SOUTH BANK UNIVERSITY ENTERPRISES LTD

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

4.15pm on Wednesday, 11 November 2015
in room 1B16, Technopark, London SE1

Agenda

		Paper No.	*Presenter*
1.	Welcome and Apologies		Chair
2.	Declarations of Interest		Chair
3.	**Year End Approvals**		
4.	Audit Findings (to consider)	UE.19(15)	Acct.
5.	Letter of representation to auditors (to approve)	UE.20(15)	Acct.
6.	Statutory accounts to 31 July 2015 (to approve)	UE.21(15)	Acct.
7.	Re-tender of external auditor (to note)	UE.22(15)	CFO
8.	SBUEL staff bonuses (to approve)	Verbal	CEO
9.	CEO bonus (to approve) (in the absence of the CEO)	Verbal	Chair
10.	Date of Next Meeting – at 3pm on Tuesday 15 December 2015		Chair

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Members: James Smith (Chair), Richard Flatman, Paul Ivey and Gurpreet Jagpal (CEO).

In attendance: Accountant and Governance Manager.

	PAPER NO: UE.19(15)
Board:	Board of Directors
Date:	5 November 2014
Paper title:	Audit findings
Author:	Rebecca Warren, Accountant
Recommendation:	The Board is requested to consider the audit findings relevant to SBUEL.

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

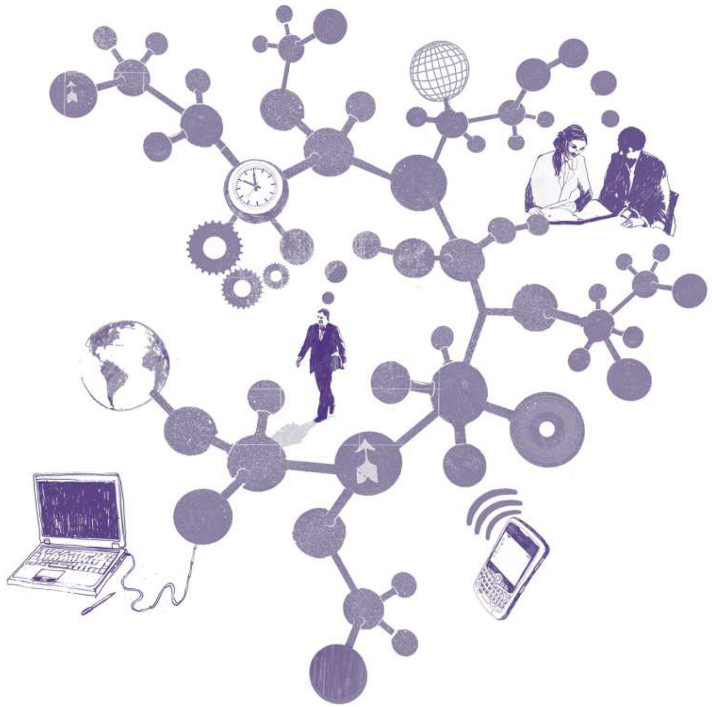
- Page 12 – no significant issues were identified as a result of the audit procedures performed in relation to South Bank University Enterprises Limited.
- Page 16 – Journals
- Page 20 – Adjusted misstatements

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

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

Year ended 31 July 2015

October 2015



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Private and Confidential

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October 2015

Dear Sirs,

Audit Findings for London South Bank University and its subsidiary undertakings for the year ended 31 July 2015

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance, as required by International Standard on Auditing (UK & Ireland) 260. Its contents will be discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours faithfully

David Barnes

Engagement Partner

Grant Thornton UK LLP

Contents

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1. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware which would require modification of our audit opinion, subject to the outstanding matters detailed below:

- Resolution of outstanding matters as per outstanding items list dated 8th October 2015
- Receipt of HESA data collection report
- Receipt of outstanding bank confirmation letters
- Completion of our VAT audit review
- Completion of our going concern review
- Completion of our internal review process
- Review of the final versions of the financial statements for LSBU and SBUEL
- Obtaining and reviewing the final management letter of representation
- Updating our post balance sheet events review to the date of signing the opinion

Status

- Potential to result in material adjustment or significant change in disclosures
- Not considered likely to result in material adjustment or change in disclosures

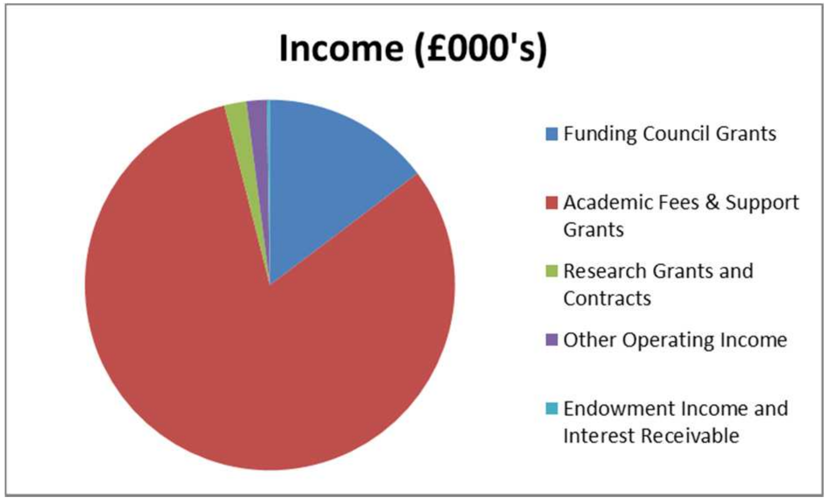
Audit opinion

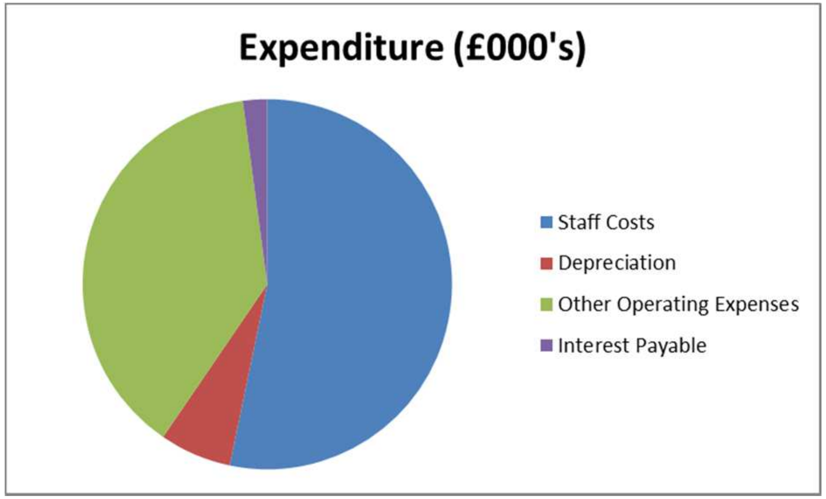
Our anticipated audit report will be unmodified for the following entities:

