bank Enterprises Limited: Definitions

Financial Statements

A complete set of financial statements comprises:

- *a Balance Sheet as at the end of the period;*
- *a Profit and Loss account for the period;*
- *notes, comprising a summary of significant accounting policies and other explanatory information.*

Material Matters

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

FRS 102 states that:

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

Fraud

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

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

Error

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

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

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

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

Management

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

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in FRS 102 as the “reporting entity”).

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

Related party transaction:

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

**Appendix to the Board Representation Letter of South Bank Enterprises Limited:
Unadjusted Misstatements**

	SOCI&RE £m	SOFP £m	