Meeting of the Group Audit and Risk Committee

3.30 - 6.30 pm on Thursday, 11 November 2021
in 1B16 - Technopark, SE1 6LN

Agenda

No.	*Item*	*Pages*	*Presenter*
5.	External audit findings	3 - 42	KPMG
10.	Internal audit reports: Group KPIs	43 - 44	DJ
13.	Going concern statement • Evidence of going concern from FPR	45 - 58	RF
17.	Internal controls annual review of effectiveness	59 - 72	RF
21.	Anti-fraud, bribery and corruption report	73 - 74	RF

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Agenda Item 5

	INTERNAL
Paper title:	External Audit Year End Report
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	11 November 2021
Author(s):	KPMG
Sponsor(s):	Richard Flatman, Group CFO
Purpose:	For Review
Recommendation:	The Committee is asked to note the draft External Audit year-end report

The audit of the LSBU Group is almost complete and KPMG present here their draft year end audit report. A list of outstanding matters is listed on page 5 of the attached report. In addition, management are reviewing the entries reported as uncorrected misstatements to confirm if they wish to correct these entries in the group accounts.

One new recommendation has been made in relation to assessment of going concern and prior year recommendations in relation to bank reconciliations, journal authorisation and management of fixed assets are partially implemented. These matters are detailed from page 26 of the report.

KPMG present their analysis of pension assumptions as an appendix to the report.

Recommendation:

The Committee is asked to note the draft Year-End report.

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KPMG 150 years supporting the UK

DRAFT Year end report 2020/21

London South Bank University

11 November 2021

Key contacts

Your key contacts in connection with this report are:

Fleur Nieboer
Partner
Tel: 07768 485 532
fleur.nieboer@kpmg.co.uk

Jessica Spencer
Senior Manager
Tel: 07517 111 955
jessica.spencer@kpmg.co.uk

Ricky Patel
Assistant Manager
Tel: 07469 576 841
ricky.patel2@kpmg.co.uk

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Introduction

To the Audit and Risk Committee of London South Bank University

We are pleased to have the opportunity to meet with you on 11 November to discuss the results of our audit of the consolidated financial statements of London South Bank University and its subsidiaries (the 'Group'), as at and for the year ending 31 July 2021 .

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

Our audit is not yet complete. A summary of outstanding matters is provided on page 5 of this report.

There have been no significant changes to our audit plan and strategy.

Subject to the Audit and Risk Committee's approval, we expect to be in a position to sign our audit opinion on the Group's financial statements on 25 November 2021, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

We expect to issue an unmodified Auditor's Report.

We draw your attention to the important notice on page 4 of this report, which explains:

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

Yours sincerely,

Fleur Nieboer

Fleur Nieboer

11 November 2021

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

We consider risks to the quality of our audit in our engagement risk assessment and planning discussions.

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

— Executed consistently, in line with the requirements and intent of applicable professional standards within a strong system of quality controls and

— All of our related activities are undertaken in an environment of the utmost level of objectivity, independence, ethics and integrity.

Important notice

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

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

This report has been prepared for the Audit and Risk Committee, in order to communicate matters of interest as required by ISAs (UK), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this report, or for the opinions we have formed in respect of this report.

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Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of London South Bank University (the 'University') (and its subsidiaries (the 'Group')), prepared in accordance with FRS 102 *the Financial Reporting Standard applicable in the UK and the Republic of Ireland,* as at and for the year ended 31 July 2021

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

Limitations on work performed

This report is separate from our audit report and does not provide an additional opinion on the Group's financial statements, nor does it add to, extend or alter our duties and responsibilities as auditors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

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

Status of our audit

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

Restrictions on distribution

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

Summary 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.

London South Bank University	South Bank Colleges	SW4 Catering Limited	SBUEL
Substantially complete: • Journal controls – resolution of query relating to journals not approved on Agresso • Cash and bank reconciliations - two external bank confirmations and finalising of control account matching • Deferred income testing – small number of transactions to test • Journals testing – final transactions to be checked • Borrowing testing • Fixed asset testing - assessment of omitted accruals • Regularity/Use of Funds work – resolution of final queries and testing of redundancy payments. • Going concern (technical team sign off) **In progress:** • Cut off testing – testing covers period to end of October • Debtors testing • Related parties testing **Completion procedures:** • Partner and Manager review • Review of final financial statements	**Substantially complete** • Journal controls – resolution of query relating to journals not approved on Agresso • Adult Education Income testing – sample testing to student records • Fixed asset testing - assessment of omitted accruals • Going concern (technical team sign off) **In progress:** • Long term creditors testing • Deferred income testing • Disclosure testing: Senior staff pay notes • Expenditure testing • Regularity work • Journals testing **Completion procedures:** • Partner and Manager review • Review of final financial statements	**In progress:** • Going concern (technical team sign off) **Completion procedures:** • Partner and Manager review • Review of final financial statements	**In progress:** • Property, contract and other income testing • Cut off testing • Creditors testing • Cost of sales and admin expenditure testing • Cash testing • Debtors • Payroll creditors • Journals testing • Going concern (technical team sign off) **Completion procedures:** • Partner and Manager review • Review of final financial statements

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Our audit findings

Page 9-15

Significant audit risks	Risk change	Our findings
Valuation of defined benefit pension liability	No change	The core assumptions are within KPMG's reasonable range and are balanced. We also found progress against our prior year recommendation. The University considered and documented the appropriateness of the assumptions used in their paper presented to the Audit and Risk Committee on 5 October. We are recommending that management clearly outlines and documents their approach to this review. This will help demonstrate consistency of approach year-on-year.
Carrying value of Land and Buildings	No change	Testing in this area is ongoing. We have identified a number of accounting misstatements which are outlined in more detail on page 30.
Revenue recognition	No change	Testing in this area is ongoing. Audit work, to date, has not identified any fraudulent revenue recognition.
Management override of controls	No change	Testing in this area is ongoing. Audit work, to date, has not identified any instances of management override.
Cyber security and recovery of IT systems	New risk ★	Testing to date has not identified any control deficiencies relating to the University's recovery plans. We have adopted a fully substantive audit approach for 2020-21 and testing is ongoing.

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Key accounting estimates		
Valuation of defined benefit pension liability	Neutral	We involved KPMG actuarial specialists in reviewing the actuarial assumptions. Assumptions were found to be balanced.

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Uncorrected audit misstatements Page 18

Understatement/(overstatement)

	£m	%
Income	0	0
Surplus/(deficit)	(1.2)	40
Total assets	2.3	0.6
Reserves	0	0

Number of control deficiencies Page 26

Significant control deficiencies	1
Other control deficiencies	4
Prior year control deficiencies remediated	0

Covid-19: Audit implications

The table below identifies the specific areas of our audit that were expected to be affected by the Covid-19 pandemic, and how our audit differs from the prior year.

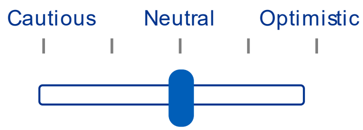
Materiality	– We did not consider it necessary to revise our materiality for the financial statements as a whole. This is because overall revenue for the year was not significantly impacted and this is the benchmark that determines materiality. – The risk that uncorrected and undetected misstatements exist and aggregate to an amount that results in a material misstatement of the financial statements increased as a result of the cyber incident in December 2020. Consequently, we have responded by decreasing performance materiality compared to prior year, which is used to assess the risk of material misstatement and determine the nature, timing and extent of our audit procedures.
Subsequent events disclosures	– We will continue to monitor this through to the date of the auditor's report.
Going concern **See page 22**	– Management's assessment of the entity's ability to continue as a going concern has continued to be challenging due to the level of uncertainty about future economic conditions and earnings in light of the pandemic. – We also note that South Bank Colleges continues to be on its financial turnaround plan and is supported by both the University and funding from the Department of Education. We consider it, therefore, to be more vulnerable to uncertainties around future economic conditions. – The above conditions, our enhanced procedures under the revised ISA (UK) 570 on your risk assessment process and fact that we need to perform procedures through to the date of the auditors' report, has meant continued effort in this key area.
Planned scope and timing	– The planned timing of our audit was not changed significantly.

Significant risks and other audit risks

Significant audit risks

Other areas of focus

Significant audit risks



1 Valuation of the defined benefit pension liability

Risk of error in relation to the valuation of LGPS post retirement benefit obligations

Significant audit risk

The risk

The University and South Bank Colleges are members of the LGPS defined benefit pension scheme. The valuation of the post retirement benefit obligations involves the selection of appropriate actuarial assumptions, most notably the discount rate applied to the scheme liabilities, inflation rates and mortality rates. The selection of these assumptions is inherently subjective and small changes in the assumptions and estimates used to value the University's pension liability could have a significant effect on the financial position of the University.

The effect of these matters is that, as part of our risk assessment, we determined that post retirement benefits obligation has a high degree of estimation uncertainty. The financial statements disclose the assumptions used by the University in completing the year end valuation of the pension deficit and the year on year movements.

Our response

— We evaluated the competency, objectivity of the scheme actuaries to confirm their qualifications and experience in relation to the valuation assumptions. We reviewed the methodology and key assumptions made and confirmed whether actual figures had been used, rather than estimates for example in relation to the rate of return on pension fund assets;

— We reviewed the inputs from the University into the calculation of the LGPS valuation;

— We agreed the data provided by the University and College to the scheme administrator for use within the calculation of the scheme valuation;

— We challenged, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data; and

— Reviewed management's process for consideration of assumptions used by the scheme actuaries in both the University and the College's valuation following our prior year recommendation.

Our findings to date

Work in this areas is ongoing as we are awaiting evidence to support the salary increase assumption. We identified a £1.2m (University - £1.0m and College - £0.2m) understatement of the net pension liability. This was due to estimated benefits paid being used in the calculation that differed to confirmation from scheme administrator.

