

## Meeting of the Audit Committee

4.00 - 6.00 pm on Thursday, 10 November 2016  
in 1B16 - Technopark, SE1 6LN

\* Pre meeting with the External and the Internal Auditors at 3.30pm in 1B16, Technopark

### Agenda

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
1.	Welcome and apologies		Chair
2.	Declarations of interest		
3.	Minutes of the previous meeting	3 - 12	Chair
4.	Matters arising		Chair
<b>Financial reporting for the year 2015/16</b>			
5.	External audit findings (to review)	13 - 48	GT
6.	Internal Audit Annual Report (to note)	49 - 72	PWC
7.	Going concern statement (to approve)	73 - 82	RF
8.	External audit letter of representation (to recommend to the Board)	83 - 88	RF
9.	Draft report and accounts for year to 31 July 2016 (to recommend to the Board)	89 - 146	RF
<b>Additional year end matters</b>			
10.	Quality assurance return to HEFCE (to recommend to the Board) *	147 - 168	SW
11.	Prevent annual return (to recommend to the Board)	169 - 184	IM
12.	Audit Committee annual report (to approve)	185 - 194	JS
13.	Public benefit statement (to approve)	195 - 200	JS
<b>External audit</b>			
14.	External audit performance (to review)	201 - 206	RF

\* paper to follow

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
15.	Review of non-audit services (to review)	207 - 208	RF
	<b>Internal audit</b>		
16.	Internal audit progress report (to discuss)	209 - 246	PWC
17.	Internal audit report - Human Resources (to discuss)	247 - 268	PWC
	<b>Risk and control</b>		
18.	Corporate risk register (to review)	269 - 290	RF
	<b>Other matters</b>		
19.	Annual value for money report (to note)	291 - 308	RF
20.	Modern Slavery Act statement (to approve)	309 - 318	JS
21.	Anti-fraud, bribery and corruption report (to note)	319 - 320	CFO
22.	Anti-bribery policy review (to approve)	321 - 328	JS
23.	Speak up report (to note)	329 - 330	JS
24.	Audit Committee business plan (to note)	331 - 334	Chair
25.	Matters to report to the Board following the meeting		Chair
26.	Any other business		Chair

**Date of next meeting - 4.00 pm on Tuesday, 7 February 2017**

Members:	Steve Balmont (Chair), Shachi Blakemore, Mee Ling Ng and Roy Waight
Internal Auditors	Charlotte Bilsland and Justin Martin
External Auditors	Carol Rudge
In attendance	Natalie Ferer, Richard Flatman, Ian Mehrrens (for item 11), David Phoenix, James Stevenson, Shân Wareing (for item 10) and Michael Broadway



Paper title:	Minutes of the meeting of 22 September 2016
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Michael Broadway, Deputy University Secretary
Board sponsor:	Steve Balmont, Chairman of the Audit Committee
Purpose:	To approve the minutes of the past meeting as a correct record and to approve for publication

Matter previously considered by:	N/A	N/A
Further approval required?	No	N/A

## Executive Summary

The Committee is asked to approve the minutes of its meetings of 22 September 2016. Suggested redactions for publication on LSBU's website are highlighted in grey.

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Minutes of the meeting of the Audit Committee  
held at 4.00 pm on Thursday, 22 September 2016  
1B16 - Technopark, SE1 6LN

**Present**

Steve Balmont	Chair
Shachi Blakemore	
Mee Ling Ng	
Roy Waight	

**External Auditors**

Carol Rudge	Grant Thornton
Nick Taylor	Grant Thornton

**Internal Auditors**

Charlotte Bilsland	PricewaterhouseCoopers
Justin Martin	PricewaterhouseCoopers

**In attendance**

Prof David Phoenix	Vice Chancellor and Chief Executive
Richard Flatman	Chief Financial Officer
Craig Girvan	Head of ICT Security ( <i>for minute 6</i> )
James Stevenson	University Secretary and Clerk to the Board of Governors
Michael Broadway	Deputy University Secretary

1. **Welcome and apologies**

The Chair welcomed members to the meeting.

No apologies had been received.

2. **Declarations of interest**

No interests were declared on any item on the agenda.

3. **Minutes of the previous meeting**

The minutes of the meeting of 9 June 2016 were approved, subject to minor amendments.

4. **Matters arising**

The committee noted that all matters arising had been completed or were on the forward plan.

5. **Internal audit progress report**

The committee noted the progress report from PwC. The 2015/16 programme was complete. Work had begun on the programme for 2016/17.

The committee noted that 87% of recommendations had been implemented.

6. **Internal audit report - data security**

The committee discussed the internal audit report on data security in detail. The report was rated as high risk.

The committee noted that following discussions with the executive, the report was being revised by the internal auditors. The overall risk would remain as high. It was noted that improvements had been made to data security over the last two years and that a number of the recommendations in the report had been implemented.

The committee noted the external infrastructure vulnerability assessment. Members requested a visit to ICT at an appropriate time.

*Craig Girvan left the meeting*

7. **Internal audit report - Prevent**

The committee discussed the internal audit report on Prevent duties, which was rated as low risk. It was noted that the report would provide assurance to the board which would be required to submit an annual report to HEFCE on compliance with the Prevent duty.

8. **Internal audit report - risk management**

The committee noted the internal audit report on risk management, which was rated as low risk. The committee discussed the relationship between the corporate and local risk registers. The executive confirmed that local registers were scrutinised annually as part of the planning and budgeting process.

9. **Continuous auditing, key financial systems**

The committee noted the financial data continuous auditing report. It was noted that payroll and general ledger were rated as amber. A self-auditing approach and further training for staff in payroll were discussed.

10. **Draft internal audit annual report**

The committee noted the draft internal audit annual report. The final report would be considered at the meeting of 10 November 2016.

The committee noted the draft audit opinion that the adequacy and effectiveness of governance, risk management and control, and economy, efficiency and effectiveness arrangements were “generally satisfactory with some improvements required” (rating two out of four).

11. **Internal audit charter**

The committee noted the internal audit charter which set out the framework within which the internal audit activity is conducted at LSBU.

12. **Pensions assumptions**

The committee approved the assumptions used for the FRS102/IAS19 pension fund disclosures as at 31 July 2016. The external auditors, Grant Thornton, confirmed that the assumptions were within the sector benchmark.

The assumptions had changed significantly from the indicative assumptions circulated to audit committee members in June 2016 and have resulted in a net deficit in the scheme of £121.5m with £38.3m being charged to the statement of consolidated income and expenditure. Full details of the resulting pension deficit and charge to the accounts will be presented in the draft financial statements at the next meeting.

Further benchmarking would be provided by Grant Thornton in their annual audit findings letter.

13. **Corporate risk register**

The committee discussed the corporate risk register. A new risk relating to the impact of UK's exit from the EU following the referendum had been added to the register.

It was noted that the HE quality assurance regime was changing and that it was prudent to include this as a corporate risk in relation to all of LSBU's provision. The executive was assessing this risk and may add it to the corporate risk register.

14. **Risk strategy**

The committee approved the revised risk strategy and operating procedures.

15. **Risk appetite**

The committee recommended the risk appetite levels to the Board for approval.

16. **Annual review of effectiveness: statement of internal controls**

The committee noted the review of the effectiveness of internal controls and approved the full compliance statement for inclusion in the annual report.

17. **Modern slavery Act statement**

The committee noted the first draft modern slavery act statement, including the reference to the Ethical Trading Initiative' Base Code. A final version would come to the next meeting for recommendation to the board.

18. **Corporate Governance Statement**

The committee approved the draft corporate governance statement for inclusion in the annual report.

The committee noted that the board complied with all aspects of the CUC Higher Education Code of Governance.

19. **Public Benefit Statement**

The committee noted the draft public benefit statement, as required for all charities. A final version would come to the next meeting for approval and inclusion in the annual report.

20. **Speak up report**

The committee noted the speak up report.

One speak up issue had been raised since the last meeting alleging age discrimination as part of a restructuring. Following an investigation by management and a review by the Chair of the Committee, the Chair was minded to conclude that “there is no evidence of direct or indirect age discrimination arising from the change proposal process”.

The Chair would report on the formal conclusion of the case at the next meeting.

21. **Anti-fraud, bribery and corruption report**

The committee noted the anti-fraud, bribery and corruption report. No matters had been reported.

22. **Audit Committee business plan**

The committee noted its annual business plan.

23. **Membership and Terms of Reference**

The committee noted its terms of reference and agreed that no changes were required.

24. **Matters to report to the Board following the meeting**

The following items would be reported to the next board meeting: internal audit report on data security; the external audit sourcing strategy; corporate risk register, appetite and strategy.

The following items would be reported to the board meeting in November 2016: internal audit annual report; Modern Slavery Act statement; and the corporate governance statement, public benefit statement and the statement of internal controls as part of the annual report and accounts.

25. **External audit sourcing strategy**

*Carol Rudge, Nick Taylor, Justin Martin and Charlotte Bilsland left the meeting*

The committee approved the external audit sourcing strategy. The preferred option was to run a mini-competition from the Crown Commercial Service Consultancy ONE framework.

26. **Date of next meeting**

The date of the next meeting was noted as 10 November 2016.

**Confirmed as a true record**

..... (Chair)

**AUDIT COMMITTEE - THURSDAY, 22 SEPTEMBER 2016  
ACTION SHEET**

<b>Agenda No</b>	<b>Agenda/Decision Item</b>	<b>Action</b>	<b>Officer</b>	<b>Action Status</b>
14.	Risk strategy	Risk strategy to Board of Governors for approval	Richard Flatman	Completed
15.	Risk appetite	Risk appetite to Board of Governors for approval	Richard Flatman	Completed
17.	Modern slavery Act statement	Modern Slavery Act statement to Audit Committee on 10 November	James Stevenson	On agenda
19.	Public Benefit Statement	Public benefit statement to 10 November Audit Committee meeting	James Stevenson	On agenda
20.	Speak up report	Final report on speak up issue to 10 November audit committee meeting	Steve Balmont	On agenda

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	CONFIDENTIAL
Paper title:	External Audit Findings
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Natalie Ferer
Executive/Operations sponsor:	Richard Flatman – CFO
Purpose:	To present the findings from the audit for the year ending 31 <sup>st</sup> July 2016.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Committee and consider the attached audit findings from Grant Thornton.

Matter previously considered by:	Executive	On: 2 <sup>nd</sup> November 2016
Further approval required?	None	n/a

## Executive Summary

Note main findings and recommendations.

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

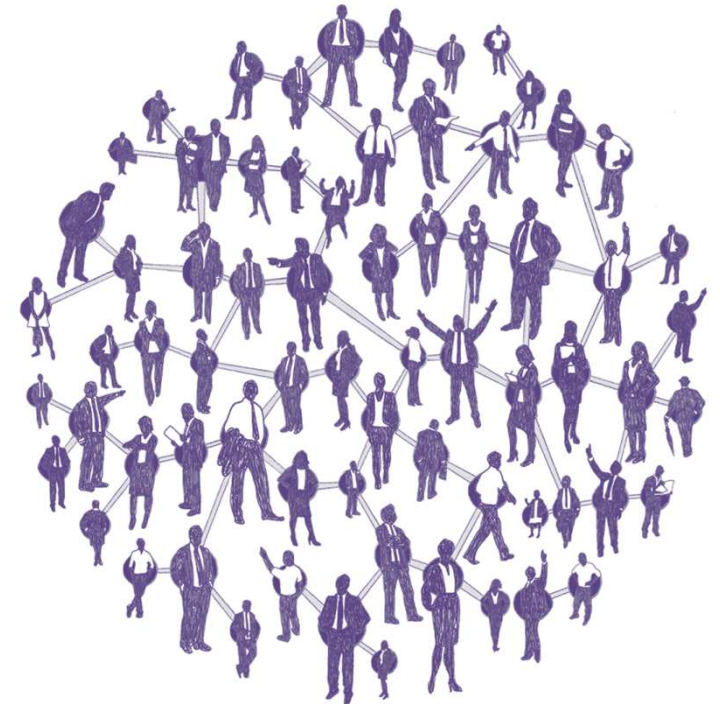
Year ended 31 July 2016

October 2016

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October 2016

Dear Sirs

**Audit Findings for London South Bank University and its subsidiary undertaking for the year ended 31 July 2016**

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

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

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

Carol Rudge

Engagement Partner, Grant Thornton UK LLP

**Chartered Accountants**

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Appendix A – Sector update

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# 1. Status of the audit

## Purpose of this report

This report highlights the key issues affecting the results of London South Bank University and its subsidiary undertaking and the preparation of the financial statements for the year ended 31 July 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

## Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated May 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- Receipt of outstanding bank letters
- Resolution of small number of final outstanding testing queries
- 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
- Completion of the post balance sheet events review up to the date of the audit opinion

## Key audit and financial reporting issues

### Financial statements opinion

There were a small number of adjustments posted during the course of the audit. Further detail of these adjustments are included in sections 6, 7 and 8 of this report. The final group accounts record a surplus for the year of £3,283k (2015: £1,172k deficit).

The key messages arising from our audit of the financial statements are:

- The financial statements presented for audit were complete and free from significant errors.
- The working papers provided a comprehensive audit trail from the statements to the individual transactions in the financial ledger, which was clear and easy to follow.

Further details are set out in sections 2, 3 and 4 of this report. We anticipate providing unmodified audit reports in respect of the financial statements for both London South Bank University and South Bank University Enterprises Limited.

## 2. Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work performed and commentary
Page 19	<b>1. The income cycle includes fraudulent transactions</b> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue</li> </ul>	Throughout the course of the audit we performed the following: <ul style="list-style-type: none"> <li>review and testing of revenue recognition policies</li> <li>testing of significant revenue streams</li> </ul> <b>Conclusion</b> Our audit work has not highlighted any issues in respect of revenue recognition. The University has adopted appropriate accounting policies regarding revenue recognition and our testing supports compliance with the policies.
	<b>2. Management override of controls</b> <ul style="list-style-type: none"> <li>Under ISA 240 there is a presumed risk that the risk of management over-ride of controls is present in all entities.</li> </ul>	Throughout the course of the audit we performed the following: <ul style="list-style-type: none"> <li>review of accounting estimates, judgements and decisions made by management</li> <li>review of the controls in place over the accounting system and other key IT software applications</li> <li>testing of journal entries</li> <li>review of related party transactions</li> <li>review of unusual significant transactions</li> </ul> <b>Conclusion</b> Our audit work has not highlighted 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. We have identified some control findings within the internal control section of this report.

## 2. Audit findings against significant risks (continued)

	Risks identified in our audit plan	Work performed and commentary
Page 20	<p><b>3. FRS 102 compliance</b></p> <ul style="list-style-type: none"> <li>For periods commencing on or after 1 January 2015, new accounting standards come into effect for entities previously reporting under UK GAAP.</li> <li>Management are required to assess the impact of the changes under FRS 102, to select appropriate accounting policies and make required adjustments in the preparation of the financial statements.</li> </ul>	<p>Throughout the course of the audit we performed the following:</p> <ul style="list-style-type: none"> <li>review of management's impact assessment to ensure all changes have been identified and that management have selected appropriate accounting policies.</li> <li>Review of the financial statements to ensure these changes have been correctly accounted for in accordance with those policies. The key areas considered as part of this review included: <ul style="list-style-type: none"> <li>the treatment of grant income – the University has opted to retain the accruals method, whereby the balance on capital grants is held as deferred income and is set off against the depreciation charge for the asset</li> <li>the classification of leases – the University has reviewed the classification of all operating leases to ensure that there are no items requiring reclassification to finance leases</li> <li>the revaluation of fixed assets – the University has taken advantage of the option under FRS 102 to revalue assets of its choosing and to carry these revaluations forward as the deemed cost of the asset. The University has revalued selected land assets and has recognised an increase in land value of £41,946k</li> <li>the treatment of bank loans – the University has reviewed each of its bank loans on an individual basis to ensure that they meet the conditions set within FRS 102 to be recognised as a basic loan.</li> <li>the treatment of LPFA pension scheme – under FRS 102, the University is required to recognise a net interest cost in the Statement of Comprehensive Income and Expenditure. This change does not impact the overall liability balance included on the balance sheet</li> <li>The treatment of USS pension scheme – the University has an obligation to fund past deficits within the USS scheme and therefore is required to recognise this as a liability on the balance sheet. This represents £1,012k of the year end pension liability</li> <li>the employee leave accrual – under FRS 102 the University is required to recognise a liability for unused annual leave at the reporting date. This represents £2,610k of the year end accruals balance</li> </ul> </li> <li>review of the presentation and disclosures in the financial statements to ensure compliance with the new standards.</li> </ul> <p><b>Conclusion</b></p> <p>The impact of the transition is set out in note 27 to the financial statements. Our audit work has not highlighted any issues in respect of FRS 102 compliance.</p>



### 3. Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan.

	Risks identified in our audit plan	Audit findings and conclusions
<p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 21</p>	<p><b>1. Tuition and fee revenues (including education contracts)</b></p> <ul style="list-style-type: none"> <li>Recorded tuition and fee revenues not valid</li> <li>Allowance for doubtful debts not adequate</li> <li>Recorded debtors not valid</li> </ul> <p><i>Income: £102,794k</i>  <i>Debtors: £9,620k</i>  <i>Bad debt provision: £4,332k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>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</li> <li>performed detailed testing on a sample of students in the period, agreeing the information back to student enrolment forms to ensure the validity and correct calculation of the fee income recognised</li> <li>reconciled student data between the student database and the accounting system</li> <li>reviewed the treatment of income from a sample of education contracts to confirm the existence and amount of income, that it relates to the period and has been correctly accrued or deferred as appropriate at the balance sheet date. We have considered any potential clawback in relation to the NHS contract</li> <li>reviewed the recoverability of debtors in respect of tuition fees and considered the adequacy of bad debt provisions</li> <li>compared aged balances with prior year aged balances and calculated aging as a percentage of total fees debtors. Any unusual differences have been investigated</li> </ul> <p><b>Conclusion:</b>  Our audit work has not identified any significant issues in relation to the risk identified</p>
	<p><b>2. Funding Council grants</b></p> <ul style="list-style-type: none"> <li>Recorded revenue and debtors not valid</li> </ul> <p><i>Income: £15,684k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>reconciled HEFCE income to remittance advice, bank statements and correspondence with HEFCE</li> <li>reviewed the recoverability of debtors in respect of grant income</li> </ul> <p><b>Conclusion:</b>  Our audit work has not identified any significant issues in relation to the risk identified.</p>

### 3. Audit findings against other risks (continued)

	Risks identified in our audit plan	Audit findings and conclusions
Page 22	<p><b>3. Other operating income</b></p> <ul style="list-style-type: none"> <li>Recorded revenue and debtors not valid</li> </ul> <p><i>Income: £19,505k</i> <i>Debtors: £6,328k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>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</li> <li>reviewed the recoverability of debtors in respect of student accommodation fees and other sales ledger debtors</li> </ul> <p><b>Conclusion:</b> Our audit work has not identified any significant issues in relation to the risk identified.</p>
Page 22	<p><b>4. Employee remuneration</b></p> <ul style="list-style-type: none"> <li>Employee remuneration and benefit obligations and expenses understated</li> </ul> <p><i>Staff costs: £71,581k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>reviewed the reconciliation between the payroll system and the finance system</li> <li>analytically reviewed payroll expenses in comparison to prior years and investigated any significant or unexpected variances</li> <li>reviewed a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment</li> <li>performed data interrogation tests (using IDEA software) to identify exceptions such as duplicate employee names, NI numbers and have investigated the results</li> </ul> <p><b>Conclusion:</b> Our audit work has not identified any significant issues in relation to the risk identified.</p>

### 3. Audit findings against other risks (continued)

	Risks identified in our audit plan	Audit findings and conclusions
5.	<p><b>Creditors and operating expenses</b></p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period</li> </ul> <p><i>Other operating expenses: £48,882k</i></p> <p><i>Creditors due within one year: £42,993k</i></p> <p><i>Deferred income: £25,038</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>completed unrecorded liabilities testing to confirm the completeness and cut off of transactions</li> <li>tested a sample of creditor balances through agreement to supporting evidence</li> <li>reviewed all significant creditors and accruals balance sheet items, comparing them to the prior year and our expectations, investigating any significant differences</li> <li>tested a sample of items of expenditure throughout the year to gain assurance that it has occurred and is correctly classified</li> <li>reviewed the deferred income balance for appropriateness, including sample testing against supporting documentation</li> </ul> <p><b>Conclusion:</b></p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>
6.	<p><b>Property, plant and equipment</b></p> <ul style="list-style-type: none"> <li>Revaluation measurements not correct</li> </ul> <p><i>Land revaluation: £41,946k</i></p>	<p>Under FRS 102 there is an option for the University to select specific assets for revaluation, with these values then becoming the deemed cost on transition. The University chose to take advantage of this opportunity and has revalued elements of the land held at the Southwark Campus. The University engaged a professional valuer, Bilfinger GVA, to complete these valuations, which resulted in an increase to the land value of £41,946k.</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>reviewed the competence, expertise and objectivity of management experts used</li> <li>reviewed the work carried out by the valuer, including ensuring that any valuations have been undertaken in accordance with the requirements of the appropriate accounting and professional standards and the assumptions and judgements are reasonable</li> <li>reviewed and challenged the information used by the valuer to ensure it is complete, robust and consistent with our understanding</li> </ul> <p><b>Conclusion:</b></p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

### 3. Audit findings against other risks (continued)

	Risks identified in our audit plan	Audit findings and conclusions
Page 24	<p><b>7. Pensions</b></p> <ul style="list-style-type: none"> <li>Pension scheme assets and liabilities may be misstated</li> </ul> <p><i>Pension scheme liabilities:</i> £122,512k</p>	<p>The University has engaged the services of a professional actuary, Barnett Waddingham, to undertake pension expense calculations in respect of the pension benefits provided by the Local Government Pension Scheme (the LGPS) to employees of South Bank University as at 31 July 2016. The assumptions used in generating the liability at year end have been considered in additional detail within section 11 of this report.</p> <p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle and confirmed through our review that the process has been followed as expected</li> <li>Benchmarked adopted pension actuarial assumptions with expectations</li> <li>Reviewed the underlying assumptions and calculations for both the LGPA and USS schemes to ensure that they are reasonable</li> <li>reviewed the detailed disclosures included within the financial statements to ensure full compliance with accounting standards</li> </ul> <p><b>Conclusion:</b></p> <p>Our audit work has not identified any significant issues in relation to the risk identified.</p>

## 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.	<b>South Bank University Enterprises Limited</b>	We have not identified any significant issues as a result of our audit procedures performed in relation to South Bank University Enterprises Limited. The key risks have been considered below:
	<b>Significant risks</b>	
	<b>The income cycle includes fraudulent transactions</b>	Work performed against this risk aligns with that performed for the main university as documented on page 5. No issues in relation to SBUEL were identified from the work performed.
	<b>Management override of controls</b>	Work performed against this risk aligns with that performed for the main university as documented on page 5. No issues in relation to SBUEL were identified from the work performed.
	<b>FRS 102 compliance</b>	<p>Throughout the course of the audit we performed the following:</p> <ul style="list-style-type: none"> <li>• review of management's impact assessment to ensure all changes have been identified and that management have selected appropriate accounting policies.</li> <li>• Review of the financial statements to ensure these changes have been correctly accounted for in accordance with those policies. The key areas considered as part of this review included: <ul style="list-style-type: none"> <li>• the employee leave accrual – under FRS 102 SBUEL is required to recognise a liability for unused annual leave at the reporting date. This represents £5k of the year end accruals balance</li> </ul> </li> <li>• review of the presentation and disclosures in the financial statements to ensure compliance with the new standards.</li> </ul> <p><b>Conclusion</b></p> <p>The impact of the transition is set out in note 14 to the financial statements. Our audit work has not highlighted any issues in respect of FRS 102 compliance.</p>

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## 4. Audit findings – subsidiaries (continued)

	<b>Other risks</b>	
	<p><b>Income</b></p> <ul style="list-style-type: none"> <li>Recorded revenue and debtors not valid</li> </ul> <p><i>Income: £2,295k</i> <i>Debtors: £325k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>verified a sample of income transactions to confirm the existence and amount of the income and to ensure that it relates to the correct period</li> <li>reviewed the recoverability of debtors in respect of sales ledger debtors</li> </ul> <p><b>Conclusion:</b> Our audit work has not identified any significant issues in relation to the risk identified.</p>
Page 26	<p><b>Employee remuneration</b></p> <ul style="list-style-type: none"> <li>Employee remuneration and benefit obligations and expenses understated</li> </ul> <p><i>Staff costs: £1,201k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>reviewed the reconciliation between the payroll system and the finance system</li> <li>analytically reviewed payroll expenses in comparison to prior years and investigated any significant or unexpected variances</li> <li>reviewed a sample of employees throughout the year, including the agreement of pay run data to individual pay slips and contracts of employment</li> <li>performed data interrogation tests (using IDEA software) to identify exceptions such as duplicate employee names, NI numbers and have investigated the results</li> </ul> <p><b>Conclusion:</b> Our audit work has not identified any significant issues in relation to the risk identified.</p>
	<p><b>Creditors and operating expenses</b></p> <ul style="list-style-type: none"> <li>Creditors understated or not recorded in the correct period</li> </ul> <p><i>Operating expenses: £929k</i> <i>Creditors due within one year: £411k</i></p>	<p>We have undertaken the following work in relation to this risk:</p> <ul style="list-style-type: none"> <li>documented our understanding of processes and controls over the transaction cycle</li> <li>performed walkthrough testing to gain assurance that in-year controls were operating in accordance with our documented understanding</li> <li>completed unrecorded liabilities testing to confirm the completeness and cut off of transactions</li> <li>tested a sample of creditor balances through agreement to supporting evidence</li> </ul> <p><b>Conclusion:</b> Our audit work has not identified any significant issues in relation to the risk identified.</p>

## 5. Other communication requirements

	Issue	Commentary
1.	<b>Matters in relation to fraud</b>	<ul style="list-style-type: none"> <li>We have previously discussed the risk of fraud with those charged with governance. We have not been made aware of any other incidents in the period and no other issues have been identified during the course of our audit procedures.</li> </ul>
2.	<b>Matters in relation to related parties</b>	<ul style="list-style-type: none"> <li>Testing performed in relation to related parties has not highlighted any issues. We are not aware of any related party transactions which have not been disclosed.</li> </ul>
3.	<b>Matters in relation to laws and regulations</b>	<ul style="list-style-type: none"> <li>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.</li> </ul>
4.	<b>Key estimates and judgements</b>	<ul style="list-style-type: none"> <li>Judgements and estimates have been considered for asset valuations, bad debt provisions, accruals and pension assumptions</li> </ul> <p><b>Asset valuations:</b></p> <ul style="list-style-type: none"> <li>The University's accounting policy for valuation is appropriate under FRS 102. The University has selected specific items of land which have been revalued, with these values then becoming the deemed cost on transition. The University engaged valuation experts to complete the valuation of land and judgement has been applied by the valuers in considering the University's assets. To provide us with assurance over the judgements used and the reported results, we have reviewed the results of the valuation through a detailed review of the assumptions made and the evidence supporting these.</li> </ul> <p><b>Bad debt provisions:</b></p> <ul style="list-style-type: none"> <li>The University continues to apply estimates and judgements over bad debt provisions. We have reviewed the judgement that has been applied by the University in calculating these balances. The University has taken a reasonable approach to estimating these provisions and our testing has provided assurance over the judgements made.</li> </ul> <p><b>Pension liabilities:</b></p> <ul style="list-style-type: none"> <li>The University engaged with professional actuaries, Barnett Waddingham, to provide the information for the pensions liability. We have confirmed that the pension fund valuations were consistent with the actuarial reports and we have considered the assumptions used by the University. No issues were noted from the work performed.</li> </ul>
5.	<b>Written representations</b>	<ul style="list-style-type: none"> <li>A standard letter of representation has been requested, including a specific representation with regard to the assumptions used in relation to the pension liability. This should be signed alongside the financial statements.</li> </ul>
6.	<b>Disclosures</b>	<ul style="list-style-type: none"> <li>We are working with management to finalise our review of the financial statements and have highlighted some key items in section 8 of this report.</li> </ul>
7.	<b>Going concern</b>	<ul style="list-style-type: none"> <li>We have just received the management consideration of going concern and are currently finalising our review. 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.</li> </ul>

## 6. Adjusted misstatements

A number of adjustments to the draft accounts have been identified during the audit process. We are required to report all misstatements to those charged with governance, whether or not the accounts have been adjusted by management. The table below summarises the adjustments arising from the audit which have been processed by management.

### Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported surplus.

Adjustment type	Profit & Loss £'000	Balance Sheet £'000	Impact on surplus £'000	Detail
<b>London South Bank University:</b>				
Reclassification (Trade Creditors / Other Creditors)	-	10,222 (net impact £0)	-	• Being the adjustment to reclassify the Hugh Astor Court creditor from trade creditors to other creditors.
2 Reclassification (Assets Under Construction / Accruals)	-	498 (net impact £0)	-	• Being the adjustment to recognise the retention relating to assets under construction.
<b>South Bank University Enterprises Limited:</b>				
1 Reclassification (Accrued income / Accruals)	-	74 (net impact £0)	-	• Being the adjustment to reclassify accrued income from accruals
2 Reclassification (Inter-company balances)	-	223 (net impact £0)	-	• Being the adjustment to reclassify the inter-company balance as a creditor rather than a negative debtor



## 7. Unadjusted misstatements

The table below provides details of adjustments identified during the audit which have not been made in the final set of financial statements.

Adjustment type	Profit & Loss £'000	Balance Sheet £'000	Impact on surplus £'000	Detail	
<b><i>London South Bank University:</i></b>					
We have not identified any unadjusted misstatements in relation to the University.					
<b><i>South Bank University Enterprises Limited:</i></b>					
1	Reclassification (Trade Debtors / Trade Creditors)	-	12	-	• Being the adjustment to reclassify credit balances in the trade debtors listing
2	Misstatement (Operating Expenses / Accruals)	(15)	15	(15)	• Being the adjustment to recognise the Interserve accrual
3	Misstatement (Bad Debt Provision / Bad Debt Expense)	11	11	11	• Being the adjustment to the bad debt provision for amounts recovered post year end
<b>Overall impact</b>		<b>(4)</b>	<b>-</b>	<b>(4)</b>	

## 8. Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Adjustment type	Value £'000	Account balance	Impact on the financial statements
<b><i>London South Bank University:</i></b>			
1 Disclosure	-	Financial statements	As per the HE SORP, the University is required to show both the consolidated and the university balances for the Statement of Comprehensive Income and Expenditure. The additional University disclosures have been added to the financial statements.
2 Disclosure	-	Intangible assets	Under FRS 102, the University is required to show software assets separately as intangible assets rather than including them within the fixed asset balance. The University has not historically recorded the split of assets (net book value approximately £1.5m) and has not amended the disclosure on the grounds of materiality. A recommendation has been on page 18 to record this information going forward.
3 Disclosure	-	Financial statements	There were a number of minor presentational changes that arose during the course of the audit that have been made to the financial statements
<b><i>South Bank University Enterprises Limited:</i></b>			
1 Disclosure	-	Financial statements	The statements are to be updated to make clear reference to FRS 102 and the impact of the transition
2 Disclosure	-	Gift Aid	Guidance on the treatment of gift aid payments in respect of company law and tax has just been updated. Following this, it has been concluded that the amounts are distributions under FRS 102 and therefore should be accounted for as such. As a discretionary distribution, the payment should only be recognised at the balance sheet date if there is a binding obligation in place (constructive or contractual). Without a binding obligation, the payment remains discretionary and therefore should not be included as a liability in the year. SBUEL had paid £150k over during the year which is not affected, but there is no binding obligation in place for the balance. The financial statements have been amended to reflect the new accounting requirements.
3 Disclosure	-	Financial statements	There were a number of minor presentational changes that arose during the course of the audit that have been made to the financial statements

## 9. 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 liaised 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
<b>London South Bank University:</b>			
1.	●	<p><b>Journals</b></p> <p>Testing has identified that the manual journal type of G6 journals for the University are all subject to review by the Financial Controller. There are an increasing number of these journals being posted and this review process is increasingly time consuming.</p>	<p>We recommend that the authorisation process for journals is reviewed to ensure that a documented authorisation process is in place and followed for all manual journals.</p> <p><b>Management response</b></p> <p>Agreed. We are in the process of reviewing the processes involved in posted GL journals and will document the authorisation process and monitor that this is followed. Going forward we will investigate how Agresso can be used to automate the journal approval process.</p> <p><b>Person responsible:</b> Natalie Ferer</p> <p><b>Date:</b> January 2017</p>
2.	●	<p><b>Journals</b></p> <p>Testing has identified that a number of automated journals are posted to the system without a description. This does not provide sufficient clarity to easily identify journal postings.</p>	<p>We recommend that a description is included against all journal postings to provide a clear record on the system.</p> <p><b>Management response</b></p> <p>Agreed. Where there is an absence of a description, the posting usually originates from the purchase ledger and occurs when staff do not input a description when raising a purchase order or authorising an uncommitted invoice on Agresso. We will remind users of the requirement to include a description and monitor and follow up when this procedure is not being followed.</p> <p><b>Person responsible:</b> Natalie Ferer / Ravi Mistry</p> <p><b>Date:</b> December 2016</p>

## 9. Internal controls (continued)

	Assessment	Issue and risk	Recommendations
3.	●	<p><b>Deferred capital grants</b></p> <p>Our testing has identified a number of grants where it has been difficult to obtain supporting documentation for the grant</p>	<p>We recommend that the University ensures that all backing documentation is retained for capital grants and can be easily accessed.</p> <p><b>Management response</b></p> <p>Agreed. A file will be maintained by the financial accounting team to make sure they have access to all relevant information.</p> <p><b>Person responsible:</b> Natalie Ferer</p> <p><b>Date:</b> November 2016</p>
4.	●	<p><b>Tuition fee debtors</b></p> <p>Testing of the tuition fee debtors and the associated bad debt provision identified that the University holds a number of very old debts on its ledger, with a corresponding provision against them. Our understanding is that the current policy is to write off these balances after six years. Given the likelihood of receiving these balances, we would not expect the period before write off to be so long.</p>	<p>We recommend that the University consider its policy in relation to writing off bad debt to ensure that it remains appropriate.</p> <p><b>Management response</b></p> <p>Agreed. Although some older debt is recovered, we will review all debt and recommend write off where there is little chance of recovery.</p> <p><b>Person responsible:</b> Natalie Ferer</p> <p><b>Date:</b> June 2017</p>
5.	●	<p><b>Intangible assets</b></p> <p>Under FRS 102 software assets should be recorded separately as intangible assets. The University has not historically split out this information on its asset register and has not completed a detailed review on the grounds of materiality.</p>	<p>We recommend that the University ensure that details of software items are clearly split out on the asset register going forward to enable disclosure within the financial statements.</p> <p><b>Management response</b></p> <p>Agreed. A separate category will be set up on the fixed asset register and software will be disclosed separately in the 2016/17 financial statements.</p> <p><b>Person responsible:</b> Natalie Ferer</p> <p><b>Date:</b> July 2017</p>

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## 9. Internal controls (continued)

	Assessment	Issue and risk	Recommendations
6.	●	<p><b>Prior year recommendations rolled forward</b></p> <p>We have rolled forward prior year recommendations in relation to:</p> <ul style="list-style-type: none"> <li>- Fixed asset retentions</li> </ul>	Please see page 21 for management response.
<b>South Bank University Enterprises Limited:</b>			
1.	●	<p><b>Prior year recommendations rolled forward</b></p> <p>We have rolled forward prior year recommendations in relation to:</p> <ul style="list-style-type: none"> <li>- Journals</li> </ul>	Please see page 21 for management response.

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## 9. Internal controls (continued) *Issues raised in previous years*

	Assessment	Issue and risk	Update on actions taken to address this issue
<i>London South Bank University:</i>			
1.	●	<p><b>Payroll controls</b></p> <p>We tested a sample of employees to contract and identified two cases where the employment contract on file was not signed by the employee.</p> <p>The existence of the employee was verified to other supporting documentation.</p> <p><b>Management response</b></p> <p>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.</p> <p>The other missing contract was for a permanent member of staff and the file containing a signed employment contract has now been found.</p>	No issues noted from the testing performed in the current year. Recommendation closed.

## 9. Internal controls (continued) *Issues raised in previous years*

	Assessment	Issue and risk	Update on actions taken to address this issue
2.	●	<p><b>Bank account controls</b></p> <p>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.</p> <p>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.</p> <p><b>Management response</b></p> <p>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.</p>	No issues noted from the testing performed in the current year. Recommendation closed.
3.	●	<p><b>Fixed asset register</b></p> <p>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.</p> <p>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.</p> <p><b>Management response</b></p> <p>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.</p>	No issues noted from the testing performed in the current year. Recommendation closed.

## 9. Internal controls (continued) *Issues raised in previous years*

	Assessment	Issue and risk	Update on actions taken to address this issue
4.	●	<p><b>Fixed asset retentions</b></p> <p>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.</p> <p><b>Management response</b></p> <p>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.</p>	<p>During our review this year we noted that the University had not accrued for retentions against assets completed in the period. We would recommend that this is accounted for and have proposed an adjustment to reflect this. This recommendation has been rolled forward into the current year.</p> <p><b>Management response</b></p> <p>Agreed. This task will be part of the year end checklist to ensure that it is completed at the year end.</p> <p><b>Person responsible:</b> Natalie Ferer / Ralph Sanders</p> <p><b>Date:</b> July 2017</p>
<b>South Bank University Enterprises Limited:</b>			
5.	●	<p><b>Journals</b></p> <p>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.</p> <p><b>Management response</b></p> <p>Agreed. In the future SBUEL journals will be subject to the same review process as those posted in the University's accounts.</p>	<p>As per discussion with management, this is still in progress. This recommendation has been rolled forward into the current year.</p> <p><b>Management response</b></p> <p>Agreed. We are in the process of reviewing processes around journal authorisation and will bring SBUEL in line with standard university practices.</p> <p><b>Person responsible:</b> Natalie Ferer</p> <p><b>Date:</b> December 2016</p>



# 10. Non-audit fees and independence

## Fees

	£
London South Bank University (incl. SBUEL)	42,630
One off FRS 102 compliance review	10,000
<b>Total audit fees (excluding VAT)</b>	<b>52,630</b>

## Fees for other services

	£
Tax compliance services (SBUEL)	2,625
iXBRL tagging (SBUEL)	865

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

# 11. Pension

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

Mortality (based on future life expectancies at the age of 65)	2016	Benchmark* (years)
Current pensioners	22.0	22.4
Future pensioners	24.4	24.4
* Median has been obtained from information provided by our actuarial experts		

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## 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 long term future improvement of 1.50% per annum.

The table above shows that the illustrative life expectancies under the Actuary's assumptions are in each in line with those under the median assumptions.

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

Actuarial assumptions	2015	2015
Pension increases	2.1%	2.6%
Salary increases	3.9%	4.4%
Discount rate	2.5%	3.8%
CPI increases	2.1%	2.6%

### Pension increases

Increases in payment – 2.10% p.a (CPI)

Increases in deferment – 2.10% 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 3.90% 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.

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# 11. Pension (continued)

## **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 2016 was 2.30% pa. The Actuary has adopted a discount rate of 2.50% pa as at 31 July 2016, i.e. an upward adjustment of 0.20% on the iBoxx index.

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 was around 14 years as at 31 July 2016. 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.

## 12. 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 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 Standards on Auditing (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 of the directors 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 – Sector update

## 'Adapting to change': the financial Health of the Higher Education sector in the UK 2016-Grant Thornton

Grant Thornton's sixth annual report and review of the financial health of the higher education sector has been published. It is an independent analysis of the audited financial statements prepared by over 150 higher education institutions (HEIs) in the UK. The report considers that:

- the higher education sector in the UK remains in sound financial health; but
- there is a widening gap in financial performance across the sector, with some institutions thriving; whilst
- others have yet to embrace the need to adapt to a changing environment.

Key highlights of financial performance include:

- Sector surpluses (before exceptional items) of £1.85bn in 2014/15 are the highest for seven years at 5.6% of income - a 54% increase over the prior year.
- Sector income is up by 8.1% to £33.1bn in 2014/15 - buoyed up by £0.4bn of research and development expenditure credits (RDEC) and increases in income from UK and EU tuition fees and contracts which rose by 16.2% to £11.5bn.
- Income from overseas students has doubled in the last seven years to £4bn in 2014/15 with more than one in ten students in the sector domiciled outside the EU.
- Staff costs continue to be the largest category of expenditure representing 51.6% of income in 2014/15.
- Investment in capital infrastructure is up by 15.5% over 2013/14 levels to £4.3bn in 2014/15– the highest level for six years. This has been funded from cash and higher levels of debt which has increased by £4.1bn since 2008/09 and now represents 27% of income.

## 'Adapting to change': the financial Health of the Higher Education sector in the UK 2016-Grant Thornton

One statistic alone demonstrates how some institutions have thrived:

- The five institutions which saw the largest absolute growth in income in the year to 31 July 2015 represent over a quarter of the sector growth - £558m excluding RDEC .

Higher education institutions in the UK continue to be extremely successful at attracting international students:

- More than one in ten undergraduates studying in the UK are from overseas (non-EU) countries.
- Tuition fees from overseas students represents in excess of 12% of the sector's total income in 2014/15 (which compares to over 17% in Australia, which has a similar funding regime to the UK).

However institutions need to be cautious of this growing dependency on the premium afforded from international students. International recruitment is complex, competitive and highly sensitive to changing economic and political factors.

A copy of the report can be downloaded from this link:

<http://www.grantthornton.co.uk/en/insights/financial-health-of-uk-higher-education-in-2016/>

# Appendix A – Sector update (continued)

## Charities (Protection and Social Investment) Act 2016

The Charities (Protection and Social Investment) Bill received Royal Assent on 16 March 2016 and is now an Act of Parliament ('the Act'). The Act will apply to Universities that are registered or exempt charities. The Act gives additional powers to the Charity Commission to issue official warnings in relation to breaches of trust, misconduct or mismanagement.