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

2. Context to our Audit

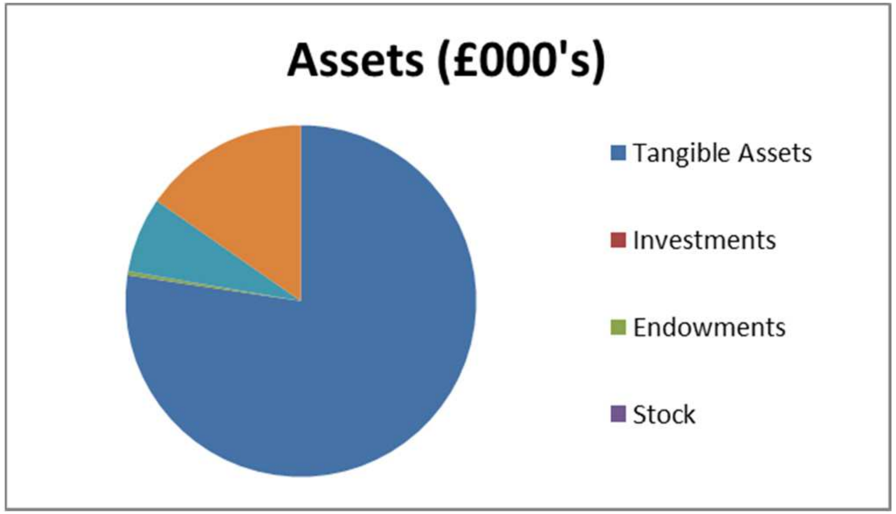
- Actual outturn for the year to 31 July 2015 of £1.2m surplus is ahead of the £1.0m budgeted surplus as submitted to HEFCE.
- There has been a reduction in Funding Council grants from £25,825k in 2014 to £17,960k in 2015. This reduction is mainly driven by the continued impact of the new fee regime for both undergraduate and post graduate students. This has been offset by a significant increase across the University's academic fees.
- Research grants and contracts income and health education contracts income have remained relatively consistent year on year.
- Student numbers have fallen overall in both Home/EU and Overseas categories. The Home/EU student numbers went from 11,914 in 2014 to 10,981 in 2015, an decrease of 7.8%. Overseas students increased from 1,366 to 1,593 in 2015, up 16.6%.
- The bulk of expenditure has continued to be staff costs which have increased from £71.7m in 2014 to £74.2m in 2015. This increase has been driven by further redundancy costs in the year. Other operating costs have also increased from £47.8m in 2014 to £53.5m in 2015. This resulted from additional agency staff costs alongside spend on the EDISON project.

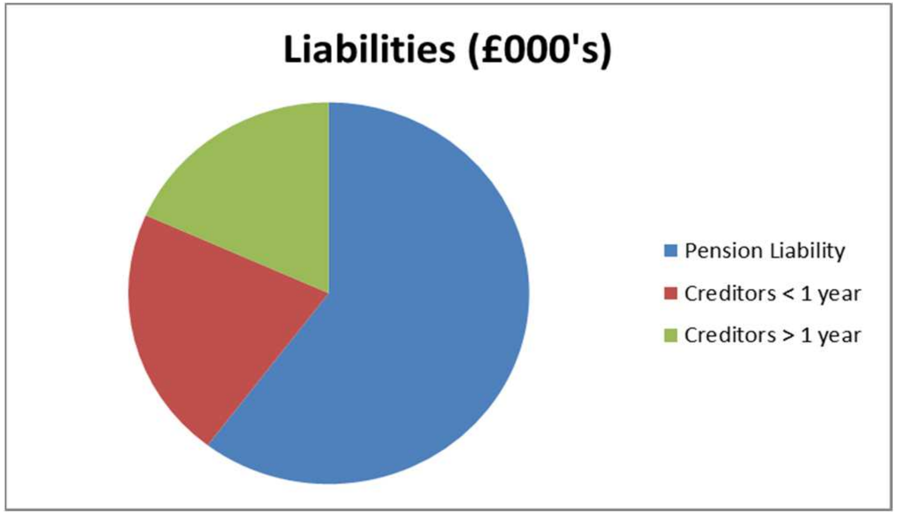




2. Context to our Audit (continued)

- Net assets at 31 July 2015 are £90.5m (2014: £101.9m). The decrease of £11.4m is primarily as a result of a £12.2m increase in the pension liability. Net current assets are £31.2m, slightly up from the prior year comparative of £29.3m.
- Bank deposits have remained stable, with a year end balance of £15.6m (2014: £15.5m).
- The largest asset on the balance sheet continues to be the tangible assets, with no significant changes from the prior year.
- The pension liability has increased to £88.8m from £76.5m in 2014. This is primarily as a result of actuarial losses of £11.0m which is due the changes in the assumptions underlying the present value of the scheme liabilities, in particular a reduction in the discount rate used from 4.2% to 3.8%. These assumptions have been reviewed by the Grant Thornton actuarial team and have been found to be in line with our expectations.





3. Overview of audit findings

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Significant audit findings?
Revenue	Significant	ISA 240 presumed risk that income cycle includes fraudulent transactions / recorded tuition fee revenues not valid	No	None
Payroll	Reasonably Possible	Theft perpetrated through payment to fictious employees	No	None
Depreciation	Remote	-	No	None
Operating Expenses	Reasonably Possible	Creditors understated or not recorded in correct period	No	None

Account	Material misstatement risk?	Description of risk	Changes to Audit Plan?	Significant audit findings?
Tangible Fixed Assets	Remote	-	No	None
Investments (non-current)	Remote		No	None
Endowments	Remote	-	No	None
Stock	Remote	-	No	None
Debtors	Reasonably Possible	Recorded debtors not valid / allowance for doubtful debts not adequate	No	None
Cash and short term deposits	Remote	-	No	None
Creditors and provisions	Reasonably Possible	Creditors understated or not recorded in correct period	No	None
Borrowings	Remote	-	No	None
Pensions	Reasonably Possible	Pension scheme assets and liabilities may be mistated	No	None
Reserves	Remote	-	No	None

Changes to Audit Plan

- We have not had to alter or change our Audit Plan as previously communicated to you on 4 June 2015.

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

	Risks identified in our audit plan	Audit findings and conclusions
1.	**Improper revenue recognition** • Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue	In addition to the testing detailed in the individual revenue streams below, we have: • reviewed and tested revenue recognition policies for all revenue streams • tested material revenue streams to ensure income recognised appropriately Please refer to point 3 for further details of our testing in this area. **Conclusion** Our audit work has not identified any significant issues in respect of revenue recognition. The University has adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies.
2.	**Management override of controls** • Under ISA 240 it is presumed that that the risk of management over-ride of controls is present in all entities.	To ensure that we have gained reasonable assurance that management over-ride of controls has not resulted in a material misstatement or fraudulent activities within the financial statements, we have performed the following work in this area: • reviewed the accounting estimates, judgements and decisions made by management • reviewed the controls in place over the accounting system and other key IT software applications • tested a sample of journal entries selected through the use of data interrogation software (IDEA) and focused on the higher risk journal postings, including reviewing any significant unusual transactions • identified the related parties of the University and reviewed the procedures in place to ensure that any related party transactions are approved, captured and correctly presented within the financial statements **Conclusion** Our audit work has not identified any evidence of management override of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues.