However, all key assumptions are within KPMG's benchmark range and are considered balanced. We also found progress against our prior year recommendation. The University considered and documented the appropriateness of the assumptions used by Barnett Waddingham in a paper presented to the Audit and Risk Committee on 5 October. We are recommending that management clearly outlines and documents their approach to this review. This will help demonstrate consistency of approach year-on-year and allow the University to clearly demonstrate that there is no management bias in their review. See page 29 for further detail.

Significant audit risks

2 **Carrying value of land and buildings**

Risk of error in the valuation of land and building

Significant audit risk

The risk

At 31 July 2021 the Group had £338.9m of fixed assets. The University adopted a valuation accounting policy of deemed cost as part of the FRS 102 transition. There are risks around the valuation, depreciation and impairment of the University's assets.

The University has a significant capital programme, which comprises significant work on the London Road building, project LEAP which will include the procurement of a new student record system and CRM, and there are plans to refurbish the chapel and conduct capital work at the Skills Centre at South Bank Colleges.

Further, South Bank Colleges has a strategy in place to review the make up of its estate which will support the College's long term financial future.

It is important that the University and the College ensure costs are capitalised appropriately and classified correctly in the Group financial statements.

Our response

To assess the accuracy, existence and valuation of land and buildings we:

— Considered the process and controls in place for capitalising expenditure and obtained evidence for a sample of assets to assess whether they have been appropriately capitalised (both University and College);

— Reviewed the appropriateness of the useful economic lives for a sample of assets and recalculated the University and South Bank Colleges depreciation figure as stated in the accounts;

— Reviewed the accounting treatment of costs associated with project LEAP (including treatment of any consultancy costs) to ensure these are treatment is appropriate and in accordance with FRS 102.

— Followed up on our prior year recommendation in relation to management of fixed assets at the University, in particular we recommended that the process for undertaking the annual impairment review was formalised and considered both the full University estate and balances currently held within assets under construction.

Our findings to date

Our audit work in this area is ongoing.

We note that management has made some progress against our prior period recommendation in relation to the annual impairment review, which for 2020-21 was formally documented and presented to Audit Committee on 5 October. However, audit work has continued to identify various misstatements relating to fixed assets. See page 30 for further details. These misstatements indicate further improvement is required in relation to management of fixed assets. We have requested further information from management to confirm that these issues do not materially impact the financial statements. This is pending at the time of writing.

Significant audit risks

3 **Revenue recognition** [(a)]

Risk of fraud related to the recognition of revenue in the financial year

Significant audit risk

The risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk. Due to the different types of revenue within the University we have considered all material income streams with different characteristics separately as set out below. At group level we have recognised a significant risk in relation to tuition fee income only.

Tuition fee income (£139.6m)

We consider there to be a risk of fraud associated with tuition fee income received by the University due to courses running across year end where it may be possible to manipulate the income recorded in the financial year.

Our response

Tuition fee income

We tested the design and implementation of controls over student data including the student record system, master fee data and reconciliations between student and finance systems.

In previous years we tested tuition fee income using data and analytics procedures to create an expected fee income figure, which is then compared to the recorded tuition fee income on a student by student basis. These procedures rely on data input from the student sales ledger QL. Due to the cyber security incident, finance systems (including QL) have been unavailable for a significant part of the year. We, therefore, did not perform data analytic procedures for 2020-21.

We performed substantive audit procedures over tuition fee income to agree amounts recorded to cash received and confirm that income received for courses that span the year end has been accounted for in the correct period.

Our findings to date

Our audit work is ongoing but has not identified any instances of fraudulent revenue recognition to date.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Significant audit risks

4 **Management override of controls** [a]

Fraud risk related to unpredictable way management override of controls may occur

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Significant audit risk

The risk

Professional standards require us to communicate the fraud risk from management override of controls as significant.

Management is in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We have not identified any specific additional risks of management override relating to this audit.

Our response

Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we have tested the operating effectiveness of controls over journal entries and post closing adjustments.

We have assessed the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate.

We have analysed all journals through the year using data and analytics and focused our testing on those with a higher risk, such as journals impacting revenue recognition.

We have assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

We have not identified any significant transactions that are outside the University's normal course of business, or are otherwise unusual.

We have assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified and verified that these have been appropriately disclosed within the financial statements.

Our findings to date

Audit work is ongoing, though we have not identified any instances of management override of controls to date. We have one recommendation raised in the previous year that remains outstanding relating to journal approvals. See page 27.

Note: (a) Significant risk that professional standards require us to assess in all cases.

Significant audit risks

5 **Cyber Security and recovery of IT systems** Risk of error or incomplete accounting records due as a result of the cyber security incident

Significant audit risk

The risk

The University experienced a cyber security incident in December which has impacted its ability to access key systems during the financial year.

There is an increased risk in relation to data integrity due to risk of data loss or corruption in transferring back up and offline data.

There is an increased risk of error also due to the University being unable to access a number of key systems, including finance systems for several months. The University has relied on a number of workaround solutions during this period.

Our response

We have reviewed the design and implementation of changes to key processes, including workarounds, while the University was operating offline.

We engaged our IT specialists to review recovery plans and processes taken to restore and test the various IT systems.

We reviewed testing over the work undertaken by the finance team to check the completeness and accuracy of the finance data uploaded to Agresso.

We have also considered the results of the work of Internal Audit and implications for our audit.

We adopted a predominantly substantive audit approach and will not rely on general IT controls. This has resulted in an increased level of sample testing of transaction level data.

Our findings to date

Our review has not identified any control deficiencies in relation to the recovery plans and processes to restore and test various IT systems to date. Substantive audit testing is ongoing.

Other audit risks

6 **Going concern** Risk relating to disclosures related to going concern including the judgement of whether there is a material uncertainty.

Other audit risk

The risk.

Management's assessment of the University's ability to continue as a going concern involves judgment with respect to student enrolments for 2021-22 academic years. Management's assessment of the University's ability to continue as a going concern will need to appropriately consider the ongoing impact of the Covid-19 pandemic, including plausible but severe downside scenarios.

Disclosures in the financial statement and the annual report are not adequate with regard to the effect of Covid-19 risks on the University's financial position, performance, business model and strategy.

2021/21 student recruitment to date has been positive with no additional risks identified at group level. We, therefore, no longer consider this to be a risk at group level. We retained a significant risk in relation to South Bank Colleges noting that it continues to be in financial turnaround.

Our response

We have completed the following procedures:

— Evaluated how management's risk assessment process identifies business risks relating to events and conditions that may cast significant doubt on the ability to continue as a going concern;

— Evaluated the models management uses in its assessment and how the information system captures events and conditions that may cast significant doubt on ability to continue as a going concern;

— Evaluated whether management's assessment has failed to identify events or conditions that may cast significant doubt on going concern and whether the method used by management is appropriate;

— Assessed the reasonableness of management's budgets/forecasts and evaluated whether student enrolment assumptions are within a reasonable range, considering the plausible but severe downside scenarios;

— Evaluated whether sufficient and appropriate audit evidence has been obtained to conclude whether a material uncertainty exists and the appropriateness of management's use (or otherwise) of the going concern basis of accounting; and

— Evaluated whether there is adequate support for the assumptions underlying management's assessment, whether they are realistic and achievable and consistent with the external and/or internal environment and other matters identified in the audit.

Our findings to date

We are still finalising our work in this area. This includes obtaining final sign off from our technical team. We have not identified any material uncertainties to date but have raised a recommendation around management's formal documentation of its assessment. See page 26 for details.

Other audit risks

6 **Access & participation expenditure** Risk relating to inaccurate disclosures related to access & participation spend

Other audit risk

The risk.

Office for Students (OfS) registered providers were required to prepare an access and participation plan as part of their registration conditions with the OfS.

Plans include a plan of how much will be invested by the provider in widening participation activities.

Access and participation expenditure is required to be analysed in four categories: access investment; financial support provided to students; support for disabled students; and research and evaluation.

From 2019/20 onwards providers are required to include a note to the accounts to set out the level of investment that has been made in widening participation activities.

Our audit report includes a specific requirement to report to you if there is a material misstatement identified with regards to this information.

Our response

— Based on the Office for Student guidance we set an appropriate materiality level for testing the access & participation spend;

— We determined how the University had identified the expenditure that has been incurred in delivering the access and participation plan during the year;

— We critically assessed the methodology in place for analysing expenditure between the categories of access and participation expenditure and confirm that the approach is consistent year on year;

— We tested a sample of expenditure items in order to assess whether they correctly relate to expenditure on access and participation; and

— We verified that the required disclosures as set out within the Accounts Direction have been accurately made.

Our findings to date

Audit work in this area is ongoing but testing to-date has not identified any misstatements.

Use of funds - work is in progress

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

Risk assessment	Controls	Substantive procedures
We compared the financial performance for the year to budget and the cause of variances. No issues raised from testing to date. We reviewed the University's correspondence with the Office for Students during the year. We have not identified a use of funds risk through this. We reviewed the reports produced by internal audit during the year to consider whether there were any matters raised that may demonstrate funds were not used appropriately. We note there were a number of key recommendations raised including in relation to recovery of core financial systems. However, these did not result in funds not being spent in line with the funding conditions and do not impact on our use of funds opinion. We have adopted a fully substantive audit approach and have not placed reliance on any of these controls. We confirmed that there are appropriate policies and procedures in place, including provision of whistleblowing and anti-fraud and bribery requirements. We reviewed how the University had assessed its compliance with the requirements of the Committee of University Chairs code of practice for setting the remuneration of the head of provider. No instance of non-compliance have been identified.	We assessed whether there were appropriate controls in place for the management of expenditure, including findings from our payroll and non-pay expenditure work. We did not identify any control deficiencies that impacted the use of funds opinion. We confirmed that an up to date register of interests was in place and whether there had been any transactions with related parties during the year. No risks were identified relating to transactions with related parities.	As part of our substantive audit procedures we undertook sample testing of research income and expenditure. We confirmed that expenditure incurred against funding received was utilised for appropriate purposes. We reviewed a sample of manual journals posted during the year to verify that they were appropriate and that controls had operated as expected. No issues have been raised from testing to date.