The Act also requires additional reporting about fundraising in a University's annual reports. HEFCE-funded HEIs that are registered charities or exempt charities, plus any other registered charities within the higher education sector will need to consider how to report the required fundraising standards information in their financial statements. The requirements are set out within section 13(4) of the Act.

The Cabinet Office has published its proposed timetable for the commencement orders to enact the provisions of the Act. The order relating to the disclosure of information about fundraising in annual reports (financial statements) is expected in late 2016.

Until the draft commencement order is published, however, it is likely to remain unclear as to whether all financial statements published after this date will be required to include the new disclosures or whether there will be a transition period. There is a possibility that higher education institutions will be required to make fundraising disclosures in their financial statements for 2015-16.

Details on the timetable can be found at this link:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/524527/charities\\_act\\_2016\\_implementation\\_plan\\_11\\_may\\_2016.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/524527/charities_act_2016_implementation_plan_11_may_2016.pdf)

A copy of the Act can be downloaded from this link:

<http://www.legislation.gov.uk/ukpga/2016/4/contents/enacted/data.htm>

## Higher Education White Paper -Success as a Knowledge Economy

The Department of Business, Innovation and Skills have released the HE White Paper. This white paper sets out a range of reforms to the higher education and research system. In some cases these plans are subject to Parliament. If the proposed reforms are accepted, it will lead to a major reshaping of higher education. A copy of the white paper can be downloaded from this link: <https://www.gov.uk/government/publications/higher-education-success-as-a-knowledge-economy-white-paper>.

### Some of the key proposals in the white paper include:

- ❑ The most significant change is the linking of tuition fees to a teaching quality assessment, this will be carried out under the Teaching Excellence Framework (TEF). Institutions will be given one of three grades, with all HEIs allowed to increase their fees by at least half of the rate of inflation for that year (starting from 17/18), but with those in the upper two grades allowed to increase their fees by the full rate of inflation. The government believes this will bring in an extra £1 billion a year for the sector. The TEF assessment will be based on student satisfaction, retention, and graduate employment, as well as other unspecified metrics, qualitative submissions, and expert judgement
- ❑ The creation of new body, an Office for Students, merging the Office for Fair Access with the learning and teaching functions of the Higher Education Funding Council for England
- ❑ The merger of the seven research councils with the research funding responsibilities of HEFCE, creating a new body called UK Research and Innovation (UKRI), which will control a 'common research fund'
- ❑ Changes to make it easier for new providers to enter the system such as gain degree awarding powers, allowing new providers who want access to state student loans to charge tuition fees of up to £9,000, rather than £6,000 as is currently the case, if they have an access agreement in place
- ❑ A requirement for Universities to publish the gender, ethnicity and social backgrounds of their student intake to "shine a light on their admissions processes."

# Appendix A – Sector update (continued)

## Gift Aid update

The ICAEW have updated their guidance in the form of Tech 16/14BL Revised in February 2016 which confirms that the payments to the company's parent University are indeed distributions and therefore need to be considered in relation to company law. This is applicable to those entities making gift aid payments that are registered under the Companies Act 2006.

In summary, gift aid payments to the company's parent should only be made if that company has sufficient distributable profits. Any payments made in excess of distributable profits would be deemed unlawful and have to be repaid by the parent. Furthermore, the directors of the subsidiary may be liable in some circumstances. This liability includes such excess amounts arising over the previous 6 years.

HMRC have issued new specific guidance on the tax treatment of accounting entries that may arise in relation to the application of the matters set out within the ICAEW technical release. HMRC guidance is expected to be followed for accounting periods beginning on or after 1 April 2015. The University may wish to consider the filing position of any returns not yet submitted and any open years, and take professional advice as necessary.

In accordance with the new HMRC guidance, the tax treatment is as follows:

- a Gift Aid payment that represents an unlawful distribution is not allowable as a qualifying donation
- a repayment of a previous unlawful distribution is not taxable.

A copy of the ICAEW Tech 16/14BL Revised can be downloaded from this link:

<https://www.icaew.com/~media/corporate/files/technical/technical%20releases/legal%20and%20regulatory/tech16%2014bl%20guidance%20for%20donations%20by%20a%20company%20to%20its%20parent%20charity.ashx>

## Mandatory Gender Pay Gap Reporting

Tackling the gender pay gap is an absolute priority for the Government and as a result draft regulations in the form of The Equality Act 2010 (Gender Pay Gap Information) Regulations 2016 ('the regulations') will come into force for **periods on or after 1 October 2016**.

The regulations will apply to both private and voluntary sector employers in England, Wales and Scotland with at least 250 employees. As employers publish their information onto a government sponsored website, a database of complying employers will be built up. Areas of compliance and non-compliance will be identified. The Government are not intending to create any additional civil penalties but will closely monitor compliance in the early years of implementation.

The regulations require each employer to publish information based upon a “snapshot of pay” at 30 April 2017, to be repeated annually for 30 April each year. However, employers have 12 months’ grace to publish their figures, so first reports must be published by 30 April 2018.

The Government intend to publish guidance on implementing the regulations which will cover various governance structures (for example parent entities and subsidiaries) and will also provide advice on voluntary narrative reporting that explains any pay gaps and what action the employer is taking.

Universities may need to introduce new systems or processes to analyse their gender pay gaps. For many organisations, collating this information may be time-consuming and difficult. Therefore take action now to ensure that you are ready to capture pay data on 30 April 2017.

For more information visit this link:

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/504398/GPG\\_consultation\\_v8.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/504398/GPG_consultation_v8.pdf)



# Appendix A – Sector update (continued)

## Persons with Significant Control Register

From 6 April 2016, most companies will need to keep a new register with their company books, recording the main owners of the business. This is called the register of Persons with Significant Control (PSC) Register, and is required under the Small Business, Enterprise and Employment Act 2015.

This change will impact Universities registered as companies, under the Companies Act 2006, and require them to send information on the PSC register to Companies House **from 30 June 2016**.

For most companies, the PSC Register will need to record those individuals or UK registered limited companies who own more than 25% of the shares or voting rights. However, the requirements of the statute are broad, and companies will also need to record those who have significant influence or control of the company in other ways. In addition the company will need to consider whether or not the individual is classed to be a person with significant control over the company:

- **Ownership or control of right to appoint or remove directors:** The individual is entitled, directly or indirectly, to appoint a majority of the board of directors of the company or to control the exercise of a right or rights (in aggregate) to appoint or remove a majority of the board.
- **Significant influence or control:** The individual has the right to exercise, or actually exercises, significant influence or control over the company. The Secretary of State has published draft guidance on the meaning of "significant influence or control" and regard will need to be had to that guidance in interpreting this condition.

The PSC register must include the required particulars of each person with significant control over the company who is a registrable person. The company must also note details of any relevant legal entity in its register.

## Persons with Significant Control Register (continued)

In all cases, the PSC register must also contain details of the date on which a person became a registrable person or relevant legal entity and the nature of his, her or its control.

For individuals, the register will need to include his or her name, service address, country or state of usual residence, nationality, date of birth and usual residential address. The legislation sets out the particulars to be included for entities included in the register. An individual's usual residential address will be omitted from the public register at Companies House and from the information made available by the company for inspection

### What are the next steps?

Directors and company secretaries of Universities need to familiarise themselves with the requirements for the PSC Register and start getting together the required information. Details of individual owners need to be confirmed with them before they can be entered on the PSC Register so action needs to be taken now.

### Useful links

#### **BIS Statutory Guidance - Meaning of Significant Control within**

**Companies:** [https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/498275/Statutory\\_company\\_PSC\\_Guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/498275/Statutory_company_PSC_Guidance.pdf)

#### **BIS Guidance - PSC Register - for Companies:**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/515720/Non-statutory\\_guidance\\_for\\_companies\\_LLPs\\_and\\_SEsv4.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/515720/Non-statutory_guidance_for_companies_LLPs_and_SEsv4.pdf)

#### **BIS Summary Guide - People with Significant Control:**

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/496738/PSC\\_register\\_summary\\_guidance.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/496738/PSC_register_summary_guidance.pdf)



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# Appendix A – Sector update (continued)

## Modern Slavery Act 2015

On 28 October 2015, two sets of regulations relating to the Modern Slavery Act 2015 were published. Their combined effect is to require commercial organisations to prepare an annual slavery and human trafficking statement for each financial year ending on or after 31 March 2016 year end in which their total turnover is above £36 million.

The total turnover will be determined by taking into account the global turnover of the organisation and its subsidiary undertakings.

Whilst the Act refers to commercial organisations, this may still be relevant to Universities, if they have commercial activities, i.e. where they are selling goods or services to the public, as this is considered commercial activity, providing this activity is over £36m.

The above change in legislation may impact larger Universities, who will have to produce an annual statement setting out the steps they are taking to ensure that slavery is not occurring in their supply chains. Entities are encouraged to report within six months of the financial year end.

The annual slavery and human trafficking statement must be published on the organisation's website and in a prominent place on the website's homepage there should be a link to the statement. Note that the statement is not required to be presented in the annual report and accounts.

Please download a copy of the statutory guidance to understand whether the new requirement applies to your organisation, and if so what to include in a slavery and human trafficking statement:

<https://www.gov.uk/government/publications/transparency-in-supply-chains-a-practical-guide>

## Off Payroll Workers

In anticipation of new legislation being introduced in April 2017, we recommend that employers in the higher education sector consider updating their policies and procedures relating to the engagement of off payroll workers.

During Budget 2016 it was announced by the Chancellor that all public sector employers will need to verify the status of any individuals engaged on a self-employed basis through an intermediary – such as a Personal Service Company (“PSC”) or partnership. If deemed an employee due to the nature of the contractual relationship there will be a Class 1 Employer’s NIC (13.8%) withholding obligation on your organisation. This is why it is critical that public sector employers fully understand the underlying nature of any contractual relationships they currently have with all their off-payroll workers – particularly those operating through an intermediary. If you are engaging any temporary or interim staff through an intermediary that is not already operating PAYE (such as an agency or Umbrella company) they are very likely to be impacted by this new legislation.

Under the previous rules a worker could be engaged off-payroll providing there was a contractual arrangement in place with the PSC, and the worker was responsible for any tax and NIC liability under the so-called IR35 rules. From April 2017 for public sector employers, the responsibility for determining status in these cases, and therefore any resulting liability, is being transferred from worker to engager. We highly recommend that Universities spend the next six to nine months looking at their current contractor population to assess the level of possible tax risk. In addition new internal processes and controls should be introduced to ensure PAYE compliance with these rules from April 2017.

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# Appendix A – Sector update (continued)

## Apprenticeship Levy

In April 2017 the way the government funds apprenticeships in England is changing. Some employers will be required to contribute to a new apprenticeship levy, and there will be changes to the funding for apprenticeship training for all employers. The Apprenticeship Levy would be introduced from 6th April 2017 and apply to all UK employers including Universities.

The apprenticeship levy requires all employers operating in the UK, with a pay bill over £3 million each year, to make an investment in apprenticeships.

The Levy will be calculated at 0.5% of the company's gross paybill and all employers will receive one allowance of £15,000 to offset against payment of the Levy. This means that a net payment will be due from employers with an annual paybill (excluding other payments such as benefits in kind) in excess of £3 million per year.

## Paybill

The concept of 'paybill' for the purposes of the levy will be regarded as the total employee earnings which are subject to secondary Class 1 contributions.

Employers with an annual paybill in excess of £3m will be liable to the Apprenticeship Levy.

Only the employer/entity liable for secondary Class 1 contributions will be subject to the Apprenticeship Levy, where its gross paybill is in excess of £3m per tax year.

Self employed individuals/consultants or agency workers engaged by an employer will not be included as part of the paybill.

## Payment & Reporting

The Levy and the allowance will be payable under existing PAYE scheme references using Real Time Information (RTI) on a monthly basis.

## Apprenticeship Levy

### Digital Vouchers

The Levy fund will be stored as electronic vouchers which can be then be used by employers to purchase apprentice training from accredited providers.

Employers who pay the Levy and are committed to apprenticeships training will technically able to get more out of it than they put in, through top-up to their digital accounts. Where employers choose not to use the funds in their digital accounts, these funds will be made available to other employers via top-up of their accounts.

### Administration

A new independent employer-led body, the Institute For Apprenticeships, will be established, to set apprenticeship standards.

The Department of Business and Innovation and Skills produced information on how the Apprenticeship Levy will work. A copy of this guidance can be obtained from this link:

<https://www.gov.uk/government/publications/apprenticeship-levy-how-it-will-work/apprenticeship-levy-how-it-will-work>



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	CONFIDENTIAL
Paper title:	Internal Audit Annual Report: 2015/16
Board/Committee	Audit Committee
Date of meeting:	10 <sup>th</sup> November 2016
Author:	PriceWaterhouse Coopers
Executive/Operations sponsor:	Richard Flatman – Chief Financial Officer
Purpose:	To provide Committee with the Internal Audit Annual Report for 15/16.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	The internal audit plan relates to controls and processes that relate to the entire organisation, and provide assurance against all of the risk types within the Corporate Risk Appetite statement.
Recommendation:	Committee is requested to note: <ul style="list-style-type: none"> <li>• the report and its findings</li> </ul>

Matter previously considered by:		On:
Further approval required?		

## Executive Summary

The internal audit annual report is part of the annual accountability return we make to Hefce, and contains the opinion which is included in the published accounts.

The opinion is now presented in final, as “generally satisfactory with some improvements required”. This is consistent with the previous year, and the second highest of four potential categories.

The committee considered the draft report at its last meeting. A minor amendment has been made to the findings on data security.

The commentary on page two highlights these areas, which mainly relate to the IT environment.

The table of findings on page seven demonstrates that overall, the numbers of findings in 15/16 have reduced when compared to the previous year. 88% of agreed

actions have been implemented in year which is ahead of benchmark target (75%) and the 14/15 total (78%).

- The Committee is requested to note the annual report.

*Internal Audit*  
*Annual Report*  
*2015/2016*  
FINAL

**London South  
Bank University**

**October 2016**

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## Distribution List

For action	Richard Flatman, Chief Financial Officer Audit Committee
For information	James Stevenson, University Secretary

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University under our contract dated 15/05/2015.



# 1. *Executive summary*

## *Introduction*

This report outlines the internal audit work we have carried out for the year ended 31/07/2016.

The Higher Education Funding Council for England's (HEFCE) Memorandum of Assurance and Accountability (MAA) requires that the Head of Internal Audit provides a written report and annual internal audit opinion to the Audit Committee. The purpose of this report is to present our view on the adequacy and effectiveness of:

- Governance, risk management and control; and
- Economy, efficiency and effectiveness (value for money) arrangements.

This is achieved through a risk-based plan of work, agreed with management and approved by the Audit Committee, which should provide a reasonable level of assurance, subject to the inherent limitations described below and set out in Appendix 1. The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation.

The Audit Committee agreed to a level of internal audit input of 125 days, of which 123 days were delivered. 2 days have been rolled forward to 16/17. Whilst this report is a key element of the framework designed to inform the Audit Committee's Annual Report to HEFCE, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee's responsibility for forming their own view on governance, risk management, control and value for money arrangements.

## *Head of Internal Audit Opinion*

We are satisfied that sufficient internal audit work has been undertaken to allow an opinion to be given as to the adequacy and effectiveness of governance, risk management and control, and economy, efficiency and effectiveness arrangements (value for money). To assist the Audit Committee in understanding how our work corresponds to their reporting responsibilities, we have mapped our work against these areas in Appendix 5.

In giving this opinion, it should be noted that assurance can never be absolute. The most that the internal audit service can provide is reasonable assurance that there are no major weaknesses in the system of internal control.

## **Opinion**

Our opinion is as follows:

Satisfactory	<b>Generally satisfactory with some improvements required</b>	Major improvement required	Unsatisfactory
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Governance, risk management and control, and value for money arrangements in relation to business critical areas is generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control and value for money arrangements which potentially put the achievement of objectives at risk.

Improvements are required in those areas to enhance the adequacy and effectiveness of governance, risk management and control and value for money arrangements. Please see our Summary of Findings in Section 2.

An explanation of the types of opinion that may be given can be found in Appendix 2.

## Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.

The commentary below provides the context for our opinion and together with the opinion should be read in its entirety.

## Commentary

The key factors that contributed to our opinion are summarised as follows:

### *Governance and control*

- Our view on London South Bank University's operational control environment and governance arrangements is underpinned by the audit reviews that we have performed during the year. There has been one high risk rated report, two medium risk rated reports and two low risk rated reports prepared during the financial year. The findings from these reports are not considered significant in aggregate to the system of internal control. None of the individual assignments completed in 2015/16 have an overall classification of critical risk.
- Our high risk report relates to Data Security; this review was also classified as high risk in 2013/14 and 2014/15. This included a specialist review of a known risk area - external infrastructure - which was requested by management. While the risk rating is consistent with prior year, we recognise that a significant amount of work has been done to update and rationalise IT controls; this has been demonstrated through our follow up work, reports to Audit Committee throughout the year and management directing us to a known risk area (external infrastructure). As such, we do not think that the issues arising are indicative of systematic threats to the entire control and governance environment but do believe that the control and governance of London South Bank University's IT environment continues to be an area which requiring management focus and resource.
- Our Continuous Auditing work shows that on the whole the core financial control environment has remained robust during the year with no significant exceptions or control recommendations raised. Performance has slightly declined towards the end of the year; untimely preparation and authorisation of reconciliations is a recurring theme, affecting Payroll and General Ledger. We have also continued to see exceptions affecting starter and leaver documentation within Payroll, which was either missing or has not been authorised on a timely basis.
- The timely implementation of internal audit recommendations by management is also a key indicator of good governance and a target rate of 75%+ should be aspired to by management. London South Bank University's implementation rate has improved in 2015/16; 88% of agreed actions have been implemented compared to 78% in the 2014/15.

### *Risk management*

- London South Bank University's risk management arrangements continue to be strong as evidenced by our low risk report. The risk management approach integrates risk management with the strategic and business planning process; this is in line with good practice, as many of the institutions included in our 2016 Risk Management Benchmarking Exercise did not align risks to corporate objectives. This will help to ensure resources are directed at the highest priority risks and are managed efficiently and effectively.

### *Value for money*

- Our work over value for money indicates that the processes in place to ensure value for money is achieved are in accordance with good practice, for example: adherence to financial controls and use of purchase consortiums.

## Acknowledgement

We would like to take this opportunity to thank London South Bank University staff, for their co-operation and assistance provided during the year.

## 2. Summary of findings

Our annual internal audit report is timed to inform the organisation's Audit Committee's Annual Report to HEFCE

A summary of key findings from our programme of internal audit work for the year work is recorded in the table below:

Description	Detail
<p><b>Overview</b></p> <p>We completed 9 internal audit reviews. This resulted in the identification of 0 critical, 2 high, 14 medium and 4 low risk findings to improve weaknesses in the design of controls and / or operating effectiveness.</p> <p>The total number of findings has decreased from 26 in 2014/15 to 20. Given this background, the results suggest that London South Bank University has managed to retain a stable control environment.</p> <p>Both of the two high risk findings were isolated to the Data Security review. We have outlined this in more detail in the section below.</p>	<p>Our audit plan was scoped to address London South Bank University's key risks and strategic objectives. We mapped each review to these areas in our Internal Audit Risk Assessment and Internal Audit Plan 2015/16.</p> <p>We have completed our Internal Audit Plan in line with the set timescales.</p>
<p><b>Risk Management, Control and Governance</b></p> <p><b>Risk Management:</b></p> <p>Risk management arrangements remain strong with a number of areas of good practice.</p> <p>Our report was rated low risk which represents a positive direction of travel for the institution. The review identified just one medium risk finding, which relates to ensuring that organisational risk registers are regularly updated and fully completed.</p> <p><b>Control:</b></p> <p>The results of our Key Financial Systems Continuous Auditing has remained largely consistent throughout the year. Although we did identify two medium risk findings in the second phase of 2015/16:</p> <ul style="list-style-type: none"> <li>We found that payroll paper work was not being filed on a timely basis, resulting in difficulty locating some key documents; and</li> <li>Some manual journals are being retrospectively approved after being posted in the general ledger.</li> </ul> <p>A summary of Continuous Auditing performance and the results of individual reviews is included in Section 3. The overall performance of financial controls compliance has remained strong in 2015/16.</p> <p>Our work on Data Security suggests that the IT control environment continues to be a high risk. We identified two high risk findings which have been summarised opposite.</p>	<p><b>Data Security – high risk findings</b></p> <p><b>User Administration and Access</b></p> <ul style="list-style-type: none"> <li>There is no communication with IT when changes are required to a user's AD account. We understand from discussion with management that changes made are additive, meaning that staff moving may retain access to data they are no longer permitted to see. We were unable to obtain a listing of modifications to AD accounts.</li> <li>We found that four of the 30 leavers tested still had active AD accounts at the date of fieldwork.</li> <li>We found authorisation forms could not be found for nine of 30 users with ICT security access.</li> </ul> <p><b>Logical Security</b></p> <ul style="list-style-type: none"> <li>A number of findings were identified due to weaknesses in the controls over encrypting devices: USB's, mobile devices, desktops and laptops. Password parameters were found to be incorrectly set-up.</li> </ul> <p><b>External Infrastructure</b></p> <ul style="list-style-type: none"> <li>Our specialist review of external infrastructure identified six actions for management to implement in order to protect against the threat of an external malicious attack. The most significant findings were in relation to unsupported and outdated software which leaves London South Bank University</li> </ul>

<p>As part of this work we performed a specialist review on the external infrastructure which has identified a number of key priorities for London South Bank University to take forward. These findings have also been summarised opposite.</p> <p><b>Governance:</b></p> <p>Our core financial systems work has identified appropriate segregation of duties and reporting / documenting of key processes and there have been no significant issues raised as part of individual reviews performed.</p>	<p>vulnerable to an external attack and data breach.</p>
<p><b>Value for Money</b></p> <p>Institutions have a duty of care to ensure the proper use of public funds and the achievement of value for money. Our audit approach considers value for money as an integral objective of London South Bank University's systems of internal control. Our work indicates that London South Bank University has processes in place to ensure value for money which are in accordance with good practice, examples are provided opposite.</p>	<p>Value for money has been demonstrated through the following activities:</p> <ul style="list-style-type: none"> <li>• <b>Use of purchasing consortiums</b> – London South Bank University are a member of the London Universities Purchasing Consortia;</li> <li>• <b>Adherence to financial controls</b> - as part of our Continuous Auditing work we test to ensure transactions are approved and reviewed in accordance with London South Bank University's delegated authority framework. No significant issues have been noted this year; and</li> <li>• <b>Value for Money Working Group</b> – a working group was established in 2013 and is attended by senior officers across the organisation. This also focuses on delivering value for money for students.</li> </ul>
<p><b>Data Quality</b></p> <p>The MAA includes a mandatory requirement for quality assurances to be provided by Institutions over the data submitted to the Higher Education Statistics Agency (HESA) and HEFCE.</p> <p>Whilst there is no requirement for our internal audit programme to provide a conclusion in respect of data quality, our internal audit programme in 2015/16 has been designed to support the Audit Committee in forming its conclusion in respect of such matters.</p>	<p><b>Continuous Auditing</b></p> <p>The two Student Data Continuous Auditing reports issued in 2015/16 were both classified as low risk. We have not identified any significant exceptions regarding student data controls, but in the second phase of fieldwork we identified an increase in the number of exceptions which suggests that there has been a deterioration in performance. This should be monitored by management to ensure that this remains low risk.</p> <p><b>Management Information: Data Quality</b></p> <p>We identified four medium and one low risk rated finding in this review. The medium risks related to:</p> <ul style="list-style-type: none"> <li>• Missing and inaccurate data used for three of the five KPI's tested.</li> <li>• Supporting evidence (i.e. telephone surveys) could not be located for 17 of the 25 students sampled in our testing over graduate employment KPI's.</li> <li>• There was no data collection methodology in place.</li> <li>• Guidance for data quality differed between policy documents.</li> </ul>

***Good practice***

We also identified a number of areas where few weaknesses were identified and / or areas of good practice.

***Prevent Duties***

- We completed a review on London South Bank University's response to the Government's Prevent Strategy and provisions in the Counter-Terrorism and Security Act 2015. We noted that London South Bank University has been proactive in their response to Prevent, including consulting with HEFCE and members of the London Higher Education Prevent Network and has been advising other University's on best practice.

***Research and Enterprise Contracts***

- We conducted a review over the design of London South Bank University's new policy and procedure for enterprise income, covering the process up to contract signature. We also tested the procedures for ensuring compliance with research grant terms and conditions, post-award.
- We noted that the new policy for enterprise income introduced a well-defined and standardised process for entering into new contracts. We found no exceptions in this area of the review and concluded that the procedure document is robust.

***Risk Management***

- Risk Management arrangements remain strong with a number of areas of good practice, for example: documented roles and responsibilities, established management escalation routes and a defined Risk Strategy and Risk Appetite.

## 3. Internal Audit work conducted

### Introduction

The table below sets out the results of our internal audit work.

We have also provided an analysis on page 7 of findings identified year on year to provide an indicative direction of travel.

The criteria for our report classifications and the definitions applied in the assessment of our individual findings are included in Appendix 3. We also include a comparison between planned internal audit activity and actual activity on page 10.

### Results of individual assignments






Review	Report classification	Report Status	Number of findings			
			Critical	High	Medium	Low
Continuous Auditing: Key Financial Systems – Phase 1	No Classification	Final	-	-	-	-
Continuous Auditing: Key Financial Systems – Phase 2	No Classification	Final	-	-	2	1
Continuous Auditing: Student Data – Phase 1	No Classification	Final	-	-	-	1
Continuous Auditing: Student Data – Phase 2	No Classification	Final	-	-	-	-
Management Information: Data Quality	Medium	Final	-	-	4	1
Research and Enterprise Contracts	Medium	Final	-	-	5	-
Risk Management	Low	Final	-	-	1	-
Prevent	Low	Final	-	-	2	-
Data Security	High	Final	-	2	-	1
		<b>Total</b>	-	2	14	4

Note that the above does not include a specialist review conducted over London South Bank University's external infrastructure. This report was commissioned as part of the Data Security review.

### Implications for next year's plan

Data Security continues to be a high risk area for London South Bank University. We have included an IT audit in the 2016/17 Plan.

## Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2015/16	2014/15	2013/14
Critical		0	0	0
High		2	4	2
Medium		14	13	8
Low		4	9	8
<b>Total</b>		<b>20</b>	<b>26</b>	<b>18</b>

## Implications for management

The overall number of findings has declined which indicates that there has been an improvement in the control environment compared to the previous year. Although the number of medium risk findings has increased by one, the number of high risk rated findings have decreased by two. The number of low risk rated findings has decreased significantly and there are still no critical findings.

The trend should be considered in the context that we conduct different reviews each year which present different risk profiles. In 2014/15 the majority of the 26 findings came from a review on the Change Programme (six medium and three low risk findings). As a result, this one review may distort the performance trend.

Both of the two high risk findings identified in the current year relate to one review: Data Security. This was a known area of risk for London South Bank University, which we were directed towards testing and our results suggest that this continues to be an area requiring management focus.

No classification has been given for four reviews performed, these relate to Continuous Auditing. An analysis of findings in these areas has been provided below. We have provided risk-rated findings where exceptions were noted in our testing. The results of our Continuous Auditing show a slight decline in performance throughout the year (see below). We have not identified any risks which are pervasive to the entire control environment.



## Analysis of the Continuous Auditing programme

Whilst no overarching classification is assigned for our Continuous Auditing reports, we have summarised below the findings identified in each period under consideration as part of the 2015/16 audit programme. The comparative performance for 2014/15 is also shown.

### Key Financial Systems

The table below represents our view of the overall risk for each system within each financial cycle. The numbers in brackets represents the number of control effectiveness exceptions identified from our work. The control design recommendations identified are summarised within the table included on page 6).

System / Rating	Trend	2016/17 IA Programme		2015/16 IA Programme		2014/15 IA Programme	
		P1 2016/17	P2 2015/16	P1 2015/16	P3 2014/15	P2 2014/15	P1 2014/15
Payroll	↔	● <b>Amber (4)</b>	● <b>Amber (5)</b>	● Green (0)	● Green (2)	● Green (2)	● Green (0)
Accounts Payable	↔	● <b>Green (1)</b>	● <b>Green (0)</b>	● Green (2)	● Green (1)	● Amber (1)	● Green (0)
Accounts Receivable	↔	● <b>Green (1)</b>	● <b>Green (3)</b>	● Green (1)	● Green (2)	● Green (1)	● Green (0)
Cash	↔	● <b>Green (1)</b>	● <b>Green (1)</b>	● Green (0)	● Amber (2)	● Amber (1)	● Green (0)
General Ledger	↓	● <b>Amber (1)</b>	● <b>Green (1)</b>	● Green (1)	● Green (2)	● Green (0)	● Green (0)

Overall there has been a deterioration in performance during this period due to an increase in the number of operating effectiveness and control design exceptions identified. Payroll in particular has moved from a green rating in all previous periods to an amber rating, this has been attributed to filing issues in the payroll team following the recent restructure. Untimely preparation and authorisation of reconciliations is also recurring theme, affecting Payroll and General Ledger.

### Student Data

The table below summarises the overall performance for student data this period. This is based on the number and severity of findings noted each period. We classified the overall area as *low risk* in both phases in 2015/16; this was classified as medium risk for both phases in 2014/15.

Control	Trend	2015/16 – P2		2015/16 – P1		2014/15 – P2		2014/15 – P1	
		Effectiveness	Design	Effectiveness	Design	Effectiveness	Design	Effectiveness	Design
S1	↔	6	-	6	-	6	-	-	-
S2	↓	2	-	-	-	1	-	5	-
S3	N/A <sup>(1)</sup>	-	-	-	-	7	-	4	-
S4	↓	5	-	-	-	3	1	-	-
S5	↑	3	-	7	1	2	1	8	-
S6	↑	-	-	4	-	9	-	3	-
S7	↓	2	-	1	-	-	-	1	-
S8	↓	5	-	-	-	-	-	2	-
S9	↔	-	-	-	-	4	-	1	-
S10	↓	1	-	-	-	1	-	6	-
S11	↑	-	-	1	-	1	-	-	-
S12	N/A <sup>(1)</sup>	-	-	-	-	1	-	-	-
<b>Total</b>	↓	<b>23</b>	<b>-</b>	<b>18</b>	<b>1</b>	<b>35</b>	<b>2</b>	<b>30</b>	<b>0</b>



Our continuous auditing programme for student data also includes computer assisted audit techniques (CAATS) which we used to perform data mining procedures over a sample of courses and modules to confirm that student timetabling data is correct. The table below summarises the results from our data assurance testing:

Test	Test Detail	Trend	2015/16		2014/15	
			P2 (01/08/2015 – 31/10/2015)	P1 (01/11/2015 – 31/03/2016)	P2 (01/11/2014 – 31/03/2015)	P1 (01/08/2014 – 31/10/2014)
1	We checked that for all instances where a student is in the QLS extract, the student is also enrolled on one of these 5 modules.	↔	-	-	-	1
2	We checked that for all instances where a student is enrolled on a module they are also in the extract taken from QLS.	↓	31	12	19	76
3	We checked that, for all larger modules, there are sub-groupings and that the modules and their sub-groupings contain the same students.	↓	73	33	58	176
4	We checked that, for each course, the students affiliated with the timetable are listed in the QLS extract.	↑	5	8	47	3
5	We checked that, for each course, the students listed in the QLS extract are linked to the course timetable.	↔	2	2	46	1
6	We checked that, for each course, the students not recorded as fully enrolled in the course timetable are not in the QLS extract.	↔	-	-	30	2
<b>Total</b>		↓	<b>111</b>	<b>55</b>	<b>200</b>	<b>259</b>

As can be seen in the two tables above, although the overall area has been classified as low risk for both periods in 2015/16, there have been an increase in the number of exceptions in the second phase of 2015/16.

### *Implications for next year's plan*

We will continue to monitor the performance of payroll in the 2016/17 Key Financial Systems Continuous Audit to verify whether the filing issues have been resolved.

## Comparison of planned and actual activity

<i>Audit Unit</i>	<i>Budgeted days</i>	<i>Actual days</i>
Continuous Auditing: Financial Controls – Phase 1 (May to July 2015)	15	15
Continuous Auditing: Financial Controls – Phase 2 (October – April 2016)	15	16
Continuous Auditing: Student Data Controls – Phase 1 (August– October 2015)	15	12*
Continuous Auditing: Student Data Controls – Phase 2 (November– March 2016)	15	13*
Management Information: Data Quality	10	10
HR System Implementation	10	2**
Research and Enterprise Contracts	10	10
Risk Management	5	5
Value for Money	5	5
Prevent	0	10**
Data Security	10	10
Audit management and follow up	15	15
<b>Total</b>	<b>125</b>	<b>123</b>

\* The scope of the Student Data Continuous Audit was reduced in 2015/16 from 30 days in total to 25 days. Our work over UKVI controls was omitted as London South Bank University procured the services of an external firm which covered this area of testing.

\*\* The 2015/16 Internal Audit Plan initially included a ten day review on the implementation of the new HR system. This review was pushed back due to delays in the project. Two days have been included above to reflect the time already spent on this assignment. This review is included in the 2016/17 Internal Audit Plan. A review on Prevent was added to the 2015/16 plan as a replacement.

## 4. Follow up work conducted

### Introduction

In order for the organisation to derive maximum benefit from internal audit, agreed actions should be implemented.

Within the Internal Audit Risk Assessment and Internal Audit Plan 2015/16, ten days were assigned for following up agreed actions raised in previous and current periods in order to assess whether agreed actions had been implemented by management. The table below summarises the follow up work performed.

Where findings were classified as critical, high or medium risk, we have validated that management's actions have been implemented. Where findings were classified as low risk or advisory, our follow up is limited to discussing progress with management and accepting their assurances with regards to the implementation status.

If some action has been taken to implement an action then the action has been classified as 'partially implemented'. If no action has been taken, this has been classified as 'outstanding'. We have agreed revised implementation deadlines for all 'partially implemented' actions.

Follow up work was not undertaken on findings from our Continuous Auditing programme. This is because issues noted as part of Continuous Auditing are followed up each testing period.

### Summary

16 agreed actions were due for implementation in 2015/16. The table below shows that 88% of agreed actions had been fully implemented by 31 July 2016.

<i>Status</i>	<i>Number of agreed actions due by 31/07/2016</i>
<b>Implemented</b>	14
<b>Partially implemented and deferred to 2016/17</b>	2
<b>Not implemented</b>	0
<b>Total</b>	<b>16</b>

There are two agreed actions (12%) which were due to have been resolved by year end, but additional work is required to close the action. We agreed revised implementation deadlines for these findings and have included a breakdown of these findings, with their current status and revised implementation deadlines in Appendix 4.

We will continue to work collaboratively with management in 2016/17 to ensure that implementation timescales agreed for management actions in year are achievable, taking in to account any known or expected changes in London South Bank University's processes or regulatory requirements.

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# *Appendices*

# ***Appendix 1: Limitations and responsibilities***

## ***Limitations inherent to the internal auditor's work***

We have prepared the Internal Audit Annual Report 2015/16 and undertaken the agreed programme of work as agreed with management and the Audit Committee. Our work has been performed subject to the limitations outlined below.

## ***Responsibilities of management and internal auditors***

It is management's responsibility to develop and maintain sound arrangements and systems for risk management, internal control and governance. Additionally, management is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources and to ensure proper stewardship and governance. Management is responsible for the regular review of the adequacy and effectiveness of these arrangements.

Management is responsible for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibility for the design and operation of these controls.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we shall carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected, and our examinations as internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

## ***Opinion***

The opinion is based solely on the work undertaken as part of the agreed Internal Audit Risk Assessment and Internal Audit Plan 2015/16. The work addressed the control objectives agreed for each individual internal audit assignment as set out in our Internal Audit Risk Assessment and Internal Audit Plan 2015/16.

There might be weaknesses in the system of internal control that we are not aware of because they did not form part of our programme of work, were excluded from the scope of individual internal audit assignments or were not brought to our attention. As a consequence management and the Audit Committee should be aware that our opinion may have differed if our programme of work or scope for individual reviews was extended or other relevant matters were brought to our attention.

## ***Internal control***

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

## ***Future periods***

Our assessment of controls relating to London South Bank University is for the year ended 31/07/2016. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- the design of controls may become inadequate because of changes in operating environment, law, regulation or other; or
- the degree of compliance with policies and procedures may deteriorate.

## Appendix 2: Opinion types

The table below sets out the four types of opinion that we use, along with an indication of the types of findings that may determine the opinion given. The Head of Internal Audit will apply his/her judgement when determining the appropriate opinion so the guide given below is indicative rather than definitive.






Type of opinion	Indication of when this type of opinion may be given
<b>Satisfactory</b>	<ul style="list-style-type: none"> <li>A limited number of medium risk rated weaknesses may have been identified, but generally only low risk rated weaknesses have been found in individual assignments; and</li> <li>None of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Generally satisfactory with some improvements required</b>	<ul style="list-style-type: none"> <li>Medium risk rated weaknesses identified in individual assignments that are <i>not significant in aggregate</i> to the system of internal control; and/or</li> <li>High risk rated weaknesses identified in individual assignments that are <i>isolated</i> to specific systems or processes; and</li> <li>None of the individual assignment reports have an overall classification of critical risk.</li> </ul>
<b>Major improvement required</b>	<ul style="list-style-type: none"> <li>Medium risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>High risk rated weaknesses identified in individual assignments that are <i>significant in aggregate but discrete parts</i> of the system of internal control remain unaffected; and/or</li> <li>Critical risk rated weaknesses identified in individual assignments that are <i>not pervasive</i> to the system of internal control; and</li> <li>A <i>minority</i> of the individual assignment reports may have an overall report classification of either high or critical risk.</li> </ul>
<b>Unsatisfactory</b>	<ul style="list-style-type: none"> <li>High risk rated weaknesses identified in individual assignments that <i>in aggregate are pervasive</i> to the system of internal control; and/or</li> <li>Critical risk rated weaknesses identified in individual assignments that are <i>pervasive</i> to the system of internal control; and/or</li> <li><i>More than a minority</i> of the individual assignment reports have an overall report classification of either high or critical risk.</li> </ul>
<b>Disclaimer opinion</b>	<ul style="list-style-type: none"> <li>An opinion cannot be issued because insufficient internal audit work has been completed. This may be due to either: <ul style="list-style-type: none"> <li>Restrictions in the audit programme agreed with the Audit Committee, which meant that our planned work would not allow us to gather sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control; or</li> <li>We were unable to complete enough reviews and gather sufficient information to conclude on the adequacy and effectiveness of arrangements for governance, risk management and control.</li> </ul> </li> </ul>

# Appendix 3: Basis of our classifications

## Report classifications

The report classification is determined by allocating points to each of the findings included in the report

<i>Report Classification</i>	<i>Points</i>
Critical risk	40 points and over
High risk	16– 39 points
Medium risk	7– 15 points
Low risk	6 points or less

<i>Finding rating</i>	<i>Points</i>
 Critical risk	40 points per finding
 High risk	10 points per finding
 Medium risk	3 points per finding
 Low risk	1 point per finding
 Advisory	0 points per finding

## Individual finding ratings

Finding rating	Assessment rationale
<b>Critical</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Critical</b> impact on operational performance resulting in inability to continue core activities for more than two days; or</li> <li>• <b>Critical</b> monetary or financial statement impact of £5m; or</li> <li>• <b>Critical</b> breach in laws and regulations that could result in material fines or consequences over £500k; or</li> <li>• <b>Critical</b> impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.</li> </ul>
<b>High</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Significant</b> impact on operational performance resulting in significant disruption to core activities; or</li> <li>• <b>Significant</b> monetary or financial statement impact of £2m; or</li> <li>• <b>Significant</b> breach in laws and regulations resulting in significant fines and consequences over £250k; or</li> <li>• <b>Significant</b> impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.</li> </ul>
<b>Medium</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Moderate</b> impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or</li> <li>• <b>Moderate</b> monetary or financial statement impact of £1m; or</li> <li>• <b>Moderate</b> breach in laws and regulations resulting in fines and consequences over £100k; or</li> <li>• <b>Moderate</b> impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.</li> </ul>
<b>Low</b>	<p>A finding that could have a:</p> <ul style="list-style-type: none"> <li>• <b>Minor</b> impact on the organisation's operational performance resulting in moderate disruption of discrete non-core activities; or</li> <li>• <b>Minor</b> monetary or financial statement impact of £500k; or</li> <li>• <b>Minor</b> breach in laws and regulations with limited consequences over £50k; or</li> <li>• <b>Minor</b> impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.</li> </ul>
<b>Advisory</b>	<p>A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.</p>



# Appendix 4: Outstanding Recommendations

## Breakdown of outstanding recommendations

There are two agreed actions which have been partially implemented by 31 July 2016. We have provided a breakdown of the original finding raised, agreed action, risk rating, status and revised due date below.

### Partially Implemented

Review	Agreed Action	Risk Rating	Original due date	Revised due date	Status
Change Portfolio	<p><b>Benefits Management</b></p> <p>Guidance for identifying project benefits: Alongside the implementation of the London South Bank University project management approach, a strategy and guidance for the definition, identification and specification of benefits is in development. This will support the creation and approval of business cases for investment.</p> <p>Reporting: benefits monitoring has now been built into monthly project reports, and an online reporting process is in development.</p> <p>Project closedown reports: benefits realisation: Within the 12-month project review process (noted against the previous finding), all identified benefits will be assessed to ensure they have been delivered or are on track. Guidance and oversight will ensure a consistent approach across London South Bank University projects.</p>	<p>●</p> <p><b>Medium</b></p>	30/11/2015	31/07/2016	<p>Guidance on benefits has not been completed. This shall be developed following the development of the project management methodology and business case approach which has been delayed pending recruitment of Deputy Director, Innovation &amp; Transformation.</p> <p>The online reporting system has been implemented.</p>
Change Portfolio	<p><b>Portfolio Scope and Remit</b></p> <p>The role of portfolio management is clear – to provide oversight and support to development (or transformational) projects. Roles and accountabilities will not be developed further at this level. Activity is focussed on:</p> <ul style="list-style-type: none"> <li>Establishing a best-in-class project management approach, detailing roles, accountabilities and controls on development projects across London South Bank University – building on the best practice approach recently introduced in ICT and existing practice across the University</li> </ul>	<p>●</p> <p><b>Medium</b></p>	30/11/2015 31/07/2016	31/01/2017	<p>An adapted project management methodology for business change projects is still in development. This on hold pending recruitment of Deputy Director, Innovation &amp; Transformation.</p> <p>12-month reviews of closed projects are still planned, however none have been conducted since the Audit report was issued.</p>

	<ul style="list-style-type: none"> <li>• Benefits approach, stakeholder engagement process, and resource management approach (detailed against relevant findings, further in this document)</li> <li>• Implementation of a 12-month project review process, including lessons learnt process. This is planned for projects delivered within the Change Programme, and will be detailed, with clear roles, responsibilities and outputs, in the London South Bank University project management approach.</li> </ul>				
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# Appendix 5: Mapping of internal audit work

## Reporting responsibilities

The table below maps our internal audit work against the Audit Committee's reporting responsibilities.