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

	Risks identified in our audit plan	Audit findings and conclusions
3.	**Tuition and fee revenues** • Recorded tuition and fee revenues not valid • Allowance for doubtful debts not adequate • Recorded debtors not valid	We have undertaken the following work in relation to these risks: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reconciled student data between the student database and the accounting system • performed substantive analytical review of tuition fees income, using student numbers and fees as set by the University to develop an expectation of fees income for comparison to recorded income • performed detailed testing on a sample basis in the period and agreed these back to student enrolment forms, SLC remittances, bank statements for self payers and sponsored students, and agreed back to the QLS database records • reviewed the treatment of income from the NHS and agreed this back to the contracts and cash received. NHS income appears reasonably stated with the clawback confirmed by the NHS subsequent to year end • reconciled HEFCE income to remittance advices, bank statements and correspondence with HEFCE • verified a sample of other income transactions to confirm the existence and amount of the income and to ensure that it relates to the correct period • reviewed the recoverability of debtors in respect of tuition fees, student accommodation fees and other sales ledger debtors and considered the adequacy of bad debt provisions **Conclusion** Our audit work has not identified any significant issues in relation to the risks identified.

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

	Risks identified in our audit plan	Audit findings and conclusions
4.	**Employee remuneration** • Theft perpetrated though payments to fictitious employees **Pensions liability**	We have undertaken the following work in relation to the employee remuneration risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • reviewed the reconciliation of the payroll subsidiary system to the general ledger • completed a trend analysis over monthly payroll payments • analytically reviewed payroll expenses in comparison to prior years and budgets and investigated any significant or unexpected variances • undertaken testing on a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment • performed data interrogation tests (using IDEA software) to identify exceptions such as duplicate employee names, NI numbers and have fully investigated the results • reviewed all relevant disclosures relating to staff costs within the financial statements. We have undertaken the following work in relation to the pension liability: • documented our understanding of processes and key controls over the pensions balance • reviewed the actuarial assumptions to ensure that they are reasonable • reviewed the detailed disclosures included within the financial statement to ensure full compliance with the requirements of FRS17. **Conclusion** Our audit work has not identified any significant issues in relation to the risks identified.

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

	Risks identified in our audit plan	Audit findings and conclusions
5.	**Creditors and operating expenses** • Creditors understated or not recorded in the correct period.	We have undertaken the following work in relation to this risk: • documented our understanding of processes and key controls over the transaction cycle • undertaken walkthrough of the key controls to assess the whether those controls were in line with our documented understanding • performed unrecorded liabilities testing • reviewed all significant balance sheet items and compared to prior year and expectations, investigating any significant differences • reviewed and tested a sample of items included within the year end creditors balance • undertaken testing on a sample of expenditure invoices throughout the year to gain assurance that expenditure has occurred and has been correctly classified • reviewed and tested a sample of items included within the year end creditors balance **Conclusion** Our audit work has not identified any significant issues in relation to the risks identified.

4. Audit findings – subsidiaries

This section provides commentary on matters which were identified during the course of the audit in relation to the subsidiary company.

	Subsidiary	Commentary
1.	**South Bank University Enterprises Limited**	We have not identified any significant issues as a result of our audit procedures performed in relation to South Bank University Enterprises Limited.

4. Audit findings – Other communication requirements

	Issue	Commentary
1.	**Matters in relation to fraud**	We have not been made aware of any significant incidents in the period and no other issues have been identified during the course of our audit procedures. We have also discussed fraud with the internal audit team.
2.	**Matters in relation to related parties**	We are not aware of any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	We are not aware of any significant incidences of non-compliance with relevant laws and regulations and we have noted no significant issues as a result of our regularity review.
4.	**Written representations**	As in previous years we will include a representation on data assurance in addition to our standard representations: "We confirm that we have provided to you all information relating to our contractual arrangements with HEFCE and that we currently know of nothing which could have an impact upon these arrangements and as far as we are aware at the current time, there is no adjustment to the HEFCE funds to be provided for in the financial statements."
5.	**Disclosures**	We are yet to carry out a detailed technical review of the financial statements and our work in this area is pending. These will be communicated to the finance team and their resolution will be discussed and reviewed in the final set of financial statements.
6.	**Going Concern**	We are currently finalising our review of going concern. However from our discussions and understanding of the University, we do not anticipate any issues to be identified that would cause concern about the going concern status in the 12 months following the signing of the audit report.

5. Internal controls

- The purpose of an audit is to express an opinion on the financial statements.
- Our audit included consideration of internal control relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control
- The matters being reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with ISA 265
- If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported.
- During our work we have met with the internal auditors and held independent discussions to make sure we are aware of any issues they may have that might be relevant for our external audit, or where we believe we should make them aware of any concerns arising from our work. Although we do not place direct reliance on the work of the internal auditors, we take into account their findings, and if necessary amend our audit approach as may be required.

	Assessment	Issue and risk	Recommendations
London South Bank University:			
1.	●	**Payroll controls** We tested a sample of employees to contract and identified two cases where the employment contract on file was not signed by the employee. The existence of the employee was verified to other supporting documentation.	We recommend that signed contracts are obtained for all employees and maintained on file. **Management response** Most staff will have an HR induction on their first day of work and at this meeting HR will check that all starter procedures have taken place, including ensuring contracts have been signed. One of the cases identified during the audit was an hourly paid lecturer (HPL), whose induction was carried out in the school and not in HR as is the normal process. There are no plans to change this process. The other missing contract was for a permanent member of staff and the file containing a signed employment contract has now been found.

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

5. Internal controls (continued)

	Assessment	Issue and risk	Recommendations
2.	●	**Bank account controls** It came to our attention through the receipt of a bank confirmation from Barclays that there was an account that was not included in the accounts and for which bank reconciliations were not carried out. The bank letter confirmed this was a zero balance at year end and there has been no activity since the year end. However the last statement received was dated November 2014.	We recommend all bank accounts that are not used are closed. In addition all bank accounts should be reconciled on a monthly basis to ensure no fraudulent activity has taken place. The University should also ensure that all bank accounts are added to the Agresso system. **Management response** The account in question was a Euro account held at Barclays which has not been used for a number of years. We will write to Barclays and ask them to close the account. Responsibility: Natalie Ferer Date: 20 November 2015
3.	●	**Fixed asset register** A disposal was made of the Student Union building and the fixtures and fittings of Eileen House in 2013/14, but this was not picked up as part of the 2013/14 accounts process and remained on the fixed asset register. The asset has now been removed. The assets were fully depreciated and were sold for nil consideration, so there is no impact to the financial statements. As such, this has been included within the financial statements as a current year transaction.	We recommend the controls around disposals are tightened to ensure future disposals are removed from the fixed asset register on a timely basis. **Management response** We will put in place an annual process to verify that fixed assets recorded on the fixed assets register are in existence and have not been disposed of. Responsibility: Natalie Ferer Date: 31 July 2016