Testing to date has not identified any matters that would require us to modify our opinion in respect of use of funds.

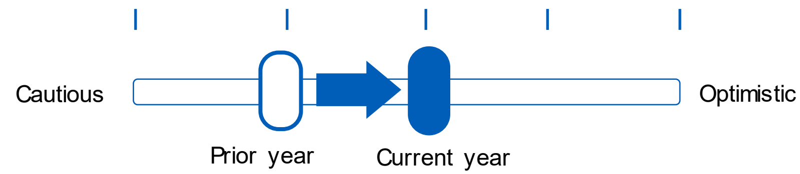
Key accounting estimates - overview

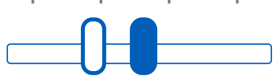
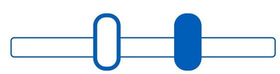
Our view of management judgement

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

Cautious means a smaller asset or bigger liability; optimistic is the reverse

KEY:



Asset/liability class	Our view of management judgement	Balance (£m)	YoY change (£m)	Our view of disclosure of judgements & estimates	Further comments
Valuation of net pension liability (University and College)	Cautious Neutral Optimistic 	**187.5**	**3.9**	Needs improvement Neutral Best practice 	Our review of the actuarial assumptions in the prior year to July 2020 for both the University and College concluded that these were within the reasonable range but cautious. Our review of the actuarial assumptions used for both the University and College in the July 2021 valuation found these to be within the reasonable range and more balanced than in the previous year. We also found progress against our prior year recommendation with management moving closer to best practice. Management had considered the appropriateness of the assumptions used by Barnett Waddingham as detailed in their paper presented to the Audit and Risk Committee on 5 October.

Significant audit misstatements

Materiality = £3.0m

Management has approved the correction of the audit misstatements detailed on page 31 and they are reflected in the draft financial statements. A summary of the uncorrected audit misstatements is detailed on page 30.

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

The most significant disclosure misstatements relate to

— *KPMG fee for non-audit services*

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

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Key comments

— If the uncorrected factual audit misstatements were posted, they would have nil net impact on the surplus.

— For our views on management estimates – see Page 19 (Key accounting estimates)

— A detailed summary of corrected and uncorrected audit misstatements and omissions and errors in disclosure is included in the appendix

Audit misstatements

	Type	£m	Comment
Draft accounts		**3.0**	**Surplus**
Corrected misstatements			
Overstatement of additions and disposals	Factual	0	
Reported in FS		**3.0**	
Uncorrected misstatements			
– Capital Accrual in respect of Nine Elms Project (South Bank College)	Factual	0	
– Omitted Capital Accruals (South Bank College and London South Bank University)	Factual	0	
– Unsupported reconciling differences on bank reconciliations	Unsupported	(0.2)	
– Understatement of Defined Pensions Liability (London South Bank University)		(0.8)	
– Understatement of Defined Pensions Liability (South Bank College)		(0.2)	
Our assessment		**1.8**	

Subsidiaries

South Bank Colleges

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

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

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

A separate report will be presented to the College's Audit Committee.

Planned response

Significant risks

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

- Management override of controls;
- Valuation of the defined pension liability
- Carrying value of land and buildings
- Going concern
- Cyber security and recovery of IT systems

At South Bank Colleges we rebut the risk of fraud related to the recognition of revenue for all income streams.

Outcome from audit work

Outstanding matters

Our audit of this entity remains ongoing.

The principal matters outstanding are outlined on slide 5.

Findings in response to significant risks

- Management override of controls – testing to date has not identified any instances of management override of controls
- Valuation of the defined benefit pension liability - The core assumptions were within KPMG's reasonable range and considered balanced. However, we have raised one recommendation around process for reviewing assumptions used by expert relevant to both the University and South Bank Colleges. See page 29.
- Valuation of land and buildings – we identified two misstatements, one relating to an omitted capital accrual of £0.7m and one in relation to incorrect treatment of £1.8m deferred income as capital additions. These are included on page 30 and is expected to be corrected in the updated accounts.
- Going Concern – testing in this area is ongoing as we are still waiting on management's going concern assessment.
- Cyber Security and recovery of IT systems – testing to date has not identified any misstatements related to the cyber security incident.

Testing to date has identified two misstatements. These are outlined on page 30 and are expected to be corrected in the final accounts.

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 page 5.

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.

SW4 Catering Limited

For the year ended 31 July 2021 we have undertaken the statutory audit of SW4 Catering Limited.

We have carried out our audit on SW4 Catering 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:

- 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 page 5.

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.

150 years supporting the UK

Appendix

Contents

Revision to the Going Concern auditing standard

In September 2019 the FRC published a revised UK auditing standard for going concern, ISA UK 570. This responds to recent enforcement cases and w ell-publicised corporate failures w here the most recent auditor's report had not included a material uncertainty on going concern. We communicated the key changes at planning and have set out below the findings from our w ork.

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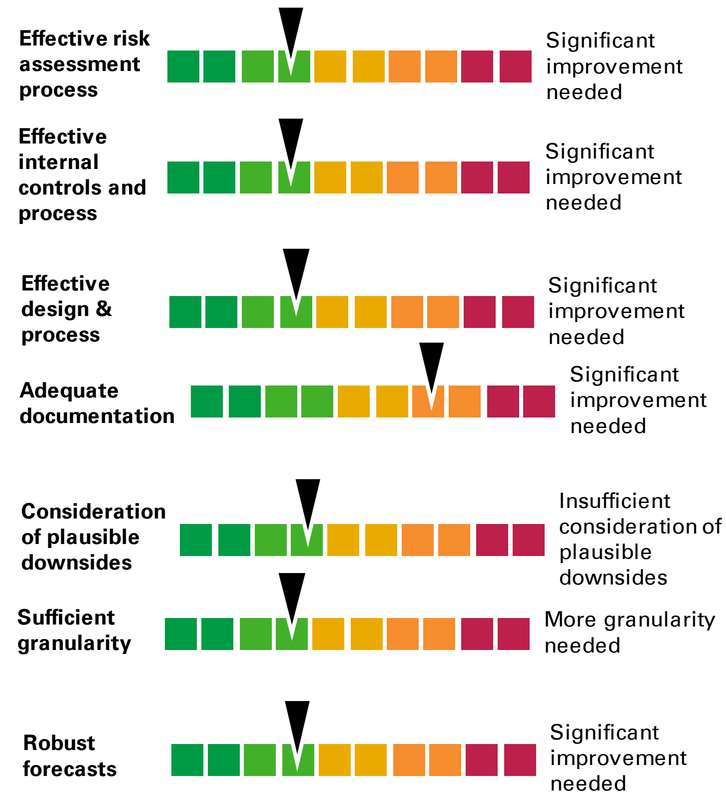
Risk assessment procedures and related activities
We did not identify any control deficiencies in relation to the risk assessment procedures and system of internal control.

Removal of the gateway to assess whether events or conditions exist
We did not identify any control deficiencies around processes for identify events and conditions that indicate material uncertainties in the going concern assessment.

Increased challenge due to change in emphasis in the report

While formal assessments w ere presented for both South Bank Colleges and the University, these did not include details of the plausible dow nside scenarios considered and the impact on both cash flow and loan covenants. The w as also no separate assessment of South Bank University Enterprises Limited. We have subsequently obtained details of scenarios considered and performed our ow n analysis to confirm conclusions reached by management are appropriate. How ever, w e w ould recommend that management also includes this detail in the formal assessment presented to Audit Committee.

Specified procedures on viability reports and potential impact on going concern periods
The University and College had prepared cash flow forecasts covering the Going Concern period and the University had prepared an assessment of compliance against loan covenants.



Changes to our audit reports as a result of ISA (UK) changes

Going concern

As well as changes to the form of our going concern conclusion, we are required to describe ***how we have evaluated management's going concern assessment***.

This explanation of our work over going concern necessarily involves ***reference to the key risks*** to the level of resources or covenant metrics and discussion of the ***most relevant aspects of our work*** .

We are also required to disclose any ***"key observations" arising in respect of our evaluation of management's assessment***. This will include reference to situations in which we require management to change their going concern analysis, resulting in a significant change to the findings of that analysis or disclosure.

For example, if we were to identify risks or plausible sensitivities not originally considered by management, and the inclusion of which results in a significant change to the level of headroom (whether or not it changes the overall conclusion) then we would state in our report that one of our procedures was to request re-analysis.

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Irregularities and fraud

In all audit reports, we are now required to **explain to what extent the audit was considered capable of detecting irregularities, including fraud.**

This is tailored to each audit.

Laws and Regulations

For audits of financial periods commencing on or after 15 December 2019, auditors are required to explain in the auditor's report to what extent the audit was considered capable of detecting irregularities, including fraud.

This was already a requirement for auditors of public interest entities (PIEs) in ISA (UK) 700 (Revised June 2016).

Required communications with the Audit and Risk Committee

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Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 July 2021.
Adjusted audit differences	The net impact of adjusted audit differences to date is to be determined as work is ongoing.
Unadjusted audit differences	The aggregated surplus impact of unadjusted audit differences is to be determined as work is ongoing. In line with ISA 450 we request that you adjust for these items. However, they will have no effect on the opinion in the auditor's report, individually or in aggregate.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit and Risk Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.
Actual or suspected fraud, noncompliance with laws or regulations or illegal acts	No actual or suspected fraud involving group or component management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements was identified during the audit.

Required communications with the Audit and Risk Committee

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Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Group and University's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	There were no other significant matters requiring discussion, or subject to correspondence, with management.