<i>Audit Unit</i>	<i>Governance</i>	<i>Risk management</i>	<i>Control</i>	<i>Value for money</i>	<i>Data quality</i>
Continuous Auditing: Financial Controls – Phase 1 (May to July 2014)	x	x	✓	x	x
Continuous Auditing: Financial Controls – Phase 2 (October – April 2015)	x	x	✓	x	x
Continuous Auditing: Student Data Controls – Phase 1 (August– October 2014)	x	x	x	x	✓
Continuous Auditing: Student Data Controls – Phase 2 (November– March 2015)	x	x	x	x	✓
Management Information: Data Quality	x	x	x	-	✓
Research and Enterprise Contracts	x	x	x	-	✓
Risk Management	x	✓	-	-	-
Value for Money	-	-	-	✓	-
Prevent	✓	x	-	-	-
Data Security	✓	✓	x	-	x

### Key

- ✓ Testing focused on this area
- x Testing was peripheral
- Not tested

## Data Quality

The Audit Committee's Annual Report must include an opinion on the adequacy and effectiveness of arrangements for the management and quality assurance of data submissions to HESA, HEFCE and other funding bodies. To assist the Audit Committee prepare its Annual Report, we have outlined where our work assessed the arrangements for the management and quality assurance of data (see the table on this page). We provide no conclusions or opinion on data quality.



In the event that, pursuant to a request which London South Bank University received under the Freedom of Information Act 2000 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), it is required to disclose any information contained in this terms of reference, it will notify PwC promptly and consult with PwC prior to disclosing such information. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Act to such information. If, following consultation with PwC, London South Bank University discloses any such information, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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# Agenda Item 7

	CONFIDENTIAL
Paper title:	Going Concern Review
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	John Baker, Corporate & Business Planning Manager
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To present the going concern report for the financial year 15/16.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	The going concern report relates to the financial sustainability of LSBU.
Recommendation:	The Executive recommends that audit committee note the assurance sources and recommend approval by the Board of the going concern statement in the statutory accounts.

Matter previously considered by:	Annually	
Further approval required?	Board (when approving accounts)	On: 24 November

## Executive Summary:

The Going Concern Report supports the statement in the financial accounts that it is appropriate to assume that the University will continue in operation.

One of the responsibilities of the Board in approving the financial statements is to ensure that they are prepared on a going concern basis unless it is inappropriate to presume that the University will continue in operation. In ensuring the applicability of the going concern basis, the Board must be satisfied that the University has adequate resources to continue in operation for the foreseeable future (and has neither the intention nor the need to liquidate or curtail materially the scale of its operations for a period usually regarded as at least 12 months).

This report provides the audit committee (and Board) with detail regarding the assurance sources of this judgment regarding future sustainability.

Areas of assurance include:

- regular KPI reporting in areas which are relevant to the sustainability of LSBU
- an effective risk management process (rated in September 2016 as low risk by the internal auditors)
- financial strategy and forecasts, which provide for financial surpluses each year over the forecast period to 2020 in line with the corporate strategy
- a financial surplus of £3.3m for 2015/16 which is ahead of the budget surplus of £1m
- 2016/17 budget, with a budget surplus of £1m agreed by the Board
- cash and cash deposits of £52.7m at 31 July 2016
- approved cashflow forecasts provide for sufficient annual net cash inflows to enable the University to meet its future investment plans
- appropriate control mechanisms regarding the estates master plan to ensure prioritisation of projects and identification of potential funding sources.

The Executive recommends that audit committee note the assurance sources and recommend approval by the Board of the going concern statement in the statutory accounts.

## Executive Summary

The financial statements set out the responsibilities of the Board of Governors. One of those responsibilities is to ensure that the financial statements are prepared on a going concern basis unless it is inappropriate to presume that the University will continue in operation. In ensuring the applicability of the going concern basis, the Board must be satisfied that the University has adequate resources to continue in operation for the foreseeable future (at least 12 months).

This paper is presented to the Board and its committees to summarise the assurance sources regarding the future sustainability of LSBU which underpin the going concern statement in the annual financial accounts.

The Going Concern statement in the annual accounts reads as follows:

*Governors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.*

*2015/16 has been another year of significant change, re-structuring and investment for future success. After adjusting for non-recurring income releases in the previous year, related to the implementation of a suite of IBM hardware and software solutions, income of £138m was flat in an increasingly competitive market. A financial surplus of £3.3m has been delivered (ahead of the approved budget surplus for the year of £1m) as a result of continued sound financial management and effective cost control.*

*A budget surplus of £1m has been approved for 2016/17, reflecting the continued investment necessary to ensure delivery of 2020 corporate strategic and financial outcomes. The next few years will remain challenging in financial terms and the levels of surplus are expected to remain lower than the recent past whilst we are in the process of investing for growth, delivering new income streams and improving retention and progression. This is entirely consistent with the University's financial model and approved five year forecasts.*

*Whilst financial performance is expected to remain challenging, the University will continue to deliver annual surpluses and generate positive cash inflows from operating activities. This, together with the current strong cash position (the University has £52.7m cash and bank deposits at 31 July 2016), supports the University's ambitious investment plans.*

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

## 1. KPI reporting

- We review the institution's performance continually using a number of KPIs in areas relevant to the sustainability of the institution. In these areas, we have set long term targets against which the Board of Governors and its committees and our Executive team and Operations Board monitor performance. We are satisfied that our strategies will help us move towards achieving these targets. The headline financial KPI targets aligned to the new corporate strategy are unchanged from last year and are as follows:

By 2020 we will have delivered:
• 25% growth in income from £136m to £170m
• An operating surplus of 5% (£8.5m pa on income of £170m)
• EBITDA margin (EBITDA/income) of 15% (equivalent to EBITDA of £25.5m pa on income of £170m)

The latest KPI report for 2015/16 is attached as Appendix 1. In terms of financial KPIs the red rated items relate to levels of research, enterprise and overseas student income which were behind budget for the year. However, the budget was aggressive in terms of growth and the turbulence in the sector and political environment have had a direct impact on strategic plans in these areas.

- We are satisfied that our process for the selection of KPIs, and of data collection and analysis in setting targets and making assessments is appropriate and rigorous and can be reconciled with other information including the statutory financial accounts. Considerable work has been done over the past 12/18 months to ensure that the KPI set is aligned to the new University strategy 2015/20.

## 2. Risk management

- We have an effective risk management process (rated as low risk by our internal auditors as recently as September 2016), linked to the achievement of institutional objectives as set out in the corporate strategy 2015/20 and 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. During 2015/16 we have also embedded processes linked to the Board's assessment of risk appetite into our risk management procedures.

### 3. Financial sustainability

#### *Financial strategy and forecasts*

- The University's financial strategy is expressed through its rolling five year financial forecasts. Those forecasts are kept under constant review and have been thoroughly revised in 2016 to reflect latest assumptions.
- The key elements of the financial strategy are to:
  - Aim for a surplus of 5% of income. This will not be achievable each year over the next 5 years because we are increasing our revenue (as well as capital) investment to deliver the outcomes set out in the University corporate strategy. However, the approved annual surplus over the next 5 years will generate sufficient cash reserves both to support investment at current planned levels and manage the financial position in the short term until the surplus returns to 5%
  - Deliver growth in income, with a particular focus on apprenticeships, enterprise, income from international students and non SNC post graduate and part-time provision
  - manage staff costs, including agency costs, to an agreed maximum percentage of income
  - Ensure flexibility, to allow management to respond as necessary to changes as they arise. The revenue budget each year includes an investment pool which can be flexed as required in response to changing circumstances. In 2016/17 those revenue investment funds amount to £2.5m
  - Invest at an appropriate level to provide for future sustainability in buildings and infrastructure
  - Ensure that all aspects of the University's operation are as lean and efficient as possible without compromising quality or student success

- Maintain cash balances at agreed levels (minimum £20m).
- As stated above, the revised forecasts reflect the continued challenging financial environment over the next few years. However, the forecasts provide:
  - Financial surpluses over the forecast period (minimum £1m p.a.)
  - A clear path to toward delivery of 5% surplus target by the end of the forecast period, and
  - Sufficient operating cash to enable the University to meet its stated investment.
- Within our monitoring framework we have set targets for a small number of leading KPIs linked closely to delivery of the financial forecasts and which are monitored closely by the Board. The key targets are:
  - Minimum new student recruitment at FTUG Home/EU of 2,750
  - Improving YR1/YR2 progression to 76% by 2017/18
  - Additional income of £12 m p.a. (at surplus of 20%) by 2017/18
  - Capital Investment of over £100m over the life of the forecasts
  - Maintaining income in the Health and Social Care (HSC) at forecast levels.

We have made no assumptions about fee inflation which is pegged at the headline £9k over the life of the forecasts.

#### *2016/17 budget*

- The detailed budget planning process for 2016/17 is complete and a budget surplus of £1.0m (0.7%) has been approved by Board. This is in line with the agreed 5 year forecasts. To mitigate for the financial impact of the principal risk around recruitment in what is a challenging environment, the budget contains an explicit contingency of £0.5M as well as investment fund monies of £2.5m. The budget also contains a provision of £1.5M for restructuring costs and exceptional items. Furthermore, we have set aside £4m as an “income stretch target” for which associated costs will only be released should that income be delivered.

## *Student recruitment*

- The University portfolio of student offerings is still heavily biased towards Full Time Undergraduate students but increasingly Part Time Undergraduate students, Post Graduate students and Apprentices are changing the student mix.
- We received 2,798 Home/EU firm acceptances (FA's) against a target enrolment of 2,760 and achieved 2,503 fully enrolled students giving a conversion of 89%. This improved conversion on the last year offset a 2% fall in applications ensuring that we maintained the enrolment as in 2014/15.
- Through Clearing 2016 we took over 15,000 calls and an additional 3,000 plus applications which generated over 1,000 additional firm acceptances. This does demonstrates the popularity of the University at a critical stage in the student application cycle.
- Whilst we are gaining market share with respect to more qualified applicants, we remain highly dependent on clearing with c40% of Full Time Undergraduate students coming through this route. With increased market volatility these recruitment levels are not ideal . Selective institutions have this year sought to grow and have lowered entry tariffs. Further expansion of the sector is also expected with additional new providers. We will therefore review our institutional average entry tariff in coming weeks for the 17/18 cohort, but may need to hold at current entry levels while we seek to grow volume to help mitigate the risk of under recruitment in future years.
- The University is experiencing significant growth in Post Graduate students. This may be linked to the introduction of the Post Graduate loan or maybe a reflection of an increased Academic reputation. At present Postgraduate income looks to have grown by £1M as compared to 15/16.
- We are also significantly expanding into Higher Apprenticeship degrees to diversify our income mix and have over 70 employer sponsored Students enrolled in Semester 1 with a further 240 ready to start in Semester 2. The introduction of the Apprenticeship levy in April 2017 is expected to significantly improve the attractiveness of these courses to employers in the next recruitment round.
- There continue to be challenges in the international market where we are gaining applications but are having to reject many well qualified candidates based on UKVI behaviour towards certain jurisdictions. If the English language requirements are Page 70 increased, and threshold for maintaining a licence reduces to 5-8% visa refusals, this will become increasingly

challenging. Additional staffing is being released into this area to deal with the burden of supporting international recruitment on staff - especially around student monitoring.

- NHS numbers should be on target for this year which is the last year the students on certain Health courses receive Bursaries. Next year these students will have tuition fee loans and reduced bursaries and so we are developing our Apprenticeship offer with selected NHS institutions to ensure that applicants will not be deterred by the change in support package.
- Whilst expected to be behind budget in terms of recruitment and resultant income in 2016/17 (current recruitment shortfall estimated to be between £2m and £4m depending upon the levels of second semester recruitment), this is in line with the “income stretch target” and is therefore manageable through careful cost control.

#### Cashflow

- Capital expenditure plans have been analyzed in detail and a detailed cashflow model has been prepared as an integral part of the 5 year financial forecasts which reflect those agreed spending plans. The approved forecasts provide for sufficient annual net cash inflows to enable the University to meet its investment plans.

#### 4. Sustainability in estates & infrastructure investment

- LSBU continues to develop its strategic investment in the estate to create sustainable, first class facilities which will enhance both the learning and social experiences of students and support the delivery of the academic mission. The estate strategy includes plans to build new facilities and for the refurbishment of existing buildings. It is proposed to dispose of old buildings of corresponding dimensions to those of the new builds in order that there is no significant increase in the size of the overall footprint of the campus. Appropriate control mechanisms are in place to ensure that specific projects within the master plan are prioritized and potential funding sources identified. The funding approach adopted supports future financial sustainability by unlocking the potential value of the existing estate or through developing self-financing business plans.

#### Attachments

1. Latest KPI report 15/16 Academic Year

		Grow our income by 25% to £170m annually, deliver an		20 Surplus as % of income		4.0%	2.3%	0.9%	9.6%	0.7%	2.4%	0.68%	5.0%	0.0%	5.0%								
		20 Income (£m)		£137.9m		£134.8m	£140.8m	£188.2m	£142.8m	£138.2	£147.3m	£170.0m											
Out comes	#	Corporate Strategy Goals	Report Date	20/20 Success Measures	#	5th October 2016			Past Performance		benchmark		Target		15/16 Ratings		Indicator		Ambition		15/16 Rating Criteria		
						Key Performance Indicators			2012/13	2013/14	2014/15	Competitor Group 12/13 average	2015/16	Forecast RAG rating	Actual Result Rating	2016/17	2020/21	Exec. Lead	Green	Amber	Red		
Student Success	1	Employ-ability	95% students in employment / further study (EPI)	Top 10 UK universities for student start ups	1	DHLE entry to employment or further study (EPI)	77.4%	85.5%	90.2%	88.5%	93%	90.4%		94%	95%	PVC (SE)	93 % +	90 - 92 %	<90 %				
					2	Number of Student start ups	6	1	30	47.86	50	50		80	150	PVC (R&E)	50 +	43 - 49	< 42				
	2	Student Experience	Top quartile of all universities in NSS	3	NSS scores – overall satisfaction	82%	80%	82%	81.7%	84%		82%	86%	89%	DVC	84 % +	81 - 83 %	< 81 %					
				4	International Student barometer (% recommending LSBU)	73.00%	72.40%		not available	75%		77.0%	78%	81%		75 % +	71 - 74 %	< 71 %					
				5	PGT experience (% satisfaction)	75%	77%	74%	not available	77%		74%	80%	82%		77 % +	74 - 76 %	< 74 %					
				6	Student Staff Ratio	24.2:1	17.2:1	16.4:1	21.2	17.5	17.4:1	17.5	18:1		<=17.5	17.5 - 18.5	> 18.5						
Real World Impact	3	Teaching and Learning	Top 50% of universities for graduate employment / starting salaries.	7	Graduate level employment (All Leavers)	59%	54%	79%	n/a (local indicator)	77%	81.0%		78%	80%	PVC (SE)	77 % +	72 - 76 %	<72 %					
	4	Research and Enterprise	Top 50% UK for Research & Enterprise Income	8	Research Income (non Hefce)	£2.2m	£1.8	£2.0m	£6.1	£2.2	£1.9m		2.75m	£6.0 m		£2.2 m +	£2.05 - 2.15 m	<£2.05 m					
				9	Enterprise Income	£8.5m	£9.4m	£8.7m	not available	£10.2	£8.7m		12m	£15.0 m		£10.2 m +	£9.7 - 10.1 m	<£9.7 m					
Access to Opportunity	5	Access	Top London Modern for LPN recruitment	10	% recruitment from low participation neighbourhoods	7.3%	7.4%	7.7%	6.4%	8.0%		8.4%	8.2%	9.0%	PVC (R&E)	8.0% +	7 - 7.9 %	<7 %					
				11	FT UG recruitment pre-clearing applicant %	68.0%	76.0%	79.2%	not available	80.0%	78.4%		81%	90%		80 % +	76 - 79 %	< 75 %					
				12	First Degree Completion (at or above benchmark)	-6.7%	-9.5%	-7 %	-3.13%	-4%		-5.8%	0%	+3%		>=4%	-5 to -7 %	<-8 %					
				13	Year 1 progression	70.1%	69.1%	69.5%	not available	75%	71.9%		78%	85%		75 % +	72 - 74 %	<72%					
				14	Good Honours		61.0%	61.2%	62.2%	60 - 65%			60 - 65%	60 - 65%	DVC	60 % +	58 - 59 %	<58 %					
	15	PG completion	67.1%	54.8%	61.5%	not available	70%			80%	85%		70 % +	66 - 69 %	< 66%								
	6	International	4 QS Stars	16	QS Star Rating	n/a	2 (prov.)	3 stars	not available	3		3	3	4	VC	3	2	1					
Strategic Enablers	7	People and Organisation	Rated as a good employer	18	Appraisal completion %	28%	37%	90%	not available	95%			95%	95%	EDHR	95 % +	90 - 94 %	< 90 %					
				19	Average Engagement Score as as %	58%	-		70%	55%		58%	60%	75%	EDHR	55%	51 - 54 %	< 51 %					
	8	Resources and Infrastructure	Grow our income by 25% to £170m annually, deliver an operating surplus of 5% and an EBITDA margin of 15%	20	Surplus as % of income	4.0%	2.3%	0.9%	9.6%	0.7%	2.4%		0.68%	5.0%		0.7 % +	0.4 - 0.6 %	< 0.4%					
				21	Income (£m)	£137.9m	£134.8m	£140.8m	£188.2m	£142.8m	£138.2		£147.3m	£170.0m	CFO	£142.8 m +	£137 - 142 m	< £137 m					
				22	EBITDA margin (EBITDA expressed as % of income)	12.6%	11.4%	9.2%	9.20%	11.5%	11.8%		11.1%	15.0%		11.5% +	11.1 - 11.4%	<11.1%					
				23	Student satisfaction ratings with facilities & environment	80.0%	83.0%	87.7%	82.7%	88.5%		90%	89%	90%	COO	88 % +	85 - 87 %	< 85%					
24	Teaching room utilisation rate	23%	22%	21%	not available	25%		21%	30%	48%		25% +	22 - 24 %	<22%									
League Tables	Overall	Top London Modern university (excl UAL)	25	TIMES - League table ranking	118/121	122/123	120 / 127	92.3	115		120 / 128	110	80	VC	115 or higher	116 - 119	120 or lower						
			26	GUARDIAN – League table ranking	113/119	112/116	111 / 119	87.1	100		107/119	96	86		100 or higher	101 - 106	107 or lower						
			27	COMPLETE UNIVERSITY GUIDE – League table ranking	119/124	120/123	119 / 126	85	115		115 / 127	110	93		115 or higher	116 - 119	120 or lower						

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	CONFIDENTIAL
Paper title:	External Audit Letter of Representation
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman – CFO
Purpose:	To agree the Letter of Representation.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Audit Committee approve the attached Letter of Representation

Matter previously considered by:	Executive	On: 2 <sup>nd</sup> November 2016
Further approval required?	Board of Governors	On: 24 <sup>rd</sup> November 2016

## Executive Summary

The letter of representation requires the Board of Governors to give specific assurances to the auditors over matters regarding the financial statements and the year-end audit. It should be signed by the Chair of Governors at the time of signing the accounts. The attached letter contains standard representations only; there are no items that have been inserted specific to LSBU.

## Recommendation

It is recommended that the Audit Committee review and recommend that the Board approves the attached Letter of Representation.

## Attachments:

- Letter of representation

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**{\*\*Prepare on LSBU letterhead\*\*}**

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

**{\*\*Date\*\*}**

Dear Sirs

**London South Bank University  
Financial Statements for the year ended 31 July 2016**

This representation letter is provided in connection with the audit of the financial statements of London South Bank University for the year ended 31 July 2016 for the purpose of expressing an opinion as to whether the group financial statements give a true and fair view in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) including FRS 102 'The Financial Reporting Standard applicable in the UK and Republic of Ireland'.

We confirm that, to the best of our knowledge and belief, the following representations are made on the basis of appropriate enquiries of other members of the Board of Governors with relevant knowledge and experience (and, where appropriate, of inspection of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the following representations to you in respect of your audit of the above financial statements, in accordance with the terms of your engagement letter dated 15 August 2016.

**Financial Statements**

- i As set out in the Statement of Responsibilities of the Board of Governors on **page 18**, we acknowledge our responsibilities for preparing financial statements that give a true and fair view in accordance UK GAAP, the Statement of Recommended Practice - Accounting for Further and Higher Education ('SORP') as issued in March 2014 and any subsequent amendments; and applicable law, and for making accurate representations to you.
- ii In addition, within the terms and conditions of the Memorandum of assurance and accountability agreed between the Higher Education Funding Council for England and the Board of Governors of the University, the Board of Governors of the University, through its designated officer holder, have prepared the financial statements for each financial year which give a true and fair view of the state of affairs of the University and of the surplus or deficit and cash flows for that year.
- iii We are responsible for ensuring that funds from the Higher Education Funding Council for England are used only for the purposes for which they have been given and in accordance with the Memorandum of assurance and accountability with the Higher Education Funding Council for England and any other conditions which the Funding Council may from time to time prescribe.

- iv The University has complied with all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance. There has been no non-compliance with requirements of regulatory authorities that could have a material effect on the financial statements in the event of non-compliance.
- v We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud or error.
- vi Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
- vii On the basis of the process established by the Board of Governors and having made appropriate enquiries, the Board of Governors is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with FRS 102 Section 28 Employee Benefits.
- viii Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with the requirements of UK GAAP, the SORP, and HEFCE's Accounts Direction.
- ix All events subsequent to the date of the University financial statements and for which UK GAAP and the SORP and any subsequent amendments or variations to this statement require adjustment or disclosure have been adjusted or disclosed.
- x Actual or possible litigation and claims have been accounted for and disclosed in accordance with the requirements of UK GAAP.
- xi We have considered the adjustments schedule included in your Audit Findings Report. The financial statements have been amended for these misclassifications and disclosure changes and are free of material misstatements, including omissions.

#### **Information Provided**

- i We have provided you with:
  - a. access to all information of which we are aware that is relevant to the preparation of the University 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 determine it necessary to obtain audit evidence.
- ii We have disclosed to you the results of our assessment of the risk that the University financial statements may be materially misstated as a result of fraud or error.
- iii All transactions have been recorded in the accounting records and are reflected in the University's financial statements.
- iv 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.
- v 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 University's financial statements.
  
- vi We have disclosed to you our knowledge of any allegations of fraud, or suspected fraud, affecting the University's financial statements communicated by employees, former employees, analysts, regulators or others.
  
- vii 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 University's financial statements.
  
- viii We have disclosed to you the identity of the University's related parties and all the related party relationships and transactions of which we are aware.
  
- ix We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
  
- x We confirm that we have reviewed all correspondence with regulators, which has also been made available to you, including, in England and Wales, the serious incident report guidelines issued by the Charity Commission (updated in 2014). We also confirm that no serious incident reports have been submitted to HEFCE, as the principal regulator, nor any events considered for submission, during the year or in the period to the signing of the balance sheet.

Yours faithfully

**/\*\*Name, role and date\*\*]**

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	CONFIDENTIAL
Paper title:	Draft Annual Report and Accounts for the year ending 1 <sup>st</sup> July 2016
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman – CFO
Purpose:	To review the draft Annual Report and Accounts for the year ending 31 <sup>st</sup> July 2016.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Audit Committee review and note the attached Report and Accounts and recommend approval by the Board.

Matter previously considered by:	Executive	On: 2 <sup>th</sup> November 2016
Further approval required?	Finance Policy and Resources  Board of Governors	On: 8 <sup>th</sup> November 2016  On: 24 <sup>rd</sup> November 2016

## Executive summary

The audit for the year ended 31 July 2016 is almost complete. The draft report & accounts are enclosed for review by Audit Committee. The accounts will be submitted to the Board of Governors for approval and signing on 24<sup>th</sup> November. This is the first set of accounts produced by LSBU using the new accounting standard, FRS102 and in line with the 2015 HE/FE Statement of Recommended Practice (SORP) and the impact on the accounts is detailed in note 27 to the accounts.

Subject to satisfactory completion of the matters referred to below, the Audit committee are requested to note and recommend approval to the Board.

### **Outstanding steps to completion**

- Resolution of outstanding audit queries raised by Grant Thornton
- Completion of review work by Grant Thornton
- Issuing of letter of representation by LSBU to Grant Thornton
- Grant Thornton review of post balance sheet events
- Review by Finance, Policy and Resources Committee
- Approval by Board of Governors on 24<sup>th</sup> November
- Signing of accounts

### **Key Issues**

The attached accounts are for the year ended 31 July 2016. A detailed financial review is included on pages 7-11 of the accounts. Results for the year have previously been considered in the July Management accounts which went to the September meeting of Finance, Policy and Resources Committee.

Grant Thornton will present the results of their audit in their Audit Findings document.

### **Recommendation**

The Executive recommends that the Audit Committee review the attached report and accounts and recommends approval to the Board.



**Report and Financial Statements**

**31 July 2016**

**Version 6 at 02/11/16**

draft for Audit Committee

## **Report and financial statements 2016**

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## Strategic Report

### Legal and Administrative Details

This Strategic Report is that of the University and its subsidiary, South Bank University Enterprises Limited.

London South Bank University was incorporated on 12 August 1970. It is registered at Companies House under number 986761 and its registered address is 103 Borough Road, London, SE1 0AA. London South Bank University is a company limited by guarantee and has no share capital.

The governing body of the University is responsible for the effective stewardship of the University and has control of the revenue and the property of the University. The University's corporate governance arrangements are described on pages 20-25 and the members of the Board of Governors during the year ended 31 July 2016 are listed on page 3. The Governors are also directors under the Companies Act 2006.

The University is an exempt charity within the meaning of the Charities Act 2011 applying in England and Wales and its principal regulator is HEFCE. All Governors are also charitable trustees. The University is regulated principally by HEFCE under a Memorandum of Assurance and Accountability. The University complies with conditions of grant set out in funding agreements with the relevant grantor.

#### **Solicitors**

Shakespeare Martineau LLP  
1 Colmore Square  
Birmingham B4 6AA

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

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

Shoosmiths LLP  
Witan Gate House  
500-600 Witan Gate West  
Milton Keynes MK9 1SH

Michelmores LLP  
48 Chancery Lane,  
London WC2A 1JF

#### **Auditor**

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

#### **Internal Auditor**

PricewaterhouseCoopers LLP  
1 Embankment Place  
London  
WC2N 6RH

#### **Bankers**

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

### Structure, Governance and Management

#### **Principal Officers:**

<b>Name</b>	<b>Position</b>
Professor David Phoenix	Vice Chancellor
Professor Patrick Bailey	Deputy Vice Chancellor
Mrs Mandy Eddolls	Executive Director of Organisational Development and HR
Mr Richard Flatman	Chief Financial Officer

## Strategic Report

Professor Paul Ivey	Pro Vice Chancellor (Research and External Engagement)
Mr Ian Mehrrens	Chief Operating Officer
Mr James Stevenson	Secretary and Clerk to the Board of Governors
Professor Shân Wareing	Pro Vice Chancellor (Education and Student Experience)

A separate Corporate Governance Statement is shown on pages 20-25.

The following were Governors throughout the year ended 31 July 2016 except as noted:

### Board of Governors

Name	Dates
Mr Jeremy Cope (Chair)	
Professor David Phoenix (Vice Chancellor and Chief Executive)	
Miss Temi Ahmadu	Appointed 1 July 2016
Mr Steve Balmont	
Mrs Shachi Blakemore	
Mr Michael Cutbill	Appointed 1 January 2016
Mr Douglas Denham St Pinnock	
Professor Neil Gorman	
Mrs Carol Hui	
Professor Hilary McCallion CBE	
Mr Kevin McGrath	
Dr Mee Ling Ng	
Mr Abdi Osman	Resigned 10 May 2016
Mr Andrew Owen	
Ms Jenny Owen	Appointed 21 November 2015
Mr Tony Roberts	Appointed 21 November 2015
Ms Andrea Smith	Resigned 30 June 2016
Mr James Smith CBE	Resigned 30 April 2016
Mr Calvin Usuanlele	Appointed 1 July 2016

### Changes in Governors since 31 July 2016:

There have been no changes in Governors since 31 July 2016

## Strategic Report

### Objectives and Activities

#### **Our mission:**

#### **To be recognised as an enterprising civic university that addresses real world challenges**

London South Bank University has been transforming lives, communities and businesses for over 120 years. At its creation, the Prince of Wales and Archbishop of Canterbury were instrumental in a fundraising campaign which included 55,000 letters of appeal and led to collection boxes being placed on London's bridges. The aims were to improve the social mobility of the people of south east London by improving their employment opportunities and to support the community by providing access to applied knowledge that would advance their businesses. Other than an increasingly global reach that mission remains almost unchanged today – LSBU provides a highly applied academic environment which supports students into professional careers by providing the knowledge and skills attractive to employers. At the same time, it supports employers and the professions by providing the education, consultancy and high quality applied research they need to grow their businesses.

#### **Key outcomes 2015-2020**

The higher education sector and the market within which we operate has changed and continues to develop rapidly and so we must continue to innovate in order to keep pace. The recent decision to remove student number controls means we will inevitably see recruitment becoming an even more heated environment and this will be fuelled by new entrants such as private providers. In 2010 only £30 million of public funding went to private providers and this is now approaching £1billion.

Students do not want to simply sit in a lecture theatre. They continue to demand more for their money and the demand will increase still further now that, since September 2016, maintenance grants have been scrapped and replaced with loans. They will expect that their investment in education will enhance their future career prospects. Institutions who strive to successfully meet and manage these expectations are the ones who will prosper. Providing a personalised student experience leading to strong graduate outcomes will become increasingly important and, given our focus on professional education, this is an area in which we must excel.

As the number and diversity of providers grows it will be important to ensure a degree of differentiation from competitors. Universities that succeed in this new environment will be ones that build on their strengths to ensure they develop a strong external reputation for the quality of what they deliver.

Developing into a university that is recognised for addressing society's challenges by engaging with partners on both a local and global scale is not in itself a significant move away from who we are now. We have a reputation for courses relevant to the professions, for applied research and for business engagement and our teaching is becoming more and more dynamic as we produce enterprising graduates ready for a global market. Our academic expertise has real world impact and is drawn upon by commercial and government organisations, so it makes sense to build our future ambitions upon the relevance and strengths of our current identity.

Examples of recent activity include:

- 960 employers send 4,000 of their staff to be educated by LSBU each year.
- Over 150 British SMEs and major companies have formed commercial research partnerships with LSBU.
- The Clarence Centre for Enterprise and Innovation is now home to 60 student-led businesses and social enterprises: 82 companies in our business incubation suite generate an annual turnover of over £54m.

We are refocusing and re-doubling our ambition, trading on our specialisms and moulding graduates for success.

We want our success to be recognised, so by 2020 we aim to be London's top modern University.

## Strategic Report

### Key outcomes 2015-2020

We are committed to:-

- Ensuring we work with local partners to provide opportunities for students with the potential to succeed and through active engagement retain them;
- Developing the multicultural community of students and staff, working through international alliances and partnerships to further build our capacity and capabilities in education, research and enterprise;
- Ensuring students develop skills and aspiration to enter employment or further study and so become sought after by employers, or have the skills and confidence to start their own businesses, or develop a portfolio career;
- Ensuring that students are seen as participants in their learning and that the student voice is encouraged and listened to;
- Strengthening our national position and our profile as a leading university for professionally focused education underpinned by highly applied research;
- Delivering outstanding economic, social and cultural benefits from our intellectual capital, by connecting our teaching and research with the real world through commercial activities and via social enterprise;
- Creating an environment which attracts and fosters the very best staff, and within which all staff, whatever their role, feel valued and proud of their university and take appropriate responsibility for its development; and
- Strategically investing in the creation of first class facilities and ensuring that they are underpinned by services which are responsive to academic needs and outcome focused.

The University is split into seven schools, to ensure that it has academic groupings that are meaningful to the outside world and focused enough to be able to respond rapidly to stakeholder needs. This enables each to build its own ethos and brand, to attract potential students and business to work with the University. The Schools are:

- Applied Science
- Arts and Creative Industries
- Built Environment and Architecture
- Business
- Engineering
- Health and Social Care
- Law and Social Sciences.

Professional Service functions have also been aligned with key areas of delivery, thereby allowing the University to minimise duplication through ensuring clarity in terms of responsibility.

The University has taken forward its systems and processes for monitoring and enhancing student engagement to improve student progression and outcomes, using a combination of new technologies including IBM solutions and existing technologies. An early indicator that the programme of work, which has included better use of student engagement data, better systems for dealing with student academic appeals, integrated student support in modules with lower achievement rates, and better and more timely interventions for students at risk of early withdrawal, has been effective is that the number of students re-enrolling by early September 2016 was up 1000 on the same point the previous year. This suggests both improved engagement and progression.

In addition to these investments, we have established a £1m teaching investment fund which is used to ensure students have access to industry standard technical equipment and specialist software which has been implemented to catalogue and monitor industrial placement opportunities and extracurricular achievements (The Higher Education Achievement Record).

In 2016/17, with improvements in the student experience, student engagement and progression will continue the work in previous years. A Student communications project will ensure technology is used effectively to achieve corporate

## Strategic Report

goals, and stage two of the student engagement project will utilise a wider range of student engagement data presented via a redesigned online interface. All students commencing undergraduate study on the Southwark or Havering Campuses will be entitled to a placement, internship or professional opportunity.

### Achievements and Performance

#### **Strategy and Performance:**

The University's financial strategy is articulated in the Corporate Strategy and expressed through its rolling five year financial forecasts. The strategy is focused on future sustainability and is designed to maintain financial resilience and flexibility at all times. These rolling five year forecasts are updated each year following Semester 1 recruitment and include surplus and liquidity forecasts and a five year investment profile as well as income and cost projections. The forecasts are returned to Hefce each year as part of the annual accountability return, after formal approval by Governors. This analysis ensures that the University delivers not only an acceptable level of surplus, but stays within acceptable gearing levels and has the funds for an appropriate capital investment programme.

The Corporate KPIs (*below*) include a number of financial metrics which are reported to the Executive and Board throughout the year, and enable the monitoring of the financial strategy on a continual basis. These KPIs are relevant to the sustainability of the institution and the headline financial targets remain unchanged and show that by 2020 we are forecast to have:

- Grown our income by approximately 25% to £170m;
- Returned to an annual operating surplus of minimum 5%; and
- Improved the EBITDA margin to 15%.

The key drivers of successful financial outcomes for the university are:

- Meeting our home/EU recruitment targets;
- Delivering agreed growth targets for postgraduate, overseas students and enterprise income;
- Improving progression and retention rates. Significant financial impact can be delivered through small improvements in progression and retention rates;
- Given the uncertainty around the proposals for the TEF, we have currently made no assumptions about incorporating inflationary tuition fee increases into the financial forecasts, but this should not be taken as a sign that we will not be increasing our fees for eligible students from 2017/18;
- Maintaining current levels of NHS contract income through high quality delivery;
- Managing staff costs, including agency costs, so they are within our maximum agreed percentage of income; and
- Further efficiency savings wherever possible.

#### **Investment in the Physical Estate**

LSBU continues to develop its strategic investment in the estate to create sustainable, first class facilities which will enhance both the learning and social experiences of students and support the delivery of the academic mission.

Plans to build new facilities and for the refurbishment of existing buildings have been progressed. LSBU has acquired Hugh Astor Court, a social housing development situated in the middle of the campus, from the Peabody Trust at a cost of £11.3m. The building will make way for a new Learning Centre and Creative and Design Centre and the selection process for an Architect is well advanced. Sustainable construction principles will be used as standard and innovative solutions to improve the energy efficiency of existing buildings in order to meet the University's carbon reduction commitment by 2020 have been implemented with remarkable success to date. It is proposed to dispose of old buildings of corresponding dimensions to those of the new builds in order that there is no significant increase in the size of the overall footprint of the campus.

## **Strategic Report**

Sustainability is a major consideration in all procurement processes and we ensure that, where appropriate, environmental criteria are used in both the award of contracts and the purchase of equipment and supplies.

In addition to major capital acquisitions, a further £2.1m has been invested in the estate, of which approximately £0.7k has been through capital investment and the remaining £1.4m has come from revenue budgets. Works funded by capital monies include improvements to the ventilation and heating systems in K2, the upgrade of signage and wayfinding and essential health and safety improvements which have helped to ensure a fully compliant campus. Revenue spend has seen investment in the upgrade of lighting systems in various buildings, general redecoration and improvements to teaching spaces, redecoration of Dante Road Halls of Residence and the first phase of a campus wide toilet refurbishment programme. All work has greatly contributed to improving the Student Experience whilst also improving the condition and environment across the estate.

### **Key Performance Indicators**

The Board of Governors reviewed and revised the key performance indicators for the institution alongside the approval process for the new corporate strategy 2015-2020. Targets for these indicators are set annually, and they are reported regularly to the Executive and Board to continually review the institution's performance. We are satisfied that our strategies and initiatives will help us move towards achieving these targets. Detailed financial results for the year and financial trend analysis are shown in the Financial Review section of this report.

Against the University KPIs significant progress was made in a number of areas. A key result, which has seen increased impact in league table calculation methods, is the rate of graduate employment within the DLHE survey. A further increase to 81% in the 2015/16 survey took the institution well ahead of target. In addition we have maintained our position as a leading university for graduate starting salaries with the average starting salary placing us in the top 15 universities nationally.

Furthermore LSBU now has 37% of its part time students attending university through sponsorship which is the highest proportion for any UK university and which shows the value employers place on the education provided. The University's National Student Survey overall satisfaction rating by students studying First Degrees was maintained at 82%, with students showing satisfaction with some areas, for example learning resources, that were in the top 50% of the country. Also 77% of students in the International Student Barometer survey said they would positively recommend LSBU as a study destination.

As a result of improvements in these and other KPIs, there was an overall increase in League Table performance, moving up four places in both the Guardian and Complete University Guides and increasing our score in the Times and Sunday Times guides.

### **Financial Review**

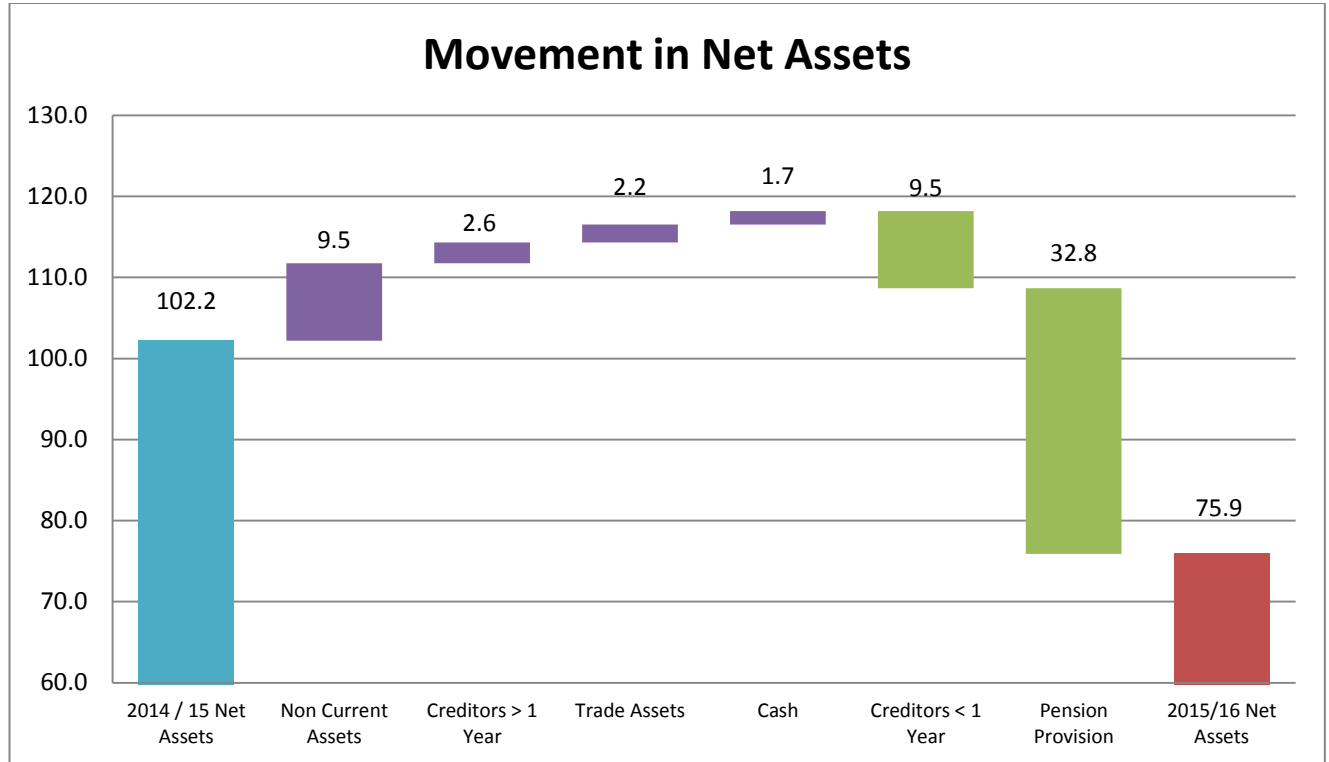
#### **Balance sheet and liquidity**

The Group's restated net assets decreased by 26% during the year, moving from £102.2m to £76.0m. The principal reason for the reduction is an increase of £32.7m in the LPFA pension liability. Creditors that are due within 1 year have increased by £9.5m, partly as a result of the purchase of Hugh Astor Court for £10.2m that completed at the end of the year. Our cash balances are broadly comparable with previous years.