Assessment

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

5. Internal controls (continued)

	Assessment	Issue and risk	Recommendations
4.	●	**Fixed asset retentions** We identified that the University had not accrued for retentions against assets completed in the period. As the asset is complete, it should be recognised in full. We have proposed an adjustment to reflect this.	We recommend that the University accrues for any retentions in future periods. **Management response** The retentions relate to a number of completed projects. In the future we will accrue retentions annually as part of the cost of the fixed asset. Responsibility: Natalie Ferer Date: 31 July 2016
South Bank University Enterprises Limited:			
5.	●	**Journals** Testing has identified that the manual journal type of G1 journals for South Bank University Enterprise Limited do not have a formal review process in place. This is not considered to be a significant deficiency as oversight of all posted journals is provided by the University.	We recommend a review process is put in place, similar to the current process with the G6 journals for the London South Bank University. **Management response** Agreed. In the future SBUEL journals will be subject to the same review process as those posted in the University's accounts. Responsibility: Natalie Ferer Date: 30 November 2015

Assessment

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

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

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	● (green)	**Payroll controls** In the prior year, our work on duplicates testing identified one employee record which appeared in Oracle, the HR system, twice. On the basis of the work performed, we conclude that no instances of duplicate payments were made to this employee in the financial year ended 31 July 2014. We understand from HR that this was caused due to an Oracle application disk issue whereby a 'ghost' record had been created within the Oracle data tables at some point in the past. This meant HR were unable to do any further updating of this record but it has subsequently been removed from the Oracle system. **Management response** Recommendations addressed by management.	• No issues noted from the testing performed in the current year.
2.	● (amber)	**IT control findings** In the previous year we raised a number of IT recommendations. These have been set out within Appendix A.	• Review of the IT control recommendations has identified that they all remain outstanding. Where the recommendation relates to the IAM project, the expected completion date has moved from March 2015 to November 2015. **Management comment:** However, progress has been made in many areas, notably we have developed and updated several policies to increase our level of information security (audit finding 2). Manual controls are in place to reduce the risk of legacy systems (audit finding 1). Where we have been unable to enact technical controls (audit findings 4 and 6), we have robust policies to mitigate the control area. While we are heavily reliant on the IAMs project closure to address these areas, mitigating controls have been enacted in the interim and progress has been made since the previous audit.

Assessment

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

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

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3.	● (amber)	**Journals authorisation** In the previous year, we noted there are practical reasons why two authorisation systems are currently in operation: the J5 system being used for large multi-line journals and the G6 system for short corrections and adjustments. As a result of this, we had also noted that manual G6 journals posted by the Financial accountant were not reviewed or approved by the financial controller until the end of month process. Our previous recommendations in this area were as follows: • all journals posted should have a description of what the posting relates to. This would aid the reviewer and approver as part of the authorisation and monitoring control over journal postings • all supporting documentation in relation to a journal is uploaded onto Agresso by the team. **Management response** All G6 journals should include an appropriate description and a monthly check will take place to ensure that this procedure is followed by finance staff preparing these types of journal.	• Following our work in this area in the current year, we are pleased to report a significant improvement in the area of supporting documentation and descriptions for journals. • However, we continue to recommend that management ensure that all journals posted have a description, as we found a small number of journals with no description, for only G6 journals this year. **Management comment:** During the course of the audit, three journals were found not to have a description entered onto Agresso. Going forward, the monthly journal review process will include a check that all journals have appropriate descriptions. Responsibility: Natalie Ferer Date: 30 November 2015

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

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

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4.	● (amber)	**Suspense account** In the prior year, we recommended that the suspense account is cleared on a timely basis and allocated to the appropriate areas. We carried out further testing in respect of the use of the suspense account as part of review of journals posted to the account in the year. We have no issues to report from our testing in this area. **Management response** The suspense account is normally cleared to zero as part of the month end process but this balance was not corrected at the year end. The suspense account will continue to be reviewed monthly to prevent this error re occurring.	• During our review this year, we noted that the balance on the suspense account at the year end has reduced significantly from £309,000 in the previous year to £10,000 in the current year. • Whilst the balance is not considered to be significant to the financial statements, due to the nature of this account, we continue to recommended that all suspense accounts are cleared on a timely basis and allocated to the appropriate areas. **Management comment:** The £10,000 balance is made up of 18 smaller transactions, mostly where we have received income directly into our bank account but we are not able to identify where the receipt should be posted. In these circumstances, transactions should be posted to a sundry creditors account rather than leaving in suspense. Responsibility: Natalie Ferer Date: 30 November 2015

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

6. Adjusted misstatements

London South Bank University:

There were no adjusted misstatements for London South Bank University.

South Bank University Enterprises Limited:

The adjusted misstatement is shown below. There was no impact on the reported surplus for the period.

	Detail	Profit and loss account £'000	Balance Sheet £'000	Impact on surplus £000
1	Trade debtors Trade creditors *Being the reclassification of credit balances from the debtors listing*	-	DR 86 CR 86	
	Overall impact	**-**	**-**	**-**

6. Unadjusted misstatements

London South Bank University:

The unadjusted misstatement is shown below. There would be no impact on the reported surplus for the period.

	Detail	Profit and loss account £'000	Balance Sheet £'000	Impact on surplus £000
1	Tangible fixed assets Accruals *Being the accrual for retentions against assets completed in the period.*	-	DR 384 CR 384	
	Overall impact	**-**	**-**	**-**

South Bank University Enterprises Limited:

There were no unadjusted misstatements for SBUEL.

7. Non-audit fees and independence

	Fees	Threat Y/N	Safeguard
Statutory audit	£41,795	No	
Non-audit services			
Tax compliance services	£2,575	Yes	Use of separate teams
iXBRL tagging	£850	No	Use of separate teams
Total non-audit services	£3,425		

The above non-audit services are consistent with the University's policy on the allotment of non-audit work to your auditors.

Independence and ethics:

Ethical standards and ISA UK 260 requires us to give you full and fair disclosure of matters relating to our independence. In this context, we disclose the following to you:

- we confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements
- we confirm that we have implemented policies and procedures to meet the requirement of the Auditing Practices Board's Ethical Standards

8. Pension

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

Mortality (based on future life expectancies at the age of 65)	2015	Benchmark* (years)
Current pensioners	21.9	22.6
Future pensioners	25.1	24.5
* Median has been obtained from information provided by our actuarial experts		

Mortality / life expectancy
The derivation of the assumption for future mortality is one of the most subjective areas of the actuarial basis. The assumption for mortality before retirement has a relatively minor impact on the liabilities and this section therefore considers only the assumptions made for mortality after retirement.

The Base Table
The base table that has been used in the calculations is the Club Vita tables, which is based on the mortality experience of the Scheme itself.

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

The table opposite shows that the illustrative life expectancies under the Actuary's assumptions are in each case below the median assumptions, but they are considered to be within reasonable thresholds and have been discussed and agreed with the University.

8. Pension (continued)

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

Actuarial assumptions	2015	2014
Pension increases	2.6%	2.7%
Salary increases	4.4%	4.5%
Discount rate	3.8%	4.2%
CPI increases	2.6%	2.7%

Pension increases
Increases in payment – 2.60% p.a (CPI)
Increases in deferment – 2.60% p.a (CPI)
The assumptions for pension increases are based on (CPI) inflation. These assumptions should be based on the inflation assumption but adjusted to allow for the relevant cap and floor (if applicable) to the extent that inflation is expected to vary in future years. Given our expectations of future inflation volatility (based on past experience), we are happy that the proposed assumptions for pension increases are appropriate.