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			
1	2	**Going Concern Assessments** 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 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: • 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 managements formal assessment of this subsidiary. This assessment is pending at the time of writing. 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.	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. Responsible – Ralph Sanders Due date – July 2022

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	❶	**Bank Reconciliations** 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. 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.	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. Responsible: Natalie Ferer/Julian Rigby Due Date : 30thNovember 2020.	**Outstanding** 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. We understand management are continuing to work towards delivering an automated solution. However, at time of writing there is no confirmed date for implementation.
2	❷	**Journal Authorisation** It is possible to avoid the journals authorisation process by posting journals to a different journal type and therefore you could effectively post a journal without authorisation (we have picked this up in previous years at LSBU). SBC have now moved onto Agresso and are following a similar journals process and therefore the risk around unauthorised journals has been expanded to SBC as well. A monthly review of the journal types which do not follow the authorisation process is supposed to be performed to ensure appropriate journals are being posted here (reversals and recoding journals) but this has not occurred due to high workloads.	In line with the GL journal procedure, the team will continue to monitor use of the unapproved G5 journals which will be reviewed retrospectively and cases on non compliance addressed. will be reviewed o ensure someone in the Financial Accounting team carries out this task each month. Responsible Person: Sally Black/Rebecca Warren Due Date: December 2020	**Outstanding** While there was a process in place to review use of unapproved journals, we were unable to obtain evidence that this review had been performed consistently throughout the 2020-21 Financial year. We are substantively testing journals identified as high risk to confirm they are appropriate. This work is ongoing and we will provide an update in our final Audit Completion Report.

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Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (October 2021)
Financial Statements				
3	2	**Management of Fixed Assets** We identified a number of areas in which controls around management of fixed assets could be enhanced: • We recommended that the process for undertaking an annual impairment review is formalised, and considers the full University estate. This was not in place in advance of the year end audit, though we note that the review was subsequently completed. We recommend that management ensures formal process are in place to complete and document the impairment review. This review should consider each of the indicators of impairment listed in FRS 102 section 27.0. • Given the extent of capital works currently being undertaken both at University and Group level, we further recommend that this review also includes balances held within AUC. This should include consideration of impairment and whether any assets are now brought into use. Our testing of capital transactions identified a number of negative additions relating to assets that had previously been brought into use (and should now be fully depreciated), thus highlighting failure to review AUC balances on a timely basis.	Agreed, the recommendation will be implemented in full. Responsible: Natalie Ferer Due date: June 2021 for 2020-21 year end.	**Outstanding** Our testing of capital additions and impairment is ongoing at the time of writing. We will provide complete update on this recommendation on finalising testing. We note that management have undertaken a formal annual impairment review at the University and this was presented to the Audit and Risk Committee on 5 October. However, (while we are still finalising testing) we have continued to identify various misstatements relating to the management of fixed assets. These are outlined in more detail on page 30.

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Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (October 2021)
Financial Statements				
4	2	**Review of Pension Assumptions** The pensions assumptions used by Barnett Waddingham are derived by qualified actuaries based on a number of factors. The judgement involved in forming these assumptions and the size of the University's pension liability mean that a small variance could result in a material impact on the financial statements. Management currently present the assumptions used in the calculation of the pension provision to the Audit Committee for approval, however this does not contain detail on the extent to which management has challenged the assumptions to ensure they are appropriate for LSBU. assumptions to ensure they are appropriate for LSBU. We recommend that management document in more detail the precision with which they review the pensions assumptions and challenge the actuaries on the assumptions they have set. Specifically, they should perform an assessment of membership numbers to ensure that the rolled forward number and assumptions applied are in line with current year figures. Additionally, management should challenge the actuary on their estimate of the return on investment to determine if there would be a material impact if actual data as received subsequent to year end was used.	We will continue to review the indicative assumptions final assumptions used by the actuaries to ensure that they are appropriate to the University and subsidiaries, including use of estimates as they impact on returns on investments. Responsible officer: Natalie Ferer Due date: 30 June 2020	**Partially implemented** Management have made progress against our prior year recommendation. They considered the appropriateness of the assumptions used by Barnett Waddingham as detailed in their paper presented to the Audit and Risk Committee on 5 October. Our independent review of the assumptions also found these to be balanced. However, we would also expect the University to clearly outline and document their approach to the review such that it could be replicated by a third party. This will ensure consistency of approach year-on-year and allow the University to clearly demonstrate that the review is not subject to any management bias.

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Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&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 £150K are shown below:

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Unadjusted audit differences (£m)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
University				
1	**Bank Reconciliations – unsupported reconciling items** Dr I&E Cr Cash	0.2	(0.2)	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 Capital Accruals** DR Fixed Assets (AUC Additions) Cr Capital Accruals		TBC TBC	We understand that management's policy is to not accrue for capital expenditure. As part of our additions testing at the University we identified four items with a value of £1,068k which related to the prior year. We have requested management's assessment of total capital expenditure omitted from both the 2019-20 Accounts and the 2020-21 Accounts to quantify total impact in both the College and the University. This is pending at the time of writing. The net impact on income will be nil.
3	**Understatement of Defined Benefit obligation** Pension Costs LGPS – Net Pension Liability	0.8	(0.8)	The pension calculations used an estimated benefits paid figure of £5,651k compared to £4,808k per confirmation from the fund administrator.
	Total University	**1.0**	**1.0**	

Audit Differences

Under UK auditing standards (ISA (UK) 260) we are required to provide the Audit and Risk Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&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 £150K are shown below:

Unadjusted audit differences (£m)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
Group				
4	**Deferred income (SBC)** DR Fixed Asset Additions CR Deferred Income		1.8 (1.8)	Our fixed asset additions testing identified two negative sample items totalling £1.8m which actually related to deferred income.
2	**Omitted Capital Accrual on Nine Elms (SBC)** Dr Fixed Assets (AUC Additions) Cr Capital Accruals		0.7 (0.7)	We identified capital expenditure at SBC of £0.7m which had not been accrued for. This related to a project that was delivered on a phased basis with invoices issued at each stage of practical completion. The July invoice was received on 6 August and accounted for in 2020-21. As the work related to 2020-21 financial year our view is an accrual should have been included.
3	**Understatement of Defined Benefit obligation (SBC)** Pension Costs LGPS – Net Pension Liability	0.2	(0.2)	The pension calculations used an estimated benefits paid figure of £1,164k compared to £1,328k per confirmation from the fund administrator.
	Total Group	**1.2**	**(1.2)**	

Audit Differences

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit and Risk Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. Adjusted misstatements above £150k are outlined below.

Adjusted audit differences (£m)				
No.	**Detail**	**SOCI Dr/(cr)**	**SOFP Dr/(cr)**	**Comments**
1	**Additions and Disposal** Fixed asset (additions) Fixed asset (disposals)		 3.7 (3.7)	The University had disclosed £3.7m disposals and additions relating to in year spend that was subsequently moved to expenditure (since these items did not meet the definition of capital spend). Both additions and disposals were overstated in the draft Accounts.
Total		-	-	

KPMG

Confirmation of Independence

We confirm that, in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and that the objectivity of the Partner and audit staff is not impaired.

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To the Audit and Risk Committee members

Assessment of our objectivity and independence as auditor of London South Bank University (the University)

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP Partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard.

As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

Summary of non-audit services

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

Confirmation of Independence

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

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Description of scope of services	Principal threats to independence	Safeguards applied	Basis of fee	Value of services delivered in year to 31 July 2021
Covenant Compliance	1.Self Interest 2.Self Review 3.Management	1. The fee for the work is not dependent on the compliance with the covenants, and is not material to KPMG or LSBU. 2. The work will not involve the preparation of any financial information which will be subject to review. 3. LSBU will be responsible for preparing the covenant compliance statement.	Fixed Fee	£6,000
International tax advice	1.Self Review 2. Management	1. Service will be provided by KPMG professionals who are not members of the audit team 2. KPMG will not provide advice on how transactions should be recorded	Time and Materials	£18,325
Other tax assurance	1. Advocacy 2. Self Review 2. Management	1. KPMG will not provide advice on how transactions should be recorded. 2. Services will be provided by KPMG professionals who are not members of the audit team.	Fixed Fee	£39,740

Confirmation of Independence

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We have considered the fees charged by us to the Group and its affiliates for professional services provided by us during the reporting period. Total fees charged by us can be analysed as follows:

	2020/21 (to date)	2019/20
	£'000	£'000
Audit services – statutory audit	124.5	132
Audit of the University	56	56
Cyber security impact (Group)	10	0
Going concern (Group)	7.5	15
Access and participation	5	5
Additional fee/overruns*	TBC	10
Audit of South Bank Colleges	41	41
Audit of SW4 Catering Ltd	3	2
Audit of SBUEL Ltd	2	3
Total audit fees	**124.5**	**132**
Loan covenant compliance	6	6
International tax advice	18	20
Other tax assurance	40	33
Total non-audit services	**64**	**59**
Total fees	**188.5**	**189**

*Additional fee in the previous year related to additional work required in relation to the LGPS pension liability and initial delays in provision of PBC.

Fee ratio

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

Under the FRC's Revised Ethical Standard, no new contingent fees for non-audit or audit related services for an audited entity, its UK parent undertaking and any worldwide controlled undertaking can be entered into after 15 March 2020. We confirm that no new contingent fees for such services have been entered into for London South Bank University since that date and that no contingent fee amounts remain outstanding from previously provided non-audit services.

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

Application of the FRC Ethical Standard 2019

We communicated to you previously the effect of the application of the FRC Ethical Standard 2019. That standard became effective for the first period commencing on or after 15 March 2020, except for the restrictions on non-audit and additional services that became effective immediately at that date, subject to grandfathering provisions.

We confirm that as at 15 March 2020 we were not providing any non-audit or additional services that required to be grandfathered OR the following non-audit or additional services were grandfathered under the transitional provisions as they had already been engaged and commenced.

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

Pension Assumptions - University

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | Cautious | Balanced | Optimistic | Outside norm acceptable r

Acceptable range

Overall assessment of assumptions for FRS 102 for audit consideration

The overall assumptions adopted by the Employer are considered to be balanced relative to our central rates and within our normally acceptable range overall.