The movement in net assets is summarised as follows:



## Strategic Report



The University always plans to have sufficient liquid assets to meet its liabilities as they fall due and this reduction in net assets will not compromise the group's ability to do so.

Cash balances and bank deposits have increased from £50.9m to £52.7m. Borrowings have reduced from £28.2m at 31 July 2015 to £26.9m at 31 July 2016 reflecting loan repayments made during the year. No new loans were taken out during the year.

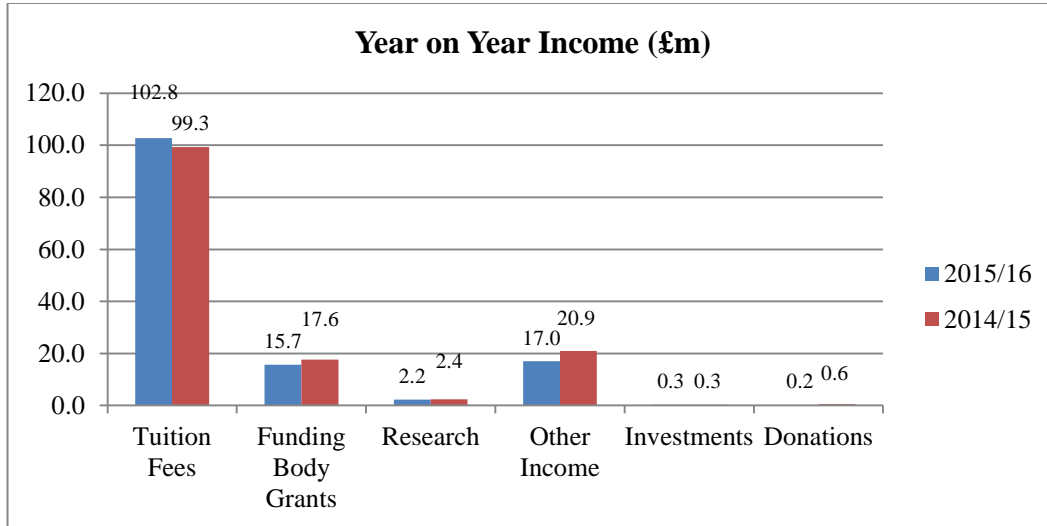
The levels of borrowing are reviewed on a regular basis and are considered adequate to meet current plans.

### Result for the Year

Financial Summary in £m			Variance from 2014 / 15 £m	
	2015/16	2014/15		
Income	138.2	141.1	-2.9	-2.1%
Expenditure	134.9	142.3	-7.4	-5.2%
Surplus for the year	3.3	-1.2	4.5	375%
Surplus %	2.4%	-0.85%		

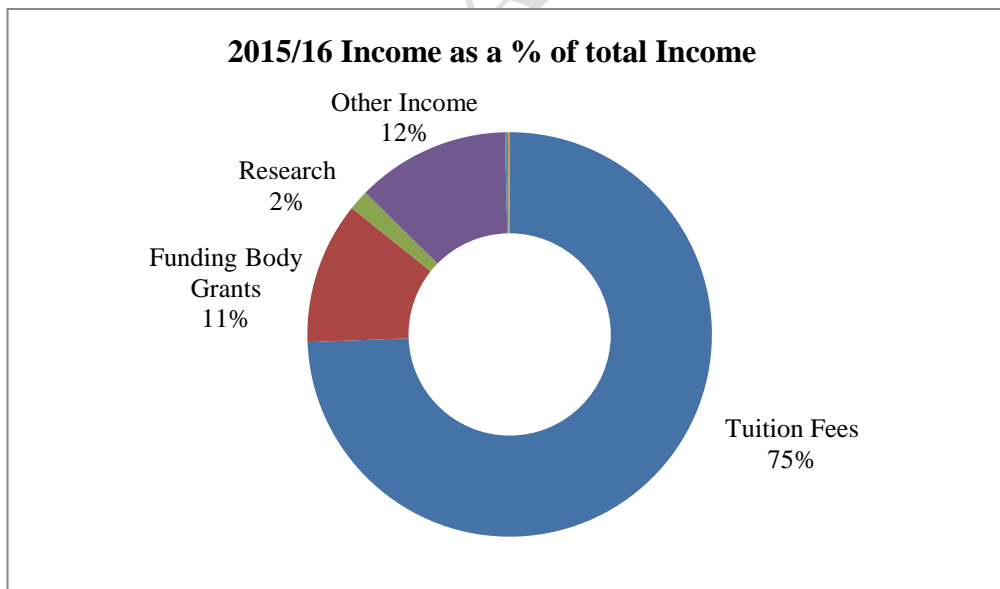
The operating surplus of £3.3m is ahead of the agreed budget of £1.0m. This is considered a strong result, in the context of the recruitment challenges across the sector in 2015/16, the negative impact of FRS102 particularly with regard to interest costs and the additional depreciation due to the current and continued level of investment costs incurred.

## Strategic Report



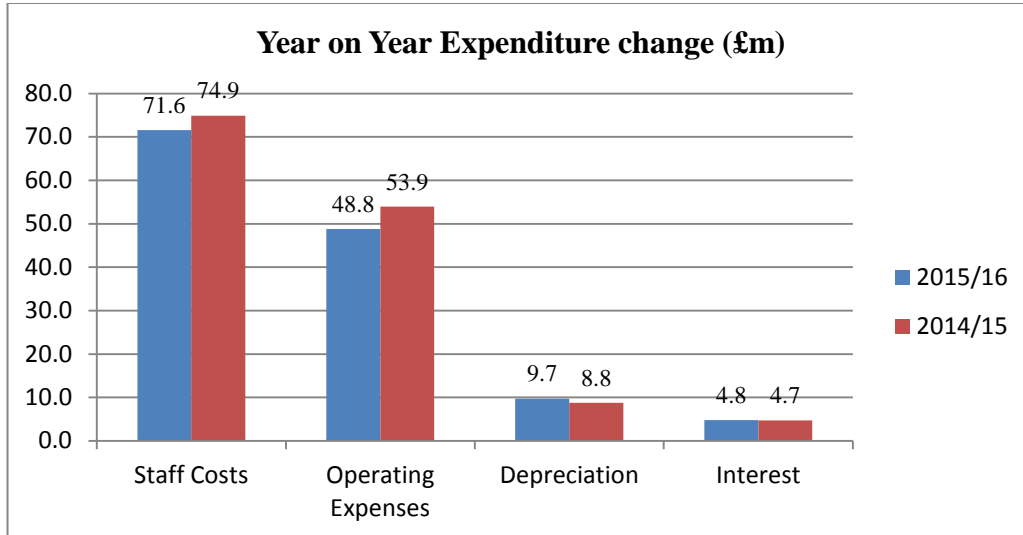
Total income decreased by 2.1% (-£2.9m) to £138.2m (2014/15: £141.1m). There was a reduction in Funding Grant due to the continued impact of the new fee regime for both undergraduate (UG) and post graduate (PG) students. This fall, however, was offset by an increase in Full Time Home / EU UG fees and a significant increase in fees from part time students. The other factors affecting income were a small decline in International student income and a decline in other income which reflects the one off grants released last year as part of the EDISON programme.

Academic fees (including NHS contract income) and Funding Council grants remain the main sources of income for the university representing 74.4% and 11.4% respectively (2014/15 = 70.4% and 12.5%). The key driver for the increase in fee income and corresponding decline in grant income is the introduction of the new fee regime for Undergraduate students.



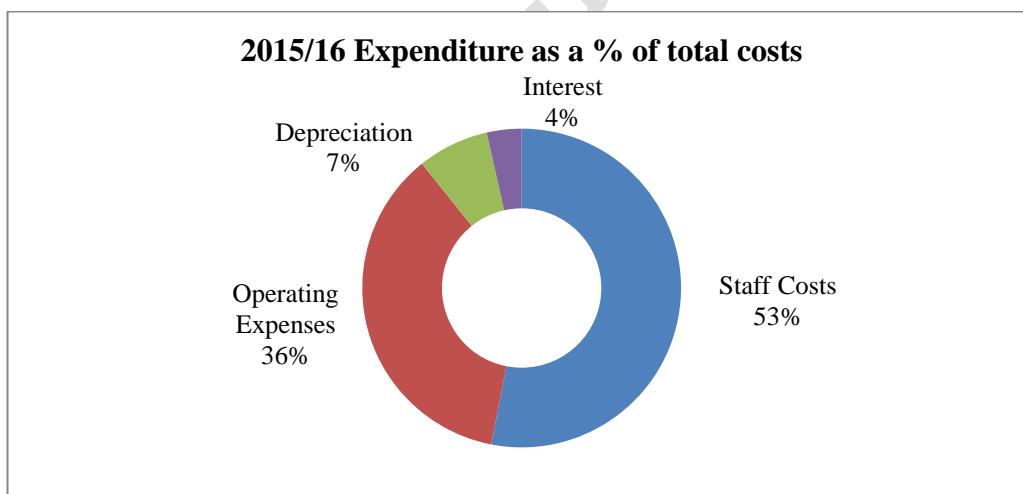


## Strategic Report



In terms of expenditure, staff costs decreased by 4.4% from £74.9m in 2014/15 to £71.6m in 2015/16 representing 51.8% of income (2014/15: 53.1%). After including agency staff costs, which are included in the accounts as operating expenditure, total staff costs represent 53.9% of income. This is within our agreed maximum of 55%. Although this year's performance is strong, staff costs remain an area of continued focus for the university in 2016/17.

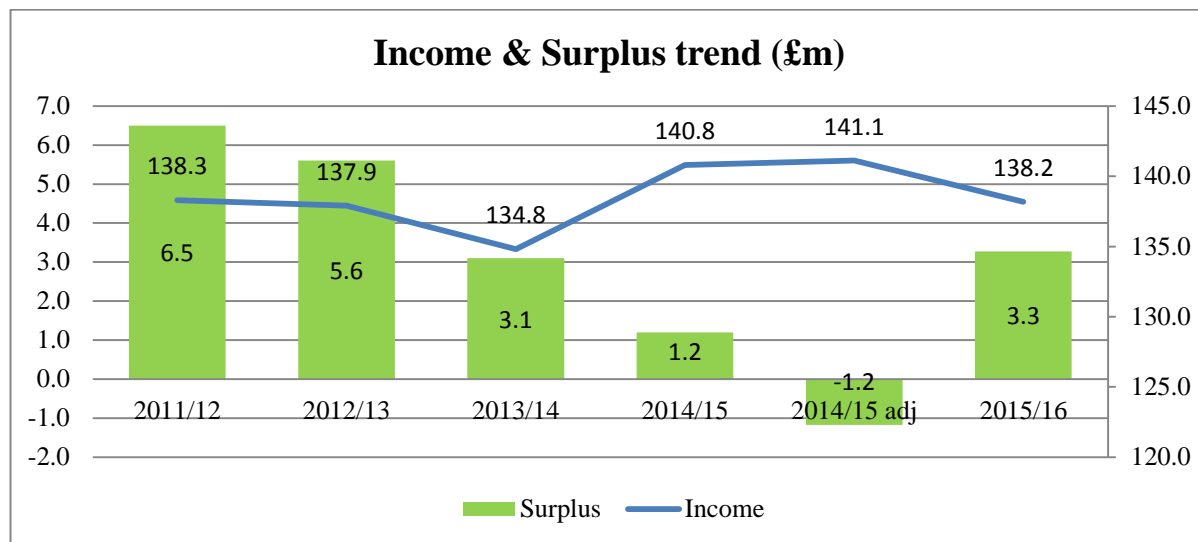
Other operating expenses decreased by 9.4% from £53.9m in 2014/15 to £48.8m. This change is largely accounted for by large one off costs in 2014/15 including agency staff, computing software and computing software consultancy spent on the EDISON project amounting to £5.2m.



Additions to fixed assets during the year cost £19.8m and disposals had a cost of £4.1m. Major investments included the new media centre in London Road, refurbishment of Caxton House for the Confucius Institute, refurbishment of the Refectory kitchen and the installation of Wi Fi in all four halls of residences. The University has also introduced a comprehensive replacement and upgrade plan for both AV and ICT equipment.

## Strategic Report

### Financial trend analysis



Between 2007/08 and 2010/11 income had grown steadily as a result of the introduction of higher tuition fees for full-time home & European Union (EU) students from 2006 and growth in student numbers. The market has become increasingly competitive following the introduction of higher tuition fees and the removal of the student number cap and this has resulted in a reduction in full time home/EU undergraduate student numbers.

The University strategy is to focus on income growth from postgraduate, overseas students and enterprise. For full-time home and EU undergraduate students the focus is on maintaining stability in terms of numbers with the emphasis on increased entry tariff, improved retention and progression, enhanced student experience and employability.

Income was reduced in both 2012/13 and 2013/14 by continued cuts to the HEFCE funding grant and by a reduction in the level of income generated from overseas students. There was a one off change with regard to Teacher Training Agency (TTA) funding in 2013/14 which further depressed income.

Income growth in 2014/15 was due to higher levels of International recruitment and one off income released as part of the EDISON programme.

The University remains focused on both income growth and cost management in order to ensure the university grows sustainably. The deficit position noted above in 2014/15 is after FRS 102 adjustments. The University has a strong track record of delivering financial surplus.

### Pension liability

The pension liability with the London Pension Scheme Authority (LPFA) has increased from £88.8m to £121.5m, mainly as a result of actuarial losses. The charge to the staff costs for the year is £5.7m, interest £3.4m and a £29.4m loss is charged to other comprehensive income and expenditure.

## Strategic Report

### Creditor payment policy

It is the University's policy to abide by the terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later. Average creditor days during the year were 27 (2015: 26).

### Accounting policies

The University's financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 32-37. The University's Governing Body has reviewed the Group's accounting policies and considers them to be the most appropriate to the group's operations.

### Subsidiaries

South Bank University Enterprises Limited ("SBUEL") provides consultancy and other services to a range of commercial organisations. SBUEL has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. SBUEL has donated £0.15m in gift aid to the University this year (2015: £0.35m).

SBUEL is fully consolidated into the Group accounts.

### Principal risks and uncertainties

At a corporate level, the principal risks are identified and managed through the University's risk management processes as described in the statement on internal control.

The Corporate Risk Register has been the subject of careful and frequent review, and is aligned to the Corporate Strategy. The principal risks and mitigation strategies are as follows:

<b>Risk &amp; Impact</b>	<b>Mitigation Strategy</b>
Failure to position LSBU to maintain reputation & effectively respond to policy changes & shifts in the competitive landscape, leading to loss of funding and greater challenge in recruitment and partnership development	<ul style="list-style-type: none"> <li>- Strategic partner appointed to advice on sector changes communications strategies &amp; horizon scanning with a report to each Executive meeting</li> <li>- Strategic approach to business intelligence through corporate metrics dashboard, &amp; Business Intelligence team</li> </ul>
Britain's eventual exit from the EU impacts negatively on the number of students from EU countries and other overseas territories seeking opportunities in UKHE, as well as other impacts on staff recruitment, research funding and investment performance	<ul style="list-style-type: none"> <li>- Targeted partnership development</li> <li>- Increased marketing activity</li> <li>- Monitoring of channels for advice and demographic patterns</li> </ul>

## Strategic Report

Revenue reduction if marketing and PR activity does not achieve Home/EU recruitment targets, or if strategies do not cause progression rates across undergraduate programmes to rise in line with targets	<ul style="list-style-type: none"> <li>- Financial modelling and scenario analysis over 5 year period reviewed annually</li> <li>- Incorporation of Analytics Technology into course review and interventions processes</li> <li>- Differentiated marketing campaigns for FT, PT &amp; PG course offerings, and monthly reporting on applications cycle</li> </ul>
Income growth expected from greater research and enterprise, activity and international recruitment does not materialise, leading to weakened financial position, and challenge to current investment plans	<ul style="list-style-type: none"> <li>- R&amp;E pipeline reports to Operations Board</li> <li>- Annual review of SBUEL strategy by non-executive directors</li> <li>- 2 tier forecasting approach to in year activity</li> <li>- KPI review of activity</li> <li>- Regular reporting of Visa Refusal rates</li> </ul>
Loss of NHS contract relationships, leading to loss of income, staff and reputation	<ul style="list-style-type: none"> <li>- Named customer manager roles with Trusts &amp; Clinical Commissioning Groups (CCGs)</li> <li>- Annual course quality review processes</li> <li>- Applicant support for Literacy &amp; Numeracy requirements</li> <li>- Development of BSc courses for general entry</li> </ul>
Increase in staff pension scheme deficit, leading to increased pressure on maintaining a defined staff cost % and challenge to achieving planned surplus	<ul style="list-style-type: none"> <li>- Participation in sector review activity</li> <li>- Strict control on early access</li> <li>- DC pension scheme for some staff</li> <li>- Annual valuation, utilising CPI inflator</li> </ul>
Management Information is not meaningful, unreliable, or does not triangulate for internal decision or external reporting, leading to poor decision making, or external penalty	<ul style="list-style-type: none"> <li>- Data quality framework introduced</li> <li>- Systematic Internal Audit Reviews</li> <li>- Review of external returns by Business Intelligence unit</li> <li>- Cycle of training for staff on UKVI matters and process</li> </ul>
Staff engagement at a lower level than target affects performance and service delivery in a negative way	<ul style="list-style-type: none"> <li>- Cascade Meeting cycle connects staff with Corporate Strategy &amp; progress</li> <li>- Bi-annual staff engagement survey with more frequent pulse survey</li> <li>- Engagement survey champions are co-ordinating area responses to issues identified in survey</li> <li>- New Staff Intranet project and focused internal communications team utilising technology to better connect colleagues across campus</li> </ul>

### Going Concern

Governors are satisfied that it is appropriate to prepare the financial statements on a going concern basis.

2015/16 has been another year of significant change, re-structuring and investment for future success. After

## Strategic Report

adjusting for non-recurring income releases in the previous year, related to the implementation of a suite of IBM hardware and software solutions, income of £138m was flat in an increasingly competitive market. A financial surplus of £3.3m has been delivered (ahead of the approved budget surplus for the year of £1m) as a result of continued sound financial management and effective cost control.

A budget surplus of £1m has been approved for 2016/17, reflecting the continued investment necessary to ensure delivery of 2020 corporate strategic and financial outcomes. The next few years will remain challenging in financial terms and the levels of surplus are expected to remain lower than the medium term target whilst we are in the process of investing for growth, delivering new income streams and improving retention and progression. This is entirely consistent with the University's financial model and approved five year forecasts.

The University is forecast to deliver annual surpluses and generate positive cash inflows from operating activities. This, together with the current strong cash position (the University has £52.7m cash and bank deposits at 31 July 2016), supports the University's ambitious investment plans.

### **Public Benefit statement**

The University is an exempt charity within the meaning of the Charities Act 2011 and is regulated by HEFCE on behalf of the Charity Commission.

### **Charity Commission Guidance on Public Benefit**

The members of the Board of Governors are the charitable trustees of the University. In undertaking its duties the Board of Governors has regard to the Charity Commission's guidance on public benefit.

### **Aims (Charitable Objects)**

The charitable objects (under s.3 Charities Act 2011) of the University, as set out in its Articles of Association, are to:

- conduct a university for the public benefit for the advancement of education, promotion of research and dissemination of knowledge;
- provide full time and part time courses of higher education at all levels; and
- provide facilities to promote these objects and provide associated support and welfare for students.

The University's objects are applied solely for the public benefit, as follows:

The University advances education for the public benefit by:

- providing learning opportunities for its students in the form of enquiry-based and work-related curriculum including access to lectures, seminars, personal tuition and online resources;
- delivering many courses accredited by recognised professional bodies, both full and part time;
- setting and marking assessments and providing evidence of achievement by the awarding of degrees, diplomas and certificates.

The University promotes research and the dissemination of knowledge by:

- undertaking academic research and publishing the results;

## Strategic Report

- publishing articles in peer-reviewed journals;
- maintaining an academic library with access for students and academics;

The University provides student support and services for students through:

- Wellbeing services, including support for students with disabilities and mental health issues. This includes a counselling service;
- Student advice and guidance services via a one-stop-shop and student helpdesks across both campuses;
- Employability services, supporting students who are working while studying, helping students source work experience and graduate opportunities;
- Money advice, including debt management;
- Specific support services for particular groups of students, including care leavers, carers and pregnant students;
- tutorial guidance, assessment and feedback;
- mentoring and coaching;
- providing student accommodation;
- funding some individual students' education through bursaries and fee waivers; providing funds to London South Bank University Students' Union, enabling social, cultural, sporting and recreational activities and volunteering opportunities for the personal development and employability of its students.

### Beneficiaries

In carrying out its objects the University benefits the wider public, through research and knowledge transfer, and through the volunteering activities of students; and benefits its students and future students through teaching and learning activities.

The trustees affirm that the opportunity to benefit is not unreasonably restricted. The benefits of learning at London South Bank University are open to anyone who the University believes has the potential to succeed. Throughout its history LSBU has enabled wider access to education. The University's Strategy, 2015-2020 sets clear targets to focus on three key areas, all directly related to providing public benefit: student success; real world impact; and access to education.

Like other universities LSBU must charge tuition fees. However, maintenance loans are available to home full time undergraduates who have applied for funding via Student Finance England. In addition, the University offers financial assistance in the form of scholarships, bursaries and charitable funds to students in need.

The University's curriculum is firmly rooted in professional courses supported by accreditation from professional, statutory and regulatory bodies that enhance employability and career success. In 2015, 82% of graduates were in graduate employment and/or further study 6 months after leaving (DLHE survey results 2014 – 15). Around 7,000 LSBU students are sponsored to study by their employers, including NHS funded students.

The University also contributes to the wider public benefit through the publication of research. The University performed well in the Research Excellence Framework 2015, with the majority of its research graded as internationally excellent and recognised internationally.

## Strategic Report

The University sponsors two schools in the local area: the University Academy of Engineering South Bank which opened in September 2014; and a University Technical College which opened in September 2016. This community engagement aims to develop professional opportunities for students who have the ability to succeed and to enhance student success by preparing them for higher education.

The University has one “linked” exempt charity: the LSBU consolidated charitable fund for the welfare of students. This fund was worth £755,551 on 31 July 2016 (2015: £765,659). The funds are managed with the aim of securing capital growth and an annual income. In 2015/16 the income received was £18,420 (2014/15: £24,709). The income is usually allocated for distribution by the University’s Hardship Panel to students in financial difficulty. However, a decision was taken to reinvest income from 2015/16 as funds had not been reinvested for some time.

### **Employment policy, diversity and training**

During the year, the University has developed an ambitious vision to be recognised as a UK leading university in diversity and inclusion. ‘All People Matter’, our Diversity & Inclusion Strategy 2015 – 2020, describes how tapping into the diversity of skills and expertise that all our people bring, will help us to be an open, diverse and inclusive organisation and achieve our aim to be London’s top modern University by 2020.

A new Equality Diversity and Inclusion Steering Group was created in 2015 to help improve and drive EDI performance throughout the business. In addition, it supports the delivery of our Diversity & Inclusion Strategy and ensures our compliance with the Public Sector Equality Duties (PSED) of the Equality Act 2010. The membership is made up of Executive Team members, two Deans, the chairs of our four Staff Networks, and representatives from Student Services, the Students’ Union (SU) and the EDI team. We are also supported by three experts with national and international profiles.

We have reviewed our recruitment and selection processes, together with programmes for employee engagement, communication and training to ensure that they are all designed to promote diversity and inclusion, irrespective of age, disability, sex, gender reassignment, marriage/civil partnership, pregnancy and maternity, race, religion or sexual orientation. To this end, LSBU delivered Unconscious Bias training, aimed towards staff and contractors who managed key decision-making processes in relation to appointing, selecting, training and/or teaching staff and students.

For the first time, LSBU broke into the Stonewall Top 100 Employers. Ranked 92nd out of 415 companies and organisations, this is a major achievement in LGBT+ equality. This achievement builds on the steady progress the university has made, rising by 175 places over the past two years. The University continues to meet the requirements of the “Two Ticks Positive about disability” Scheme, having demonstrated its commitment to the recruitment and retention of staff who are disabled on joining LSBU have or become disabled during the course of their employment. We are also Athena SWAN members and have signed up to the 10 Athena SWAN principles committing us to gender equality in academia. Through Athena SWAN, we will also explore opportunities to incorporate race equality data. We are committed to submit our application for Athena Swan Bronze accreditation in November 2016. We have also launched a Gender network and a disability network for all staff.

All four of our established staff networks were prominent at our second Staff Conference in May 2015: Equinet, our staff network in support of race equality; SONET, our staff network in support for LGBT equality; dNET, our staff network in support for disability equality; and GenderNet, our staff network in support for gender equality.

The University places considerable value on the involvement of its employees and on good and effective communication with them. Staff are informed through regular meetings, emails and information on the University website, open staff forums, staff newsletters and magazines and other means. Staff are encouraged to participate in formal and informal consultation, through membership of formal committees and informal working groups



**Disclosure of information to auditors**

At the date of making this report each of the Governors, as set out on page 3, confirm the following:

- So far as each Governor is aware, there is no relevant information needed by the University's auditors in connection with preparing their report of which the University's auditors are unaware; and
- Each Governor has taken all the steps that he or she ought to take as a Governor in order to make him or herself aware of any relevant information needed by the University's auditors in connection with preparing their report and to establish that the University's auditors are aware of that information.

**Auditor**

The Members will be asked to reappoint Grant Thornton UK LLP as auditor of the University by written resolution.

**Directors' report**

This Strategic Report also serves as the Directors' Report for the purposes of the Companies Act 2006.

**Approval**

Approved by the Board of Governors and signed on behalf of the Board by:

Mr Jeremy Cope  
Chair of the Board of Governors  
24<sup>th</sup> November 2016

Professor David Phoenix  
Vice Chancellor and Chief Executive  
24<sup>th</sup> November 2016



## Statement of Responsibilities of the Board of Governors

In accordance with the University's Memorandum and Articles of Association, the Board of Governors is responsible for the administration and management of the affairs of the University and is required to present audited financial statements for each financial year. The Board of Governors (the Governors of which are also the directors of the University for the purposes of company law) is responsible for preparing the Strategic Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Board of Governors to prepare financial statements for each financial year. Under that law, the Board of Governors is required to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". In addition, the Board of Governors is required to prepare the financial statements in accordance with the terms and conditions of the HEFCE Memorandum of assurance and accountability (July 2016), through its accountable officer. Under company law, the Board of Governors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the University and the Group and of the surplus or deficit, gains and losses, changes in reserves and cash flows of the University and the Group for that year.

In preparing the financial statements, the Board of Governors is required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting 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 Group will continue in business.

The Board of Governors is responsible for keeping adequate accounting records that are sufficient to show and explain the University's transactions and disclose with reasonable accuracy at any time the financial position of the University and enable it to ensure that the financial statements comply with the Memorandum and Articles of Association, the Statement of Recommended Practice - Accounting for Further and Higher Education as issued in March 2014 and any subsequent amendments, the HEFCE Accounts Direction and the Companies Act 2006. They are also responsible for safeguarding the assets of the University and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Board of Governors has taken reasonable steps to:

- ensure that funds from HEFCE and other funding bodies are used only for the purposes for which they have been given and in accordance with the HEFCE memorandum of assurance and accountability (July 2016) and any other conditions which the Funding Council may from time to time prescribe;
- ensure that there are appropriate financial management controls in place to safeguard public funds and funds from other sources;
- ensure that the University has a robust and comprehensive system of risk management, control and corporate governance, which includes the prevention and detection of corruption, fraud, bribery and irregularities; and
- secure the economic, efficient and effective management of the University and the Group's resources and expenditure.

The Board of Governors is responsible for the maintenance and integrity of the corporate and financial information included on the University's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Board of Governors confirm that:

- so far as each Governor is aware, there is no relevant audit information of the University's auditor is unaware; and
- the Governors have taken all the steps that they ought to have taken in order to make themselves aware of any relevant audit information and to establish that the University's auditor is aware of that information.

Approved on behalf of the Board of Governors by:

Mr Jeremy Cope

*Chair of the Board of Governors*  
24<sup>th</sup> November 2016

## Corporate Governance Statement

The following statement is given to assist readers of the financial statements in understanding the governance and legal structure of the University.

The University's Board of Governors is committed to maintaining the highest standards of corporate governance. In carrying out its duties it has regard to:

- The CUC Higher Education Code of Governance
- The UK Corporate Governance Code (where applicable)
- The seven principles of standards in public life
- The HEFCE Memorandum of Assurance and Accountability and the Audit Code of Practice
- The Directors' duties as set out in sections 170 – 177 of the Companies Act 2006
- The Charity Commission's Guidance on Public Benefit and its duties as charity trustees of compliance, prudence and care
- Other legislative requirements of corporate and Higher Education bodies
- The University's Articles of Association and standing orders

### Governance and Legal Structure

London South Bank University is a company limited by guarantee and an exempt charity within the meaning of the Charities Act 2011. Its objects and powers are set out in its Articles of Association. The Articles provide the governance framework of the University and set out the key responsibilities of the Board of Governors and its powers to delegate to committees, the Vice Chancellor and the Academic Board.

### Compliance with the CUC Higher Education Code of Governance

The Board has complied with all aspects of the Higher Education Code of Governance (CUC, December 2014) during the year under review, as demonstrated below. References to paragraphs of the code are shown in brackets below.

#### *Decision making*

London South Bank University is led by a Board of Governors, which is collectively responsible for the strategic direction of the University, approval of major projects and partnerships and ensuring that the potential of every student is maximised (1.1).

The Board has agreed a Schedule of Matters Reserved which establishes the responsibilities of the Board and its committees. The Board, and where appropriate, its committees make decisions by consensus at meetings or electronically (2.4). The schedule is reviewed on an annual basis.

During the year, the Board met five times (five in 2014/15). In addition, the Board held two strategy days (two in 2014/15) allowing further time to discuss and debate longer-term strategic challenges for the University. All governors are expected to attend meetings and to contribute effectively. Attendance at meetings is recorded and monitored by the Chair. In the year under review there was a 93% (2014/15: 90%) attendance rate at Board meetings.

The Board has due regard to Charity Commission guidance on public benefit when making decisions (see separate statement of public benefit on page 9 (1.2). It receives assurance that the institution meets the requirements of the Memorandum of Assurance and Accountability is followed through the remit of the Audit Committee (1.3).

## Corporate Governance Statement

### *Compliance*

All governors and members of the Executive are required to declare their interests on appointment, on an annual basis and are required to declare any interests which relate to decisions at meetings. During the year under review, all declared interests were authorised by the Board. No conditions were attached to any of these interests (2.2). The governing body affirms that it makes decisions without any undue pressure from external interest groups, which is assured through the declaration of interests process (2.3).

The Board receives annual reports on the institution's compliance with key legislation, for example health and safety, equality, diversity and inclusion and otherwise by exception reporting (3.6.) In addition, independent governors have the right to external, independent advice at the University's expense where necessary in order to fulfil their duties. The Board reviews the delegated authority annually which includes a review of the accountable officer's authority. Material adverse change is reported to HEFCE when discovered and annually as part of the Accountability and Assurance statement (3.6.) No material adverse changes were reported to HEFCE during the year.

The Board receives regular reports from the Students' Union in relation to its democratic processes and financial practices (2.5).

### *Sustainability*

The Board is responsible for the sustainability of the institution and approves the annual budget, which is aligned to the five year corporate strategy (3.2). The Board oversees the performance and sustainability of the institution by regularly reviewing Key Performance Indicators, management accounts and five year forecasts (3.3.) Overall financial control is delegated to the Chief Financial Officer, who is a member of the Executive and has regular access to the Vice Chancellor, as and when required.

The Board approved the LSBU Sustainability policy during the year under review, which covers institutional and environmental sustainability in its remit.

### *Academic governance*

The Board has oversight of academic governance across the institution, regularly meeting with the Academic Board to discuss strategy. [The Board has reviewed the quality process and agreed an assurance statement during the year under review – *to confirm at the November board.*] With regard to terms and conditions of academic staff, including pay awards and promotion opportunities, the Board has regard to the need to ensure that academic staff have freedom within the law to question and test received wisdom and to put forward new ideas and controversial or unpopular opinions, without placing themselves in jeopardy of losing their jobs or any privileges they may have at the University (4.1, 4.2, 4.3.)

### *External activities*

The Board reviews all proposals for all significant, external activities and independent legal advice is sought, if necessary. Due diligence is conducted when entering into major projects that have significant risk associated with them (5.1.)

### *Equality and Diversity*

The Board receives an annual report on the institution's compliance with the public sector equality duty under the Equality Act 2010. The Board also receives a progress report against agreed Equality, Diversity and Inclusion action plans at the institution.

The Board regularly reviews its composition and considers equality and diversity in its appointments. An Equality, Diversity and Inclusion plan is being developed for board appointments (6.3, 6.4, 6.5).

## Corporate Governance Statement

### *Structures and processes*

The Board when fully complemented consists of 18 governors: 13 independent governors (7.1), the Vice Chancellor, two student governors and two academic staff members nominated by the Academic Board. Governors serving for the period are listed on page 3. The Board determines the number and composition of the Board of Governors within parameters set by the University's Articles of Association.

Under the Article, the Board has the power to remove any governor from office if they breach their terms of office. (7.2) On appointment, governors also agree to act in accordance with the seven principles of public life and the university values. (1.2, 1.4, 2.1)

### *Committees*

The Board delegates authority to a number of committees. All committees are formally constituted with appropriate terms of reference, which are reviewed annually (3.6.) Terms of reference and membership of each committee are available on the governance pages of the University's website. Each committee have a majority of independent governors. The chairs of each committee are set out below under Key Individuals.

The following committees met throughout the year:

- Appointments Committee
- Audit Committee
- Finance, Planning and Resources Committee
- Major Projects and Investment Committee
- Nomination Committee (including special meetings to select a Chancellor)
- Remuneration Committee

There is a Nominations committee to recruit new independent governors (7.3). Recommendations are made to the Appointments Committee, which makes the final decision on appointment. A written description of the role and capabilities required of governors has been agreed by the Nomination Committee. Candidates are judged against the capabilities required and the balance of skills and experience currently on the Board. The balance of skills and experience of independent governors is kept continually under review by the Nomination Committee.

The Audit Committee has a majority of independent governors (3.12), including a co-opted external member. The Audit Committee produces an annual report for the Board, following HEFCE requirements (3.4, 3.5.) The Audit Committee reviews the effectiveness of the systems of control in place across the institution. The Audit Committee receives an annual report on the quality of data submitted to external bodies (3.8, 3.10.)

There is a Remuneration Committee which decides the remuneration of members of the Executive, including the Vice Chancellor (3.13.) The committee includes the Chair of the Board and has a majority of independent governors (3.14.) No individual is present for discussions that directly affect them. The committee considers comparison information and use of public funding when deciding remuneration (3.15, 3.16.)

The Board completed an independent external governance review in 2015 and implemented recommended changes (7.11, 7.12).

### **Statement of Primary Responsibilities of the Board of Governors**

1. To approve the educational character, mission and strategic vision of the institution, together with its long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders.

## Corporate Governance Statement

2. To delegate authority to the head of the institution, as chief executive, for the academic, corporate, financial, estate, personnel and health and safety management of the institution, and to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the head of the institution.
3. To ensure the establishment and monitoring of quality assurance and systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.
4. To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the institution against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
5. To establish processes to monitor and evaluate the performance and effectiveness of the governing body itself, and to carry out such reviews at appropriate intervals.
6. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
7. To safeguard and promote the good name and values of the institution.
8. To appoint the head of the institution as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
9. To appoint a secretary to the governing body and to ensure that, if the person appointed has managerial responsibilities in the institution, there is an appropriate separation in the lines of accountability.
10. To be the employing authority for all staff in the institution and to be responsible for establishing a human resources strategy.
11. To be the principal financial and business authority of the institution, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate.
12. To be the institution's legal authority and, as such, to ensure that systems are in place for meeting all the institution's legal obligations, including those arising from contracts and other legal commitments made in the institution's name.
13. To make such provision as it thinks fit for the general welfare of students.
14. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution or its students.
15. To ensure that the institution's constitution is followed at all times and that appropriate advice to the Board is available to enable this to happen.

## Corporate Governance Statement

### Key Individuals

Position	Name
Chair of the Board of Governors	Jeremy Cope
Vice Chair of the Board of Governors	Andrew Owen
Head of Institution (Vice Chancellor and Chief Executive)	David Phoenix
Chair of Audit Committee	Steve Balmont
Chair of Finance, Planning and Resources Committee	Andrew Owen
Chair of Major Projects and Investment Committee	Douglas Denham St Pinnock
Chair of Nominations Committee	Jeremy Cope
Chair of Appointments Committee	Jeremy Cope
Chair of Remuneration Committee	Mee Ling Ng
University Secretary and Clerk to the Board of Governors	James Stevenson

Key individuals can be contacted through the office of the University Secretary and Clerk to the Board of Governors, Mr James Stevenson, at London South Bank University, 103 Borough Road, London SE1 0AA. Published documents are available on the governance section of the University website.

### 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 in the Memorandum and Articles of Association, and the Memorandum of Assurance and Accountability with HEFCE.

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 2016 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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 Audit Committee provide oversight of the risk management process and comments on its effectiveness;
- We receive periodic reports from the chair of the Audit 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 Audit Committee receives regular quarterly reports from management;
- Internal audit is outsourced to an external provider. The Audit 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 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;
- The Operations Board meets regularly to consider risk, assess the current exposure and keep up to date the record of key corporate risks facing the University;
- A network of risk champions exists to support risk management activity in all schools and professional service groups; Update training is provided as required to support delivery;
- 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 HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in July 2011. 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.

The Corporate Governance and Internal Control statements were approved by the Board of Governors on 26 November 2016 and were signed on its behalf by:



## **Independent auditors' report to the Board of Governors of London South Bank University**

### **Independent auditor's report to the Board of Governors of London South Bank University**

We have audited the financial statements of London South Bank University (the 'University') for the year ended 31 July 2016 which comprise the Consolidated and University Statement of Comprehensive Income and Expenditure, the Consolidated and University Statement of Changes in Reserves, the Consolidated and University Balance Sheets, the Consolidated Statement of Cash Flows 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) including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the University's Board of Governors, 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 University's Board of Governors those matters we are required to state to it 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 University and the University's Board of Governors as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of Board of Governors and auditor**

As explained more fully in the Statement of Responsibilities of the Board set out on pages 18-18, the Board of Governors (who are also the directors of the charitable company for the purposes of company law) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

We have been appointed as auditor under the Companies Act 2006 and the Education Reform Act 1988 and report in accordance with regulations made under those Acts. 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](http://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 group's and the University's affairs as at 31 July 2016 and of the group's and the University's surplus, its income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice and the Statement of Recommended Practice: Accounting for Further and Higher Education published in March 2014; 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 Strategic Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Opinion on other matters prescribed by HEFCE's Memorandum of assurance and accountability dated July 2016**

In our opinion, in all material respects:

- funds from whatever source administered by the University for specific purposes have been properly applied to those purposes and managed in accordance with the relevant legislation;
- funds provided by HEFCE have been applied in accordance with the Memorandum of assurance and accountability and any other terms and conditions attached to them; and
- the requirements of HEFCE's accounts direction have been met.

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

**Carol Rudge**

Senior Statutory Auditor

for and on behalf of Grant Thornton UK LLP

Statutory Auditor, Chartered Accountants

London

24 November 2016

**Consolidated and University Statement of Comprehensive  
Income and Expenditure  
Year ended 31 July 2016**

	Note	Consolidated		University	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Income</b>					
Tuition fees and education contracts	1	102,794	99,338	102,794	99,338
Funding body grants	2	15,684	17,583	15,141	17,046
Research grants and contracts	3	2,232	2,358	2,122	2,246
Other income	4	16,960	20,932	15,467	19,397
Investment income	5	313	311	310	307
		<hr/>	<hr/>	<hr/>	<hr/>
Total income before other grants and donations		137,983	140,522	135,834	138,334
Donations and endowments	6	195	599	195	599
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total income</b>		<b>138,178</b>	<b>141,121</b>	<b>136,029</b>	<b>138,933</b>
<b>Expenditure</b>					
Staff costs	7	71,581	74,898	70,380	73,944
Other operating expenses	9	48,822	53,912	47,894	52,724
Depreciation	12	9,749	8,759	9,749	8,759
Interest and other finance costs	11	4,755	4,724	4,755	4,724
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Total expenditure</b>		<b>134,907</b>	<b>142,293</b>	<b>132,778</b>	<b>140,151</b>
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Surplus/(deficit) before other gains and losses</b>		<b>3,271</b>	<b>(1,172)</b>	<b>3,251</b>	<b>(1,218)</b>
Gains on investments	19	12	6	12	6
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Surplus/(deficit) for the year</b>		<b>3,283</b>	<b>(1,166)</b>	<b>3,263</b>	<b>(1,212)</b>
Actuarial loss in respect of pension schemes	25	(29,519)	(9,285)	(29,519)	(9,285)
		<hr/>	<hr/>	<hr/>	<hr/>
Total comprehensive expenditure for the year		(26,236)	(10,451)	(26,256)	(10,497)
		<hr/>	<hr/>	<hr/>	<hr/>
Represented by:					
Endowment comprehensive income for the year		12	6	12	6
Restricted comprehensive income for the year		-	-	-	-
Unrestricted comprehensive income and expenditure for the year		(26,248)	(10,457)	(26,268)	(10,503)
		<hr/>	<hr/>	<hr/>	<hr/>
		(26,236)	(10,451)	(26,256)	(10,497)
		<hr/>	<hr/>	<hr/>	<hr/>

All activities consist of continuing operations.