Salary increases
The rate assumed for salary increases is 4.40% pa, which represents a 0.90% pa real salary increase above the RPI inflation rate assumption adopted. In the past the usual range was between 0.5% and 1.5% pa above RPI inflation. However, due to changing economic conditions, the typical margin we have observed over recent periods has reduced to, in some cases, a zero margin.
As this assumption is based on long term expectations, we have confirmed with the University that this in line with their long term business plans.

Discount rate
The discount rate should be determined by reference to market yields at the balance sheet date on high quality corporate bonds. For this purpose, in the UK, the universal approach is to base the discount rate on the yields available on AA-rated corporate bonds of appropriate term and currency to the liabilities.

The yield on the iBoxx AA-rated Corporate Bond Index (for terms of over 15 years) (the "iBoxx index") as at 31 July 2015 was 3.48% pa. The Actuary has adopted a discount rate of 3.80% pa as at 31 July 2015.

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

CPI increase
Standard practice is to derive the CPI assumption based on the RPI assumption. Based on the RPI assumption a downward adjustment of 0.90% has been made to RPI inflation in this case. Since the introduction of the CPI measure in 2010, we have been observing downward adjustments of between 0.50% and 1.00%, from the RPI to produce estimates of CPI.

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

9. Communication of audit matters with those charged with governance

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the Group's accounting and financial reporting practices, significant matters and issue arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence		✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to Going Concern		✓
Matters in relation to the Group audit, including: Scope of work on components, involvement of group auditors in component audits, concerns over quality of component auditors' work, limitations of scope on the group audit, fraud or suspected fraud	✓	✓

International Auditing Standard (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, The Audit Findings, outlines those key issues and other matters arising from the audit, which we consider should be communicated in writing rather than orally, together with an explanation as to how these have been resolved.

Distribution of this Audit Findings report

Whilst we seek to ensure our audit findings are distributed to those individuals charged with governance, as a minimum a requirement exists for our findings to be distributed to all the governing body and those members of senior management with significant operational and strategic responsibilities. We are grateful for your specific consideration and onward distribution of our report, to those charged with governance

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISA's (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Appendix A - IT control findings - Actions taken on issues raised in previous year

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
1.	● (amber)	**Proactive reviews of logical access within iTrent and network domain** User accounts and associated permissions within iTrent and network domain access are not proactively reviewed for appropriateness. **Implication** a) No-longer-needed permissions granted to end-users may lead to segregation of duties conflicts b) Access privileges may become disproportionate with respect to end users' job duties **Recommendations:** • It is our experience that access privileges tend to accumulate over time. As such, there is a need for management to perform periodic, formal reviews of the user accounts and permissions within all financially critical systems (including Active Directory). • These reviews should take place at a pre-defined, risk-based frequency (annually as a minimum). We are aware that user accounts on iTrent are being reviewed, but this process is not documented. • These reviews should evaluate both the necessity of existing user ID's as well as the appropriateness of user-to-group assignments (with due consideration being given to adequate segregation of duties). **Management response** • LSBU is currently engaged in project to replace Identity and Access Management (IAM) systems. Once live these projects will tie access to role rather than relying on manually granted permissions which then accumulate. The monthly review of access for core payroll system users will be documented in the future. Expected to be complete by March 2015. • iTrent - A monthly review of access for core payroll system users is already in place and performed by the Payroll Manager who is responsible for security and access rights. There are around 10 users of iTrent and as such the risk of user accounts becoming out of date is low.	• The recommendation remains in place. The expected completion date has moved to November 2015. For management comments please see page 17.

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

Appendix A - IT control findings - Actions taken on issues raised in previous year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
2.	●	**Lack of information security policies and procedures** We note that following procedures are not documented • User creation process • User termination process • User access review process Further, Information security policy and the change management policy are not reviewed on periodic basis (the last review was July 2009). We also note these policies are not approved from the senior management. **Implication** Lack of sufficient IT policies and procedures may lead to information security processes, requirements and controls inconsistently defined, understood, and implemented throughout the organisation. This may lead to inconsistent controls deployed and may leave potential vulnerabilities in access management, server security, network security, which can also lead to inappropriate access to underlying financial data. **Recommendations:** • A user access management policy should be established, formally approved by the appropriate members of the organization, and communicated to relevant personnel responsible for implementing them and/or abiding by them. • Once established, these documents should be formally reviewed (at least annually) to ensure their continued accuracy and appropriateness. Examples of topics commonly addressed within user access management policy are user access provisioning, user access reviews, password control requirements, account lockout restriction requirements, and restriction of administrative access, acceptable use of IT resources, information security event monitoring, and information security incident handling. • Typically, policies exist to address high-level control requirements as defined by the organization's information security or compliance group while procedures exist for individual systems which outlining security-related processes and controls unique to that system. **Management response** • These polices and processes are also affected by the project for IAM. Policies on security will be reviewed and updated by December 2014.	• The recommendation remains in place. The expected completion date has moved to November 2015. For management comments please see page 17.

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

Appendix A - IT control findings - Actions taken on issues raised in previous year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
3.	● (amber)	**Acknowledgement of IT security policy** Staff employment contracts require employees to abide by London State Bank University policies, which includes the IT Acceptable Use Policy. However, employees are not required to periodically formally acknowledge that they have read, understand, and will abide by the organisation's information security policy requirements **Implication** It is important that senior management promote a culture where end-users of information resources are aware of their roles, responsibilities and accountability with respect to security of information assets. The lack of periodic formal acknowledgements of information security requirements may make disciplining employees for inappropriate use of information resources more difficult. The lack of these acknowledgements may lead to a lack of employee awareness of expectations over the use of IT resources. For example, a user who is caught sharing personal passwords with other employees may be able to claim ignorance of any wrongdoing. **Recommendations:** • Management should introduce a process whereby employees are required to periodically (at least annually) acknowledge that they have read, understand, and will abide by requirements outlined in the organisation's information security policies. • An example of a low impact method of implementing this control would be to introduce a 'splash' screen that users are presented with at each log-in that states that by using their machine they have read and will abide by the IT Acceptable Use Policy. **Management response** • We will review this recommendation and consider how best to implement as part of on-going Identity and Access Management (IAM) work. We recognize that the University should improve its processes for staff acknowledging that they accept IT acceptable use policy. We will address this as part of the IAM work with a target date of March 2015	• The recommendation remains in place. The expected completion date has moved to November 2015. For management comments please see page 17.

Assessment

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

Appendix A - IT control findings - Actions taken on issues raised in previous year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
4.	● (amber)	**Password complexity** Password complexity (i.e. requirement that passwords must contain at least one numeric, number and special character) is not enforced within Active Directory. Users of the QLX application are not forced to routinely change their passwords. **Implication** This may lead to compromise of user accounts through password guessing or cracking. Further, compromised user accounts may be misused by unauthorised users to circumvent internal controls and may lead to inappropriate access to data. **Recommendations:** • Password complexity should be enforced within Windows domain access. • If possible, the organisation should enable restrictions within the QLX application to force users to change their passwords on a regular risk-based frequency (e.g. every 90 days). **Management response** • QLX - There is password enforcement within the system for Users and their associated Workgroups. Password limits can be configured and are currently set to 99 logins, when users are forced to change their password. • Windows - Complexity not currently enforced due to legacy systems. These will be replaced by IAM and complexity enforced at that point.	• The recommendation remains in place. For management comments please see page 17.