Balanced

Underlying assessment of individual assumptions		Methodology	Consistent to prior year?	Compliant methodology with FRS 102?	Employer	KPMG central	Assessment vs KPMG central	Significant assumptions
Discount rate		AA yield curve	No	✓	1.60%	1.58%		✓
CPI inflation		Deduction to inflation curve	No	✓	2.80%	2.79%		✓
Salary increases		Employer best estimate	✓	✓	3.00%	In line with long-term remuneration policy		✓
Pension increases		In line with CPI	✓	✓	2.80%	Employer's CPI assumption		
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	Fund-specific Club Vita curves	In line with best-estimate Fund experience		✓
	Future improvements	Latest available CMI model	✓	✓	CMI 2020 projections model, 1.25% long-term trend rate, default smoothing parameter, initial addition parameter of 0.5% and 2020 weight parameter of 25%	CMI 2020 projections model, 1.25% long-term trend rate and default smoothing and initial addition parameters		✓
Other demographics		In line with most recent Fund valuation	✓	✓	Members exchange pension to receive 50% of the maximum available cash at retirement	In line with Fund experience		

KPMG

Pension Assumptions - College

Level of prudence compared to KPMG central assumptions

Outside normally acceptable range | Cautious | Balanced | Optimistic | Outside normally acceptable range

Acceptable range

Overall assessment of assumptions for FRS 102 for audit consideration	
The overall assumptions adopted by the Employer are considered to be Balanced relative to our central rates and within our normally acceptable range overall.	Balanced

Underlying assessment of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with FRS 102?	Employer	KPMG central	Assessment vs KPMG central	Significant assumptions
Discount rate		AA yield curve	No	✓	1.60%	1.58%		✓
CPI inflation		Deduction to inflation curve	No	✓	2.80%	2.79%		✓
Salary increases		Employer best estimate	✓	✓	CPI plus 0.2%	In line with long-term remuneration policy		✓
Pension increases		In line with CPI	✓	✓	2.80%	Employer's CPI assumption		
Mortality	Base tables	In line with most recent Fund valuation	✓	✓	Fund-specific Club Vita curves	In line with best-estimate Fund experience		✓
	Future improvements	Latest available CMI model	✓		CMI 2020 projections model, 1.25% long-term trend rate, default smoothing parameter, initial addition parameter of 0.5% and 2020 weight parameter of 25%	CMI 2020 projections model, 1.25% long-term trend rate and default smoothing and initial addition parameters		
Other demographics		In line with most recent Fund valuation	✓	✓	Members exchange pension to receive 50% of the maximum available cash at retirement	In line with Fund experience		

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Document Classification: KPMG Confidential

	INTERNAL
Paper title:	Internal Audit – KPIs
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	11 November 2021
Author(s):	BDO
Sponsor(s):	Richard Flatman, Group CFO
Purpose:	For Review
Recommendation:	The Committee is requested to note the report.

Executive summary

BDO have undertaken a review to provide assurance over the University's oversight of compliance with the OfS regulatory framework. Overall there is a moderate level of assurance over the design of controls and substantial level of assurance over operational effectiveness. One medium risk recommendation has been made which has been accepted by management.

Recommendation

The Committee is requested to note the report.

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	INTERNAL
Paper title:	Going Concern Assessment
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	11 November 2021
Author(s):	Natalie Ferer, Group Financial Controller
Sponsor(s):	Richard Flatman, Group CFO
Purpose:	For Review
Recommendation:	The Committee is requested to note this report.

1. Going concern statement

The board of Governors is required to produce a statement in the annual accounts that the University Group continues to be a going concern. The purpose of this paper is to provide assurance in respect of the going concern opinion in the financial statements. A draft version was previously presented to Group Audit and Risk Committee in October.

The statement in the 2020/21 accounts is below:

Cash flow forecasts have been prepared for a period of 4 years from the balance sheet date. The Group always plans to have sufficient liquid assets to meet its liabilities as they fall due and monitors and reports cashflow balances and covenant compliance on a regular basis. Cash balances, bank deposits and investments at 31/7/21 were £29.7m and are forecast to decrease to £21.4m by 31/7/22 as the Group continues to deliver its current capital programme. Two revolving credit facilities totalling £45m have been established to provide sufficient cashflow to meet the Group's ongoing capital investment programme and working capital requirements. Drawdown against this facility began April 2021 and was repaid in June 2021 and further drawdowns are forecast in 2021/22. Current borrowing facilities are considered adequate to meet current operational plans.

A small budget surplus has been approved for 2021/22, and cashflow from operations of £21.6m is forecast, reflecting the need for continued financial control whilst maintaining appropriate levels of investment to drive the necessary corporate strategic outcomes. At this early stage of the year, whilst accepting that there may be variations on individual budget lines, we are not moving away from agreed budget outcomes. Recruitment and re-enrolment are both looking positive although we will continue to monitor the position carefully over the next few months.

As is always the case, a comprehensive mid-year budget review is planned during the first semester of 2021/22. This will look closely at recruitment, re-enrolment and associated income forecasts.

We will continue to monitor the position carefully over the next few months. The principal risks to successful financial delivery in 2021/22 relate to meeting student recruitment targets, affordability of capital investment needs, regulatory changes to post-18 education fees and funding and the financial turnaround of South Bank Colleges.

After taking all of these matters into consideration, the Board of Governors is confident that the Group and parent University will have sufficient funds to continue to meet their liabilities as they fall due for at least 12 months from the date of approval of the financial statements (the going concern assessment period) and therefore have prepared the financial statements on a going concern basis.

2. Assurance

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

a. Board Assurance

Assurances the Board have relied upon and cross referring to other documents already in existence/reviewed by committees:

- Our forecasting is accurate and we have delivered to financial forecasts as reported throughout last year (see July management accounts that went to Sept 2021 FPR)
- We prepared a number of alternative scenarios for consideration in setting an appropriate budget for 21/22
- An update on recruitment and retention was taken to FPR in September 2021 and reported that recruitment, withdrawals and interruptions were broadly positive.
- A balanced budget for 2021/22 and five year financial forecasts have been considered by FPR and approved by the board
- Treasury Management and cashflow forecasts are reviewed at each FPR meeting
- *September Management accounts reported to November FPR TBC*
- We have negotiated and implemented two revolving credit facilities with Barclays and AIB which are available for drawdown as required to service operational cashflow needs.

- Capital expenditure forecasts. including compliance with covenants associated with all the University's bank loans, are regularly reported to the RCF subcommittee, FPR , MPIC and the Board.

- We have a robust risk management process which considers risk (including financial risk) on a regular, continual basis (as reported to Board and Audit Committee)

b. **Risk management**

The Group Audit and Risk Committee approved the 2021/22 Group Risk appetite and strategy June 2021 and the Group Risk Policy in October 2021. The approach is to have a consistent risk management process across the Group, aligned to the 2025 Strategy. Risk registers are produced at Group, entity and local area levels.

In accordance with the Risk Policy, a risk appetite is established at each entity level within the Group. The risk appetite approved in June 21 is as follows:

a. Financial – open;
b. Legal and compliance – cautious;
c. Academic delivery – seek;
d. Reputational – open.

At the most recent review, our risk management process was rated as low risk by our internal auditors. This process is linked to the achievement of institutional objectives as set out in the corporate strategy and is designed to identify, evaluate and effectively manage risk. Where there are serious issues or risks, this process helps ensure that appropriate controls are in place and/or remedial actions taken as appropriate. We have also continued to ensure that we have aligned our processes to the Board's assessment of risk appetite.

The corporate risk register as of October 2021 had:

- Zero critical risks;
- Sixteen high risks;
- Ten medium risks;
- No low risk

Risks are reviewed on a monthly basis by the Executive. The Group Audit and Risk Committee reviewed the Group Risk register with the risk profile above at their October 2021 meeting.

c) **Financial sustainability**

The Board has an approved budget for 2021/22 for delivery of a small budget surplus of £2m. The 2021/22 budget assumes broadly flat recruitment targets as agreed by the Executive. With recruitment and re-enrolment looking positive and the inclusion of some contingency within the budget, it is forecast that the overall budget surplus and associated cashflows will be achieved.

As with previous years, We will also have a comprehensive budget review in November to reflect actual recruitment, retention and income forecasts.

3. Banking Covenants

Based on the budget scenario described, it is forecast that the University will meet covenants in place for its loans with Barclays and AIB.

LSBU only

Debt Service Cover

Adjusted Cashflow for each Relevant Period shall be no less than 125% of its Debt Servicing Costs for such Relevant Period.

Entry	2019/20 £'000	Updated for draft actual 2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Net cash inflow/(outflow) from operating activities	22,293	25,114	7,422	24,796	29,497
Investment income	300	32	110	110	110
Endowment cash received	0		0	0	
Exclude any cash pension costs, i.e. not to be added back		0	0	0	
Adjusted Cashflow	**22,593**	**25,146**	**7,532**	**24,906**	**29,607**
Interest paid (Loans Interest)	1,933	1,853	3,118	3,568	4,005
Interest element of finance lease and service concession payments	0	0	0	0	
Repayments of amounts borrowed	1,910	1,969	1,969	1,969	1,969
Capital element of finance lease and service concession payments	0	0	0	0	
Debt Servicing Costs	**3,843**	**3,822**	**5,087**	**5,537**	**5,974**
Debt Service Cover	**588%**	**658%**	**148%**	**450%**	**496%**
Covenant Level	125%	125%	125%	125%	125%
Forecast Compliance	**Compliance**	**Compliance**	**Compliance**	**Compliance**	**Compliance**

Operational Leverage

The ratio of Borrowings at the end of each Relevant Period to Adjusted Operating Surplus for such Relevant Period shall not exceed 5:1.
This is reduced to 4:1 from 2022/23 Onwards