## Consolidated and University Statement of Changes in Reserves

	Note	Income and Expenditure Reserve		Revaluation Reserve	Total Reserves
		<i>Endowment</i>	<i>Unrestricted</i>		
		£'000	£'000	£'000	£'000
<b>Consolidated</b>					
Balance at 1 August 2014		736	82,517	29,400	112,653
Deficit before other gains and losses from the statement of comprehensive income and expenditure		-	(1,172)	-	(1,172)
Other comprehensive expenditure		6	(9,285)		(9,279)
Transfers between revaluation and income and expenditure reserve	20		707	(707)	-
Total comprehensive income and expenditure for the year		6	(9,750)	(707)	(10,451)
Balance at 1 August 2015		742	72,767	28,693	102,202
Surplus before other gains and losses from the statement of comprehensive income and expenditure			3,271	-	3,271
Other comprehensive expenditure	25	12	(29,519)	-	(29,507)
Transfers between revaluation and income and expenditure reserve	20	-	724	(724)	-
Total Comprehensive income and expenditure for the year		12	(25,524)	(724)	(26,236)
Balance at 31 July 2016		754	47,243	27,969	75,966
<b>University</b>					
Balance at 1 August 2014		736	82,427	29,400	112,563
Deficit from the statement of comprehensive income and expenditure		-	(1,216)	-	(1,216)
Other comprehensive expenditure		6	(9,285)	-	(9,279)
Transfers between revaluation and income and expenditure reserve		-	707	(707)	-
Total comprehensive income and expenditure for the year		6	(9,794)	(707)	(10,495)
Balance at 1 August 2015		742	72,633	28,693	102,068
Surplus from statement of other comprehensive income and expenditure		-	3,252	-	3,252
Other comprehensive expenditure		12	(29,519)	-	(29,507)
Transfers between revaluation and income and expenditure reserve		-	724	(724)	-
Total Comprehensive income and expenditure for the year		12	(25,543)	(724)	(26,255)
Balance at 31 July 2016		754	47,090	27,969	75,813



## Consolidated and University Balance sheets As at 31 July 2016

	Note	Consolidated		University	
		2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>Non-current assets</b>					
Tangible fixed assets	12	225,735	216,165	225,735	216,165
Investments	13	38	38	38	38
		<u>225,773</u>	<u>216,203</u>	<u>225,773</u>	<u>216,203</u>
<b>Current assets</b>					
Stocks		11	71	11	71
Trade and other receivables	14	14,956	12,778	14,780	12,486
Investments	21	16,465	16,363	16,465	16,363
Cash and cash equivalents	21	36,238	34,552	35,778	34,422
		<u>67,670</u>	<u>63,764</u>	<u>67,034</u>	<u>63,342</u>
Creditors: amounts falling due within one year	15	(44,318)	(34,788)	(43,834)	(34,500)
<b>Net current assets</b>		<u>23,352</u>	<u>28,976</u>	<u>23,200</u>	<u>28,842</u>
<b>Total assets less current liabilities</b>		<u>249,125</u>	<u>245,179</u>	<u>248,973</u>	<u>245,045</u>
Creditors: amounts falling due after more than one year	16	(50,647)	(53,245)	(50,648)	(53,245)
<b>Provisions</b>					
Pension provisions	18	(122,512)	(89,732)	(122,512)	(89,732)
<b>Total net assets</b>		<u>75,966</u>	<u>102,202</u>	<u>75,813</u>	<u>102,068</u>
<b>Restricted reserves – endowment reserves</b>	19	754	742	754	742
<b>Unrestricted reserves</b>					
Income & expenditure reserve– unrestricted		47,243	72,767	47,090	72,633
Revaluation reserve	20	27,969	28,693	27,969	28,693
<b>Total Reserves</b>		<u>75,966</u>	<u>102,202</u>	<u>75,813</u>	<u>102,068</u>

These financial statements were approved by the Board of Governors on 24 November and were signed and authorised on their behalf by:

## Consolidated Statement of Cash Flows Year ended 31 July 2016

	Note	2016 £'000	2015 £'000
<b>Cash flow from operating activities</b>			
Surplus/(deficit) for the year		3,283	(1,166)
<b>Adjustment for non cash items</b>			
Depreciation	12	9,749	8,759
Investment income	5	(313)	(311)
Interest payable	11	4,755	4,724
Decrease/ (increase) in stock		60	(26)
Increase in debtors	14	(2,178)	(4,110)
Increase/(decrease) in creditors	15	8,241	(2,032)
Pension costs less contributions payable	25	(191)	164
<b>Adjustment for investment or financing activities</b>			
Loss on disposal of assets	12	438	71
Investment income	5	21	13
Interest receivable	5	292	298
<b>Net cash inflow from operating activities</b>		<b>24,157</b>	<b>6,384</b>
<b>Cashflows from investing activities</b>			
Payment to acquire tangible fixed assets	12	(19,757)	(6,524)
Cash added to fixed term deposits	21	(102)	(86)
		<b>(19,859)</b>	<b>(6,610)</b>
<b>Cashflows from financing activities</b>			
Capital element of bank loan repayments		(1,309)	(1,294)
Capital element of finance lease repayments		-	(47)
Interest element of bank loan repayments	11	(1,303)	(1,372)
Interest on finance leases		-	(1)
		<b>(2,612)</b>	<b>(2,714)</b>
<b>Increase/(decrease) in cash and cash equivalents during the year</b>		<b>1,686</b>	<b>(2,940)</b>
Cash and Cash equivalents at the start of the year	21	34,552	37,492
Cash and Cash equivalents at the end of the year		36,238	34,552

## **Principal Accounting Policies**

The following principal accounting policies adopted, have been applied consistently in both the current and prior year in dealing with items which are considered material in relation to the Group's financial statements.

### **Basis of preparation**

These financial statements have been prepared in accordance with the Statement of Recommended Practice (SORP): Accounting for Further and Higher Education 2015 and in accordance with Financial Reporting Standard FRS102. The University is a public benefit entity and therefore has applied the relevant public benefit requirement of FRS102. The financial statements are prepared under the historical cost convention, modified by the inclusion of certain properties at valuation and the revaluation of endowment assets.

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in operation. The Board is satisfied that the Group has adequate resources to continue in operation for the foreseeable future, as described in more detail on pages 13-14 of these accounts. For this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

The preparation of financial statements in compliance with FRS 102 requires the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the University's accounting policies.

### **Consolidation of accounts**

The consolidated financial statements incorporate the financial statements of the University and its subsidiary undertaking South Bank University Enterprises Limited (SBUEL). Following a change to the constitution of London South Bank University Students' Union (LSBUSU) from August 2012, the University no longer exercises control over LSBUSU and therefore took the decision to cease consolidating the accounts of LSBUSU within these financial statements from that date.

The University Sponsors an Academy Trust, South Bank Academies, which operates The University Academy of Engineering South Bank and a University Technical College, Southbank Engineering UTC (opened September 2016). Although the University has representation on the Trust's Board and the local governing boards of the two schools, the Trustees and Governors act for the Trust or schools and not the University. The University does not gain direct benefits from its activities and the funds of the Academies Trust are restricted to its own purpose and will not be available to the creditors of the University, for example in the event of the University's insolvency. Furthermore, if the Academies Trust were to fail, the University would not receive its assets or reserves. Therefore the Accounts of the Academies Trust are not consolidated into the University Accounts.

Consolidation of subsidiaries is based on the equity method. Intragroup loans or balances are recognised at fair value.

### **Income recognition**

Income from the sale of goods and services is credited to the Consolidated Statement of Income and Expenditure when the goods or services are supplied to the external customers or the terms of the contract have been satisfied.

Fee income is stated gross and credited to the Consolidated Statement of Income and Expenditure over the period in which students are studying. Where the amount of the tuition fee is reduced by a discount for prompt payment, income receivable is shown net of the discount. Bursaries and scholarships are accounted for as gross expenditure and not deducted from income.

Revenue Government grants, including funding council block and research grants from government sources are recognised within the Consolidated Statement of Income and Expenditure over the periods in which the University recognises the related costs for which the grant is intended to compensate. Where part of a Government grant is deferred, it is recognised as deferred income within creditors and allocated between credits due within one year and due after more than one year as appropriate.

## Principal Accounting Policies

Other grants and donations from non-government sources, including research grants from non-government sources, are recognised within the Consolidated Statement of Comprehensive Income and Expenditure when the University is entitled to the income and performance related conditions have been met. Income received in advance of performance related conditions is deferred on the balance sheet and released to the Consolidated Statement of Comprehensive income and Expenditure in line with such conditions being met.

Government capital grants are recognised in income over the expected useful economic life of the asset. Other capital grants are recognised in income when the university is entitled to funds subject to any performance related conditions being met.

Donations and endowments with donor imposed restrictions are recognised within the Consolidated Statement of Comprehensive Income and Expenditure when the University is entitled to the income. Income is retained within the restrictive reserve until such a time that it is utilised in line with such restrictions at which point the income is released to general reserves through a reserve transfer. Any realised gains or losses from dealing in the related assets are retained within the restricted reserve in the balance sheet and reported in the Statement of Comprehensive Income and Expenditure.

Donations with no restrictions are recorded within the Consolidated Statement of Comprehensive Income and Expenditure when the University is entitled to the income.

Investment income is credited to the statement of Comprehensive Income and Expenditure on a receivable basis.

### **Tangible fixed assets**

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Certain items of fixed assets that have been revalued to fair value on the date of transition to the 2015 FE HE SORP, are measured on the basis of deemed cost, being the revalued amount at the date of that revaluation. Properties are not carried under the valuation method and therefore regular revaluation of assets are not undertaken by the University.

Freehold land and buildings, long leasehold and short leasehold premises are included in the accounts at cost or valuation together with subsequent refurbishment expenditure, less amounts written off by way of depreciation. Freehold land is not depreciated. Finance costs that are directly attributable to the construction of land and buildings are not capitalised.

Assets in the course of construction are accounted for at cost, based on the value of Quantity Surveyors' certificates and other direct costs incurred to the end of the year. They are not depreciated until they are brought into use.

Equipment costing less than £10,000 per individual item or group of items is written off to the income and expenditure account in the year of acquisition. All other equipment is capitalised.

Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The rates of depreciation are as follows:

Freehold buildings	2% per annum
Long leaseholds	Period of lease
Short leaseholds	Period of lease
Building improvements	6.7% per annum
IT equipment	25% per annum
Other equipment and motor vehicles	20% per annum
Furniture	6.7% per annum

Freehold land is not depreciated as it is considered to have an indefinite useful life. No depreciation is charged on assets in the course of construction.

At each financial year end the carrying amounts of tangible assets are reviewed to determine whether there is any indication that those assets have suffered a diminution in value. If any such indication exists, the recoverable amount



## **Principal Accounting Policies**

of the asset, which is the higher of its fair value and its value in use, is estimated in order to determine the extent of the impairment loss.

### **Investments**

Investments in subsidiaries and associated undertakings are shown in the University's balance sheet at cost less any provision for impairment in their value.

Endowment Asset Investments are included in the balance sheet at fair value.

### **Stocks**

Stocks are valued at the lower of cost and net realisable value.

### **Pension costs**

The University contributes to the Teachers' Pensions Scheme (England and Wales), the London Pension Fund Authority Pension Fund (LPFAPF) and the Universities Superannuation Scheme (USS). These schemes are administered by Teachers' Pensions (on behalf of the Department for Education), the London Pension Fund Authority and USS Ltd respectively and are all of the defined benefit type.

Where the University is unable to identify its share of the underlying assets and liabilities in a scheme on a reasonable and consistent basis, it accounts as if the scheme were a defined contribution scheme, so that the cost is equal to the total of contributions payable in the year. The TPS and USS are multi-employer schemes for which is not possible to identify the University's share of assets and are therefore reported as if they were defined contribution schemes, so that the cost is equal to the total of contributions payable in the year. Contractual obligations relating to these schemes including any agreements to pay additional contributions to fund a deficit are calculated at net present value and are included in provisions.

For other defined benefit schemes, including the LPFAPF, the University's obligation is to provide the agreed benefits to current and former employees, and actuarial risk (that benefits will cost more or less than expected) and investment risk (that return on assets set aside to fund the benefits will differ from expectations) are borne, in substance, by the University. The University should recognise a liability for its obligations under defined benefit plans net of plan assets. This net defined benefit liability is measured as the estimated amount of benefit that employees have earned in return for their service in the current and prior periods, discounted to determine its present value, less the fair value (at bid price) of plan assets. The calculation is performed by a qualified actuary using the projected unit credit method. Where the calculation results in a net asset, recognition of the asset is limited to the extent to which the University is able to recover the surplus either through reduced contributions in the future or through refunds from the plan.

The University has a defined contribution pension scheme for employees of its subsidiary, SBUEL. The University pays contributions into a separate legal entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement in the periods during which services are rendered by employees.

### **Employment benefits**

Short term employment benefits such as salaries and compensated absences are recognised as an expense in the year in which the employees render service to the University. Any unused benefits are accrued and measured as the additional amount the University expects to pay as a result of unused entitlement.

### **Taxation status**

The University is an exempt charity within the meaning of part 3 of the Charities Act 2011, and as such is a 'charity' within the meaning of Section 467 of the Corporation Tax Act (CTA) 2010. Accordingly the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 478 of the

## **Principal Accounting Policies**

CTA 2010 and Section 256C of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

The University receives no similar exemption in respect of Value Added Tax. Irrecoverable VAT on inputs is included in the costs of such inputs. Any irrecoverable VAT allocated to tangible fixed assets is included in their cost.

The University's subsidiary company SBUEL is subject to corporation tax and is therefore required to account for deferred tax and current tax.

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

### **Agency arrangements**

Funds the institution receives and disburses as paying agent on behalf of a funding body are excluded from the income and expenditure of the institution where the institution is exposed to minimal risk or enjoys minimal economic benefit related to the transaction.

### **Leases**

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Lease in which the University assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Leased assets acquired by way of finance lease and the corresponding lease liabilities are initially recognised at an amount equal to the lower of the fair value and the present value of the minimum lease payments at inception of the lease.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The Finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

### **Maintenance**

Maintenance expenditure is charged to the Consolidated Statement of Comprehensive Income and Expenditure in the period in which it is incurred.

Refurbishment expenditure on a property is deemed to be of a capital nature if it either enhances the property's operational capabilities, or if it significantly upgrades the mechanical or electrical infrastructure of that property. To the extent that the expenditure is of a capital nature, it is capitalised and written off over its useful economic life. Refurbishment expenditure that does not meet either of these criteria is treated as maintenance expenditure.

### **Reserves**

Reserves are allocated between restricted and unrestricted reserves. Restricted endowment reserves include balances which, through endowment to the University, are held as a permanently restricted fund as the University must hold the fund in perpetuity. Other restricted reserves include balances through which the donor has designated a specific purpose and therefore the University is restricted in the use of these funds.

Where fixed assets were revalued prior to the implementation of FRS 102, the gain or loss on revaluation was credited or debited to the capital reserve. Where depreciation on the revalued amount exceeds the corresponding depreciation based on historical cost, the excess is transferred annually from the capital reserve to the income and expenditure reserve.

## **Principal Accounting Policies**

The pension reserve represents the pension liability in respect of the defined benefit pension schemes (see note 24).

### **Cash flows and liquid resources**

Cash flows comprise increases or decreases in cash. Cash includes cash in hand, deposits repayable on demand and overdrafts. Deposits are repayable on demand if they are in practice available within twenty-four hours without penalty.

Liquid resources comprise assets which in normal practice are generally convertible to cash and cash equivalents. They include term deposits held as part of the University's treasury management activities. They exclude any such assets held as endowment asset investments.

### **Financial instruments**

A financial asset and a financial liability are offset only when there is a legally enforceable right to set off the recognised amounts and it is intended either to settle on a net basis or to realise the asset and settle the liability simultaneously.

### **Judgements and estimates**

Accounting policies are supplemented by estimation techniques where judgement is required to establish the monetary amounts of assets, liabilities, gains and losses included in the accounts and the estimates and associated assumptions are believed to be reasonable and prudent. In all cases these judgements and estimates are either based on past experience or are prepared by qualified advisors. In preparing these financial statements management have made the following judgements and estimates:

The present value of the Local Government Pension Scheme and defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, salary, pension and price increase and any changes in these assumptions, which are disclosed in note 25, will impact the carrying amount of the pension liability.

Land has been revalued at 31/7/14 resulting in one off adjustment to increase the deemed cost of land by £41,946,000. The valuation prepared by qualified valuers in accordance with the Red Book. The fair value depends on the classification of assets and a number of material assumptions including the condition of properties, ground and services, estimated market value and estimated rental income at the date of valuation.

The Provision for bad debt is calculated based on the University's past experience of collecting student and other debt. It is estimated that, at the date of signing the accounts and after making deductions where a repayment arrangement has been agreed with the debtor, 90% of remaining debt will not be recoverable.

### **Foreign currency translation**

Transactions denominated in foreign currencies are recorded at the rates of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into sterling either at year-end rates or, where there are related forward foreign exchange contracts, at contract rates. The resulting exchange differences are dealt with in the determination of income and expenditure for the financial year.

### **Provisions, contingent liabilities and contingent assets**

Provisions are recognised in the financial statements when the University has a present obligation (legal or constructive) as a result of a past event, it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is discounted to present value where the time value of money is material. The discount rate used reflects current market assessments of the time value of money and reflects any risks specific to the liability.

## **Principal Accounting Policies**

Contingent liabilities are disclosed by way of a note, when the definition of a provision is not met and includes three scenarios: possible rather than a present obligation; a possible rather than a probable outflow of economic benefits; the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets arise where an event has taken place that gives the University a possible asset whose existence will only be confirmed by the occurrence or otherwise uncertain future events not wholly within the control of the University. These are disclosed by way of a note, where there is probable, rather than a present asset arising from a past event.

### **Transition to the 2015 SORP**

The Group is preparing its financial statements in accordance with FRS102 for the first time and consequently has applied the first time adoption requirements. Some of the FRS 102 recognition, measurement, presentation and disclosure requirements and accounting policy choices differ from previous UK GAAP. Consequently, the Group has amended certain accounting policies to comply with FRS 102 and the 2015 SORP.

The 2015 SORP requires Universities to prepare a single statement of comprehensive income, and not the alternative presentation of a separate income statement and a statement of other comprehensive income. This represents a change in accounting policy from the previous period where separate statements for the Income and Expenditure account and for the Statement of Total Recognised Gains and Losses were presented.

The application of first time adoption allows certain exemptions from the full requirements of FRS 102 and the 2015 SORP in the transition period. The following exemptions have been taken in these financial statements:

- Revaluation as deemed cost – at 1<sup>st</sup> August 2014, the Group has retained the carrying values of freehold properties as being deemed cost and measured at fair value
- The University has taken advantage of the exemptions provided in FRS 102 1.12 and the 2015 SORP 3.3, and has not included a separate statement of its own cash flows. These cash flows are included within the Consolidated Statement of Cash Flows, and the University balance sheet discloses cash at both the current and preceding reporting dates.

An explanation of how the transition to the 2015 SORP has affected the reported financial position, financial performance and cash flows of the consolidated results of the University and its subsidiaries is provided in note 26.

**Notes to the accounts  
Year ended 31 July 2016**

		<b>Consolidated and University</b>			
		<b>2016</b>		<b>2015</b>	
		<b>£'000</b>		<b>£'000</b>	
<b>1. Tuition Fees and Education Contracts</b>					
	Full-time home and EU students			54,511	51,716
	Full-time international students			8,438	10,258
	Part-time students			11,347	9,747
	Other courses			1,266	757
	Strategic Health Authority education contracts			27,232	26,860
				102,794	99,338
				102,794	99,338
<b>2. Funding Body Grants</b>		<b>Consolidated</b>		<b>University</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	HEFCE recurrent grant	13,396	14,811	13,396	14,811
	HEFCE Non recurrent grants	543	808	-	271
	Specific grants	201	333	201	333
	Pension liabilities	1,379	1,586	1,379	1,586
	Other grants	165	45	165	45
	Teaching Agency grant				
		15,684	17,583	15,141	17,046
		15,684	17,583	15,141	17,046
<b>3. Research grants and contracts</b>		<b>Consolidated</b>		<b>University</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Research councils	718	751	608	639
	UK based charities	249	338	249	338
	European Commission	191	196	191	196
	Other grants and contracts	814	777	814	777
	Knowledge Transfer Partnerships	260	296	260	296
		2,232	2,358	2,122	2,246
		2,232	2,358	2,122	2,246
<b>4. Other income</b>		<b>Consolidated</b>		<b>University</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Residence and catering income	10,931	10,418	10,931	10,418
	Other income	6,029	10,514	4,536	8,979
		16,960	20,932	15,467	19,397
		16,960	20,932	15,467	19,397
<b>5. Investment income</b>		<b>Consolidated</b>		<b>University</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
	Interest on short term investments	21	13	21	13
	Endowment income and interest receivable	292	298	289	294
		313	311	310	307
		313	311	310	307

**Notes to the accounts  
Year ended 31 July 2016**

		<b>Consolidated and University</b>			
		<b>2016</b>	<b>2015</b>		
		<b>£'000</b>	<b>£'000</b>		
<b>6. Donations and Endowments</b>					
	Unrestricted donations	195	599		
<hr/>					
<b>7. Staff</b>		<b>Consolidated</b>			
	Average staff numbers by major category:	<b>2016</b>	<b>2015</b>		
		<b>No.</b>	<b>No.</b>		
	Academic staff	741	780		
	Student support staff	117	122		
	Other support staff	472	467		
		1,330	1,369		
<hr/>					
		<b>Consolidated</b>		<b>University</b>	
		<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Costs:</b>					
	Wages and salaries	55,960	59,918	55,421	59,103
	Social security costs	5,284	4,958	5,191	4,884
	Employers' pension contributions	10,337	10,022	9,768	9,957
		71,581	74,898	70,380	73,944
<hr/>					

Staff costs for the year include a credit arising from the over accrual of prior year redundancies of £(0.49)m (2015:£3.61m).

## Notes to the accounts Year ended 31 July 2016

### 8. Remuneration of Board of Governors and Higher-Paid employees

#### A. Governors

The University's governors do not receive remuneration from the University in their capacity as governors.

The salaries and pension contributions below therefore relate entirely to staff governors and to sums received by them in their capacity as employees of the University.

	2016 £'000	2015 £'000
Salaries	331	383
Pension contributions	54	53
	385	436

Governors, who are also all trustees, are paid expenses for attending meetings and duties directly related to their duties as trustees. In 2016 six trustees were paid total expenses of £2,331 (2015: six trustees were paid total expenses of £6,253) for travel and subsistence.

#### B. Remuneration of other higher paid staff

Certain employees received remuneration (excluding pension contributions) in excess of £100,000 during the Year. Eight of these employees accrued benefits under defined benefit pension schemes during the year (2014:8). These employees are grouped as follows:

	2016 No.	2015 No.
£100,000 to £109,999	-	1
£110,000 to £119,999	1	1
£120,000 to £129,999	1	1
£130,000 to £139,000	2	2
£140,000 to £149,999	1	1
£150,000 to £159,999	1	1
£160,000 to £169,999	2	-
£240,000 to £249,999	-	1
£250,000 to £259,999	1	-
	9	8

#### C. Emoluments of the Vice Chancellor

	2016 £'000	2015 £'000
Salary	243	230
Taxable benefits	12	12
Pension Scheme contributions	40	31
	295	273

All remuneration was to the current Vice Chancellor, Professor David Phoenix. The Vice Chancellor is the highest paid Governor. Included in taxable benefits is the value of the benefit to the Vice Chancellor of an interest free loan detailed in note 8(E). The Vice Chancellor is a member of the Teachers' Pension Scheme. The nature of the scheme means it is not possible to ascertain the amount of his accrued pension at the year end.



## Notes to the accounts Year ended 31 July 2016

### D. Key Management Personnel

Key Management personnel include members of the University Executive Group, being those persons having authority and responsibility for planning, directing and controlling the activities of the University. This includes compensation (including salary and benefits in kind but excluding employer's pension contributions). Members of the University Executive are listed on page 2 and 3 of these accounts.

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Key management personnel	1,245	991

### E. Related party disclosures

Due to the nature of the University's operations and the composition of the Board of Governors (being drawn from local public and private sector organisations) it is possible that transactions will take place with organisations in which a member of the Board of Governors may have an interest. All transactions involving organisations in which a member of the Board of Governors may have an interest are conducted at arm's length and in accordance with the University's financial regulations and normal procurement procedures.

The accounts of SBUEL, a wholly owned subsidiary, are consolidated into these accounts and therefore the University has taken exemption under FRS 102 not to disclose transactions between the SBUEL and the University.

There were no transactions during the year between London Knowledge Innovation Centre Limited (LKIC) or CVCP Properties PLC and the University.

During the year the LSBU Students' Union received financial support from the University of £855,000 (2015: £727,000) net of services provided by the University. The President of the LSBU Students' Union is a member of the Board of Governors. The balance between the two parties at the year-end was £nil (2015: £nil).

The Vice Chancellor of the University, Professor David Phoenix, is a member of the board of South Bank Academies. During the year South Bank Academies paid the University £189,017 in reimbursement of actual expenses incurred.

The Vice Chancellor of the University is a member of the board of Universities UK. During the year the University paid Universities UK £28,632 (2015: £28,567) in respect of membership fees and conference attendance.

The Vice Chancellor of the University received an interest free loan in October 2013 as part of a relocation package agreed for him. Professor David Phoenix is an employee of the University. The amount of the loan was £350,000 and was solely to purchase a specified property. The loan is repayable on 30 October 2018 (or later as agreed). As of 31 July 2015 the outstanding balance was £350,000. The loan is fully secured by way of legal mortgage on the property in favour of London South Bank University.



**Notes to the accounts  
Year ended 31 July 2016**

	Consolidated		University	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
<b>9. Other operating expenses</b>				
Academic	8,675	11,076	8,675	11,076
Academic support	7,173	12,316	7,173	12,316
Other support	6,769	6,706	6,769	6,706
Premises	14,627	14,812	14,627	14,812
Residence and catering	4,197	3,697	4,197	3,697
Other expenses	7,381	5,305	6,453	4,117
	<u>48,822</u>	<u>53,912</u>	<u>47,894</u>	<u>52,724</u>

Group other operating expenses are stated after charging:

	2016 £'000	2015 £'000
Auditors' remuneration		
<i>External audit</i> Grant Thornton UK LLP*	65	54
<i>Internal audit</i> ** PricewaterhouseCoopers LLP	91	91
<i>Other services</i> ** Grant Thornton UK LLP	4	5
Rentals under operating leases Plant and machinery	212	119
Loss on disposal of fixed assets	<u>22</u>	<u>70</u>

\* Includes £51,156 attributable to the University (2015: £50,154)

\*\* All attributable to the University

**10. Taxation**

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 £5,680 (2015: £14,697). The asset would be recovered if suitable taxable profits were to arise in the future against which the asset could be offset.

	Consolidated and University	
	2016 £'000	2015 £'000
<b>11. Interest and other Finance Costs</b>		
Loans Interest	1,303	1,372
Net charge on pension scheme	3,452	3,351
Finance lease interest	-	1
	<u>4,755</u>	<u>4,724</u>

## Notes to the accounts Year ended 31 July 2016

### 12. Fixed assets (Consolidated and University)

	Freehold Land £'000	Freehold Buildings £'000	Long Leasehold land and buildings £'000	Fixtures, Fittings and Equipment £'000	Short Leasehold land and buildings £'000	Assets in Course of Construction £'000	Total £'000
<b>Cost or Valuation</b>							
At 1 August 2015	53,000	165,481	47,233	42,154	44	13,888	321,800
Additions	-	-	-	176	-	19,581	19,757
Disposals	-	(3,243)	(23)	(807)	-	-	(4,073)
Transfers	-	2,649	-	8,312	-	(10,961)	-
At 31 July 2016	<u>53,000</u>	<u>164,887</u>	<u>47,210</u>	<u>49,835</u>	<u>44</u>	<u>22,508</u>	<u>337,484</u>
<b>Depreciation</b>							
At 1 August 2015	-	(48,511)	(26,781)	(30,306)	(37)	-	(105,635)
Charge for the year	-	(4,542)	(1,282)	(3,925)	-	-	(9,749)
Disposals	-	2,850	5	780	-	-	3,635
At 31 July 2016	<u>-</u>	<u>(50,203)</u>	<u>(28,058)</u>	<u>(33,451)</u>	<u>(37)</u>	<u>-</u>	<u>(111,749)</u>
<b>Net book value</b>							
At 31 July 2016	<u>53,000</u>	<u>114,684</u>	<u>19,152</u>	<u>16,384</u>	<u>7</u>	<u>22,508</u>	<u>225,735</u>
At 31 July 2015	<u>53,000</u>	<u>116,970</u>	<u>20,452</u>	<u>11,848</u>	<u>7</u>	<u>13,888</u>	<u>216,165</u>

The university has chosen to carry out a revaluation of land held with the one off adjustment creating a new deemed costs of land at 31/7/14 resulting in an increase in deemed cost of £41,946,000.

### 13. Investments

	Consolidated		University	
	2016 £000	2015 £000	2016 £000	2015 £000
CVCP Properties plc	<u>38</u>	<u>38</u>	<u>38</u>	<u>38</u>

The University holds 9% of the £1 ordinary shares of CVCP Properties plc. The principal activity of the company is leasing of buildings, with the majority of tenants being Higher Education organisations.

Details of the companies, all incorporated in England and Wales, in which London South Bank University holds directly or indirectly more than 20% of the nominal value of any class of share capital are as follows:

#### South Bank University Enterprises Limited

The University holds 100% of the £1 ordinary shares of South Bank University Enterprises Limited (SBUEL), which was formed in order to take over the commercial aspects of the University's activities. Five of these shares have been held since 5 February 1988 with a further five issued on 19 July 2012.

#### London Knowledge Innovation Centre Limited

SBUEL holds 50% of the issued £1 shares of London Knowledge Innovation Centre Limited (LKIC), a company formed to provide serviced office space and other services to start-up companies but now dormant. The share of the net assets and profit/(loss) of LKIC have not been included in the consolidated accounts as they are

## Notes to the accounts Year ended 31 July 2016

immaterial. The profit/(loss) and net assets of LKIC were both £nil for the period ended 31 July 2016 (2015: £nil).

### Other investments

All other investments represent less than 20% of the issued share capital in each case and are therefore not individually disclosed.

14. Debtors: amounts falling due within one year	Consolidated		University	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Trade debtors	11,425	9,833	11,100	9,574
Amounts owed by group undertakings	-	-	224	-
Other debtors	190	266	188	263
Prepayments & accrued income	2,991	2,329	2,918	2,299
<b>Total debtors due within one year</b>	<b>14,606</b>	<b>12,428</b>	<b>14,430</b>	<b>12,136</b>
Debtors: amounts falling due after one year: amounts owed by related parties (note 8)	350	350	350	350
	<b>14,956</b>	<b>12,778</b>	<b>14,780</b>	<b>12,486</b>

15. Creditors: amounts falling due within one year	Consolidated		University	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Bank and other loans	1,325	1,309	1,325	1,309
Trade creditors	1,004	993	991	993
Amounts owed to group undertakings	-	-	-	108
Other creditors	11,555	1,157	11,495	1,081
Social security and other taxation payable	1,485	1,340	1,466	1,319
Accruals and deferred income	28,949	29,989	28,557	29,690
	<b>44,318</b>	<b>34,788</b>	<b>43,834</b>	<b>34,500</b>

16. Creditors: amounts falling due after more than one year	Consolidated and University	
	2016 £'000	2015 £'000
Bank and other loans	25,609	26,934
Deferred income	25,038	26,311
	<b>50,647</b>	<b>53,245</b>

## Notes to the accounts Year ended 31 July 2016

Included within deferred income are items of income which have been deferred until specific performance related conditions have been met.

	Consolidated		University	
	2016 £'000	2015 £'000	2016 £'000	2015 £'000
Government	8,957	6,957	8,867	6,949
Non government	2,334	3,118	2,292	3,099
Capital grants	25,248	26,627	25,248	26,627
	<u>36,539</u>	<u>36,701</u>	<u>36,407</u>	<u>36,675</u>

### 17. Borrowings

#### Consolidated and University

Bank loans and finance leases are repayable as follows:

	2016 £'000	2015 £'000
Due in less than one year (note 16)	1,325	1,309
Due between one and two years	1,347	1,325
Due between two and five years	4,135	4,097
Due after five years	20,127	21,512
Total due after one year (note 17)	<u>25,609</u>	<u>26,934</u>
	<u>26,934</u>	<u>28,243</u>

#### Details of bank basic loans

Lender	Term	Interest rate	Security	2016 £'000	2015 £'000
Barclays Bank	25 years to 2032	5.67% fixed	David Bomberg House	4,819	5,130
Barclays Bank	To April 2029	5.25 % fixed	K2 Building	5,000	5,000
Barclays Bank	23.25 years to 2032	5.54% fixed	K2 Building	7,993	8,316
Barclays Bank	23 years to 2032	0.225% over Libor	K2 Building	4,677	4,974
Allied Irish Bank	26.5 years to 2027	6.67% Fixed	Dante Road Halls	4,245	4,623
Salix	Variable	Interest free	Unsecured	200	200
				<u>26,934</u>	<u>28,243</u>

### 18. Provisions for Liabilities (Consolidated and University)

**Notes to the accounts  
Year ended 31 July 2016**

	USS pension	LPFA pension	Total
	£'000	£'000	£'000
Balance at 1 August 2015	974	88,758	89,732
Utilised during the year	-	(5,536)	(5,536)
Charged to comprehensive income and expenditure for the year	38	38,278	38,316
<b>Balance at 31 July 2016</b>	<u>1,012</u>	<u>121,500</u>	<u>122,512</u>

The obligation to fund the past deficit on the University's' Superannuation Scheme (USS) arises from the contractual obligation with the pension scheme for total payments relating to benefits arising from past performance. Management have assessed future employees within the USS scheme and salary payment over the period of the contracted obligation in assessing the value of this provision.

19. Restricted Reserves	Endowments	Consolidated and University		
	Restricted Permanent £'000	Restricted Expendable £'000	2016 Total £'000	2015 Total £'000
Balance at 1 August	396	346	742	736
Investment income	-	-	-	24
Expenditure	-	-	-	(24)
Increase in market value of investments	14	(2)	12	6
Reclassification	224	(224)	-	-
<b>Balance at 31 July</b>	<u>634</u>	<u>120</u>	<u>754</u>	<u>742</u>

During the year a number of permanent endowment funds held by the University were reclassified. The income of these funds is often too small to make a meaningful award to a student. By transferring these funds to the University and pooling them together the University will be better able to make awards to students. Awards made from the income from these assets will be made to the same beneficiaries as currently and will be made for similar purposes as specified in the original trust deed.

20. Unrestricted Reserves	Consolidated and University	
	2016 £'000	2015 £'000
<b>Revaluation Reserve</b>		
Balance at 1 August	28,693	29,400
Transfer to income & expenditure reserves being excess depreciation on revalued assets	(724)	(707)
<b>Balance at 31 July</b>	<u>27,969</u>	<u>28,693</u>

**Notes to the accounts  
Year ended 31 July 2016**

**21. Cash and cash equivalents**

	<b>At 1 Aug 2015 £'000</b>	<b>Cashflows £'000</b>	<b>At 31 July 2016 £'000</b>
<b>Consolidated</b>			
Investments	16,363	102	16,465
Cash at bank and on deposit	34,552	1,686	36,238
<b>Balance at 31 July</b>	<u>50,915</u>	<u>1,788</u>	<u>52,703</u>

Investments comprise of funds held in fixed term deposits for periods not exceeding three months at 31 July 2016. Cash and cash equivalents comprise of funds held in bank and on deposit not exceeding 3 months.

<b>22. Capital commitments</b>	<b>Consolidated and University</b>	
	<b>2016 £'000</b>	<b>2015 £'000</b>
Commitments contracted at 31 July	<u>804</u>	<u>4,671</u>

**23. Lease obligations**

At 31 July 2016 the University and the Group were committed to making the following future minimum lease payments in respect of operating leases on land and buildings:

	<b>2016 £'000</b>	<b>2015 £'000</b>
Expiring within two and five years	57	97
Expiring in over five years	491	502
	<u>548</u>	<u>599</u>

**24. Amounts disbursed as agent - Teacher Training Bursaries**

	<b>2016 £'000</b>	<b>2015 £'000</b>
Balance at 1 August	(41)	(77)
Funding council grant	352	102
Disbursed to students	(297)	(66)
<b>Balance at 31 July</b>	<u>14</u>	<u>(41)</u>

Teacher Training Bursary funds are paid to universities by the Teaching Agency to provide financial support to students studying for a postgraduate qualification which leads to Qualified Teacher Status (QTS).

The grant from the TDA is available solely for students. The University acts only as a paying agent. The grant and related disbursements are therefore excluded from the Income and Expenditure account and grants not disbursed are shown within other creditors.

## Notes to the accounts Year ended 31 July 2016

### 25. Pension arrangements

Different categories of staff were eligible to join one of four different schemes:

- Teachers' Pension Scheme (TPS)
- Universities Superannuation Scheme Limited (USS)
- London Pension Fund Authority (LPFA) Pension Fund
- London South Bank University Defined Contribution Scheme, administered by Friends Life.

#### A. The Teachers' Pension Scheme

The Teachers' Pension Scheme (TPS) is a statutory, contributory, defined benefit scheme. The regulations under which the TPS operates are the Teachers' Pensions Regulations 2010. These regulations apply to teachers in schools and other educational establishments in England and Wales including teachers and lecturers in establishments of further and higher education. Membership is automatic for full-time teachers or lecturers and from 1 January 2007 automatic too for teachers or lecturers in part-time employment following appointment or change of contract. Teachers and lecturers are able to opt out of the TPS.

Retirement and other pension benefits are provided for in the Superannuation Act 1972, paid out of monies provided by Parliament. Teachers' contributions are credited to the Exchequer under arrangements governed by the above act. The Teachers' Pension Regulations require that an annual account, the Teachers' Budgeting and Valuation Account, be kept of receipts and expenditure, including the cost of pension increases.

From 1 April 2001, the account has been credited with a real rate of return of 3.5%, which is equivalent to assuming that the balance in the Account is invested in notional investments that produce that real rate of return.

The contribution rate paid into the TPS is in two parts: a standard contribution rate plus a supplementary contribution payable if, as a result of actuarial investigation, it is found that accumulated liabilities of the Account are not fully covered by the standard contribution to be paid in the future plus the notional fund built up from past contributions.

The last valuation of the TPS was as of 31 March 2012 and revealed that total liabilities in the scheme (pensions currently in payment and estimated cost of future benefits) amounted to £191.5 billion. The value of the assets (estimated future contributions together with the proceeds of notional investments) amounted to £176.6 billion, giving a notional past service deficit of £15.0 billion. The assumed real rate of return is 3%, pension increases 2% and long term salary growth 4.75% (2.75% pa in excess of assumed CPI).

The employer contribution rate in respect of the period 1 September 2015 to 31 March 2019 will be 16.4% and the next revision to the employer rate is not expected until 1 April 2019, following the next valuation which is due on 31 March 2016. From April 2015 employees paid tiered contribution rates which ranged from 7.4% - 11.7%, depending on earnings.

At 31 July 2016 the University had 832 active members participating in the scheme. During the year contributions were paid by the University and charged to the Income and Expenditure account at a current rate of 14.1% (2015: 14.1%) of salaries and the University's contribution to the TPS for 2016 was £4,021,187 (2015: £3,574,565).

Under the definitions set out in FRS 102 'Retirement Benefits', the TPS is a multi-employer pension scheme. The University is unable to identify its share of the underlying assets and liabilities of the scheme. Accordingly, the University has accounted for its contributions as if it were a defined contribution scheme.

**B.** The university participates in the Universities Superannuation Scheme (the scheme). Throughout the current and preceding periods, the scheme was a defined benefit only pension scheme until 31 March 2016 which was



## Notes to the accounts Year ended 31 July 2016

contracted out of the State Second Pension (S2P). The assets of the scheme are held in a separate trustee-administered fund.

At 31 July 2016 the University had 57 active members participating in the scheme. The total cost charged to the Statement of Comprehensive Income and Expenditure is £528,766 (2015: £989,835) with tiered employer contribution rates of between 6% and 9% depending on employee earnings.

The latest available full actuarial valuation of the scheme was at 31 March 2014 (“the valuation date”), which was carried out using the projected unit method.

Since the institution cannot identify its share of scheme assets and liabilities, the following disclosures reflect those relevant for the scheme as a whole.

The 2014 valuation was the third valuation for USS under the scheme-specific funding regime introduced by the Pensions Act 2004, which requires schemes to adopt a statutory funding objective, which is to have sufficient and appropriate assets to cover their technical provisions. At the valuation date, the value of the assets of the scheme was £41.6 billion and the value of the scheme’s technical provisions was £46.9 billion indicating a shortfall of £5.3 billion. The assets therefore were sufficient to cover 89% of the benefits which had accrued to members after allowing for expected future increases in earnings.

Defined benefit liability numbers for the scheme have been produced using the following assumptions:

	<b>2016</b>	<b>2015</b>
Discount Rate	3.6%	3.3%
Pensionable salary growth	n/a	3.5% in the first year and 4.0% thereafter
Price inflation and pension increases(CPI)	2.2%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) SINA tables as follows:

Male members’ mortality	98% of SINA [“light”] YoB tables – No age rating
Female members’ mortality	99% of SINA [“light”] YoB tables – rated down 1 year

Use of these mortality tables reasonably reflects the actual USS experience. To allow for further improvements in mortality rates the CMI 2014 projections with a 1.5% pa long term rate were also adopted. The current life expectancies on retirement at age 65 are:

	<b>2016</b>	<b>2015</b>
Males currently aged 65 (years)	24.3	24.2
Females currently aged 65 (years)	26.5	26.4
Males currently aged 45 (years)	26.4	26.3
	<b>2016</b>	<b>2015</b>
Scheme Assets	£49.8bn	£49.1bn
Total scheme liabilities	£58.3bn	£60.2bn
FRS 102 total scheme deficit	£8.5bn	£11.1bn
FRS 102 total funding level	85%	82%
Females currently aged 45 (years)	28.8	28.7



## Notes to the accounts Year ended 31 July 2016

Since the institution has entered into an agreement (the Recovery Plan that determines how each employer within the scheme will fund the overall deficit), the institution recognises a liability for the contributions payable that arise from the agreement to the extent that they relate to the deficit and the resulting expense in the Statement of Comprehensive Income and Expenditure (note 18).