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

Appendix A - IT control findings - Actions taken on issues raised in previous year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
5.	● (amber)	**Terminated user process for QLX application** There are no documented procedures in place to ensure the timely notification to the QLX application manager of terminated employees from the registry team. **Implication** Without processes to automatically inform the IT department of terminated users, there is a risk that the access rights of these users would not be removed from the system, exposing the data to unauthorised access which would not be detected in a timely manner **Recommendations:** • A process whereby the registry team is assigned specific responsibility for notifying the IT department of all terminated users should be introduced. • Additional assurance over this process operation could be achieved if it could be automated. For example, if an interface to the HR system, which flags up user terminations, could be introduced. The IT department should complement the control with a periodic review of all terminated users provided from Human Resources against the active network accounts. **Management response** • We have manual notifications in place but we recognize that an automated feed will increase the accuracy and timeless of notifying IT. The Identity Management project will make this an automatic rather than manual process. (See point 1.) • QLX - An additional manual process in Registry notifies ICT of terminated users.	• The recommendation remains in place. For management comments please see page 17.

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

Appendix A - IT control findings - Actions taken on issues raised in previous year (continued)

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
6.	● (amber)	**Logical access parameters** We continue to recommended that the following best practice password parameters be enforced on the network, Agresso Web and the core Agresso system: • minimum password length of 6-8 characters • minimum password age of at least 1 day • maximum password age of 30-60 days • alphanumeric passwords (complexity) enabled • account lockout set to 3-5 invalid lockout attempts • inactivity lockout set to 10-20 minutes • lockout period should be set to indefinite, with access only • reinstated by an administrator **Management response** A revised identity management system is being implemented to address this control weakness. The following parameters are already in place for the network and applications controlled by Active Directory: • minimum password length 6 charterers • account log out set for 3 attempts • lock out period indefinite. the other parameters will be addressed as part of the AIM project.	• The recommendation remains in place. The expected completion date has moved to November 2015. For management comments please see page 17.

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

Appendix B - Financial Reporting and Sector Update

Accounting developments for 2015-16

There are no changes to the accounting guidance impacting on the University's 2014-15 accounts.

The new accounting requirements, included in Financial Reporting Standard 102 (FRS102) apply to the financial statements of the University for first time in 2015/16. We continue to liaise with the University's finance team on the likely impact of the new SoRP on the University's accounts.
HEFCE has issued its Accounts Direction to apply to the University's 2015-16 accounts. The only change from the current year is a requirement to disclose in the Statement of Internal Control the existence of any material adverse event or serious untoward incident that is required to be reported to HEFCE under the Memorandum of Assurance and Accountability. This would include any incident relating to the "Prevent" duty or to terrorism.

Higher Education in England 2015-Key facts (July 2015)

HEFCE have published their latest annual report on the latest shifts and trends in higher education identifying key issues in the sector. The main highlights this year are:

-the number of full time undergraduate entrants increased in 2014-15, but growth may be slowing
-however, the overall undergraduate student population will continue to grow in 2015-16 as a result of the "dropping out" of the smaller 2012-13 year's cohort
-the decline in undergraduate entrants to part time courses has continued
-the decline in the 18 year old demographic in the UK and EU will present a challenge to student numbers over the next five years
-numbers of postgraduate student entrants has increased again this year but at a lower rate than in the previous year
-there is a continuing reliance of international students on post graduate masters programmes, with as many Chinese as UK students on these programmes. International students make up over a half of students on post graduate STEM courses. This dependence on overseas students on these programmes creates a greater risk of volatility of demand
-disparities between HE participation in advantaged and disadvantaged areas remains large
-interest in studying STEM subjects continues to grow whilst the decline in modern language courses appears to have stabilised for now
-the financial health of the sector is stable but the forecast is a declining trajectory which is not sustainable and there remains a considerable risk of exposure to volatility in the overseas student market

Appendix B - Financial Reporting and Sector Update (continued)

Thrive or Survive- The financial Health of the Higher Education sector in the UK 2015-Grant Thornton

Grant Thornton has published its latest annual review of the financial health of the Higher Education sector, based on an analysis of University accounts for 2013-14. The report highlights that many Universities will continue to thrive whilst others will find the changing operating environment much more of a challenge. Overall, 2014-15 was another good year for the sector with increases in income, surpluses and cash balances. The report highlights a number of risks impacting on Universities impacting more on some than others. The removal of the Student Numbers Cap will mean even greater competition for students and the need for Universities to explain their proposition (ie Brand) has never been more essential. There continues to be a high dependence on the overseas student market which is increasingly seen to be volatile and so Universities need mitigation strategies if demand were to reduce.

There is much debate about what levels of surplus Universities need to generate to be financially sustainable. Universities have been encouraged to determine what cash they need to generate over the next five years to meet their investment needs and to consider how they might achieve the amounts required. The report highlights that some Universities will have to increase their surpluses if they are going to meet their future investment needs, including improving and maintaining their estate. The report has concluded that most Universities will have to generate cash in the region of 7-12% of income to be sustainable. BUDFG is developing a financial indicator based on revenue cash generated to help assess the comparative performance of Universities.

HEFCE Teaching Grant Funding

HEFCE has notified Universities of proposed reductions in teaching grant for 2014-15 and 2015-16, arising out of the Chancellor's budget announcement in June. Savings of some £150m are required to be made and whilst part of these will be achieved whilst protecting core teaching grant funding, an average funding reduction of some 2.4% will be made to Universities' recurrent grant funding in 2014-15. The precise reduction for individual Universities will be notified in October and will need to be reflected in the University's 2014-15 accounts. HEFCE also remind Universities that they need to budget prudently in 2015-16 as there are possible further reductions to teaching grant funding to be announced by the Government.

Appendix B - Financial Reporting and Sector Update (continued)

The Committee of University Chairs (CUC) – Higher Education Code of Governance

The Committee of University Chairs (CUC) has published in December 2014 an updated version of the Higher Education Code of Governance ('Code'). A full copy of the Code can be downloaded from this link: http://www.universitychairs.ac.uk/wp-content/uploads/2015/02/Code-Final.pdf

The Code applies on a "comply or explain" basis – meaning that if governing bodies do not follow parts of the code, they must explain why. This new Code is effect from 1 January 2015 and therefore Higher Education Institutions (HEIs) are not expected to be in a position where they are fully to comply with the new code for 2014/15 year ends.

The new Code incorporates revised parts of the previous version and also includes new governance principles. A summary of some of the key changes have been outlined below.