Entry	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Bank overdrafts	0	0	0	0	0
Loans repayable to the funding council	0	0	0	0	
Bank loans and external borrowing	1,944	2,025	1,944	1,944	1,944
Obligations under finance leases and service concessions	0	0	0	0	0
Loans repayable to funding council	0	0	0	0	0
Bank loans and external borrowing	32,507	30,457	72,881	70,154	67,151
Obligations under finance leases and service concessions	0	0	0	0	0
Include any Transaction Unit Debt if defined as such by the Transactio	0	0	0	0	0
Borrowings	**34,451**	**32,482**	**74,825**	**72,098**	**69,095**
Surplus/(deficit) before other gains/losses and share of surplus/(deficit) in joint ventures and associates	1,350	1,226	1,600	2,600	3,600
Depreciation	9,354	9,354	13,500	15,500	17,500
Interest and other finance costs (assuming all £45m is drawn down)	1,933	1,853	3,118	3,568	4,005
Amortisition	0	0	0	0	
Pension Items	2,987	2,484	2,000	2,000	2,000
Capital Grants recognised in the year	0	0	0	0	
Release of deferred capital grants	0	0	0	0	
Exclude any one-off grant funding from the Transaction Unit.			0	0	
Adjusted Operating Surplus	**15,624**	**14,917**	**20,218**	**23,668**	**27,105**
Operational Leverage	**221%**	**218%**	**370%**	**305%**	**255%**
Covenant Level	500%	500%	500%	400%	400%
Forecast Compliance	**Compliance**	**Compliance**	**Compliance**	**Compliance**	**Compliance**

Debt Service Cost Ratios

Operating cashflow/debt servicing cost ratio not less than 1:1

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Surplus for the year	1,350	1,226	1,600	2,600	3,600
Transfer from revaluation reserve	694	694	696	697	698
Historical cost surplus	2,044	1,920	2,296	3,297	4,298
Operating cashflow/debt servicing cost ratio not less than 1:1					
Operating Cashflow	22,293	25,114	7,422	24,796	29,497
Capital element of bank loan repayments	1,910	1,969	1,969	1,969	1,969
Interest element of bank loan repayments	1,933	1,853	3,118	3,568	4,005
	3,843	3,822	5,087	5,537	5,974
Net cash inflow from debt servicing costs	**580%**	**657%**	**146%**	**448%**	**494%**
Covenant Level	100%	100%	100%	100%	100%
Forecast Compliance	**Compliance**	**Compliance**	**Compliance**	**Compliance**	**Compliance**

Entry	Prior Year 2019/20 £'000	Current year 2020/21 £'000	2021/22 £'000	Forecast 2022/23 £'000	2023/24 £'000	2024/25 £'000
Debt Service Cover	353%	690%	130%	129%	391%	451%
Covenant Level	125%	125%	125%	125%	125%	125%
Forecast Compliance	Compliance	Compliance	Compliance	omplianc	omplianc	Compliance

The ratio of Borrowings at the end of each Relevant Period to Adjusted Operating Surplus for such Relevant Period shall not exceed 5:1 for each Relevant Period.

	2019/20 £'000	2020/21 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Operational Leverage	216%	191%	394%	293%	244%	205%
Covenant Level	500%	500%	500%	500%	500%	500%
Forecast Compliance	Compliance	Compliance	Compliance	omplianc	omplianc	Compliance

Security Cover

The Property Value shall at all times be no less than 140% of the Facilities.

Property Values	£'000
McClaren House	61,510
Dante Road	67,300
Total Security	**128,810**
Barclays Facility	30,000
AIB Facility	15,000
Total Facilities	**45,000**
Security Cover	**286%**
Covenant Level	140%
Forecast Compliance	**Compliance**

Recommendation:

The Committee is requested to note this report.

	CONFIDENTIAL
Paper title:	Evidence of going concern
Board/Committee:	Group Audit and Risk Committee
Date of meeting:	11 November 2021
Author(s):	Kerry Johnson, Governance Officer
Sponsor(s):	Michael Cutbill, Chair of Finance, Planning and Resources Committee
Purpose:	For Review
Recommendation:	The committee is requested to review the assurance from the Chair of the Finance, Planning and Resources Committee.

Executive summary

At its meeting of 5 October 2021 the Group Audit and Risk Committee requested assurance from the Finance, Planning and Resources Committee (FPR) that it has considered LSBU Group cashflow forecasts and related matters and is able to form a judgement on going concern.

In order to support the required judgement of the Board of Governors that the accounts may be signed on a going concern basis the Chair of FPR confirms that the following work has been carried out by the committee during the reporting year.

FPR considers at each meeting:

- Management accounts: LSBU and Group
- Treasury management report
- Student recruitment and retention update

Conclusion

In summary, based on the work of the committee during the year and on its behalf, the Chair consider that the accounts may be prepared and signed on a going concern basis.

Recommendation

The committee is requested to review the assurance from the Chair of the Finance, Planning and Resources Committee.

Evidence of going concern

During 2020/21 FPR received an update on cashflow at its meetings of 22 September 2020, 6 July 2021 and 9 November 2021.

At its meeting of 22 September 2020, the committee noted that the loan covenant requirements had been tested and would continue to be met based on current forecasts.

FPR also discussed in detail the draft 2021/22 budget at its meeting of 6 July 2021.

In addition to the work done by FPR, the Board of Governors considered the draft 2019/20 OfS five-year forecast at its November 2020 meeting, and approved the forecast electronically in January 2021.

The 2020/21 five-year forecast is due to be submitted to the OfS on 31 January 2022, and will be considered by FPR and the Board during January 2022.

Relevant minute extracts are included as Appendix 1.

Appendix 1: FPR minute extracts

Tuesday, 22 September 2020

5. LSBU management accounts to 31 July 2020

The committee discussed the management accounts to 31 July 2020.

The committee noted that income for 2019/20 stood at £157.1m, an increase of £8.0m on the 2018/19 reported outturn and £5m more than budget. It was noted that the University was trending towards a surplus of £1.5m for 2019/20.

The committee noted that recurrent staff costs at year end were £88.2m (£1.4m less than budget), in line with previous forecasts. The committee noted that staff costs would continue to be a challenge for 2020/21. Further detail on LSBU workforce planning and target operating model would be provided at the next meeting on 3 November 2020. The committee noted the importance of balancing staff costs with ensuring there was enough capacity, especially in academic and IT support areas.

The committee noted that Opex for 2019/20 was £6.8m more than the June 2020 forecast, and that this included some coronavirus-related expenditure and the impairment of over £3m of previously capitalised costs associated with St George's Quarter.

The committee discussed the 2020/21 budget, noting that the University was still broadly in line with 'budget scenario 2b'. The committee noted the uncertainty surrounding projected pension costs for 2020/21. It was noted that the assumptions used by the actuaries would be reviewed in detail by the Group Audit and Risk Committee on 6 October 2020.

6. Revolving credit facility/cashflow update

The committee noted that the RCF sub-committee had met on 3 September 2020 and had authorised completion of the new facility with Barclays for a four year term (subject to extension options) for a £30m commitment. Following authorisation, the facility was completed on 9 September 2020. Financial covenants were on the same basis as the existing agreement with Barclays, with the exception that operational leverage would change from 5x to 4x from 2022/23 onwards. The committee noted that these covenant requirements had been tested and would continue to be met based on current forecasts.

The committee noted that the Executive was pursuing other opportunities including the potential borrowing of up to £15m from Lambeth Council to support future cashflow needs.

11. Treasury management report

The committee noted the treasury management report, showing total bank balances at 31 August of £51.3m and outstanding loans of £33.8m.

Tuesday, 3 November 2020

5. LSBU management accounts to 30 September

The committee discussed the management accounts to 30 September 2020, noting that this was the first set of accounts to cover both LSBU and Lambeth College. The full year forecast was trending to a surplus of £2m though 2020/21 was likely to continue to be challenging due to the current coronavirus pandemic.

The committee noted that income from student recruitment was on target and ahead of 2019/20, though there were risks around semester two enrolment and retention rates. Budget 'scenario 2b' had factored in a higher attrition rate than usual due to the pandemic.

The committee noted that staff costs were currently under-budget but it was not yet clear whether this would continue throughout the year. The CFO advised that there would be greater clarity following the mid-year budget review.

The committee noted that its remit was to maintain appropriate oversight of subsidiary finances, but subsidiary boards of directors retained statutory responsibility for the success of those entities.

10. Treasury management report

The committee noted the treasury management report, showing total bank balances at 30 September 2020 of £50.2m and outstanding loans of £33.6m.

Tuesday, 2 March 2021

6. Finance update

The committee noted the LSBU finance update. The CFO presented a high-level summary of the current financial position. The committee noted that the IT outage had temporarily affected the Executive's ability to produce management accounts, but that some Agresso system access had now been restored. Recovery continued to be a priority.

The committee noted that the university was broadly on-target to deliver a £2m surplus with a contingency of £3-3.5m.

The committee noted that staff costs were substantially higher than budgeted, at approximately 60.5%, due in part to a lower vacancy rate caused by the pandemic, and to a £4m increase in pension costs. The Vice Chancellor confirmed the importance of maintaining appropriate staff-student ratios in an environment where student numbers had increased by 14%.

The committee noted that tuition fee refunds remained a key risk but that there had been a very low level of claims up to this point. A process was in place to mitigate this risk by carefully reviewing student complaints and continued engagement with the student body.

11. Treasury management report

The committee noted the treasury management report, showing total bank balances at 31 January 2021 of £48.5m and outstanding loans of £33.7m.

<u>Tuesday, 27 April 2021</u>

5. LSBU management accounts to 31 March 2021

The committee discussed the management accounts to 31 March 2021, noting that this was the first set of management accounts to be produced following the extended IT outage. The committee noted that the Finance team were working through the process of recovering accounting records, which was expected to be complete by May 2021.

The committee noted that the full year forecast was trending towards a surplus of £2m, with an additional £2.2m headroom.

The committee noted the high staff costs, due in part to a low vacancy level during the pandemic, and a £4m in-year pension cost increase. The committee noted that opex was forecast to be £0.6m better than budget.