At 31 July 2016 the University had 57 active members participating in the scheme. The total cost charged to the Statement of Comprehensive Income and Expenditure is £559,114 (2015: £989,835). The scheme has tiered employer contribution rates of between 6% and 9% depending on employee earnings.

### C. The London Pension Fund

The London Pension Fund Authority (LPFA) provides members with benefits related to pay and service at rates which are defined under the Local Government Pensions Scheme Regulations 1997. To finance these benefits, assets are accumulated in the Fund and held separately from the assets of the University.

A full triennial valuation was carried out by the scheme's actuary Barnett Waddingham as at 31 March 2013 with the valuation results taking into account changes to the scheme from 1 April 2014. The results showed the market value of the Fund's assets attributable to the University as £92.17m. The actuarial value of those assets represented 69% of the value of the benefits that have accrued to the University's pensioners, deferred pensioners and current members based upon past service but allowing for assumed pay increases and pension increases. Employer contribution rates effective from 1 April 2014 are 15.2% of pensionable salaries to cover the cost of future service plus a past service adjustment expressed as a lump sum to clear the deficit over a recovery deficit period of 17 years. During for the year ending 1<sup>st</sup> April 2016 this payment amounted to £1,548,000.

### Pension costs under FRS 102

For accounting purposes the scheme's assets are measured at market value and liabilities are valued using the projected unit method and discounted using the annualised yield on the iBoxx AA rated over 15 year corporate bond index. The valuation uses market-based assumptions and asset valuations, and represents a current valuation. It does not impact on the contribution rates set by the trustees of the scheme. The principal assumptions used by the actuary were:

	<b>31 July 2016</b>	<b>31 July 2015</b>
	<b>% per annum</b>	<b>% per annum</b>
Salary increases	3.9%	4.4%
Pension and price increases	2.1%	2.6%
Discount rate	2.5%	3.8%

Employees retiring on or after 6 April 2006 are permitted to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension.

On the advice of our actuaries we have made the following assumptions:

- members will exchange half of their commutable pension for cash at retirements.
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age
- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits

In calculating the scheme assets and liabilities, the fund's actuaries had to make a number of assumptions about events and circumstances in the future. These assumptions represent the best estimate of expected outcomes but it is possible that actual outcomes will differ from those included in the accounts. Any differences between expected and actual outcomes are reported through experience gains and losses.

## Notes to the accounts Year ended 31 July 2016

### Life expectancy

Post-retirement mortality is based on Club Vita analysis. These base tables are then projected using the CMI 2012 model, allowing for a long term rate of improvement of 1.5% per annum. Based on these assumptions, average future life expectancies at age 65 are summarised below:

	<b>Males Years</b>	<b>Females Years</b>
Current pensioners	22.0	25.2
Future pensioners	24.4	27.5

### Fund assets

For the year ending 31 July 2016 a single expected rate of return of 5.0% has been used to determine the charge to the statement of comprehensive income and expenditure for the year (2015: 5.8%). Comparative figures for the year ending 31 July 2015 show the expected returns based on the long-term future expected investment return for each asset class as at the beginning of that period as follows:

	<b>Fair value as at 31 July 2016 £'000</b>	<b>Fair value as at 31 July 2015 £'000</b>
Equities	57,655	46,573
Target return portfolio	27,250	20,464
Cash	4,662	13,833
Cashflow matching	9,793	15,229
Infrastructure	7,917	5,655
Commodities	599	473
Property	4,190	3,307
Total fair value of assets	<u>112,066</u>	<u>105,534</u>

### Net pension liability

The following amounts at 31 July related to London South Bank University measured in accordance with the requirements of FRS 102:

	<b>2016 £'000</b>	<b>2015 £'000</b>	<b>2014 £'000</b>	<b>2013 £'000</b>	<b>2012 £'000</b>
Fair value of Employer Assets	112,066	105,534	99,726	96,319	80,635
Present value of funded obligations	(221,698)	(182,439)	(164,260)	(146,774)	(143,181)
Net underfunding in funded plans	109,632	(76,905)	(64,534)	(50,455)	(62,546)
Present value of unfunded obligations	(11,868)	(11,852)	(11,968)	(11,756)	(12,118)
Net Pension Liability	<u>(121,500)</u>	<u>(88,757)</u>	<u>(76,502)</u>	<u>(62,211)</u>	<u>(74,664)</u>

The movement for the year in the net pension liability is shown in note 18.

## Notes to the accounts Year ended 31 July 2016

### Analysis of the amount included in staff costs for the year

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Service cost	5,484	5,147
Enhancements to former employees	201	334
	<hr/>	<hr/>
Total operating charge	5,685	5,481
	<hr/> <hr/>	<hr/> <hr/>

### Analysis of the amount included in interest payable for the year

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Interest on the defined liability (asset)	3,270	3,185
Administration expenses	158	150
	<hr/>	<hr/>
Total interest charge	3,428	3,335
	<hr/> <hr/>	<hr/> <hr/>

### Analysis of the amount recognised in Other Comprehensive Income

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
Return on fund assets in excess of interest	1,473	307
Change in financial assumptions	(31,077)	(10,085)
Experience gains and losses on defined benefit obligation	85	493
	<hr/>	<hr/>
Remeasurement of the net assets/(defined liability)	(29,519)	(9,285)
	<hr/> <hr/>	<hr/> <hr/>

### Analysis of movement in the present value of scheme liabilities

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August	194,291	176,278
Movement in the year:		
Current service cost	5,014	4,843
Interest cost	7,296	7,400
Changes in financial assumptions	30,839	10,085
Experience loss/(gain) in defined benefit obligation	(85)	(493)
Past service costs, including curtailments	456	304
Estimated benefits paid net of transfers in	(4,987)	(4,963)
Contributions by scheme participants	1,478	1,475
Unfunded pension payments	(736)	(638)
	<hr/>	<hr/>
At 31 July	233,566	194,291
	<hr/> <hr/>	<hr/> <hr/>

### Analysis of movement in the fair value of scheme assets

	<b>2016</b>	<b>2015</b>
	<b>£'000</b>	<b>£'000</b>
At 1 August	105,534	99,776
Interest on assets	4,026	4,215
Return on assets less interest	1,221	307
Administration expenses	(158)	(150)
Contributions paid	7,166	7,320
Estimated benefits paid plus unfunded net of transfers in	(5,723)	(5,934)
	<hr/>	<hr/>
At 31 July	112,066	105,534
	<hr/> <hr/>	<hr/> <hr/>

## Notes to the accounts Year ended 31 July 2016

The projected pension expense for the year to 31 July 2017 is £9,642,000.

### D. London South Bank University Defined Contribution Scheme.

The University provides a defined contribution pension scheme through Friends Life for employees of London South Bank University Enterprises Limited (SBUEL). At 31/7/16 the University had 16 members participating in the scheme. The University's contribution to the Friends Life scheme for 2016 was £78,822 (2015: £52,031) and employers contribution rates ranged from 6%-9%. Pension contributions payable at 31 July 2016 were £6,538 (2015: nil)

### 26. Transition to FRS102 and the HE SORP

As explained in the accounting policies, these are the University's first financial statements prepared in accordance with FRS 102 and the 2015 SORP. The accounting policies set out on pages 32 to 37 been applied in preparing the financial statements for the year ended 2016, the comparative information presented in these financial statements for the year ended 2015 and in the preparation of an opening FRS 102 Statement of Financial Position at 1 August 2014. In preparing its FRS 102, SORP based Statement of Financial Position, the University has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (2007 SORP).

Financial position	Consolidated		University	
	31 July 2015 £'000	1 Aug 2014 £'000	31 July 2015 £'000	1 Aug 2014 £'000
<b>Total endowments and reserves under 2007 SORP</b>	63,868	73,681	63,720	73,593
Revaluation of land	41,946	41,946	41,946	41,946
USS pension provision	(974)	(446)	(974)	(446)
Employee leave accrual	(2,638)	(2,528)	(2,624)	(2,530)
<b>Total effect of transition to FRS 102</b>	<b>38,334</b>	<b>38,972</b>	<b>38,348</b>	<b>38,970</b>
<b>Total reserves under 2015 SORP</b>	<b>102,202</b>	<b>112,653</b>	<b>102,068</b>	<b>112,563</b>
		<b>Year ended 31 July 2015 Consolidated £'000</b>	<b>Year ended 31 July 2015 University £'000</b>	
<b>Financial performance</b>				
<b>Surplus for the year under 2007 SORP</b>		<b>1,211</b>	<b>1,149</b>	
Movement in USS pension provision		(528)	(528)	
Interest on the LPFA scheme		(1,745)	(1,745)	
Movement in employee leave accrual		(110)	(94)	
		<b>(1,172)</b>	<b>(1,218)</b>	
Actuarial Gains/losses from LPFA scheme		(9,285)	(9,285)	
Endowment income for the year		6	6	
<b>Total comprehensive expenditure for the year under 2015 SORP</b>		<b>(10,451)</b>	<b>(10,497)</b>	

## Notes to the accounts Year ended 31 July 2016

### a) Revaluation of land

The university has chosen to carry out a revaluation of land held with the one off adjustment creating a new deemed costs of land at 31/7/14 resulting in an increase in deemed cost of £41,946,000.

### b) Recognition of short term employment benefits

No provision for short term employment benefits such as holiday pay was made under the previous UK GAAP. Under FRS 102 the costs of short-term employee benefits are recognised as a liability and an expense. The annual leave year runs to 31 July each year meaning that, at the reporting date, there was a liability of £2,610k for unused leave. The cost of any unused entitlement is recognised in the period in which the employee's services are received. An accrual of £2.53m was recognised at 1 August 2014. The movement in this provision of £0.1m has been charged to the Statement of Comprehensive Income and Expenditure in the year ended 31 July 2015 and a provision of £2.64m recognised at 31/7/15.

### c) Change in recognition of defined benefit plan finance costs

The net pension finance cost recognised in the Income and Expenditure account for the year ended 31<sup>st</sup> July 2015 under the previous UK GAAP was the net of the expected return on pension plan assets and the interest on pension liabilities. FRS 102 requires the recognition in the Statement of Comprehensive Income and Expenditure, of a net interest cost, calculated by multiplying the net plan obligations by the market yield on high quality corporate bonds (the discount rate applied). The change has had no effect on net assets as the measurement of the net defined benefit plan obligation has not changed. Instead, the decrease in the surplus for the year has been mirrored by a reduction in the actuarial losses presented within Other Comprehensive Income.

### d) USS pension scheme

The University has an obligation to fund past deficits within the USS scheme and therefore recognises this as a liability on the Balance Sheet. The past deficit has been calculated using a model recommended by the British Universities Finance Directors Group (BUDFDG). The assumptions used and resulting past service deficit are:

Year ending	Discount rate	Salary inflation	Past service deficit
	%	%	£'000
31/7/14	4.2	4.5	446
31/7/15	3.8	4.4	974
31/7/16	2.5	3.9	1,012

It is not possible to identify the University's share of underlying assets and liabilities in the USS scheme and hence accounts for contributions paid during year if it were a defined contribution scheme, charging contributions directly to staff costs.

### e) Presentation of actuarial gains and losses within Total Comprehensive Income

Actuarial gains and losses on the University's defined benefit plans were previously presented in the Statement of Total Recognised Gains and Losses (STRGL), a separate statement to the Income and Expenditure account. All such gains and losses are now required under FRS 102 to be presented within the Statement of Comprehensive Income, as movements in Other Comprehensive Income.

## 27. Post Balance Sheet Events

There are no events after the reporting date to report in these accounts.

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	CONFIDENTIAL
Paper title:	Prevent Annual Report
Board/Committee	Audit Committee
Date of meeting:	10 <sup>th</sup> November 2016
Author:	Ian Mehrtens, COO
Executive/Operations sponsor:	Ian Mehrtens, COO
Purpose:	To approve the submission to HEFCE
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Goal 5: Access
Recommendation:	The Committee is requested to recommend the Annual Report to the Board of Governors for approval.

Matter previously considered by:	N/A	
Further approval required?	Board of Governors	On: 24 <sup>th</sup> November 2016

## Executive Summary

This first annual report on the Prevent Duty is prepared in accordance with the HEFCE guidance issued in October 2016. It follows a positive self-assessment submission in January 2016 and a detailed assessment in April 2016 when the University was given assurance in relation to our procedures.

Audit Committee previously reviewed an internal audit in order to assure the Committee and this is included in this annual report to HEFCE.

Audit Committee is asked to recommend this annual report to the Board of Governors for submission to HEFCE by the deadline date of 1<sup>st</sup> December 2016.

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## **Prevent Annual Report**

### **1.0 Background and Purpose**

The government passed legislation which came into effect for Higher Education in September 2015, setting out responsibilities for trying to stop people being radicalised and drawn into terrorism.

- 1.1 The Higher Education Funding Council for England (HEFCE) is responsible for monitoring its implementation.
- 1.2 The monitoring framework requires the university to submit an annual return to HEFCE by **1 December 2016**. The report covers the period of the last academic year and developments to date.

### **2.0 Previous evaluation**

London South Bank University has:

- participated in a HEFCE pilot evaluation programme prior to the required self assessment earlier this year
- undertaken and produced a positive self-assessment for the required HEFCE return in January 2016
- received the highest compliance category outcome from the HEFCE detailed assessment of 1 April 2016. HEFCE did **not** highlight any areas for development or concern in their April 2016 outcome letter
- further tested compliance by commissioning PWC, our internal auditors, to review our approach. The report was rated as low risk and the progress of all actions is monitored by the university audit committee, against the deadlines set.

### **3.0 HEFCE Required Statement of Assurance**

#### **Recommendation**

**The Board of Governors approves the Annual Report and confirms the statement overleaf.**

Throughout the academic year and up to the date of approval, London South Bank University:

- has had due regard to the need to prevent people being drawn into terrorism (the Prevent duty)
- has provided to HEFCE all required information about its implementation of the Prevent duty
- has reported to HEFCE all serious issues related to the Prevent duty, or now attaches any reports that should have been made, with an explanation of why they were not submitted on a timely basis.

(Note that there have not been any serious reportable incidents to HEFCE)

#### **4.0 Senior management governance and partnership working**

The Vice Chancellor is fully engaged with the approach to Prevent and the Chief Operating Officer is Executive Lead. Governance arrangements and postholders remain the same as the information previously supplied to HEFCE in the April 2016 return.

- 4.1 The Chief Operating Officer chairs an overarching Safeguarding Committee. The London Regional Prevent Co-ordinators are invited to these meetings. The Safeguarding Committee structure also includes wider senior management at Dean level.
- 4.2 The Chair of the Board of Governors is designated as the Health and Safety Sponsor. Safeguarding and Prevent is included under Health and Safety. The Board of Governors meeting of 13 October 2016 featured face to face training on health and safety and an overview of Prevent.
- 4.3 The Head of Health Safety and Resilience has contact with Southwark Local Authority in relation to Prevent. He also chairs the London Regional Higher Education Prevent Training Sub Group, and regularly attends the London Regional Higher Education Prevent Network.
- 4.4 London South Bank University hosted the London Regional Higher Education Prevent Network meeting on 4 October 2016, which was also attended by a HEFCE representative.

#### **5.0 Safeguarding Policy, Risk Assessment, Action Plan and External Speakers Policy**

The university has a fully approved Safeguarding Policy including Prevent, which has been promoted and widely advertised throughout the last academic year and to date.

Forms of dissemination have included:

- using internal communications channels
- universe staff magazine
- intranet
- emails from the Chief Operating Officer
- cascade meetings
- face to face discussions
- training and induction.

The Policy contains a Prevent Risk Assessment, Action Plan and External Speakers Policy. Evidence of these documents has been previously submitted to HEFCE as part of our April 2016 return, and fully audited by PWC.

- 5.1 The safeguarding committee, chaired by the Chief Operating Officer, is responsible for the review and update of all of the above documents.
- 5.2 The agenda for the safeguarding committee meeting of 9 November 2016 includes the review of documentation and consideration of any required updates or changes. No fundamental principal changes are anticipated.

## 6.0 ICT

The ICT Security Policy has been redrafted to include specific reference to the Prevent Duty under the Counter Terrorism and Security Act 2015. This follows a recommendation in the PWC Audit. The new Policy will be formally approved before the end of November 2016.

### 6.1 Web Filtering

The safeguarding committee has discussed and considered the use of web filtering and the controls which are currently in place.

The Head of Information Security has also done further work following the PWC Audit recommendations, and this is reported back to the University Audit Committee. **Appendix A** provides full details of our current arrangements. This is a matter for ongoing review, and further work is being done in relation to considering the situation for mobile devices.

## **7.0 Referrals**

There have been no referrals to Channel during 2015 to date.

7.1 During 2015 there were 3 occasions where specific advice was sought from both the Regional Prevent Co-ordinator (at that time Mr. Chris Bowles) and the Metropolitan Police Local Prevent Lead (Mr. Grant Bones). Each issue related to Students. Two of the three issues were initially raised by Student Union Officers, and one by a Lecturer.

7.2 In each case, no further action was necessary.

7.3 No referral concerns have been raised in 2016.

## **8.0 External Speaker Requests**

187 external speaker requests have been received and processed since 2015 to date. No external speakers have been denied access or had applications rejected.

8.1 On 1 November 2016, the University became aware of an LSBU badged event involving an external speaker due to be held on 7 November. This had been advertised without following the appropriate procedures, or seeking authorisation.

8.2 The event was cancelled by the university and suitable management advice provided to the organiser. London South Bank University worked closely with the Regional Prevent Co-Ordinator. This example highlighted a need to further reinforce processes and training. This has been done by additional communications to Schools and adding wording to the events booking policy and safeguarding policy.

8.3 London South Bank University is an active member of the London Regional Higher Education Prevent Network, whose terms of reference also specifically include sharing information about external speakers.

8.4 The Safeguarding committee has also discussed improved methods of developing centralised lists of future planned events to match with speaker requests. This also follows a recommendation from the PWC Audit. This continues to be further developed, matched against random audit sampling, and will be fully established by 31 December 2016.

## **9.0 Training**

London South Bank has written and developed its own online training, as previously outlined in the HEFCE return of 1 April for all staff. It has also adopted a tiered training model with face to face training for groups more likely to have dealings with someone being drawn into extremism. This also includes security and catering and cleaning contractors.

675 staff have successfully undertaken the online training package as of 2 November 2016. The software package provides detailed completion data statistics.

9.1 In addition more detailed face to face training has been conducted for 421 people. The leadership foundation materials are also used as a cross reference, but not sole content. The safeguarding committee now monitors an overall training timetable and all training progress.

9.2 The Head of Health Safety and Resilience has regularly shared information about the training package via the London Regional Network, in case it supports other universities.

## **10.0 Committee structure**

The university has recently identified improvements which could be made to its safeguarding structure, by creating a number of working groups under the main safeguarding committee which oversees Prevent. The new working groups will be:

- Events and Social Media
- Prevent
- Legal
- Adult/Child Protection

These changes evidence the ongoing development, review and active implementation of arrangements to satisfy the required duties.

## **11.0 Research**

Where any individual may be legitimately required to research any terrorism related information online, there is a clear process for considering and authorising such a request. To date there have not been any requests.

11.1 The safeguarding committee has further discussed how such requests would be processed, and where any sensitive electronic information would be stored. The committee also included the Metropolitan Police Local Prevent Lead, who contributed to this discussion.

11.2 Two members of the safeguarding committee are now co-opted members of the university ethics committee. The university ethics committee is the body which has to consider all academic research requirements.

## **12.0 Student Union**

London South Bank University has a positive relationship with the Student Union, and this has continued to evolve since the last HEFCE return in April 2016.

- 12.1 Following the PWC Audit recommendation, a Student Engagement Plan is being developed and discussed with the Chief Executive of the Student Union. This will be fully in place by 31 December 2016.
- 12.2 The Chief Operating Officer and Head of Health Safety and Resilience both continue to regularly independently meet with the Chief Executive of the Student Union and the President of the Student Union, to ensure the voice of the Student is reflected in our approach . Robust arrangements for directly engaging the Student Union and Societies are fully in place.

## **Appendix A**

## Web Filtering Arrangements

LSBU has three levels of web filtering.

1. The first filter is at our ISP, which consists of a filter database maintained by the IWF (<https://www.iwf.org.uk/>). This is principally in place to stop child abuse websites from proliferating on the open internet.

2. The second level of filtering is an application installed on each of the machines owned by the University, there is a database maintained by our software vendor (Sophos) that updates the filter every day or so with reputation information for specific categories of filtering.

3. The third level of filtering is at the firewall. This allows us to block any website unilaterally across the whole network for our own devices and any other third party devices on the network. Typically, we only use this filter for hard blocks where there is a significant risk or potential legal liability for allowing content.

There is a list of websites blocked by the University. This is held on our Sophos platform, and without exception are related to malware, phishing, general malicious websites etc. We have never blocked a website related to terrorism or extremism manually. We do block extremist and terrorist content through the use of a category filter. In July 2016 we expanded our web filter to include 'Weapons', 'Violence' and 'Intolerance and Hate' categories, broadly to be in line with the Prevent guidance. Unfortunately, neither our Sophos filter or our Firewall has a specific separate Extremism or Terrorism filter category.

We log attempts to access blocked content on the Sophos enterprise console. Depending on capacity, we can usually search back around 6 months. We generate reports every week containing the top 25 'worst offenders'. We are able to identify the user account making the request (Active Directory account). In the case of any Prevent related request, we have an agreed process to escalate issues to our Chief Operating Officer. However to date there haven't been issues significant enough to warrant that escalation.

Exceptions to the web filtering is done by request to the ICT Helpdesk, and the request is raised to the Head of Information Security. He seeks permission from the requestors line manager or course director, documents the request and works out a solution for the user.



21<sup>st</sup> October 2016

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Dear Colleague,

### **Prevent monitoring – submission of the annual report to HEFCE**

Further to HEFCE's publication 'Updated monitoring framework for the monitoring of the Prevent duty in higher education in England' (2016/24), I wanted to provide you with further details on the submission of the annual report to us. If you will not be responsible for the submission of the annual report I would be grateful if you could forward this to the appropriate colleague.

The annual report is due to be submitted by **noon Thursday 1 December** via our secure extranet facility of HEFCE's website: <https://data.hefce.ac.uk>. Institutions will be able to access the extranet for the annual report from **Friday 21 October**. Please note that we have changed the way in which institutions access the extranet – this is now done through your institutional **extranet user administrator**. The **Annex** to this letter provides full details on the technical element of the submission to HEFCE.

Our monitoring framework sets out that you are required to submit:

- a) An annual report on the implementation of the Prevent duty
- b) Declarations from the Chair of the governing body
- c) Data relating to your implementation of the Prevent duty

While HEFCE does not provide a set template for the annual report, we do ask institutions to download, complete, and upload the declaration form and data survey as this will assist our ability to progress our assessments and feedback to institutions as soon as possible.

The rest of this letter provides further clarification on the information institutions should submit.

### Data return

HEFCE requires institutions to provide data on four areas of their implementation of the Prevent duty: external speakers, training, and welfare. The data should be returned through the survey which is downloadable from the HEFCE extranet. The survey also provides the opportunity for institutions to provide technical explanations of the data e.g. the types of training delivered to staff. However, the substantive explanation of this data should be mentioned in the annual report. In addition, we wanted to provide further clarification on particular data sets:

**Staff training** – HEFCE only requires institutions to provide us with the number of staff who have received training, rather than both the staff number and proportion as we previously indicated in our monitoring framework.

**Welfare referrals** – our framework discusses the point in which the Prevent lead becomes involved in the individual case. However, we recognise that in a number of institutions Prevent-related concerns are referred to committees for decisions, rather than a single person at the institution becoming directly involved prior to a referral or information being sought externally. In these such cases institutions should provide the number of instances where Prevent related concerns are referred formally to the appropriate committee.

We also recognise that in the first year of annual reporting, institutions may not have data collection systems in place for some new elements of the welfare data requirements listed above. Should this be the case, please make this clear in your return.

### The annual report

Providers with outstanding actions from their detailed submission in April should include evidence on how they have completed these actions as part of the report. Institutions that have already provided us with this information are not required to include this information in the report.

The report should also demonstrate evidence of assurance to the governing body that the institution's Prevent risk assessment has been reviewed for the year ahead, and updated its action plan where new or further mitigations are required in response to risks identified. HEFCE is happy to accept copies of revised risk assessments and action plans should a provider wish to include them, but this is not a requirement for the submission. We would however expect institutions to include risk assessments and action plans that have been substantially revised in order to ensure we have the most up-to-date documentation.

Many institutions reported to us in April that they were in the process of considering the use of web filtering as part of their response to their statutory duty but were not yet in a position to conclude that consideration. Where institutions have not already done so, they should provide information on the conclusion reached on filtering and provide a clear rationale behind any decision taken.

We are also asking institutions to provide us with information about what Prevent arrangements are in place in relation to franchising, or sub-contractual teaching arrangements<sup>1</sup> as the Duty extends to all students registered with an institution that are studying in the UK. Institutions should provide evidence that there are appropriate arrangements in place to cover these students in order to demonstrate they are giving regard to the Duty. In the vast majority of cases we expect that sub-contractors are already subject to the Duty – FE colleges monitored by Ofsted for instance, and therefore arrangements should already be in place at the partner organisation to prevent people being drawn into terrorism. However, institutions should still ensure that they are satisfied with these arrangements. Where a sub-contractor is not subject to the Duty, institutions should demonstrate that there are appropriate mechanisms in place to safeguard individuals.

In addition to the information above, institutions are also required to demonstrate how they are actively implementing their policies, procedures and arrangements in their annual report. Examples of this could include continuing engagement and consultation with students and local Prevent partners, the implementation of their external speakers or welfare policy and evidence about how these are operating, or perhaps the implementation of their security sensitive research policy. However this list is not exhaustive, and it is for institutions to determine how they approach the report, working within their own particular context and setting. We would like to reiterate that HEFCE expects institutions to implement the Duty proportionately, so evidence submitted to HEFCE will likely be different for each provider depending on their own specific context.

In order to minimise unnecessary burden for providers, we are content to receive the same report which has been considered by the governing body or proprietor where appropriate. We would also expect the report to be concise.

### Queries

As before with the detailed submission phase, HEFCE may request clarification on parts of an institution's annual report. It is likely that HEFCE staff will begin to query institutions from the week commencing 12 December. While we would ordinarily expect institutions to provide responses within 5 working days, given that this period overlaps with the Christmas break, we will agree alternative timetables with institutions where this is not possible.

### Outcomes

HEFCE will be reviewing providers on their implementation of the Duty. In addition, for those providers with outstanding actions from the detailed assessment phase we will also be reviewing whether their policies meet the requirements of the statutory Prevent guidance. This means that not only will providers need to show evidence of active

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<sup>1</sup> While franchise arrangements differ for each provider, we would expect institutions to reflect such arrangements in their report where they meet either HEFCE's definition in HESES, or the Department for Education's definition for the specific course designation process

implementation of policies, but also that policies meet the requirements of the statutory duty in order to **demonstrate due regard** to the Duty.

Where there is insufficient evidence presented through the annual report and through the querying process detailed above, HEFCE may decide that **further evidence is needed** to determine whether an institution is demonstrating due regard to the Duty. We will provide detailed feedback to an institution in these cases, along with the details of our further engagement with them. If we have significant concerns which we are unable to otherwise resolve, this engagement may include a face-to-face Prevent review.

Similarly to the detailed assessment phase, where an institution refuses to provide information and evidence, it is likely that HEFCE will report to Government that an institution is **not demonstrating due regard**. HEFCE may also choose to refer an institution where there is significant evidence of non-implementation of policies or procedures in line with the statutory guidance.

Decisions on outcomes from the annual reporting process will be made by our Chief Executive acting under delegated authority from our Board.

Should you have any queries relating to the content of your annual report please contact your Prevent Adviser – Arlene Francis (a.francis@hefce.ac.uk), and they will be very happy to assist. In addition, should you have any queries relating to the technical upload of the annual report, data return or declaration please contact [asdprevent@hefce.ac.uk](mailto:asdprevent@hefce.ac.uk) or call Emma Allum (0117 931 7259)

Yours sincerely



pp. Michael Clark on behalf of  
Steve Hall  
Head of Strategic Engagement

CONFIDENTIAL	
Paper title:	Draft Audit Committee Annual Report to the Board and Accountable Officer
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Board sponsor:	Steve Balmont, Chair of the Audit Committee
Recommendation:	To approve the draft report from the Audit Committee to the Board

## Introduction

The Audit Committee is required under the Financial Memorandum with HEFCE to produce an annual report of the committee to the Board of Governors and the Accountable Officer (the Vice Chancellor). The report will also be submitted to HEFCE in December.

Guidance from HEFCE is that it must include any significant issues and should be considered by the Board before approval of the accounts. It must also include the committee's opinions on the adequacy and effectiveness of LSBU's arrangements for the following:

- Risk management, control and governance;
- Economy, efficiency and effectiveness (value for money);
- Management and quality assurance of data submitted to HESA and to HEFCE and other funding bodies.

## Executive Summary

During the year to 31 July 2016, the Audit Committee was chaired by Steve Balmont and met four times.

Matters completed by the Committee during the year include:

- review and clearance of the University's annual report and accounts for 2015/16 (paragraph 8);

- approval of the plan for PwC's internal audit review work for the year (paragraph 13);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 12);
- four meetings with PwC and four meetings with Grant Thornton UK LLP in the absence of all University officers;
- consideration of the annual internal audit report (paragraph 15);
- regular review of the corporate risk framework (paragraph 19); and
- approval of a statement of internal control (paragraph 20).

### **Draft Opinions**

Draft opinions (to be discussed at the meeting) for these areas have been included at the end of the report and are set out below. The committee's opinion on :

- 1) the institution's risk management, control and governance is that these arrangements are adequate and effective.
- 2) the arrangements for the economy, efficiency and effectiveness of the University is that they are adequate and effective.
- 3) the management and quality assurance of data submitted to HESA and HEFCE is that the University has adequate assurance.

### **Recommendations**

The committee is asked to review and approve the draft opinions of the committee.

The committee is asked to approve the annual report.

## **Annual Report of the Audit Committee to the Board of Governors and the Accountable Officer 2015/16**

### **Executive summary**

During the year to 31 July 2016, the Audit Committee was chaired by Steve Balmont and met four times.

Matters completed by the Committee during the year include:

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- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 12);
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- consideration of the annual internal audit report (paragraph 15);
- regular review of the corporate risk framework (paragraph 19); and
- approval of a statement of internal control (paragraph 20).

## **Introduction**

1. This report covers the financial and academic year from 1 August 2015 to 31 July 2016 and includes any significant issues up to the date of the signing this report and consideration of the financial statements for the year.
2. No member of the Audit Committee has, or has had during the year, a direct role in the management of the University. All members of the Committee are asked to declare any interests in any item of business on the agenda at each meeting.
3. During 2015/16, the Audit Committee was chaired Steve Balmont, an independent governor. Other members of the Committee during the year were: Douglas Denham St Pinnock, Mee Ling Ng, Shachi Blakemore and Roy Waight (independent co-opted member). Roy Waight was co-opted as an independent member of the Audit Committee and attended his first meeting on 9 June 2016. Douglas Denham St Pinnock stepped down from the committee on 9 June 2016.
4. All members of the Committee are independent of management. James Stevenson, University Secretary & Clerk to the Board, served as secretary to the Committee throughout the year.
5. The Committee held four business meetings during the financial year to 31 July 2016. The Vice Chancellor, Chief Financial Officer and other members of the Executive were present. The internal auditors and the external auditors were present at all four meetings. For the financial & academic year 2016/17 the Committee will also hold four business meetings (September, November, February, June.)
6. The Committee's terms of reference are reviewed annually in the autumn. The Committee has an agreed forward business plan which is used to plan its agendas during the year and is reviewed annually.

## **External Audit**

7. Throughout the year Grant Thornton UK LLP served as the University's external auditors.
8. At its meeting of 9 June 2016, the Committee approved the external audit plan for the financial year 2015/16.



9. At its meeting of 10 November 2016, the Committee considered and recommended to the Board for approval the draft financial statements for the year ended 31 July 2016. The Committee considered in detail audit findings and audit opinion from Grant Thornton UK LLP. The Committee considered and recommended to the Board for approval the letter of representation from the Board of Governors to Grant Thornton UK LLP. [To be confirmed.]
10. Performance indicators had been agreed against which the performance of the external auditors would be measured. The Committee received a report on performance against indicators at its meeting of 10 November 2016. The external auditors met all of the agreed performance indicators. [To be confirmed.]
11. The Committee met Grant Thornton UK LLP prior to its meeting of 10 November 2016 in the absence of any University employees to discuss the year end audit and other matters. In addition, private meetings between the Committee and Grant Thornton UK LLP are held, if required, during the year. [To be confirmed.]
12. Grant Thornton reports that non-audit work for LSBU Group is as follows. For the year ended 31 July 2015, Grant Thornton provided VAT advice services with a value of £3,693 including VAT and corporation tax advisory services with a value of £4,188 including VAT. Both these pieces of work were carried out by an engagement team completely separate from the audit team. In addition Grant Thornton provided advice on the FRS102 transition review, charging £6,000 including VAT. This review was carried out at the audit planning stage and during the year-end audit work.

### **Internal Audit**

13. The University's Internal Auditors for the year were PricewaterhouseCoopers (PwC). PwC worked to an internal audit plan of 125 days approved by the Committee at its meeting of 4 June 2015. 123 days of work were delivered. The Committee has received progress reports from PwC against the plan at every meeting.
14. During the year 9 internal audits were undertaken (2015: 9) and a specialist review into external infrastructure vulnerability was undertaken. The Continuous Audit programme of key financial systems and student data was undertaken throughout the year.
15. The internal auditor's annual report for 2015/16 (dated September 2016) provided a positive assurance statement. The internal audit annual report found:

“Governance, risk management and control, and value for money arrangements in relation to business critical areas is generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control and value for money arrangements which potentially put the achievement of objectives at risk”

16. “Our [PwC’s] view on London South Bank University’s operational control environment and governance arrangements is underpinned by the audit reviews that we have performed during the year. There has been one high risk rated report, two medium risk rated reports and two low risk rated reports prepared during the financial year. The findings from these reports are not considered significant in aggregate to the system of internal control. None of the individual assignments completed in 2015/16 have an overall classification of critical risk.”
17. The Executive states that work to further strengthen data security has been undertaken and the PwC annual report states that “we recognise that a significant amount of work has been done to update and rationalise IT controls; this has been demonstrated through our follow up work, reports to Audit Committee throughout the year and management directing us to a known risk area (external infrastructure)”.
18. The Committee met PwC prior to each meeting, in the absence of any of the University’s employees.
19. Following a tender process in 2014/5, PwC were re-appointed as internal auditors from 1 August 2015. The contract is for three years with the possibility of a further two 12 month extensions subject to performance.

### **Risk management, control and governance**

20. The Committee reviewed the corporate risk register at each meeting. In addition, the committee annually reviews risk strategy and risk appetite and makes recommendations to the Board of Governors. The University’s corporate risk framework is aligned to the Corporate Strategy.
21. PwC undertook an internal audit on risk management during the year which was rated as low risk.
22. The committee reviewed the effectiveness of internal controls at its meeting on 22 September 2016 and approved the full compliance statement for inclusion in the annual report and accounts.

### **Economy, Efficiency and Effectiveness**

23. A Value for money (VFM) report was prepared by the Executive and considered by the Committee on 10 November 2016. Based on the report the Executive is confident that LSBU has delivered Value for Money (VFM) across the broad range of its spend and activities for 2015/16.

### **Management and Quality Assurance of Data submitted to HESA and HEFCE**

24. Both financial and student data are monitored regularly through management controls and independently tested through the internal audit continuous audit programme. No significant findings have been reported.

25. At its meeting of 11 February 2016, the committee noted a paper on data assurance, which provided key recommendations for improvements to data quality.

### **HEFCE's Assessment of Institutional Risk**

26. In a letter dated 19 April 2016, the Board received HEFCE's assessment of the University's institutional risk, which was that LSBU was "not at higher risk" at this time. HEFCE has given the same opinion each year since 2007.

### **HEFCE Assurance Review**

27. In July 2011 HEFCE undertook a five yearly assurance review of the University to review how the University exercises accountability for the public funds it receives. HEFCE's conclusion was that they are "able to place reliance on the accountability information". The next five year review is due to take place on 26 January 2017.

### **Public Interest Disclosure**

28. Under the "speak up" policy the University Secretary reported on speak up activity at every meeting of the Audit Committee. The Chairman of the Audit Committee acts as the independent point of contact for anyone wishing to raise a speak up matter outside line management. An independent reporting helpline has been implemented for the 2015/16 financial year, delivered by SafeCall.

29. One Speak Up matter was reported during the year, regarding age discrimination, as part of a restructure. Following an investigation by management and a review by the Chair of the Committee the conclusion was that “there is no evidence of direct or indirect age discrimination arising from the change proposal process [under review]”.

### **Anti-Fraud**

30. Under LSBU’s anti-fraud policy the Chief Financial Officer reported on any fraud matter at every business meeting. During the year 2015/16 two irregularities were investigated and all were reported to the Board.

### **Audit Committee effectiveness assessment**

31. The Audit Committee will review its effectiveness in early 2017.

### **Opinion of the Audit Committee [To be confirmed]**

#### *Risk Management, Control and Governance*

32. The Committee’s opinion on the institution’s risk management, control and governance is that these arrangements are adequate and effective.

33. This opinion is based on:

- the Internal Audit annual report for 2015/16 which gave the opinion that “we believe London South Bank University has adequate and effective arrangements to address the risks that management’s objectives are not achieved over risk management, control and governance”; and
- the Executive’s detailed review of internal controls. This review was considered by the Audit Committee on 10 November 2016 [*To be confirmed*]

#### *Economy, Efficiency and Effectiveness*

34. The Committee’s opinion on the arrangements for the economy, efficiency and effectiveness of the University is that they are adequate and effective.

35. [This opinion is based on the Executive’s annual assessment of Value for Money and the Internal Audit annual report, 2015/16 which gave the opinion that “[PwC’s]

work over value for money indicates that the processes in place to ensure value for money is achieved are in accordance with good practice, for example: adherence to financial controls and use of purchasing consortiums”.] [*To be confirmed*]

*Management and quality assurance of data submitted to HESA and HEFCE*

36. The Committee’s opinion on the management and quality assurance of data submitted to HESA and HEFCE is that the University has adequate assurance.

37. Both financial and student data are monitored regularly through management controls and independently tested through the internal audit continuous audit programme. No significant findings have been reported.

This annual report was approved by the members of the Audit Committee on [10 November 2016.]

Signed .....  
Steve Balmont  
Chairman of the Audit Committee

[for signing at the Board meeting of 24 November 2016]

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	CONFIDENTIAL
Paper title:	Public Benefit statement
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Megan Evans, Governance Assistant
Executive/Operations sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors
Purpose:	Information
Recommendation:	The meeting is requested to review the draft Public Benefit statement.

## Executive summary

The Public Benefit Statement forms a mandatory part of the annual report of charities. The Memorandum of Assurance and Accountability with HEFCE states that the following must be included in the audited financial statements:

- A statement that the charity has had regard to the Commission's guidance on public benefit
- A report on how the HEI has delivered its charitable purposes for the public benefit

The statement sets out the University's charitable objects as found in its Articles of Association and how these objects are applied for the public benefit. It sets out how the University advances education for the public benefit. The University's main beneficiaries are identified as its students but with a wider public benefit of the University's activities mainly through research and community work also recognised.

The committee reviewed the draft statement at its last meeting. The statement remains the same but now with the inclusion of figures for the linked charities section.

The committee is requested to approve the Public Benefit Statement for inclusion in the annual report.

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## **Public Benefit statement**

The University is an exempt charity within the meaning of the Charities Act 2011 and is regulated by HEFCE on behalf of the Charity Commission.

## **Charity Commission Guidance on Public Benefit**

The members of the Board of Governors are the charitable trustees of the University. In undertaking its duties the Board of Governors has regard to the Charity Commission's guidance on public benefit.

## **Aims (Charitable Objects)**

The charitable objects (under s.3 Charities Act 2011) of the University, as set out in its Articles of Association, are to:

- conduct a university for the public benefit for the advancement of education, promotion of research and dissemination of knowledge;
- provide full time and part time courses of higher education at all levels; and
- provide facilities to promote these objects and provide associated support and welfare for students.

The University's objects are applied solely for the public benefit, as follows.

The University advances education for the public benefit by:

- providing learning opportunities for its students in the form of enquiry-based and work-related curriculum including access to lectures, seminars, personal tuition and online resources;
- delivering many courses accredited by recognised professional bodies, both full and part time;
- setting and marking assessments and providing evidence of achievement by the awarding of degrees, diplomas and certificates.

The University promotes research and the dissemination of knowledge by:

- undertaking academic research and publishing the results;
- publishing articles in peer-reviewed journals;
- maintaining an academic library with access for students and academics;

The University provides student support and services for students through:

- Wellbeing services, including support for students with disabilities and mental health issues. This includes a counselling service;
- Student advice and guidance services via a one-stop-shop and student helpdesks across both campuses
- Employability services, supporting students who are working while studying, helping students source work experience and graduate opportunities;
- Money advice, including debt management;
- Specific support services for particular groups of students, including care leavers, carers and pregnant students;
- tutorial guidance, assessment and feedback;
- mentoring and coaching;
- providing student accommodation;
- funding some individual students' education through bursaries and fee waivers; providing funds to London South Bank University Students' Union, enabling social, cultural, sporting and recreational activities and volunteering opportunities for the personal development and employability of its students.

## **Beneficiaries**

In carrying out its objects the University benefits the wider public, through research and knowledge transfer, and through the volunteering activities of students; and benefits its students and future students through teaching and learning activities.

The trustees affirm that the opportunity to benefit is not unreasonably restricted. The benefits of learning at London South Bank University are open to anyone who the University believes has the potential to succeed. Throughout its history LSBU has enabled wider access to education. The University's Strategy, 2015-2020 sets clear targets to focus on three key areas, all directly related to providing public benefit: student success; real world impact; and access to education.