- There is a new governance principle which focuses on "public interest and the safeguarding of public funds alongside the interests of the institution when considering all forms of payment, reward and severance" in the context of determining the remuneration of the Vice-Chancellor.
- The Code highlights that "the governing bodies must ensure that its decision-making processes are free of any undue pressures from external interest groups, including donors, alumni, corporate sponsors and political interest groups."
- The Code states that governing bodies "could consider" the "formalisation" of a deputy chair's role. This role could "act as an intermediary with other members, and potentially can be helpful if there are significant differences of view within a governing body or with the executive." This role can provide a sounding board for the Chair. The Code also states that "as a Deputy Chair may assume the responsibilities of the Chair, the expectation is they would be similarly independent of the institution."
- The need for transparency remains high on the agenda and the Code suggests that governing bodies should manage their affairs in an "open and transparent manner" as well as publishing minutes and agendas of meetings.

This document is prepared solely for London South Bank University and should be read in its entirety. Grant Thornton UK LLP does not owe a duty of care or assume a responsibility to any third party who chooses to rely on any information contained in this document. Any third party who relies on this information does so entirely at their own risk.

	PAPER NO: UE.20(15)
Board:	Board of Directors
Date:	11 November 2015
Paper title:	Letter of Representation to the auditors Grant Thornton
Author:	Rebecca Warren, Accountant
Recommendation:	The Board is requested to approve the Letter of Representation.

The Board are asked to review and approve the letter of representation. It is to be signed on 26 November 2015, when the accounts are signed.

There are no non-standard representations in the letter.

{Prepare on SBUEL letterhead**}**

Our Ref: SBUEL(1415)/DB/NT

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

{Date to be entered**}**

Dear Sirs

South Bank University Enterprises Limited
Financial Statements for the Year Ended 31 July 2015

This representation letter is provided in connection with the audit of the financial statements of South Bank University Enterprises Limited for the year ended 31 July 2015 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with UK Generally Accepted Accounting Practice.

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

Financial Statements

i We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 14 September 2015, for the preparation of the financial statements in accordance with UK Generally Accepted Accounting Practice; in particular the financial statements give a true and fair view in accordance therewith.

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

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

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

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

vi The financial statements are free of material misstatements, including omissions.

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

Information Provided

viii We have provided you with:

a. access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
b. additional information that you have requested from us for the purpose of your audit; and
c. unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

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

xi We have disclosed to you our knowledge of fraud or suspected fraud affecting the entity involving:

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

xii We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

xiii We have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

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

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

Yours faithfully

On behalf of the Board of Directors of South Bank University Enterprises Limited

	PAPER NO: UE.21 (15)
Board:	Board of Directors
Date:	11 November 2015
Paper title:	Draft report and accounts, 2014/15
Author:	Rebecca Warren, Accountant
Recommendation:	That the Board approves the draft report and accounts for 2014/15.

Executive summary

The statutory accounts are presented to the Board for approval.

The Board is requested to approve the gift aid payment of £350k to London South Bank University which is in line with the Gift Aid Policy – please see below.

The accounts will be signed on 26 November 2015, following the approval of the University consolidated accounts by the Board of Governors of the University.

Gift Aid Policy approved by the Board at the SBUEL Board meeting on 26 June 2012, updated at the SBUEL Board meeting on 18 March 2015

South Bank University Enterprises Ltd (SBUEL) is the trading subsidiary of London South Bank University (the University), and is entirely owned by the University. Each year, the taxable profit of SBUEL is calculated alongside the calculation of the accounting profit. Normal policy is that once the accounts have been finalised, the taxable profit is paid by SBUEL to the University by Gift Aid, thereby eliminating all taxable profits of SBUEL in year and avoiding any corporation tax charges. However, subject to agreement by LSBU, the directors of SBUEL may recommend retaining an element of the taxable profits within SBUEL, and paying the associated corporation tax charge. Additionally, a Gift Aid payment will not be made which causes the reserves of SBUEL to become negative, or if the reserves are already negative. Gift Aid payments must be made within nine months of the year-end (so if the year-end is July, the payment must be made by the end of the following April). The corporation tax return, which must be submitted to HMRC within one year of the year and, is prepared after the Gift Aid has been paid.

Company Registration No. 2307211

South Bank University Enterprises Limited

Report and Financial Statements

31 July 2015

South Bank University Enterprises Limited

Report and financial statements 2015

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Report and financial statements 2015

Officers and professional advisers

Directors

Mr James Smith CBE (Chair)

Professor Julian Beer (resigned 11 March 2015)

Mr Richard Flatman

Mr Gurpreet Jagpal (appointed 6 October 2014)

Professor Paul Ivey (appointed 10 December 2014)

Secretary

Mr James Stevenson

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103 Borough Road
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Bankers

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City of London Office
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London
EC2R 8PA

Solicitors

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Mills and Reeve LLP, Botanic House, 100 Hills Road, Cambridge CB2 1PH

Michelmores LLP, 48 Chancery Lane, London WC2A 1JF

Veale Wasbrough Vizards, LLP Orchard Court, Orchard Lane, Bristol BS1 5WS

Auditors

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

South Bank University Enterprises Limited
Company Registration No. 2307211

Directors' report

Ownership

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

Review of Activities

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

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

Result for the year

Turnover of £2,184,662 was an increase of 10% from 2014, and the company reported a profit before Gift Aid of £410,122.

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

Statement of directors' responsibilities

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

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

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

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

In so far as each of the directors is aware:

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

Future Prospects

The Company foresees trading conditions to remain challenging over the next 12 months. Strong competition from other universities and external organisations, allied to generally tight trading conditions and cutbacks in Central and Local Government expenditure, are expected to impact upon the Company's activities and income. However, the Company's restructure in 2014 has positioned it better to deliver its objectives in the face of continuing market

Directors' report

challenges. While growing research, enterprise and innovation links with commercial organisations, especially medium and large businesses, remains a priority; the Company is also increasingly focusing on opportunities to increase its incubation and tenant services as well as enhanced opportunities to deliver professionally accredited Continuing Professional Development. In addition, with the opening of the Clarence Centre for Enterprise and Innovation, the Company is building its commercial engagement with the local community of start-ups and SMEs in South East London and more widely. The Company will continue to support the protection of and commercialisation of intellectual property generated by the University.

Directors who served during the year

Mr James Smith CBE (Chair)

Professor Julian Beer (resigned 11 March 2015)

Mr Richard Flatman

Mr Gurpreet Jagpal (appointed 6 October 2014)

Professor Paul Ivey (appointed 10 December 2014)

Directors' Interests

No Director had any interest in any contract which subsisted during the period of the report, other than in the ordinary course of the Company's business (2014: none).

No Director had any interests in the shares of the Company or any other group company (2014: none).

Employees

As at the year-end the Company had 13 employees. All other persons associated with the Company are employees of London South Bank University.

Auditors

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

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

Approval

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

Mr James Smith

Chairman and Director

26 November 2015

Independent auditor's report to the members of South Bank University Enterprises Limited

We have audited the financial statements of South Bank University Enterprises Limited for the year ended 31 July 2015 which comprise the profit and loss account, balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 July 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

David Barnes
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
London
26 November 2015

South Bank University Enterprises Limited

Profit and loss account
Year ended 31 July 2015

	Note	2015 £	2014 £
Turnover	1	2,184,662	1,980,892
Cost of sales		(809,212)	(1,187,325)
Gross profit		1,375,450	793,567
Administrative expenses		(968,574)	(855,052)
Operating profit/(loss)	2	406,876	(61,485)
Interest receivable	4	3,246	4,607
Profit/(loss) on ordinary activities before Gift Aid for the financial year		410,122	(56,878)
Gift Aid	5	350,000	-
Profit/(loss) on ordinary activities after Gift Aid for the financial year		60,122	(56,878)
Tax on profits on ordinary activities	6	-	-
Profit/(loss) on ordinary activities after taxation for the financial year		60,122	(56,878)

All activities relate to continuing operations.