The priority was now to match invoices and purchase orders and reconcile to Agresso. It was noted that some costs may increase further as the backlog is cleared.

The committee noted the deficit of £2.7m at Lambeth College.

10. Treasury management report

The committee noted the treasury management report, showing total bank balances at 31 March 2021 of £34.2m and outstanding loans of £33.0m.

<u>Tuesday, 6 July 2021</u>

5. Management accounts to 31 May 2021

The committee discussed the management accounts to 31 May 2021, noting that the full year forecast continued to trend towards a surplus of £2m with a contingency of

£2.7m. The committee noted that operating costs were down year-on-year, largely due to the pandemic.

The committee noted that income was forecast at £162m, which was £9m ahead of budget. The committee queried increasing staff costs, running at approximately 60% of budget. The CFO reported that this was due to the uncertainty of the pandemic in the current year, with a much lower vacancy factor and higher pension costs. The vacancy factor was expected to return to more normal levels in the next financial year.

The committee noted that work was underway, as part of the LEAP programme and LSBU 2025, to create efficiencies across the organisation over the next three financial years.

The committee discussed the position at SBC, noting that the College forecast an operating deficit of £4.4m compared with the £2.7m originally budgeted. The committee noted that this included £1.5m of additional pension contributions as a result of the LPFA actuaries' report and some one-off costs due to the pandemic (such as student laptops).

8. LSBU 2021/22 draft budget

The committee discussed in detail the proposed draft university budget for 2021/22, which delivered a surplus of £2m and funded a £2.7m deficit at the Croydon Campus. The proposed budget included £2m of contingency.

The committee welcomed the forecasted income of £169m, which had increased from the estimated £162.5m initially presented to the Board at the April 2021 Strategy Day.

The committee noted that operating expense and staff cost budgets would be rolled forward at the levels set in 2020/21 as the Group started to recover from the pandemic and major IT outage. In the medium term, LSBU 2025 and LEAP would then deliver efficiencies and a reshaped workforce able to meet the demands of the digital environment.

The committee noted that increased staffing would be required in some schools in order to maintain the required staff-to-student ratios.

Following the discussion, the committee recommended the proposed 2020/21 budget to the Board for approval.

11. Treasury management report

The committee noted the treasury management report, showing cash balances at 31 May 2021 of £55.0m and outstanding loans of £32.9m.

14. Cashflow update

The committee noted the briefing on cashflow, as circulated to the Board of Governors and MPIC as part of the discussion on the proposed London Realty transaction.

Tuesday, 21 September 2021

5. Management accounts to 31 July 2021

The committee discussed the management accounts to 31 July 2021, noting that the University was on track to deliver an operating surplus, before exceptional items, of £9m. The surplus was after allowing for a staff recognition payment of up to £1.3m, as approved by the Board. The payment would be made to staff during October 2021.

The committee noted the exceptional costs of £4.7m associated with the decision to write off a portion of the cost of Project LEAP, and £1.3m relating to the cost of the cyber attack.

The committee noted that, for the first time, the 2020/21 Group income was above £200m.

The committee noted that Lambeth College remained at a deficit position (anticipated by the turnaround plan), but that the year-end position represented a £0.7m improvement on 2019/20.

10. Treasury management update

The committee noted the treasury management report, showing cash balances at 25 August 2021 of £24.3m and outstanding loans of £32.4m. The committee noted that there were now two revolving credit facilities in place to assist with cashflow management.

The committee recommended the proposed changes to the University bank mandate (to remove Pat Bailey and add Tara Dean as a signatory) to the Board for approval.

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Paper title:	Internal Controls – Annual review of effectiveness 2020/21
Board/Committee	Audit Committee
Date of meeting:	11th November 2021
Author:	Natalie Ferer - Group Financial Controller
Sponsor:	Richard Flatman - Group Chief Financial Officer
Purpose:	For approval
Recommendation:	The Committee is requested to note the attached report and approve the annual compliance statement.

Summary
This paper presents the annual review of effectiveness of the University's system of internal control, that underpins the internal control statement in the 2020/21 annual report and accounts.

The proposed statement is a 'full compliance' statement for the period under review.

Recommendation
The Committee is requested to note the attached report and approve the annual compliance statement.

System of Internal Controls

Annual Review of Effectiveness

Year ended 31 July 2021

CONTENTS

1. Executive Summary

This report documents the progress that has been made with regard to our system of internal control and to our risk management processes over the past year. A copy of the proposed statement of full compliance for the year ended 31 July 2021 is enclosed as Appendix 1.

In making this statement, we are required to ensure that a number of key principles of effective risk management have been applied. These principal were recommended by the former HEFCE guidance on risk management but are still considered relevant today. These principles, together with an assessment of compliance by LSBU, are provided in the table below.

Effective risk management:

Requirement	Assessment
Covers all risks – governance, management, quality, reputation and financial.	✔
Produces a balanced portfolio of risk exposure.	✔
Is based on a clearly articulated policy and approach.	✔
Requires regular monitoring and review, giving rise to action where appropriate.	✔
Needs to be managed by an identified individual and involves the demonstrable commitment of governors, academics and officers.	✔
Is integrated into normal business processes and aligned to the strategic objectives of the organisation.	✔

In making this assessment, and in drafting the proposed full compliance statement for the period under review (for the year ended 31 July 2021, but considering all matters up to the date of approval of the financial statements) the following assurance sources have been taken into account:

The Office for Students

- Governance, and effective Risk management processes are a requirement of Conditions of Registration (condition E2 – adequate and effective governance) with the OfS. As part of the seeking registration with the OfS, LSBU submitted a self-assessment, regarding its governance arrangements, including risk management and internal controls.

- LSBU regularly monitors its compliance with the OfS's ongoing conditions of registration and an internal audit review of monitoring processes is underway and a report will be brought to Group Audit and Risk Committee later in the year.

Internal Audit

- The programme of internal audit work for the year ended 31 July 2021 was aligned to the corporate risk framework to provide assurance on the effectiveness of controls in key risk areas.

- The conclusions from internal audit work are discussed in more detail in section 5 of this report. There was one report with no assurance rating:

    - Design of controls in place over IT disaster recovery at LSBU

- There are four areas where Limited assurance was provided o:

    - Design of controls over IT disaster recovery at SBC
    - Operational Effectiveness of controls over IT disaster recovery at LSBU, SBC and SBA.
    - Both the design and operational effectiveness of the controls in place for SBC financial controls (income)
    - SBA facilities contract management.

Management have accepted all recommendations and appropriate action is being taken to address those weaknesses and implement agreed actions.

- Across the group, 116 recommendations were raised during the year, of which 18 were high risk, 70 medium risk and 28 low risk. As this is the first year that BDO have been engaged as internal auditors, there are no comparative figures.

- 104 recommendations were outstanding at the start of the year and to date. Of these 44 (32%) have been implemented, 25 (24%) are in progress and 32 (31%) are not yet due.

Internal Governance

- This Corporate Risk Report has been submitted to every meeting of the Board of Governors
- The Corporate Risk Report & Risk Register has been submitted to every meeting of the Group Audit and Risk Committee
- Based on the internal audit work performed in the year we have not identified any significant issues with regard to risk management that we need to draw to your attention and are satisfied that the University has effective risk management arrangements in place.

- There have been no major breakdowns in controls during the year including while dealing with the challenges of staff working from home and during and after the cyber incident.

- Regular anti-fraud, bribery and corruption updates/reports have been provided to each meeting of the Group Audit and Risk Committee. No significant matters have occurred.
- No significant issues have arisen as a result of the University's external reporting processes.

2. Annual Review Process

To be able to make the statement on internal control set out in Appendix 1, Governors need to satisfy themselves that the risk management system is functioning effectively and in a manner that they have approved.

The two elements of effective monitoring are:

- An ongoing review process;
  (for LSBU this takes the form of regular risk management reports to the Group Audit and Risk Committee and Board of Governors,); and

- An annual assessment of the effectiveness of internal controls.

This paper documents the annual assessment undertaken. It considers issues dealt with in reports received during the year, together with any additional information necessary to ensure that Governors take account of all significant aspects of internal control for the year under review and up to the date of approval of the annual accounts.

3. Changes in the nature and extent of significant risks

The Risk Register is aligned with the goals of the University's Corporate Strategy for 2021.

The current Corporate Risk Register residual likelihood matrix is attached at Appendix 2.

A separate detailed risk register covering the Groups response to Covid 19 is in place and new risks around cybersecurity and the potential for fee and other refunds have been identified which will be added to the next version of the risk register. Apart from these, the principal risks facing the University relate to UK undergraduate student recruitment, income generation from Overseas and EU applicants, NHS Contract income, and increasing pension deficits / cost of pension provision.

These risks are discussed in more detail in the University's financial statements.

Following the move to Group, a reassessment of risk management processes has been undertaken and a new Group Risk policy and process has been developed and aligns with the new 2020/25 Group Corporate Plan. This has already been approved by the Group Audit and Risk Committee.

4. Scope and quality of management's ongoing monitoring of risks and the system of internal control

Risk Management is a standing item on the agenda of Organisational Effectiveness Review meetings, and risk management and internal control are embedded into normal operating routines. Both are subject to regular management review and periodic audit review.

Every Corporate Risk has an Executive Risk Owner. Every member of the Executive is the Risk Champion for their area of the institution, and this is embedded into formal letters of delegated authority issued for every financial period.

All matters relating to internal control are reported to the Executive, which also monitors carefully the implementation of agreed recommendations / actions for improvement, as reported through the Internal Audit Progress reports.

5. Results of internal audit work for 2020/21

The University's Internal Auditors for the period under review were BDO LLP and their opinion for 2020/21 is set out in their internal audit annual report.

This opinion is based on their assessment of whether the controls in place support the achievement of management's objectives, as set out in their Internal Audit Risk Assessment and Internal Audit Plan 2020/21.

They have completed the program of internal audit work for the financial year ended 31 July 2021, and their opinion is:

Extract from BDO's 2020/21 Internal Audit Annual Report for LSBU

Our opinion is as follows:

Generally satisfactory with improvements required in some areas.