Like other universities LSBU must charge tuition fees. However, maintenance loans are available to home full time undergraduates who have applied for funding via Student Finance England. In addition, the University offers financial assistance in the form of scholarships, bursaries and charitable funds to students in need.

The University's curriculum is firmly rooted in professional courses supported by accreditation from professional, statutory and regulatory bodies that enhance

employability and career success. In 2015, 82% of graduates were in graduate employment and/or further study 6 months after leaving (DLHE survey results 2014 – 15). Around 7,000 LSBU students are sponsored to study by their employers, including NHS funded students.

The University also contributes to the wider public benefit through the publication of research. The University performed well in the Research Excellence Framework 2015, with the majority of its research graded as internationally excellent and recognised internationally.

The University sponsors two schools in the local area: the University Academy of Engineering South Bank which opened in September 2014; and a University Technical College which opened in September 2016. This community engagement aims to develop professional opportunities for students who have the ability to succeed and to enhance student success by preparing them for higher education.

### **Linked charities**

The University has one “linked” exempt charity: the LSBU consolidated charitable fund for the welfare of students. This fund was worth £755,551 on 31 July 2016 (2015: £765,659). The funds are managed with the aim of securing capital growth and an annual income. In 2015/16 the income received was £18,420.28 (2014/15: £24,709).

The income is usually allocated for distribution by the University’s Hardship Panel to students in financial difficulty. However, a decision was taken to reinvest income from 2015/16 as funds had not been reinvested for some time.

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	CONFIDENTIAL
Paper title:	External Audit Performance
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Natalie Ferer
Executive/Operations sponsor:	Richard Flatman – CFO
Purpose:	To consider the performance of Grant Thornton during their audit for the year ending 31 <sup>st</sup> July 2016
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	No material issues have arisen. The Committee is requested to note the report

Matter previously considered by:	Executive	On: 2 <sup>nd</sup> November 2016
Further approval required?	n/a	n/a

## Key Performance Indicators (KPIs)

The agreed KPIs are listed below with a summary of performance against them for the 2015/16 financial year end audit.

## Dialogue with the University

- |   |
|---|
| <p><b>Establish and maintain good lines of communication throughout the year and at critical times for the Audit.</b></p> <p><i>Measure/Target:</i></p> <ul style="list-style-type: none"> <li><i>Significant issues identified during fieldwork communicated immediately and directly to the Chief Financial Officer</i></li> <li><i>Audit planning and clearance meetings set up by 30 June of each year</i></li> </ul> |
|---|

- *Auditor to update LSBU on any significant financial reporting developments as and when they occur*

- Achieved. There were no significant issues identified during the fieldwork. Communication between the audit team and the Financial Controller and team was good.
- Achieved. Audit planning meeting took place on 20<sup>th</sup> April 2016. At this meeting it was agreed that the clearance meeting would take place during October and the actual date of the clearance meeting was 11<sup>th</sup> October 2016.
- Achieved. Any financial reporting developments were discussed as they occurred.

**2. Effective and timely planning with Management to address areas of risk and discuss and agree the responses with Management and present these in the audit strategy prior to 31 May each year.**

*Measure/Target: Areas of risk and management responses agreed by 31 May*

- Achieved. Audit planning meeting held 20<sup>th</sup> April 2016 with Audit Approach Memorandum presented to Audit Committee on 9<sup>th</sup> June 2016.

**3. Communicate with Management in relation to reporting standards and their impact on the University.**

*Measure/Target: Auditor to update LSBU on any significant Financial Reporting developments as and when they occur*

- Achieved

**Reporting and Communication**

**4. Annual audit work, including Financial Statements, completed by 31 October following the relevant financial year end.**

*Measure/Target: Audit work and financial statements completed by 31 October*

Achieved:

- Onsite audit fieldwork completed by 7<sup>th</sup> October 2016.
- Draft financial statements considered by Audit Committee on 10<sup>th</sup> November 2016.

**5. Timely discussion of findings with Management so issues are resolved promptly.**

*Measure/Target:*

- *Significant issues identified during fieldwork communicated immediately and directly to Chief Financial Officer*
- *Less significant issues communicated immediately to Financial Controller*

Communication of issues met the targets

- There were no significant issues identified during the audit fieldwork.
- Less significant issues were communicated to the Financial Controller during the audit visit and with the Chief Financial Officer at a meeting on the 11<sup>th</sup> October 2016 and subsequently as accounts were finalised.

- 6. Timely reporting of Audit strategy and findings to comply with the requirements of the Audit Committee which would normally be 10 working days prior to the relevant date.**

*Measure/Target: Reports completed and submitted 10 working days before date of relevant committee meeting*

- Partially Achieved: Audit Findings document finalised and sent to the University on 2<sup>nd</sup> November, 6 working days before Audit Committee on the 10<sup>th</sup> November.

- 7. Issue of a separate management letter highlighting any significant accounting and control issues arising from the audit. (A copy of this letter will be sent to the HEFCE Assurance Service to enable them to see what observations have been made about the internal control system and how management have responded).**

*Measure/Target: Separate management letter compiled for submission to HEFCE*

- Achieved.

- 8. An innovative audit approach, offering timely advice and constructive, practical, relevant and value added recommendations for improvement.**

*Measure/Target: Advice and analysis not directly relevant to financial statement audit included within annual audit report.*

- Advice delivered in Audit Findings document.

#### **Other Measures**

- 9. Independent, professional and suitably experienced staff engaged on the Audit.**

*Measure/Target: No avoidable staff rotation, with exception of 5 year partner*



*rotation*

- Partially achieved. Carol Rudge took over as the Audit Partner following the retirement of David Barnes. Nick Taylor continued as Senior Manager. There was some continuity within other members of the team with Aleen Tirmizey continuing from 2015 but other members of the onsite team were new to LSBU. All members of the team were suitably experienced and prepared for the audit and the University experienced no issues or delays as a result of working with the team.

**10. Effective liaison with the internal auditors in order to maximise efficiency from total audit effort.**

*Measure/Target:*

- *External auditors meet internal auditors as part of planning process*
- *External auditors review completed internal audit reports and rely on their work if appropriate*

Achieved.

As part of our planning process Grant Thornton confirmed with Internal Audit that there were no significant issues that would impact on their audit risks. This included areas such as fraud. In addition, Grant Thornton attend all Audit Committee meetings where Internal Audit reports were presented and discussed. This provided them with assurance as part of their planning process.

Also as part of planning, they reviewed all Internal Audit reports issued in the year and considered whether these impacted on their risk assessment. Where Internal Audit are providing strong assurance, this was factored into their approach and reduced the risk.

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	CONFIDENTIAL
Paper title:	Review of non-audit services
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman – CFO
Purpose:	To review Grant Thornton’s non audit services for the year ending 31 <sup>st</sup> July 2016.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	The committee is requested to note this report.

Matter previously considered by:	None	
Further approval required?	None	

### Executive Summary

The University has engaged Grant Thornton to conduct the audit for the year ending 31<sup>st</sup> July 2016. In addition Grant Thornton undertook the following non audit services:

- VAT advice services with a value of £3,693 including VAT and corporation tax advisory services with a value of £4,188 including VAT. Both these pieces of work were carried out by an engagement team completely separate from the audit tem.
- FRS102 transition review, charging £6,000 including VAT and this review was carried out at the audit planning stage and during the year-end audit work.

### Recommendation

That the Audit Committee note this report.

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	CONFIDENTIAL
Paper title:	Internal Audit Progress Report: November 2016
Board/Committee	Audit Committee
Date of meeting:	10 <sup>th</sup> November 2016
Author:	PriceWaterhouse Coopers
Executive/Operations sponsor:	Richard Flatman – Chief Financial Officer
Purpose:	To provide Committee with an overview of the current progress against the Internal Audit Plan for 16/17.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	The internal audit plan relates to controls and processes that relate to the entire organisation, and provide assurance against all of the risk types within the Corporate Risk Appetite statement.
Recommendation:	Committee is requested to note: <ul style="list-style-type: none"> <li>• the report and its findings</li> </ul>

Matter previously considered by:		On:
Further approval required?		

## Executive Summary

28% of the agreed internal audit programme for 16/17 is now complete.

The progress overview accompanies two reports to committee, alongside the final version of the internal audit annual report. The HR system pre-implementation is a new report.

The data security report is re-presented with minor amendments as an appendix to this report. A finding that was rated medium has now been rated as low, following the production of additional information.

6 agreed recommendations were followed up in this period, and 66% have now been implemented, with one closed, and one still in progress. (*details in appendix A*)

- The Committee is requested to note the report and the progress made.

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# *Internal Audit Progress Report 2016/17*

*London South Bank  
University*

*Final*

*November 2016*

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*Appendices*

- A. Follow up on audit actions
- B. Thought leadership





## Summary (1 of 2)



### *Purpose of this report*

We are committed to keeping the Audit Committee up to date with Internal Audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the Audit Committee and to bring to your attention any other matters that are relevant to your responsibilities.

### *Progress against the 2016/17 internal audit plan*

We have completed 28% of our 2016/17 internal audit programme for the year, which is in line with the agreed profile for our work.

For this Audit Committee, we present the following final reports:

- HR System Transformation (Core HR)
- Data Security

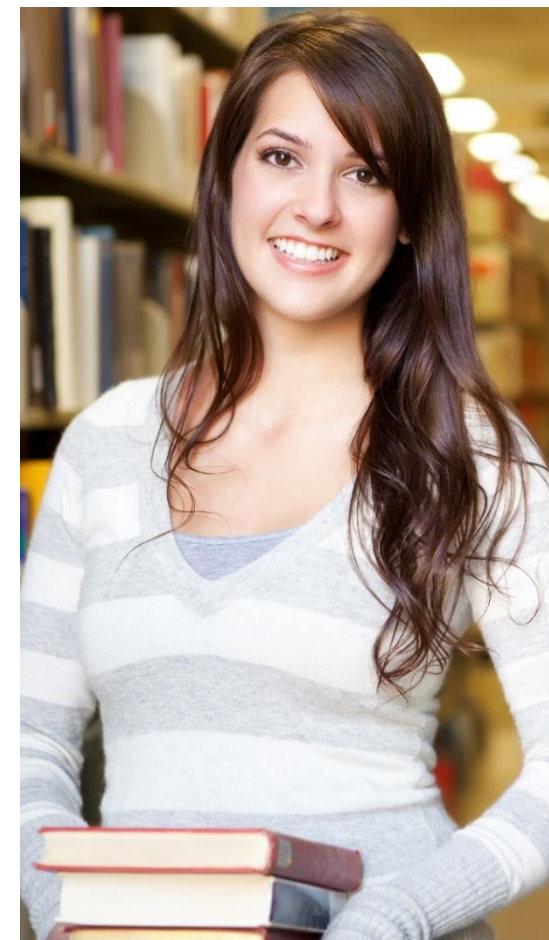
We also present:

- Our final 2015/16 Internal Audit Annual Report.

### *Findings of our Follow Up Work*

We have undertaken follow up work on actions with an implementation date of 31/10/2016 or sooner. We have discussed with management the progress made in implementing actions falling due in this period. Where the finding had a priority of low or advisory, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.

A total of six actions have been followed up this quarter. Four actions have been implemented (66%), one has been closed (17%) and one has been partially implemented (17%). Progress is summarised in Appendix A.



## Summary (2 of 2)



### Other Matters

The International Standards for the Professional Practice of Internal Auditing (IIA) requires that an independent assessment is completed over the work of the internal audit function every five years. The IIA standards are not mandatory, but if LSBU intends to state that the University complies with IIA standards then we will need to arrange for an independent assessment to take place during 2016/17 internal audit programme.

In Quarter one we planned to complete an audit to prepare LSBU for the upcoming HEFCE Five Year review. Due to the timing of the HEFCE audit and staff availability, this has been pushed back to December 2016.

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. Our Higher Education Centre of Excellence and the PwC's Public Sector Research Centre (PSRC) produce a range of research and are the leading centres for insights, opinion and research on good practice in the higher education sector. We have included a summary of key publications at Appendix B. We are happy to provide electronic or hard copy versions of these documents at your request.

### Recommendations

- That the Audit Committee notes the progress made against our 2016/17 Internal Audit Programme.
- That the Audit Committee comments on HR System Transformation (Core HR) report
- That the Audit Committee notes the final versions of the 2015/16 Internal Audit Opinion and Data Security report.



## Activity in the period (1 of 1)



### *Final reports issued since the previous meeting*

#### **HR System Implementation**

London South Bank University integrated the payroll system with the HR module of Midlands iTrent in October 2016.

The objective of this review was to assess whether appropriate controls had been implemented to ensure the complete and accurate migration of employee data. We also tested whether there was an appropriate, risk-focussed, plan in place to allow the integrated system (core HR) to go live in October 2016.

The findings from this review are summarised below:

- A training programme is in place and changes to the system are approved by the existing ICT Change Approval Board but there is currently no official Business Continuity or Business Plan in place.
- There is currently no defined process to capture lessons learnt throughout the project lifecycle.

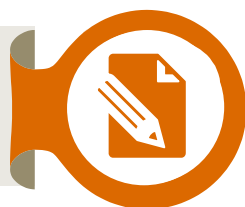
## Progress against plan (1 of 3)



The below table outlines the progress against the 2016/17 Internal Audit Plan:

Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
<b>Quarter 1: August 2016 – October 2016</b>											
<b>Continuous Auditing: Key Financial Systems – January 2016 to July 2016</b>											
13 (15)	19/08/2016	22/08/2016	05/09/2016	16/09/2016	N/A						
<b>HEFCE 5 Year Review</b>											
5 (1)											
<b>HR System Implementation</b>											
9 (9)	03/10/2016	03/10/2016	07/10/2016	20/10/2016	Low	3	-	-	1	1	1
<b>Quarter 2: November 2016 – January 2017</b>											
<b>Placements</b>											
8 (0)											
<b>Continuous Auditing: Student Data – April 2016 to October 2016</b>											
12 (1)					N/A						

## Progress against plan (2 of 3)



Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
<b>Quarter 3: February 2017 – April 2017</b>											
<b>Continuous Auditing: Key Financial Systems - August 2016 to December 2016</b>											
12 (0)					N/A						
<b>Continuous Auditing : Student Data - November 2016 to March 2017</b>											
15 (0)					N/A						
<b>Apprenticeships</b>											
7 (0)											
<b>IT audit</b>											
10 (0)											

## Progress against plan (3 of 3)



Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
<b>Quarter 4: May 2017 – July 2017</b>											
<b>Risk Management</b>											
5 (0)											
<b>Contract Management and Spend Activity</b>											
10 (0)											
<b>Other</b>											
18 (9)	Planning, contract management, reporting, value for money and follow up										
<b>Total</b>	<b>127 (35)</b>										



Appendix A: Follow up

Appendix B: Thought leadership

# Appendices

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## Appendix A: Follow up (1 of 3)

### Implemented

#	Review	Agreed Action	Original Due date	Risk rating	Status
Page 196	1 Management Information - Data Quality	<p><b><u>Accuracy of Management Information</u></b></p> <p>We will retain and file evidence for completed student surveys.</p>	30/09/2016	● <b>Medium</b>	We understand that all files and documents regarding student surveys are now retained for three years and made available when required.
	Management Information - Data Quality	<p><b><u>Data Collection Methodology</u></b></p> <p>We will capture data collection methodology in the Data Management Framework.</p>	30/09/2016	● <b>Medium</b>	A data quality checklist, outlining data collection methodology, is included within the Data Management Framework.
	3 Management Information - Data Quality	<p><b><u>Guidance for Management Information: Data Quality</u></b></p> <p>We will update the Data Management Framework and the Data Management Policy to clarify the discrepancies between the two documents.</p> <p>The meeting frequencies for the four governance groups will be clarified across the Data Management Framework, the Data Management Policy and the Online Group Summary.</p> <p>An evaluation will be undertaken to assess whether the training video for Data Quality should be included in the mandatory training for staff.</p> <p>The Data Quality Assessment Checklist of systems tested, will be reported to each DAG (which meets twice per year). We will also clarify how the checklist ensures that the characteristics of good quality are achieved. Both points will be updated in the Data Management Framework.</p>	30/09/2016	● <b>Medium</b>	<p>Inconsistencies between the Data Management Framework and Data Management Policy have been resolved.</p> <p>Meeting frequencies for the four governance groups have been clarified.</p> <p>Data Quality training will be implemented in the next tranche of data protection training.</p> <p>The DAG has reviewed the Data Quality Assessment Checklist for four systems to date.</p>



## Appendix A: Follow up (2 of 3)

### Implemented

#	Review	Agreed Action	Original Due date	Risk rating	Status
4	Prevent Duties	<p><b><u>IT Policies</u></b></p> <p>We will update the ICT policy to include Prevent.</p> <p>We will look into options to implement Prevent-specific filters within LSBU's network and also applying filters to mobile devices.</p> <p>We will produce a weekly report on attempts to access restricted content. This will be shared with the Chief Operating Officer as required.</p>	30/09/2016	<p>●</p> <p><b>Medium</b></p>	<p>The ICT policy references Prevent and the Counter Terrorism and Security Act (2015).</p> <p>Management were unable to identify Prevent-specific filters which could be added to the LSBU network.</p> <p>Reports on attempts to access restricted content are produced weekly. To date, there has been no instances requiring escalation to the Chief Operating Officer.</p>

### Closed

#	Review	Agreed Action	Original Due date	Risk rating	Status
5	Management Information - Data Quality	<p><b><u>Timely reporting of Management Information</u></b></p> <p>We will ensure the KPI dashboard is kept up to date.</p>	31/10/2016	<p>●</p> <p><b>Low</b></p>	<p>The agreed action has been closed as Management are designing a new reporting and visualisation tool which shall capture the KPI's. The KPI dashboard is no longer being updated.</p>

## Appendix A: Follow up (3 of 3)

### Partially Implemented

#	Review	Agreed Action	Original due date	Revised due date	Risk rating	Status
6	Management Information - Data Quality	<p><b><u>Accuracy of Management Information</u></b></p> <p><u>Appraisal Completion %</u></p> <p>We will agree the parameters for the Appraisal Completion % to allow reporting on the KPI.</p> <p><u>Teaching Room Utilisation Rate</u></p> <p>The teaching room utilisation KPI reported for 2014/15 will be updated for the November 2014 survey.</p> <p>Prior to the next annual survey (for the 2016/17 financial year), we will confirm the timings of reading weeks to ensure there is a consistent measurement basis.</p> <p><u>Graduate Level Employment</u></p> <p>We will investigate and correct the course mapping to capture all applicable students in the KPI.</p>	31/10/2016	31/12/2017	<p>●</p> <p><b>Medium</b></p>	<p>Since the Data Quality internal audit was undertaken, phase two of the Management Information Optimisation project has begun. The project is designing a new reporting and visualisation tool which will capture the KPI's.</p> <p>As part of this project, definitions and parameters for measures shall be clarified and additional context shall be provided (e.g. utilisation rate calculated during reading week).</p> <p>Consequently, progress has been made against the agreed action, but resource has been focussed on improving accuracy and provision across the full spectrum of measures rather than those highlighted in our report.</p>

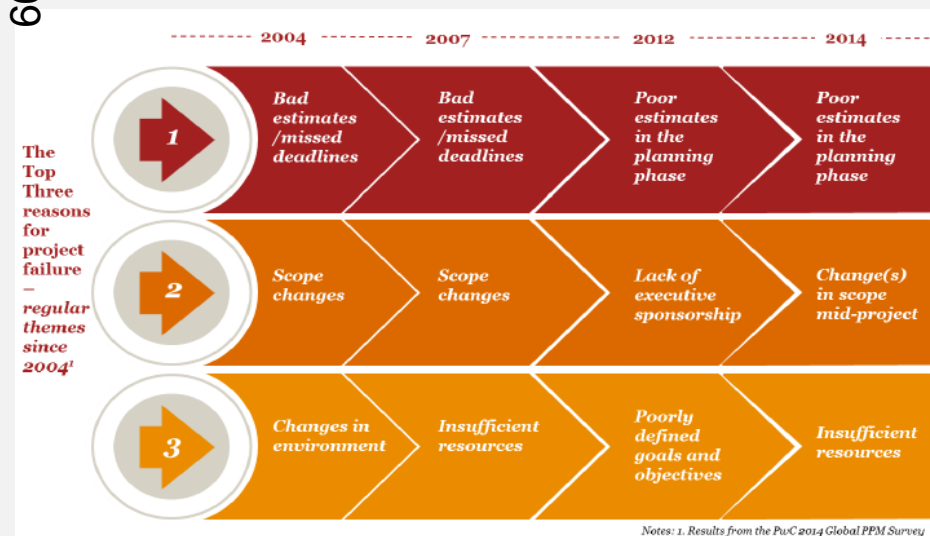
## Appendix B: Recent publications and thought leadership

### **Managing Risk in Higher Education: The risks and challenges around large investment, transformation and change programmes**

The scale of institutional change and investment programmes is at a pace we have not seen before. Capital expenditure for the sector has grown from £2.8bn in 2011/12 to £4.3bn in 2014/15, an increase of 53%.

As highlighted in our 2016 sector risk profile, we are seeing many institutions embarking on major estates or IT investment programmes, organisational structures, curriculum developments, or other major change programmes. Whilst the EU referendum outcome has created uncertainty for many, most institutions are continuing with their projects and programmes. These programmes are increasingly being reflected as stand-alone risks given their scale, complexity, and importance to delivering institutional strategies.

This briefing document highlights the key issues and risks institutions should consider in managing these programmes and the questions non-executives should be asking. It is part of a series of documents around the theme of managing risk in higher education, each one focussing on different issues. The results of our fourth Global PPM survey during 2014 shows consistent messages from our previous surveys with poor estimates made during the planning phase, scope change mid-project, and insufficient resources consistently forming the top three messages for project failure since 2004 (as illustrated below).



PwC have a broad range of experience supporting organisations across the public and private sectors with major projects, investment and change programmes. We can provide a range of programme assurance services to help manage the key risks to programme delivery and we would be happy to discuss options with you.

*As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PwC PSRC produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector.*

*We are happy to provide full electronic or hard copy versions of these documents at your request.*

*All publications can be read in full at [www.psrc.pwc.com](http://www.psrc.pwc.com)*

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# *Internal Audit Report 2015/2016*

## Data Security

*London South Bank  
University*

*September 2016*

*Final*

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- B. Terms of reference
- C. Limitations and responsibilities

## Distribution list

For action: Ian Mehrrens - Chief Operating Officer  
Craig Girvan - Head of Information Security

For information: Richard Flatman - Chief Financial Officer  
John Baker - Corporate and Business Planning Manager  
Audit Committee



## Executive summary (1 of 2)

### Report classification

High Risk



### Trend



Performance is consistent with the 2014/15 review.

### Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	2	0	0	0
Operating effectiveness	0	0	0	1	0
<b>Total</b>	<b>0</b>	<b>2</b>	<b>0</b>	<b>1</b>	<b>0</b>



### Summary of findings

London South Bank University's (LSBU's) IT landscape has undergone a period of rapid change. While our risk rating is consistent with prior year, we recognise that a significant amount of work has been done to update and rationalise the logical and physical security controls in place. This includes linking the HR system with IT access so that leavers have their Active Directory (AD) accounts disabled automatically and the ongoing iTrent project which will allow an audit trail of all staff changes to staff access levels. Despite these improvements, a number of issues remain. We identified two *high risk* findings during our testing of user administration and logical security. A number of these findings were also identified in the 2014/15 Data Security internal audit.

#### Logical Security (finding #1)

We tested to confirm that controls and processes have been established to ensure that logical security settings are appropriate and applied consistently across the LSBU IT environment. We found:

- Unencrypted USB's can be used to extract data from the LSBU's systems.
- Contrary to the Mobile Devices Policy, users are able to 'opt out' of encrypting devices.
- Desktops aren't encrypted unless this is specifically requested.
- We were unable to obtain a complete listing of laptops held by the LSBU as a central list is not maintained. The listing that we did obtain showed that 77 of the 398 laptops known to the LSBU (19%) were not encrypted.
- The password parameters applied to Active Directory (AD) accounts differs to the Account Management policy.
- Laptops communicate with the network in order to update the encryption on the laptop. We identified that 356 of the 398 laptops listed (89%) had not communicated with the network for over 100 days.



## Executive Summary (2 of 2)



### User Administration and Access (finding #2)

We reviewed the processes in place around user administration to ensure that there are appropriate controls for set up, modification and removal of user accounts. We found:

- ICT are not notified when an individual has moved within LSBU and we were unable to obtain a listing of changes made to user access. We understand from management that it is likely that members of staff who've changed position retain access to data that they are no longer permitted to see.
- For our sample of 30 leavers tested, four leavers AD accounts were still active at the date of fieldwork.
- We visited five ICT storage areas to confirm that these were only accessible to specific ICT staff and found two of the buildings had active ICT network equipment that was not appropriately restricted.
- We tested the controls in place for providing security passes to staff. Forms could not be located for nine of the 30 individuals in our sample.

We identified one *low risk* finding:

### Physical Security (finding #3)

- Two items included in the IT assets listing could not be located during the audit. We understand from management that these two assets no longer exist. These were the Mini-cabs at Perry Library and the K2 Building.

**Internet Protocol (IP) Addresses:** Our work over IP addresses has been completed by a specialist PwC team and summarised in a separate report. The results from this testing are not included in the findings outlined above.





## Background and scope (1 of 2)



### Background and audit objectives

IT controls are integral to protecting an organisation’s information data and assets (physical and intellectual).

Our 2014/15 review of IT controls was classified as high risk and identified several issues arising from weak logical and physical controls and inadequate authorisation processes for user administration.

LSBU uses IP addresses to connect devices within the network. IP addresses allow information to be shared across devices. Strong controls over the use of IP addresses are required to ensure confidential information is managed appropriately.

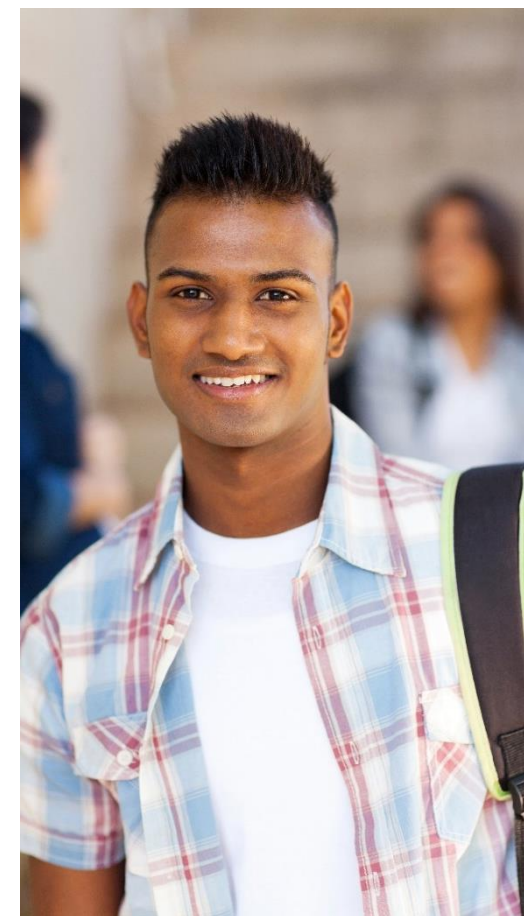
The purpose of this review was to assess the design and operating effectiveness of controls over data security by reviewing progress made in high risk areas and to consider the controls in place over IP addresses. Our work on IP addresses is contained in a separate report.

Our work touched upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10	x		x	x	x

**x** = area of primary focus

**x** = possible area of secondary focus



## Background and scope (2 of 2)



### Scope

We included the following sub-processes and related control objectives in this review:

Sub-process	Objectives	Work to be completed
User Administration (Starters, Movers and Leavers)	Controls are established to ensure that user accounts are appropriately authorised prior to creation, accounts are modified or removed when employees change roles or leave LSBU.	<ul style="list-style-type: none"> <li>We will test a sample of starters, movers and leavers on LSBU's systems to assess whether access is appropriate to their roles.</li> </ul>
Physical Security Management	Controls are established to ensure the physical security of LSBU's buildings and associated IT assets.	<ul style="list-style-type: none"> <li>We will review physical access controls to LSBU's IT assets, including workstations, portable devices and network equipment.</li> </ul>
Logical Security Management	Controls are established to ensure that logical security settings are appropriate and applied consistently across LSBU's IT environment to prevent data loss, unauthorised access, or theft.	<ul style="list-style-type: none"> <li>We will test key controls in place to ensure logical security settings are appropriate and applied across the IT environment.</li> </ul>
IP addresses	Controls are established to ensure that information retained within LSBU's network is secure.	<ul style="list-style-type: none"> <li>We will test a sample of IP addresses to assess whether confidential data held within LSBU's network is appropriately protected.</li> </ul>

### Limitations of scope

Our review was focussed on controls around LSBU's staff accounts and infrastructure and did not assess the controls over student accounts or IT infrastructure, except where the same controls exist for both staff and students.

We performed follow up work of high risk findings throughout the year, this work was not repeated in this review. This audit focussed on substantive testing of controls implemented to confirm they are operating as designed.

## Logical Security

### Control design & operating effectiveness

1

Page 207

#### Finding rating

Rating

High

### Findings

We tested to confirm that controls and processes have been established to ensure that logical security settings are appropriate and applied consistently across LSBU's IT environment.

We identified the following control design exceptions:

- Unencrypted USBs can be used on the network to remove data. All information that is transferred onto an unencrypted USB is then encrypted but LSBU is unable to determine what information has been taken off the system. This issue was also raised in our 2014/15 report.
- It is not mandatory for mobile devices to be encrypted - users have the ability to 'opt out' through a disclaimer form. While this is not widely done (only three devices were found to be 'opted out'), it is not in line with the Mobile Device Policy. This finding was also raised in the 2014/15 review where seven devices had 'opted out'. The Mobile Device Policy has not been updated since 24/04/2013.
- Desktop devices are not encrypted except in situations where users are specifically identified as dealing with sensitive data. This issue was also raised in our 2014/15 report.
- We requested a report of laptops held by LSBU to determine whether they were appropriately encrypted. From discussion with management, we understand that it is not possible to obtain a complete listing of laptops and therefore establish the number of unencrypted devices.

As well as the control design findings outlined above, we also identified the following operating effectiveness findings:

- The password parameters applied in AD differs to the Account Management policy. The Account Management policy states user accounts should be locked out after five incorrect attempts. The AD password parameters are set up to lock accounts after six failed attempts.
- We obtained a listing of laptops held LSBU. From discussions with management we understand that this listing is likely to be incomplete as there is no centrally held register of laptops. Of the 398 laptops known to LSBU, 77 (19%) were not encrypted. This issue was also raised in our 2014/15 review where 43 of the 252 laptops known to LSBU (17%) were not encrypted.
- Laptops communicate with the network in order to update the encryption on the laptop. We identified that 356 of the 398 laptops listed (89%) had not communicated with the network for over 100 days.

## Logical Security

### Control design & operating effectiveness

Continued

1

Page 208

#### Finding rating

Rating

High

#### Implications

Inadequate or inconsistent logical security may lead to an increased risk of unauthorised access to sensitive data and transactions with subsequent risk of information abuse and / or fraud, and adverse impact upon LSBU's reputation.

#### Action plan

- We are not able to technically restrict unencrypted USB devices across the whole organisation as this would have a negative impact on teaching and learning, as well as on our disabled students. Instead we will begin deploying encrypted USBs to all staff that request them, and enforcing by policy; that all members of staff must use LSBU provided encrypted USBs whenever transporting any data away from their machines.
- We have not been accepting 'opt outs' for encryption policies since July 2015, we will no longer be accepting 'opt outs' for any encryption related policy. This messaging will be reinforced to our helpdesks during September.
- We have undertaken a cost benefit analysis of known desktop machines across the organisation. We have identified that public machines hold no accessible sensitive information therefore can be viewed as low risk. As a department we have decided that only sensitive devices will be encrypted.
- We recently (August 2016) implemented a system (System Centre Configuration Manager) capable of cataloguing and tracking machines across our network. This system will help to address historic tracking issues for laptops and other mobile devices. We are expecting this system to reach maturity by the end of 2016. In addition we are exploring options to restrict access to staff areas of the network to only allow registered and tracked devices (Network Access Control system) during the 16/17 academic year.
- The password parameters applied in AD are a known issue related to a deprecated system that has been decommissioned, a change request has been submitted as of 07/09/2016 to have the technical password policy parameters changed.
- We will review the listing of incomplete encryptions and remind users to ensure that these are up-to-date so they are actively encrypted. As above, this work will be covered as part of our SCCM database.

#### Responsible person/title:

Craig Girvan, Head of Information Security

#### Target date:

31/01/2017

#### Reference number:

1

## User Administration and Access

Control design & operating effectiveness

2

Page 209

### Finding rating

Rating

High

## Findings

### User Administration

We reviewed the processes in place around user administration to ensure that there are appropriate controls around set up, modification and removal of user accounts.

We identified the following exceptions:

- ICT are not notified when an individual has moved within LSBU and LSBU is unable to generate a report showing this information. From discussion with management, we understand that access rights to shared data is additive, which means that when a member of staff moves departments the user's existing access will be retained. This finding was also included in the 2014/15 Data Security report.
- We also identified that there a number of staff who have more than one AD account. There are two reasons for multiple accounts:
  - A staff member is also a student requiring two separate accounts; or
  - Administrative access requires a different account.

The staff/student separate accounts are not noted as an issue as this is the way that the system is structured and staff AD access is terminated as soon as employment ceases. The secondary administrative accounts are also acceptable if administrative access is reviewed on a regular basis but we do note that while Domain Administrators are reviewed biannually, lower level administrative access is not currently reviewed.

- We also found four of the 30 leavers sampled still had active AD accounts at the date of fieldwork.

### Access

ICT storage areas should be key card controlled and only accessible to specific ICT staff (general staff passes should not grant access to ICT storage areas). Any individual who has access should have a supporting authorisation form. We found:

- Authorisation forms could not be located for nine of 30 individuals in our sample.
- During our site inspection, we identified exceptions at two of five sites:
  - i. The K2 building had a network infrastructure cupboard that was accessible on a general staff pass.
  - ii. We found two sites at the Borough Road building where network infrastructure was accessible on a general staff pass.

## User Administration and Access

Control design & operating effectiveness

Continued

Page 210

2

### Finding rating

Rating

High

### Implications

- Inadequate control over the user accounts may increase the risk of unauthorised access to sensitive records and data.
- If leavers are not removed from the system in a timely manner, LSBU increases the risk that inappropriate access or loss of data will occur, causing system outages or potential reputational damage.
- Inadequate control over physical security may result in the loss or theft of physical IT assets as well as the loss or theft of data, resulting in potential financial or reputational damage for LSBU.

### Action plan

- The dual accounts are by design as there are technical administrators that only undertake authoritative actions on the systems by invoking their '1' account. No administrator is allowed to log on 'interactively' with their 1 account, it is only used for privilege escalation as and when that is required. In order to mitigate the risk that administrative accounts are retained after they are no longer needed, we have undertaken quarterly reviews of all '1' accounts across the organisation, the first of which was instituted on 05/09/16.
- The implementation of the new HR iTrent system will enable an audit trail of all changes to staff access.
- We will continue to review the physical security controls in place for all IT assets held by LSBU. The physical security weaknesses addressed in this document have been identified and remediated to an acceptable level given environmental constraints.
- The security controls in question need to be reviewed more thoroughly before we take steps to remediate these controls. It is not clear that the forms in question were unavailable due to failings in the process.

### Responsible person/title:

Craig Girvan, Head of Information Security

### Target date:

31/01/2017

### Reference number:

2

## Physical Security

### Operating effectiveness

# 3

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#### Finding rating

Rating

Low

#### Findings

Two items included in the IT assets listing could not be located during the audit. We understand from management that these two assets no longer exist. These were the Mini-cabs at Perry Library and the K2 Building.

#### Implications

Inadequate control over physical security may result in the loss or theft of physical IT assets as well as the loss or theft of data, resulting in potential financial or reputational damage for LSBU

#### Action plan

- We are currently going through a datacentre move, in which we have some assets moving to the DC in Keyworth, as well as moving some assets from physical machines to virtual. As part of that project's closure, we will review and reconcile the IT Asset register.

#### Responsible person/title:

Craig Girvan, Head of Information Security

#### Target date:

31/01/2017

#### Reference number:

3



---

# Appendices



## Appendix A: Basis of our classifications

### Individual finding ratings

#### Critical

A finding that could have a:

- **Critical** impact on operational performance resulting in inability to continue core activities for more than two days; or
- **Critical** monetary or financial statement impact £5m; or
- **Critical** breach in laws and regulations that could result in material fines or consequences over £500k; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.

#### High

A finding that could have a:

- **Significant** impact on operational performance resulting in significant disruption to core activities; or
- **Significant** monetary or financial statement impact of £2m; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences over £250k; or
- **Significant** impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.

#### Medium

A finding that could have a:

- **Moderate** impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or
- **Moderate** monetary or financial statement impact of £1m; or
- **Moderate** breach in laws and regulations resulting in fines and consequences over £100k; or
- **Moderate** impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.

## Appendix A: Basis of our classifications

### Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance resulting in moderate disruption of discrete non-core activities; or
- **Minor** monetary or financial statement impact of £500k; or
- **Minor** breach in laws and regulations with limited consequences over £50k; or
- **Minor** impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

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### Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7 – 15 points
 High risk	16 – 39 points
 Critical risk	40 points and over

# *Appendix B: Terms of reference*

**To:** Ian Mehrtens – Chief Operating Officer

**From:** Justin Martin – Head of Internal Audit

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## Background and audit objectives



This review is being undertaken as part of the 2015/2016 internal audit plan approved by the Audit Committee.

### Background and audit objectives

IT controls are integral to protecting an organisation’s information data and assets (physical and intellectual).

Our 2014/15 review of IT controls was classified as high risk and identified several issues arising from weak logical and physical controls and inadequate authorisation processes for user administration.

LSBU uses IP addresses to connect devices within the network. These IP addresses allow information to be shared across devices. Strong controls over the use of IP addresses are required to ensure confidential information is managed appropriately.

The purpose of this review is to assess the design and operating effectiveness of controls over data security by reviewing progress made in high risk areas and to consider the controls in place over IP addresses.

Our work touches upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
10	x		x	x	x

**x** = area of primary focus

x = possible area of secondary focus

## Audit scope and approach (1 of 2)



### Scope

The sub-processes, related control objectives and key risk areas included in this review are:

Sub-process	Objectives	Work to be completed
User Administration (Starters, Movers and Leavers)	Controls are established to ensure that user accounts are appropriately authorised prior to creation, accounts are modified or removed when employees change roles or leave LSBU.	<ul style="list-style-type: none"> <li>We will test a sample of starters, movers and leavers on LSBU systems to assess whether access is appropriate to their roles.</li> </ul>
Physical Security Management	Controls are established to ensure the physical security of LSBU's buildings and associated IT assets.	<ul style="list-style-type: none"> <li>We will review physical access controls to LSBU's IT assets, including workstations, portable devices and network equipment.</li> </ul>
Logical Security Management	Controls are established to ensure that logical security settings are appropriate and applied consistently across the LSBU IT environment to prevent data loss, unauthorised access, or theft.	<ul style="list-style-type: none"> <li>We test key controls in place to ensure logical security settings are appropriate and applied across the IT environment.</li> </ul>
IP addresses	Controls are established to ensure that information retained within LSBU's network is secure. .	<ul style="list-style-type: none"> <li>We will test a sample of IP addresses to assess whether confidential data held within LSBU's network is appropriately protected.</li> </ul>

## Audit scope and approach (2 of 2)



### Limitations of scope

This review will focus on controls around LSBU’s staff accounts and infrastructure and will not assess the controls over student accounts or IT infrastructure, except where the same controls exist for both staff and students.

We have performed follow up work of high risk findings throughout the year. We will not repeat this work; this audit will focus performing substantive testing of controls implemented to confirm they are operating as designed.

### Audit approach

Our audit approach is as follows:

- Obtain an understanding of the data security environment through discussions with key personnel, review of key documentation.
- Identify the key risks of the data security environment.
- Evaluate the design of the controls in place to address the key risks.
- Test the operating effectiveness of the key controls.



## Internal audit team and key contacts



### Internal audit team

Name	Role	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 <a href="mailto:justin.f.martin@uk.pwc.com">justin.f.martin@uk.pwc.com</a>
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Lucy Gresswell	Engagement Supervisor	07718 098 321 <a href="mailto:lucy.j.gresswell@uk.pwc.com">lucy.j.gresswell@uk.pwc.com</a>
Joshua Wilson	Auditor	<a href="mailto:joshua.j.wilson@uk.pwc.com">joshua.j.wilson@uk.pwc.com</a>

### Key contacts – London South Bank University

Name	Title	Contact details
Ian Mehrtens	Chief Operating Officer (Audit Sponsor)	020 7815 6804 <a href="mailto:ian.mehrtens@lsbu.ac.uk">ian.mehrtens@lsbu.ac.uk</a>
Craig Girvan	Head of Information Security (Audit Contact)	0207 815 6588 <a href="mailto:girvanc@lsbu.ac.uk">girvanc@lsbu.ac.uk</a>
Richard Flatman	Chief Financial Officer	0207 815 6301 <a href="mailto:richard.flatman@lsbu.ac.uk">richard.flatman@lsbu.ac.uk</a>
John Baker	Corporate and Business Planning Manager	0207 815 6003 <a href="mailto:j.baker@lsbu.ac.uk">j.baker@lsbu.ac.uk</a>



## Timetable and information request



### Timetable

Fieldwork start	25 July 2016
Fieldwork completed	5 August 2016
Draft report to client	12 August 2016
Response from client	17 August 2016
Final report to client	19 August 2016

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

***Please note that if the University requests the audit timing to be changed at short notice (2 weeks before fieldwork start) and the audit staff cannot be deployed to other client work, the University may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.***

### Information request

- Listing of Admin users
- Listing of starters, movers and leavers within the year
- A list of ICT storage areas
- A listing of IP addresses



## Appendix C: Limitations and responsibilities

### Limitations inherent to the internal auditor's work

We have undertaken this review subject to the limitations outlined below:

#### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University in our agreement dated 15/05/2015. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Memorandum of Assurance and Accountability (MMA) between Higher Education Funding Council for England (HEFCE) and institutions. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), London South Bank University is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, London South Bank University discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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	CONFIDENTIAL
Paper title:	New HR System Transformation Review
Board/Committee	Audit Committee
Date of meeting:	10 <sup>th</sup> November 2016
Author:	PriceWaterhouse Coopers
Executive/Operations sponsor:	Mandy Eddolls – Executive Director of HR
Purpose:	To provide Committee with the results of the review into the planned replacement of the Oracle HR system with an integrated I-trent product.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	This report relates to the reputation and compliance risk types expressed within the Risk Appetite, and relates mainly to the Resources & Infrastructure goal within the Strategy.
Recommendation:	Committee is requested to note: <ul style="list-style-type: none"> <li>• the report and its findings</li> </ul>

Matter previously considered by:		On:
Further approval required?		