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

South Bank University Enterprises Limited
Company Registration No. 2307211

Balance sheet
As at 31 July 2015

	Note	2015 £	2014 £
Fixed assets			
Investments	7	69	69
Current assets			
Debtors	8	399,679	194,652
Cash at bank and in hand		129,626	963,653
		529,305	1,158,305
Creditors: amounts falling due within one year	9	(380,024)	(1,069,146)
Net current assets		149,281	89,159
Total assets less current liabilities		149,350	89,228
Net assets		149,350	89,228
Capital and reserves			
Called up share capital	10	10	10
Profit and loss account	11	149,340	89,218
Total equity shareholders' funds/(deficit)		149,350	89,228

These financial statements were authorised and approved by the Board of Directors on 26 November 2015.

Signed on behalf of the Board of Directors

Mr James Smith

Chairman and Director

Principal accounting policies
Year ended 31 July 2015

Basis of Preparation

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

Accounting Convention

The accounts have been prepared under the historical cost convention.

Going Concern

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

Turnover

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

Cost of Sales

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

Fixed Asset Investments

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

Cash Flow Statement

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

Taxation

The Company makes a Gift Aid payment to London South Bank University sufficient to reduce any taxable profit for the year to zero, subject to the requirement not to cause the reserves of the Company to become negative. Taxable profit differs from the net profit/(loss) as reported in the profit and loss account because it excludes items of income or expenditure that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation is provided in full on timing differences that result in an obligation at the balance sheet date to pay more tax or a right to pay less tax at a future date, at rates expected to apply when they crystallise based on current tax rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in periods different from those in which they are included in the financial statements. Deferred tax assets are recognised to the extent that it is regarded as more likely than not that they will be recovered. Deferred tax assets and liabilities are not discounted.

Foreign currency

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

South Bank University Enterprises Limited

Notes to the accounts
Year ended 31 July 2015

1. Turnover

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

	2015	2014
	£	£
United Kingdom	2,153,065	1,902,821
Other European countries	31,597	36,798
North America	-	4,908
Australasia	-	36,365
	2,184,662	1,980,892

2. Operating profit/(loss)

	2015	2014
	£	£
Operating profit/(loss) is stated after charging		
Fees payable to the Company's auditor:		
- for taxation advice	6,103	3,818

The Company's audit fee of £4,110 has been included in the audit fee charged to London South Bank University. (2014: £3,713).

3. Staff costs and Directors' remuneration

The Company had 13 employees at the year-end (2014:15). All other persons associated with the Company are employees of London South Bank University.

	2015	2014
	£	£
Costs:		
Wages and salaries	814,330	788,313
Social security costs	74,334	72,142
Employers' pension contributions	65,296	55,361
	953,960	915,816

No Director employed by the company received remuneration exceeding £100,000 (2014: one Director employed by the Company received remuneration totalling £103,000).

4. Interest receivable

	2015	2014
	£	£
Bank interest receivable	3,246	4,607

Notes to the accounts
Year ended 31 July 2015

5. Payment under Gift Aid

For the year ending 31 July 2015 the company has approved payment of £350,000 of its taxable profit under the Gift Aid scheme to London South Bank University (2014: £nil).

6. Taxation

The 2015 tax charge is nil (2014: nil).

	2015	2014
	£	£
Profit/(loss) on ordinary activities before tax	60,122	(56,878)
Taxation on profit/(loss) on ordinary activities at 20.67% (2014: 22.33%)	12,425	(12,702)
Effects of:		
Fixed asset differences	-	822
Expenses not deductible for taxation purposes	69	147
Other permanent differences	322	-
Depreciation in excess of capital allowances	3,407	4,866
Other short-term timing differences	(4,247)	(6,051)
Unrelieved tax losses and other deductions	(11,976)	12,918
Current tax	-	-

A deferred tax asset has not been recognised in respect of timing differences relating to capital allowances and trading losses as there is insufficient evidence that the asset will be recovered.

The amount of the asset not recognised is £11,744 (2014: £24,147).

The asset would be recovered if suitable taxable profits were to arise in the future against which the asset could be offset.

Notes to the accounts
Year ended 31 July 2015

7. Fixed Asset Investments

	£
At 1 August 2014	69
At 31 July 2015	69

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

Name of company	Percentage holding of ordinary shares	Nature of business	Date of last accounts	Profit/(loss)	Reserves
				£	£
Biox Systems Limited	24%	Development of medical products	31 Oct 2014	(17,193)	232,420
London Knowledge Innovation Centre Ltd	50%	Start-up business incubator – dormant	31 Mar 2013	-	334

8. Debtors

	2015	2014
	£	£
Trade debtors	258,774	131,367
Prepayments and accrued income	30,445	13,915
Amounts owed by parent company	108,361	-
Other debtors	2,099	49,370
	399,679	194,652

9. Creditors: amounts falling due within one year

	2015	2014
	£	£
Trade creditors	-	-
Amounts owed to parent company	-	553,951
Other creditors	76,357	45,918
Accruals and deferred income	283,200	450,234
HMRC	20,467	19,043
	380,024	1,069,146

Notes to the accounts
Year ended 31 July 2015

10. Called up share capital

	2015 £	2014 £
Authorised:		
1,000 ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid		
10 ordinary shares of £1 each	10	10

11. Movement on total reserves

	Share capital £	Profit and loss account £	Total shareholders surplus/ (deficit) £
At 1 August 2014	10	89,218	89,228
Profit/(loss) on ordinary activities after taxation for the financial year	-	60,122	60,122
At 31 July 2015	10	149,340	149,350

12. Related party transactions

The Company has taken advantage of the exemption which is conferred by Financial Reporting Standard number 8 “Related Party Disclosures” that allows it not to disclose related party transactions with wholly owned subsidiaries within the group.

13. Ultimate parent company

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

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

	PAPER NO: UE.22(15)
Board:	Board of Directors
Date:	11 November 2015
Paper title:	Re-tender of External Audit
Author:	Richard Flatman, Chief Financial Officer
Recommendation:	That the Board notes the recommendation of the LSBU audit committee to extend Grant Thornton's contract as external auditor by 12 months

Executive summary

The University appointed Grant Thornton as its external auditors for a period of 5 years in 2011. The end date of the contract is 31 July 2016 but the programme of work for the next year-end audit cycle will extend past 31 July 2016 to the date the accounts are signed in November 2016, so the audit of the accounts for the year ended 31 July 2015 is the final year of the 5 year contract. The current contract gives two options to extend for a further 12 months.

The performance of the auditors is reported to Audit Committee annually. No significant issues have been reported for the audit of the year ending 31 July 2015 nor in the previous four years.

At its meeting of 5 November 2015 the Audit Committee agreed to extend Grant Thornton's contract as external auditor by 12 months after which the contract will be put out to tender.

The SBUEL Board are requested to note.