The controls in the areas which we examined were found to be suitably designed and operating effectively to achieve the specific risk management, control and governance arrangements and value for money. However, there are some areas where weaknesses and/or non-compliance were identified and therefore may put the achievement of objectives at risk. Where weaknesses have been identified, improvements are required to enhance the design and/or effectiveness of risk management, control and governance arrangements and value for money arrangements.

We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the Group's risk management, control and governance processes and its arrangement for economy, efficiency and effectiveness.

One internal audit report provided no assurance over the design of controls in place over IT DR at LSBU. Limited assurance was provided over the design of controls over IT DR at SBC and over the operational effectiveness of controls over IT DR for LSBU, SBC and SBA.

Limited assurance opinions were provided for both the design and operational effectiveness of the controls in place for SBC financial controls (income) and SBA facilities contract management.

Further details are contained in the Internal Audit Annual Report

6. Extent and frequency of communication to the Board (and other committees)

Regular reports on risk and control matters have been presented to the Board and its Committees throughout the year, including:

- Key Performance Indicators
- Corporate Risk Report
- Annual report from Group Audit and Risk Committee
- Group Audit and Risk Committee report on the accounts
- Annual report and financial statements
- External Audit plan and External Audit management letter
- Corporate Governance Statement
- Internal Audit plan, reports, progress reports and annual report
- Annual report on effectiveness of Internal Controls

7. Incidence of significant control failings or weaknesses during the year

There have been no reportable incidents of significant control failings or weaknesses during the year.

8. Effectiveness of the University's external reporting processes

No significant issues have arisen as a result of the University's external reporting processes other than matters already covered within the Corporate Risk framework.

APPENDIX 1

Statement on Internal Control

As the governing body of London South Bank University, we have responsibility for ensuring that there is a process for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives of the University, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body by the OfS, according to Registration Condition E2.

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

The system of internal control is based on an ongoing process linked to the achievement of institutional objectives and designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2021 and up to the date of approval of the financial statements, and accords with OfS conditions.

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

- We meet a minimum of seven times a year (including 2 strategy days) to consider the plans and strategic direction of the institution;
- The approach to internal control is risk based, including a regular evaluation of the likelihood and impact of risks becoming a reality;
- The Group Audit and Risk Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Group Audit and Risk Committee concerning internal control and we require regular reports from managers on internal control activities and the steps they are taking to manage risks in their areas of responsibility, including progress reports on key projects;
- The Group Audit and Risk Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Group Audit and Risk Committee receives regular reports from the internal auditor, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, together with recommendations for improvement;
- The internal audit programme has been aligned with the University's corporate risk register;

- An organisation-wide register of key corporate risks is maintained, together with individual operational risk registers for each school and professional service group. Review procedures cover risk to achievement of strategic objectives, operational business matters, and regulatory compliance as well as financial risk;
- A network of risk champions exists to support risk management activity in all schools and professional service groups;
- Formal risk management and internal control procedures have been embedded within ongoing operations.

Our review of the effectiveness of the system of internal control is informed by internal audit, which operates to standards defined in the OfS Regulatory Framework and as per the Internal Audit Charter, also adheres to the definition of internal auditing, code of ethics and the standards for professional practice that are published by the Institute of Internal Auditors. The internal auditors submit regular reports, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, with recommendations for improvement.

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

APPENDIX 2: Corporate Risk Register: Residual Likelihood Matrix at 30th September 2021.

Corporate Risk Register as at 2 November 2021

Author: Karen McLernon, Head of Performance Analysis   Sponsor: Richard Flatman, Group CFO

Risk Exposure Matrix – Severity by risk type (from Risk Appetite)

Severity Rating / Risk Domain (Appetite)	Low	Medium	High	Critical
Strategic / Group overall (Moderate - Open)		(2) Full financial, academic, reputational and operational benefits fail to leverage potential of Group and fails to address changes resulting from government policy. (DP)	(1) Capability and organisational capacity to respond to change in policy or competitive landscape, including funding changes and admission thresholds (DP)	
Academic Activity (Open)		(7) Academic programmes not engaged with technological and pedagogic developments (DJ + FM) (8) Degree Apprenticeships not achieving either volume or quality and standards targets (DJ + FM) (10) External incident compromises operations of or access to a Group campus (JDS)	(5) OfS thresholds not met in relation to Condition of Registration B3 (DJ) (25) Funding, reputational and recruitment risk from Ofsted Requires Improvement ratings at LSBU, SBC and SBA (TD + FM) (26) Reduction in existing health and social care placement capacity (WT)	
Financial (Moderate)		(20) Third stream income growth unrealised (Research, Enterprise and LSBU Global) (PI) (23) Group cashflow management and banking covenant compliance (RF)	(9) High quality, cost effective curriculum that delivers good student outcomes and the financial turnaround of SBC (FM) (16) Revenue reduction if set recruitment targets are not achieved across the Group (NL) (21) Sustainability of current pension schemes (RF) (22) Affordability of infrastructure plans (RF)	
Regulatory / Compliance / Reputation (Moderate)			(6) League table rank deterioration (DJ) (11) Serious health & safety compliance failure in any Group entity. Any wider safety issue from students being radicalised or failure in the Prevent Duty (JDS) (19) IT Security fails and operations or data is compromised. Student or staff data is lost or compromised, or systems brought down through a failure of IT security processes or controls (NL + JDS) (24) Student Experience deteriorates year on year (TD)	
Operational delivery (Open)		(3) Adapting to the changed operational environment post Brexit and post Covid-19 (DP)	(17) Inability to deliver scale and quality of placement and work-based opportunities required to improve student outcomes, including GO measure (NL)	
People / Culture (Open)		(12) Low staff engagement and competitive employment market negatively impact performance and staff retention (MMJ) (13) Developing a sustainable model for future ways of working (both in terms of organisational culture and technology / estate) (MMJ + NL + PI) (14) Size and Shape. Risk that LSBU does not have the right capability/ resource in key areas (MMJ)	(15) Regional Union position impacting local relationships and current climate of industrial action (MMJ)	
Infrastructure (Open)			(4) Alignment of estate and technology with strategic requirements across the Group (DP) (18) IT service fails or becomes unavailable. University business services, applications or infrastructure fails due to poor design, lack of maintenance or system error or failure (NL)	

Risk Exposure Matrix – Impact and Residual Likelihood

IMPACT				
4 - Critical Corporate plan failure / removal of funding, degree award status, penalty / closure				
3 - High significant effect on the ability for the University to meet its objectives and may result in the failure to achieve one or more corporate objectives	(8) Degree Apprenticeships not achieving either volume or quality and standards targets (DJ + FM) (12) Low staff engagement and competitive employment market negatively impact performance and staff retention (MMJ)	(1) Capability and organisational capacity to respond to change in policy or competitive landscape, including funding changes and admission thresholds (DP) (4) Alignment of estate and technology with strategic requirements across the Group (DP) (11) Serious health & safety compliance failure in any Group entity. Any wider safety issue from students being radicalised or failure in the Prevent Duty (JDS) (17) Inability to deliver scale and quality of placement and work-based opportunities required to improve student outcomes, including GO measure (NL) (24) Student Experience deteriorates year on year (TD) (26) Reduction in existing health and social care placement capacity (WT)	(5) OfS thresholds not met in relation to Condition of Registration B3 (DJ) (9) High quality, cost effective curriculum that delivers good student outcomes and the financial turnaround of SBC (FM) (15) Regional Union position impacting local relationships and current climate of industrial action (MMJ) (16) Revenue reduction if set recruitment targets are not achieved across the Group (NL) (18) IT service fails or becomes unavailable. University business services, applications or infrastructure fails due to poor design, lack of maintenance or system error or failure (NL) (19) IT Security fails and operations or data is compromised. Student or staff data is lost or compromised, or systems brought down through a failure of IT security processes or controls (NL + JDS) (21) Sustainability of current pension schemes (RF) (22) Affordability of infrastructure plans (RF) (25) Funding, reputational and recruitment risk from Ofsted Requires Improvement ratings at LSBU, SBC and SBA (TD + FM)	(6) League table rank deterioration (DJ)
2 - Medium failure to meet operational objectives of the University		(3) Adapting to the changed operational environment post Brexit and post Covid-19 (DP) (7) Academic programmes not engaged with technological and pedagogic developments (DJ + FM) (10) External incident compromises operations of or access to a Group campus (JDS) (13) Developing a sustainable model for future ways of working (both in terms of organisational culture and technology / estate) (MMJ + NL + PI) (14) Size and Shape. Risk that LSBU does not have the right capability/ resource in key areas (MMJ) (23) Group cashflow management and banking covenant compliance (RF)	(2) Full financial, academic, reputational and operational benefits fail to leverage potential of Group and fails to address changes resulting from government policy. (DP) (20) Third stream income growth unrealised (Research, Enterprise and LSBU Global) (PI)	
1 - Low little effect on operational objectives				
	1 - Low This risk is only likely in the long term	**2 - Medium** This risk may occur in the medium term	**3 - High** The risk is likely to occur short term	**4 - Very High** The risk is likely to occur in the immediate term

RESIDUAL LIKELIHOOD

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	CONFIDENTIAL
Paper title:	Anti-Fraud, Bribery and Corruption Report
Board/Committee:	Group Audit And Risk Committee
Date of meeting:	11 November 2021
Author(s):	Natalie Ferer, Group Financial Controller
Sponsor(s):	Richard Flatman, Group CFO
Purpose:	For Information
Recommendation:	The Committee is requested to note this report on incidences of Fraud, Bribery and Corruption.

Executive summary

There are no new matters to report.

In October one matter was reported and concerned a breach of financial regulations regarding the purchase of high spec IT equipment and is being investigated in line with the Groups Fraud Response Procedure. An investigation is underway but has not yet concluded.

Recommendation

The Committee is requested to note this report.

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