## Executive Summary

This 16/17 internal audit survey (postponed from 15/16 plan) follows on from a previous pre-implementation survey on the i-trent payroll system, completed as part of the 13/14 audit plan.

This report is classified as low risk, and has 1 medium, 1 low, and 1 advisory finding (*pages 7 – 9*). These relate to Lessons learned, business continuity plans, and articulation of controls and procedures.

- The Committee is requested to note the revised report.

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# *Internal Audit Report 2016/17*

## HR System Transformation (Core HR)

*London South Bank  
University*

*October 2016*

*Final*

▶ Click to launch


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*Executive summary*

**1** 

*Background and scope*

**2** 

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*Appendices*

- A. Basis of our classifications
- B. Terms of reference
- C. Limitations and responsibilities

## Distribution list

For action: Adrian Bass - Senior Project Manager  
David Lee – HR Systems & Analytics Manager

For information: Mandy Eddolls - Executive Director of Organisational Development and HR  
Adrian Bass - Senior Project Manager  
David Lee – HR Systems & Analytics Manager  
Natalie Ferer – Financial Controller  
Richard Flatman - Chief Financial Officer  
John Baker - Corporate and Business Planning Manager  
Audit Committee



## Executive summary (1 of 1)

### Report classification

Low Risk



### Trend

N/a – we have not performed a review of this area before.

### Total number of findings

	Critical	High	Medium	Low	Advisory
Control design	0	0	1	1	1
Operating effectiveness	0	0	0	0	0
<b>Total</b>	<b>0</b>	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>



### Summary of findings

Our audit focused on the controls in place around the implementation of the HR component of iTrent and the transfer of data from Oracle. We have used a traffic light system to demonstrate London South Bank University's performance against the areas outlined in our Terms of Reference below.

Area	RAG Status	Summary
Data Migration	●	London South Bank University is performing a data cleansing exercise to ensure data transfer is complete, accurate and valid. Data is being reviewed by management and will be tested as part of parallel runs.
Go Live	●	The Project Board will approve whether the HR module can 'go live'. A training programme is in place and changes to the system are approved by the existing ICT Change Approval Board but there is currently no official Business Continuity or Business Plan in place, see <b>Finding #1</b> and some processes and controls could be formalised, see <b>Finding #3</b> .
Post implementation review and ongoing availability	●	There is currently no defined process to capture lessons learnt throughout the project lifecycle. See <b>Finding #2</b> .
System Security	●	User access has been defined in procedures based on roles. The system also has an inbuilt audit trail function to monitor user activity. Business Object reports are run to identify changes.

## Background and scope (1 of 3)



### Background and audit objectives

London South Bank University (LSBU) is integrating the payroll system with the HR module of Midlands iTrent, which is due to go live in October 2016.

Two internal audit reviews were conducted as part of the 2013/14 audit plan for the implementation of the Midlands iTrent Payroll system. The new HR module is intended to interface with the existing payroll system.

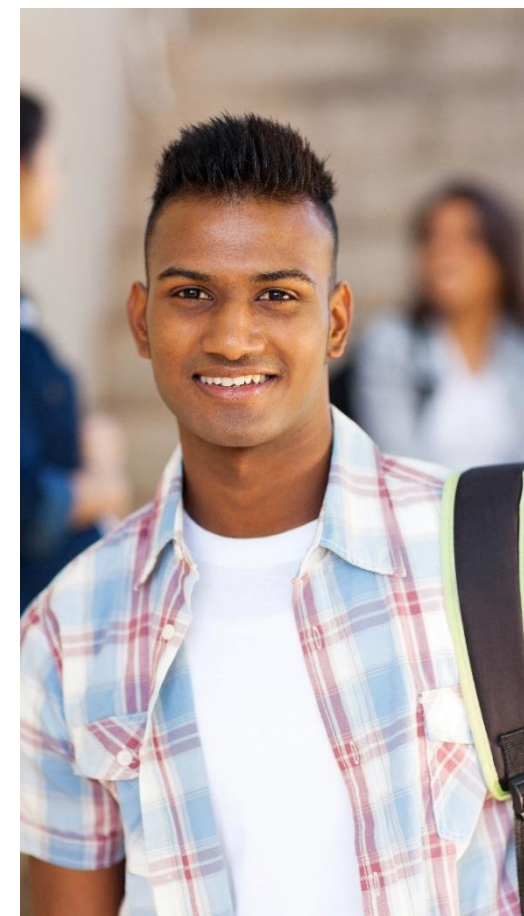
The objective of this review is to assess whether appropriate controls have been implemented to ensure the complete and accurate migration of employee data. We will also consider whether there is an appropriate, risk-focussed, plan in place to allow the integrated system (core HR) to go live in October 2016.

We believe our work will touch upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
9	x		X	x	x

X = area of primary focus

x = possible area of secondary focus





## Background and scope (2 of 3)



### Scope

We included the following sub-processes and related control objectives in this review:

Sub-process	Objectives
Data Migration	<ul style="list-style-type: none"> <li>Relevant Data has been cleansed prior to migration to the new environment.</li> <li>Controls have been designed to ensure the complete and accurate migration of employee data.</li> </ul>
Go Live	<ul style="list-style-type: none"> <li>Go-live will be authorised by the Project Board.</li> <li>Contingency plans exist to support the organisation should the data transfer fail.</li> <li>Staff are supported in the use of the application through training and user documentation</li> <li>Users are supported in resolving problems with the system.</li> <li>Ongoing changes to the new system after go-live are supported through a formal change program</li> </ul>
Post Implementation review and ongoing availability	<ul style="list-style-type: none"> <li>There is a defined process in place to identify lessons learnt and ensure the ongoing accuracy and completeness of data.</li> <li>Controls are in place to ensure ongoing availability of the system.</li> </ul>
System Security	<ul style="list-style-type: none"> <li>The system has been configured to ensure that access rights are appropriately allocated based on their roles and responsibilities.</li> <li>Appropriate segregation of duties are in place throughout the process.</li> <li>Access to personal data is restricted to appropriate individuals.</li> <li>The system has been configured so that there is an audit trail of user activity.</li> <li>Error reports have been implemented to ensure that errors or changes to employee data are identified and resolved on a timely basis.</li> </ul>

## *Background and scope (3 of 3)*



### *Limitations of scope*

This was not a full scale project and programme management review, the scope of our work was limited to those areas outlined above.

Our review was performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given.

Our review of system security is restricted to: ensuring that London South Bank University have taken action to ensure that system access is restricted to appropriate individuals (including access to personal data); and, that mechanisms are in place to ensure that changes to system data are recorded, monitored and investigated. We will not test the operating effectiveness of these controls and our work will not be a 100% test of whether access rights are appropriate.

This review will only consider control design in the areas identified above –this does not constitute a full review of payroll controls.

## Business Continuity

### Control Design

1

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#### Finding rating

Rating

Low

#### Findings

There is no official Business Continuity document to support the organisation should the implementation fail.

Although there is an informal plan in place: if immediate post go-live testing shows errors, the Workflows on the system will be deactivated and HR will return to using Oracle and re-implement the current processes, this is not documented in procedures. By documenting this process, the team will be able to react and respond more quickly.

#### Implications

Lack of a contingency plan in event of system failure could mean individuals cannot access the functionalities on the system (payslips, sick leave, performance etc).

If the contingency plan is not documented, the team may not be able to respond quickly as they will need to consult with others on required action.

#### Action plan

We will formalise the business continuity plan in an official document available to all those involved in the process, so that it can be implemented without key members of the team being available.

#### Responsible person/title:

David Lee – HR Systems & Analytics Manager

#### Target date:

31/10/2016

#### Reference number:

1

## Lessons Learnt

### Control Design

2

Page 232

#### Finding rating

Rating

Medium

#### Findings

There is no defined process in place to identify lessons learnt from the project.

We recognised that project risks are captured and there is an intention to create a lessons learnt log after the Go-live date.

#### Implications

Lessons learnt are not identified or captured. This could mean errors are repeated or not resolved.

#### Action plan

The Implementation team will create a lesson learned log that can be contributed to by all members of the team to identify errors and prevent them being repeated.

#### Responsible person/title:

Adrian Bass - Senior Project Manager

#### Target date:

31/10/2016

#### Reference number:

2

## Formalised Procedures

### Control Design

# 3

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#### Finding rating

Rating

Advisory

#### Findings

Throughout our review we identified a number of areas where although controls and processes are in place, these are not formally documented. For example:

- Monthly review of system access;
- Process flow and associated controls for the employee self-service pilot scheme; and
- Formal checklist to be approved by project Board before go-live.

#### Implications

The lack of formal documented plans, could lead to these procedures not taking place or taking longer to implement, if the those who currently have responsibility for them are unavailable.

#### Action plan

Formalise procedures will be created to evidence controls in place.

#### *Responsible person/title:*

Adrian Bass - Senior Project Manager

#### *Target date:*

31/10/2016

#### *Reference number:*

3



# Appendices

## Appendix A: Basis of our classifications

### Individual finding ratings

#### Critical

A finding that could have a:

- **Critical** impact on operational performance resulting in inability to continue core activities for more than two days; or
- **Critical** monetary or financial statement impact £5m; or
- **Critical** breach in laws and regulations that could result in material fines or consequences over £500k; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.

#### High

A finding that could have a:

- **Significant** impact on operational performance resulting in significant disruption to core activities; or
- **Significant** monetary or financial statement impact of £2m; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences over £250k; or
- **Significant** impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.

#### Medium

A finding that could have a:

- **Moderate** impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or
- **Moderate** monetary or financial statement impact of £1m; or
- **Moderate** breach in laws and regulations resulting in fines and consequences over £100k; or
- **Moderate** impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.

## Appendix A: Basis of our classifications

### Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance resulting in moderate disruption of discrete non-core activities; or
- **Minor** monetary or financial statement impact of £500k; or
- **Minor** breach in laws and regulations with limited consequences over £50k; or
- **Minor** impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

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### Report classifications

The report classification is determined by allocating points to each of the findings included in the report.

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7 – 15 points
 High risk	16 – 39 points
 Critical risk	40 points and over



# *Appendix B: Terms of reference*

**To:** Mandy Eddolls – Executive Director of Organisational Development and HR

**From:** Justin Martin – Head of Internal Audit

## Background and audit objectives



This review is being undertaken as part of the 2016/17 internal audit plan approved by the Audit Committee.

### Background and audit objectives

London South Bank University (LSBU) is integrating the payroll system with the HR module of Midlands iTrent, which is due to go live in October 2016.

Two internal audit reviews were conducted as part of the 2013/14 audit plan for the implementation of the Midlands iTrent Payroll system. The new HR module is intended to interface with the existing payroll system.

The objective of this review is to assess whether appropriate controls have been implemented to ensure the complete and accurate migration of employee data. We will also consider whether there is an appropriate, risk-focussed, plan in place to allow the integrated system (core HR) to go live in October 2016.

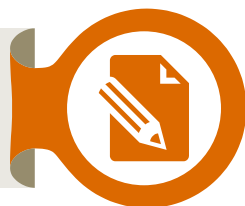
We believe our work will touch upon the following areas of our annual report to Audit Committee:

Total plan days	Financial Control	Value for Money	Data Quality	Corporate Governance	Risk management
9	x		X	x	x

X = area of primary focus

x = possible area of secondary focus

## Audit scope and approach (1 of 2)

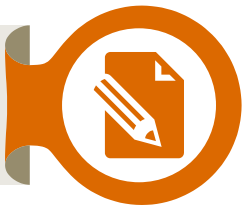


### Scope

The sub-processes and related control objectives included in this review are:

Sub-process	Objectives
Data Migration	<ul style="list-style-type: none"> <li>Relevant data has been cleansed prior to migration to the new environment.</li> <li>Controls have been designed to ensure the complete and accurate migration of employee data.</li> </ul>
Go Live	<ul style="list-style-type: none"> <li>Go-live will be authorised by the Project Board.</li> <li>Contingency plans exist to support the organisation should the data transfer fail.</li> <li>Staff are supported in the use of the application through training and user documentation.</li> <li>Users are supported in resolving problems with the system.</li> <li>Ongoing changes to the new system after go-live are supported through a formal change program.</li> </ul>
Post implementation review and ongoing availability	<ul style="list-style-type: none"> <li>There is a defined process in place to identify lessons learnt and ensure the ongoing accuracy and completeness of data.</li> <li>Controls are in place to ensure ongoing availability of the system.</li> </ul>
System security	<ul style="list-style-type: none"> <li>The system has been configured to ensure that access rights are appropriately allocated based on their roles and responsibilities.</li> <li>Appropriate segregation of duties are in place throughout the process.</li> <li>Access to personal data is restricted to appropriate individuals.</li> <li>The system has been configured so that there is an audit trail of user activity.</li> <li>Error reports have been implemented to ensure that errors or changes to employee data are identified and resolved on a timely basis.</li> </ul>

## Audit scope and approach (2 of 2)



### Limitations of scope

This is not a full scale project and programme management review, the scope of our work is limited to those areas outlined above.

Our review will be performed in the context of the information provided to us. Where circumstances change the review outputs may no longer be applicable. In these situations, we accept no responsibility in respect of the advice given.

Our review of system security is restricted to: ensuring that LSBU have taken action to ensure that system access is restricted to appropriate individuals (including access to personal data); and, that mechanisms are in place to ensure that changes to system data are recorded, monitored and investigated. We will not test the operating effectiveness of these controls and our work will not be a 100% test of whether access rights are appropriate.

This review will only consider control design in the areas identified above – this does not constitute a full review of payroll controls.

### Audit approach

Our audit approach is as follows:

- Obtain an understanding of the process through discussions with key personnel, review of methodology and procedure notes and walkthrough tests;
- Identify the key risks relating to the process;
- Evaluate the design of the controls in place to address the key risks;
- Test the operating effectiveness of the key controls.



## Internal audit team and key contacts



### Internal audit team

Name	Role	Contact details
Justin Martin	Head of Internal Audit	0207 212 4269 <a href="mailto:justin.f.martin@uk.pwc.com">justin.f.martin@uk.pwc.com</a>
Charlotte Bilsland	Engagement Senior Manager	07715 484 470 <a href="mailto:charlotte.bilsland@uk.pwc.com">charlotte.bilsland@uk.pwc.com</a>
Lucy Gresswell	Engagement Supervisor	07718 098 321 <a href="mailto:lucy.j.gresswell@uk.pwc.com">lucy.j.gresswell@uk.pwc.com</a>

### Key contacts – London South Bank University

Name	Title	Contact details	Responsibilities
Mandy Eddolls	Executive Director of Organisational Development and HR (Audit Sponsor)	020 7815 6224 <a href="mailto:eddollsm@lsbu.ac.uk">eddollsm@lsbu.ac.uk</a>	Review and approve terms of reference Review draft report
Adrian Bass	Senior Project Manager (Audit Contact)	<a href="mailto:bassa2@lsbu.ac.uk">bassa2@lsbu.ac.uk</a>	Review and approve final report
David Lee	HR Systems & Analytics Manager	<a href="mailto:leed10@lsbu.ac.uk">leed10@lsbu.ac.uk</a>	Hold initial scoping meeting
Natalie Ferer	Financial Controller	0207 815 6316 <a href="mailto:ferern@lsbu.ac.uk">ferern@lsbu.ac.uk</a>	Review and meet to discuss issues arising and develop management responses and action plan
Richard Flatman	Chief Financial Officer	0207 815 6301 <a href="mailto:richard.flatman@lsbu.ac.uk">richard.flatman@lsbu.ac.uk</a>	Receive draft and final terms of reference Receive draft report
John Baker	Corporate and Business Planning Manager	0207 815 6003 <a href="mailto:j.baker@lsbu.ac.uk">j.baker@lsbu.ac.uk</a>	Receive final report

# Timetable



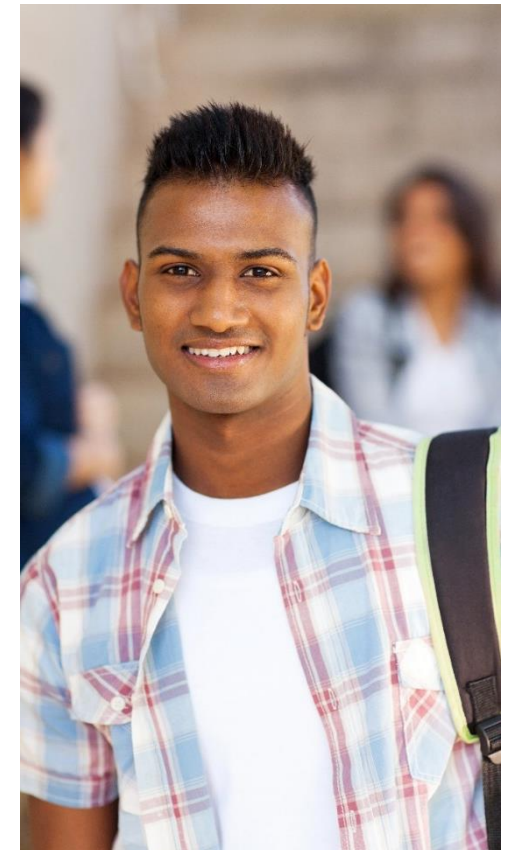
## Timetable

Fieldwork start	<b>03 October 2016</b>
Fieldwork completed	<b>14 October 2016</b>
Draft report to client	<b>28 October 2016</b>
Response from client	<b>04 November 2016</b>
Final report to client	<b>11 November 2016</b>

Agreed timescales are subject to the following assumptions:

- All relevant documentation, including source data, reports and procedures, will be made available to us promptly on request.
- Staff and management will make reasonable time available for interviews and will respond promptly to follow-up questions or requests for documentation.

***Please note that if the University requests the audit timing to be changed at short notice (2 weeks before fieldwork start) and the audit staff cannot be deployed to other client work, the University may still be charged for all/some of this time. PwC will make every effort to redeploy audit staff in such circumstances.***



## Appendix C: Limitations and responsibilities

### Limitations inherent to the internal auditor’s work

We have undertaken this review subject to the limitations outlined below:

#### Internal control

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

#### Future periods

Our assessment of controls is for the period specified only. Historic evaluation of effectiveness is not relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in operating environment, law, regulation or other changes; or
- The degree of compliance with policies and procedures may deteriorate.

### Responsibilities of management and internal auditors

It is management’s responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management’s responsibilities for the design and operation of these systems.

We endeavour to plan our work so that we have a reasonable expectation of detecting significant control weaknesses and, if detected, we carry out additional work directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected.

Accordingly, our examinations as internal auditors should not be relied upon solely to disclose fraud, defalcations or other irregularities which may exist.

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University in our agreement dated 15/05/2015. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Memorandum of Assurance and Accountability (MMA) between Higher Education Funding Council for England (HEFCE) and institutions. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

In the event that, pursuant to a request which London South Bank University has received under the Freedom of Information Act 2000 or the Environmental Information Regulations 2004 (as the same may be amended or re-enacted from time to time) or any subordinate legislation made thereunder (collectively, the "Legislation"), London South Bank University is required to disclose any information contained in this document, it will notify PwC promptly and will consult with PwC prior to disclosing such document. London South Bank University agrees to pay due regard to any representations which PwC may make in connection with such disclosure and to apply any relevant exemptions which may exist under the Legislation to such report. If, following consultation with PwC, London South Bank University discloses any this document or any part thereof, it shall ensure that any disclaimer which PwC has included or may subsequently wish to include in the information is reproduced in full in any copies disclosed.

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	CONFIDENTIAL
Paper title:	Corporate Risk Register
Board/Committee	Audit Committee
Date of meeting:	10 <sup>th</sup> November 2016
Author:	John Baker – Corporate & Business Planning Manager
Executive/Operations sponsor:	Richard Flatman – Chief Financial Officer
Purpose:	To provide Committee with the current corporate risk register.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	All aspects as the risk entries on the register are aligned to the goals of the Corporate Strategy.
Recommendation:	Committee is requested to note: <ul style="list-style-type: none"> <li>• the risks and their ratings,</li> <li>• the allocation of risks to corporate objectives</li> </ul>

Matter previously considered by:	Operations Board	On: 25 <sup>th</sup> October
Further approval required?		

## Executive Summary

The latest version of the Corporate Risk Register is attached for review.

An overview of the key amendments provided in the middle column of the summary table on pages 2 and 3.

The Committee is requested to note:

- the risks and their ratings
- the allocation of risks to corporate objectives

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# LSBU Corporate Risk Register cover sheet: Risk overview matrix by impact & residual likelihood

Date: 1<sup>st</sup> Nov 2016

Author: John Baker – Corporate & Business Planning Manager

Executive Lead: Richard Flatman – Chief Financial Officer

519: Negative Quality Assessment (SW)	2: Revenue reduction if course portfolio, and related marketing activity, does not achieve H/EU UG recruitment targets (IM)	1: Lack of capability to respond to policy changes & shifts in competitive landscape (DP)	4 Critical <i>fail to deliver corporate plan / removal of funding or degree awarding status, penalty / closure</i>	Impact
457: Anticipated international student revenue unrealised (PI)	6: Management Information perceived as unreliable, doesn't triangulate or is not presented (RF) 14: Loss of NHS contract income (WT) 305: Data not used / maintained securely (IM) 362: Low staff engagement impacts performance negatively (DP) 3: Increasing pensions deficit reduces flexibility (RF) 402: Unrealised research & enterprise £ growth (PI) 467: Progression rates don't rise (SW) 495: Higher Apprenticeship degrees (PB)	37: Affordability of Capital Expenditure investment plans (RF)	3 High <i>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</i>	
517: Impact of EU Referendum result on operating conditions & market trends (DP) 518: Failures in core student systems (SW)	398: Academic programmes not engaged with technological and pedagogic developments (SW)	494: Inconsistent delivery of Placement activity across the institution (SW)	2 Medium <i>failure to meet operational objectives of the University</i>	
			1 Low <i>little effect on operational objectives</i>	
3 - High <i>The risk is likely to occur short term</i>	2 - Medium <i>This risk may occur in the medium term.</i>	1 - Low <i>This risk is only likely in the long term</i>		
<b>Residual Likelihood</b>				
Executive Risk Spread: VC – 2, DVC – 1, CFO – 3, PVC-S&E – 5, PVC-R&EE – 2, COO – 2, Dean Health – 1, ExD-HR – 1, US - 0				

**Changes since presentation at previous AC / Operations Board meeting, and overdue action progress updates detailed below:**

Reference	Risk title	Completed Actions & Risk Changes	Overdue Actions
<b>Goal 1: Teaching &amp; Learning:</b> Ensuring teaching is highly applied, professionally accredited & linked to research & enterprise			
398 (SW)	Low engagement with tech or pedagogic developments	Actions updated:	
467 (SW)	UG Progression rate doesn't rise	New actions added to record & re-allocated.  Engagement Interns action implemented. Appointments now made to these positions.	Learner Analytics action update: The rollout of the Learner Analytics Dashboard has been postponed whilst ICT address data protection and privacy issues relating to access.
<b>Goal 2: Student Experience:</b> Seeing students as learning participants & encouraging and listening to the student voice.			
518 (SW)	Failure in Core Student System operations	New Risk Record:	
519 (SW)	Negative Quality Assessment	New Risk Record:	
<b>Goal 3: Employability:</b> Ensuring students develop skills, aspiration and confidence.			
494 (SW)	Inconsistent delivery of Placement activity across institution	New actions around Employability restructure & Steering Group:	Policy & Agreement ProForma action update: Work is in progress on policy and contracts. Both are in 'draft' form, and awaiting further agreement/confirmation from the Gov/Legal team.
<b>Goal 4: Research &amp; Enterprise:</b> Delivering outstanding economic, social and cultural benefits from our intellectual capital.			
402 (PI)	2020 income growth through Research & Enterprise	Research & Enterprise Guide launched: Guide was launched on 24 <sup>th</sup> October, and CRS will continue comms campaign over 3 month period.  TNE quality lead appointed: Mandy Maidment of Applied Sciences will take up this role on a 0.5 fraction.	
<b>Goal 5: Access:</b> Work with local partners to recruit, engage and retain students with the potential to succeed.			
495 (PB)	Impact of Higher Apprenticeship degrees on existing recruitment markets		Staff Appointment Action Progress Note: Apprenticeship Administrator and Account manager have gone to advert. Application closing date Friday 21st October. Interviews w/c 31st October.  Launch Action Progress Note: Apprenticeship Scheme to be announced on 29th November; this will include the launch of IPTE, which will be attended by Robert Halfon (Minister of State at the Department for Education)
<b>Goal 6: Internationalisation:</b> Developing a multicultural community of students & staff through alliances & partnerships.			
457 (PI)	International student £income unrealised	New Director Induction action completed:	

517 (DP)	Impact of EU Referendum		
<b>Goal 7: People &amp; Organisation:</b> Attracting proud, responsible staff, & valuing & rewarding their achievements.			
1 (DP)	Response to environmental change & reputation	Controls Updated.	
362 (DP)	Poor Staff Engagement	Behavioural framework action implemented: The Values are now integrated into all of our training and HR processes.	
<b>Goal 8: Infrastructure:</b> Investing in first class facilities and outcome focused services, responsive to academic needs.			
2 (PI)	Home & EU Recruitment income targets	Controls updated	
3 (RF)	Pensions deficit		
6 (RF)	Quality and availability of Management Information	MIO enrolments dashboard action completed: The new enrolments dashboard has been moved into the Live environment, and access provided to Ops Board members and recruitment contacts.  New action – Scope for SRS replacement.	
14 (WT)	Loss of NHS income		
17 (RF)	Affordability of Capital Investment plans		Student Centre negotiations action progress update: Programming expert engaged to adjudicate on the decisions taken in respect of the refused extension of time claim. We await a meeting with the senior Director of Balfour Beatty early in 2016.
205 (IM)	Data Security		Mandatory training action progress update: The Pilot programme completed in January, feedback from this was implemented in February and ICT are now in discussions with HR comms team to work out optimum distribution method and comms package.

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
398	Academic programmes do not employ suitable technological and pedagogic developments to support students and promote achievement	Shan Wareing	<p><b>Cause:</b> Sustained underinvestment in expertise and dedicated human resource to support utilisation of learning technologies, comparative to new and existing competitors.</p> <p><b>Effect:</b> LSBU does not effectively exploit the learning potential of new technologies, impacting negatively on student retention, achievement, or cost base (eg in terms of physical estate, inability to use virtual facilities) and our ability to delivery new provision such as apprenticeships Curriculum do not adapt sufficiently to remain relevant, jeopardising the employability of LSBU graduates. More flexible and efficient educational models which enable us to remain adaptable and competitive are out of institutional reach Support mechanisms do not provide some students with the learning support they need to navigate and succeed in the learning environment so retention does not meet the targets within the 5 year forecast. Market appeal of courses is impaired, impacting negatively on recruitment.</p>	I = 3 L = 2 High (6)	<p>The Student Experience Committee reports regularly to the Quality &amp; Standards Committee on the Achievements of work undertaken by CRIT (Centre for Research Informed Teaching).</p> <hr/> <p>Delivery of the Technologically Enhanced Learning Strategy (TEL) through the Educational Framework and Quality Processes, monitored by Academic Board.</p>	I = 3 L = 2 High (6)	Shan Wareing	Establish Digitally Enhanced Learning Steering Group; to prioritise actions & investment, and engage with stakeholders, and report progress to Academic board on ongoing basis.	30 Nov 2016
							Marc Griffith	Appoint to positions within DEL team to develop and support use of MyLSBU and Digitally Enhanced pedagogies.	23 Dec 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
467	Progression rate across undergraduate programmes does not rise in line with targets of Corporate Strategy	Shan Wareing	<p><b>Cause:</b> Students admitted through clearing with lower tariff and less commitment to the course. High risk students are not identified in a timely way and supported sufficiently. Failures in timetabling, organisation and communication increase during periods of change, and high risk students are more vulnerable. New initiatives don't engage students. Provision fails to meet immediate needs of students entering through non-traditional access routes. Unable to finance student support adequately to meet level of demand.</p> <p><b>Effect:</b> Progression rate fails to increase sufficiently . HEFCE, or OFS could view LSBU as high risk. Data could have negative impact in TEF metric assessment. Considerable loss of income from UG non-progression to level 5 and 6.</p>	I = 3 L = 2 High (6)	<p>Study Support &amp; Skills Sessions provided by the Library &amp; LRC</p> <hr/> <p>Student Welfare advice and support provided by Student Life Centre</p>	I = 3 L = 2 High (6)	Saranne Weller	Provide review of newly validated courses to Academic Board to inform discussion around review of existing procedures, ensuring effective linkage with CRIT in future process.	04 Nov 2016
							Shan Wareing	Review current Job Description for Course Directors, ensuring fit with current priorities and Career Pathway structure.	23 Dec 2016
							Jamie Jones	Amend Academic Regulations to provide greater support to students at risk of withdrawal.	31 Mar 2017
							Jamie Jones	Review impact of Engagement and Attendance Monitoring Strategy.	31 Jul 2017
							Lesley Roberts	Oversee rollout of stage 1 of Learner Analytics Project with demographic data dashboard available to Personal Tutors and Student support teams.	31 Oct 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
518	Failures in core student systems negatively impact student experience	Shan Wareing	<p><b>Cause:</b> Core business processes and systems - e.g. QL, timetabling, Moodle, MyLSBU – already requiring manual and emergency interventions to function, or fail completely due to increased activity, e.g. January starts.</p> <p><b>Effect:</b> Confusion amongst students and staff, NSS impact and reputational damage. students unable to attend teaching sessions, submit work on time or receive marks, so progression suffers Staff compensating for systems failures are distracted from other activity leading to failures elsewhere. Staff morale suffers and sickness rate and turnover rate increase.</p>	I = 2 L = 3 Medium (6)	SRS Replacement Project Updates scrutinised at Academic Board, to oversee progress and assess fit with strategy and existing practice.  Operational Issues reported and tracked through ICT TopDesk system, with internal escalation protocols.	I = 2 L = 3 Medium (6)	Andrew Wignall	Review possibility of utilising the automated functions of timetabling system	01 May 2017
							Jennifer Laws	Amend QL to mitigate known problems with Sessions with January starts.	28 Jul 2017
							Marc Griffith	Allocate staffing to support my LSBU	30 Nov 2016
							Shan Wareing	Complete review of requirements for new Student Record System, and complete procurement proposal.	31 Jul 2017





# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
519	Negative Quality Assessment	Shan Wareing	<p><b>Cause:</b>                      Reductions in staffing, or increase in activity could lead to overstretched teams and a failure to complete adequate quality processes in the Schools or PSGs.                      Academic staff are insufficiently prepared for quality processes, (because of being new to HE or not having had appropriate professional development) do not follow quality processes.                      High risk activity with partners (placement, international partners, UK partners (particularly FE or schools education) does not have adequate resource or expertise allocated to it to identify and manage risks.</p> <p><b>Effect:</b>                      Failures in quality:                      Negatively impacts on Board of Governors ability to sign off HEFCE assurances, affecting income, reputation and university status.                      Negative affect on Annual Provider Review, and TEF outcome, impacting negatively on income through reputational impact on recruitment and through static fee levels.                      Could act as barrier to recruitment of international students, affecting income and reputation.</p>	I = 4 L = 3 Critical (12)	Academic Audit process monitored by Academic Board via periodic reports from Quality & Standards Committee (QSC).	I = 4 L = 3 Critical (12)	Saranne Weller	Collaborate with AQDO to ensure validation timetable allows for sufficient CRIT engagement with course teams.	30 Nov 2016
							Sally Skillett-Moore	Review validation and QSC activity to ensure quality is not jeopardised.	01 Dec 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
494	Inconsistent delivery of Placement activity across institution	Shan Wareing	<p><b>Cause:</b>                      Insufficient human resource allocation centrally and in Schools                      Insufficient expertise within LSBU.                      Lack of allocation of sufficient central and School human resource.                      Speed of implementation without underpinning project planning or learning from the sector.                      Lack of assurance over offsite workplace conditions.</p> <p><b>Effect:</b>                      Placement practice may not comply with Chapter B10 of the Quality Code, so may be a quality risk.                      LSBU may not be able to provide a placement, internship or professional opportunity for all UG students entering in 2016 and after, leading to a CMA risk                      Placements may not deliver a good student experience, creating a risk to achievement of NSS improvement plans.                      Duty of care to students re workplace safety may not be met, creating a reputational risk.                      Potential insurance risk.</p>	I = 3 L = 2 High (6) 	Utilisation of new software platform 'InPlace' enables efficiencies in the Schools & the centre, and supports constancy of process and knowledge sharing.	I = 3 L = 1 Medium (3) 	Valerie Tomlinson	Creation of placements policy and placement agreement pro-forma.	30 Sep 2016
							Kirsteen Coupar	Establish Placements Steering Group; with representatives from each School and relevant PSGs, to review operations managed through InPlace system and develop practice and procedure across the university in relation to the recruitment guarantee.	28 Apr 2017
							Kirsteen Coupar	Complete restructure of Employability team to ensure improved ability to support placements.	28 Feb 2017
							John Baker	Oversee completion of Internal Audit Review into activity.	28 Feb 2017
							Valerie Tomlinson	Develop procedure and systems for quality assurance of placement opportunities.	23 Dec 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
402	Income growth expected from greater research and enterprise activity does not materialise	Paul Ivey	<p><b>Cause:</b></p> <ol style="list-style-type: none"> <li>1) Challenging market environment with high competition for similar opportunities and funders.</li> <li>2) Lack of proven forecasting systems &amp; recent static performance</li> <li>3) Aggressive and complex turnaround required carries intrinsic high risk.</li> <li>4) Dependence on HSC CPPD income (circa 50% of enterprise£)</li> <li>5) New structures fail to entice and encourage academic participation in activity.</li> <li>6) Limitations of academic capacity and capability.</li> <li>7) Internal competition for staff time over and above teaching.</li> <li>8) TNE partnerships are not approved, present quality risks, or break down due to absence of adequate support structures, or when contacts relocate.</li> </ol> <p><b>Effect:</b></p> <ol style="list-style-type: none"> <li>1) Income growth expectations unrealised.</li> <li>2) Undiversified enterprise portfolio.</li> <li>3) Lower financial contribution, as an increased proportion of delivery is sourced outside core academic staff.</li> <li>4) Increased dependency on generating enterprise opportunities via Knowledge Transfer outreach as opposed to an academic-led stream, results in higher opex costs.</li> <li>5) The holistic benefits for teaching and the student experience are reduced.</li> <li>6) Proportion of staff resource diverted to winning new funding is significantly increased.</li> <li>7) Reduced research income adversely affects the research environment, publication rates, evidence of impact, student completions, &amp; ultimately LSBU REF 2020 rating.</li> <li>8) Inability to align academic resource with identified market opportunities.</li> <li>9) TNE enterprise expectations unrealised.</li> </ol>	I = 3 L = 2 High (6)	<p>Operation of Sharepoint Enterprise Approval Process for authorisation of new income opportunities.</p> <hr/> <p>R&amp;E activity Pipeline Reports (Financial &amp; Narrative) will be provided to each Operations Board Meeting to aid constant scrutiny and review of progress against 5 year income targets.</p> <hr/> <p>Bid writing workshops for academic staff delivered routinely</p> <hr/> <p>Enterprise Business Plan &amp; strategy submitted for approval annually to SBUEL Board (which has 2 Non-Executive Directors) for monitoring &amp; quarterly updates provided at LSBU Board meetings.</p>	I = 3 L = 1 Medium (3)	<p>Shan Wareing</p> <hr/> <p>Graeme Maidment</p>	<p>Ensure financial model recognises the costs of managing risks to quality and the student experience</p> <hr/> <p>Development of bid management strategy for each School.</p>	<p>01 Aug 2017</p> <hr/> <p>22 Dec 2016</p>

## Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
495	Impact of Higher Apprenticeship degrees on existing recruitment markets	Pat Bailey	<p><b>Cause:</b> The Introduction of Higher Apprenticeship degrees may present an opportunity for LSBU to grow student numbers in a new market.</p> <p><b>Effect:</b> These degrees could cannibalise existing employer sponsored students. This represents a risk to existing income and markets. LSBU currently has c.4,000 students on part-time courses, majority employer-sponsored &amp; initial estimations are that income from 1,400 students (£3.3m of surplus) could be affected.</p>	I = 3 L = 2 High (6)			Pat Bailey	Develop a financial model for the efficient running of Higher and Degree Apprenticeships , with funding mechanisms for student transfer from FE-HE.	28 Oct 2016
							Alison May	Appoint staff to the new team roles being created to manage this activity for the institution.	01 Nov 2016
							Pat Bailey	Develop launch strategy for Institute of Professional & Technical Education (IPTE)	30 Sep 2016

## Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
457	Anticipated international student revenue unrealised	Paul Ivey	<p><b>Cause:</b> UK government process / policy changes. Restriction on current highly trusted sponsor status. Issues connected with english language test evidence. Anticipated TNE growth does not materialise.</p> <p><b>Effect:</b> LSBU unable to organise visas for students who wish to study here. International students diverted to other markets. Expected income from overseas students unrealised. Conversion impact of LSBU TNE students doesn't materialise.</p>	I = 3 L = 3 High (9)	<p>Regular reporting of Visa refusal rates to Director of Internationalisation by Immigration Team.</p> <hr/> <p>International Office runs annual cycle of training events with staff to ensure knowledge of &amp; compliance with UKVI processes.</p> <hr/> <p>Recruitment Reports presented to each meeting of Ops Board.</p>	I = 3 L = 2 High (6)	Paul Ivey	Lead development of an LSBU partnership model for International activity.	28 Oct 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
517	Impact of EU Referendum result on operating conditions & market trends	David Phoenix	<p><b>Cause:</b> Following the vote to 'Leave', the Government is working towards a plan to extract the UK from the European Union. Whilst we appear to be a long way from the triggering of article 50, itself a 2 year process, the news of the outcome of the plebiscite has already seen impact in markets and international opinion.</p> <p><b>Effect:</b> Staff impact: The outcome could impact on the ability of some existing staff to remain in the UK, and could impair the ability for future recruitment, both from Europe, and from other overseas territories. Recruitment impact: Currently EU students pay home fees &amp; can access the UK student loan system. It is likely that higher fees and removal of this access will have a significant impact on the appeal of the UK to European applicants long term. Additionally the reporting of the Brexit outcome is having a negative impact on the reputation of the UK as a welcoming destination. These impacts on the sector could also cause changes in recruitment patterns at well-ranked institutions, which could have a negative impact on applicant pools elsewhere. Research Funding: Leaving the EU is likely to remove the ability of LSBU to partner in EU research projects, and access Horizon 2020 funding opportunities. Legislative Compliance: There could be additional administration cost in updating many EU compliant processes if regulations are amended. Impact on bond yields could affect year end pension liabilities.</p>	I = 2 L = 3 Medium (6)			David Phoenix	Continue to monitor closely, through UUK and other sector bodies, the potential impacts and responses.	31 Jul 2017
							Gurpreet Jagpal	Review bid development strategy in Research, and seek to find alternatives to offset any anticipated shortfalls from European sources.	31 Jan 2017
							Mandy Eddolls	Monitor situation with regard to employment law and right to work, and ensure that appointments are made in compliance with any changes to regulation.	28 Jul 2017

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
1	Failure to position LSBU to improve reputation & effectively respond to policy changes & shifts in competitive landscape	David Phoenix	<b>Cause:</b> - Changes to fees and funding models - Increased competition from Private Providers - TEF and Apprenticeship development - Failure to anticipate change - Failure to position (politically) - Failure to position (capacity/structure) - Failure to improve League Table position  <b>Effect:</b> - Failure to recruit students - Failure to differentiate	I = 4 L = 3 Critical (12)	Ketchum appointed to advise LSBU on the ongoing changes to the political environment for higher education & its external communications in response to these changes.  Financial controls (inc. forecasting & restructure) enable achievement of forward operating surplus target communicated to Hefce in July Forecast.  The Business Intelligence Unit (BIU) provides Senior Managers with trend analysis and competitor benchmarking on all KPIs  A horizon scanning report produced by the Policy Unit  Maintain relationships with key politicians/influencers, boroughs and local FE  Annual review of corporate strategy by Executive and Board of Governors	I = 4 L = 1 High (4)	Shan Wareing	Oversee preparation of Narrative reports element of submission to the TEF.	23 Dec 2016
							Michael Simmons	Fully populate team within newly created Office of Corporate Affairs.	31 Jan 2017

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
362	Low staff engagement impacts performance negatively	Mandy Eddolls	<b>Cause:</b> <ul style="list-style-type: none"> <li>•Bureaucracy involved in decision making at the University</li> <li>•Systems and structure do not facilitate teamwork between areas of the University</li> <li>•Staff feeling that they do not receive relevant information directly linked to them and their jobs</li> <li>•Poor pay and reward packages</li> <li>•Poor diversity and inclusion practises</li> </ul> <b>Effect:</b> <ul style="list-style-type: none"> <li>•Decreased customer (student) satisfaction</li> <li>•Overall University performance decreases</li> <li>•Low staff satisfaction results</li> <li>•Increased staff turnover</li> <li>•Quality of service delivered decreases</li> </ul>	I = 3 L = 3 High (9)	Cascade messages from Ops Board circulated for Cascade Meetings within each School & Professional Function.	I = 3 L = 2 High (6)	Markos Koumaditis	Complete progress review of University, School & PSG action plans.	28 Feb 2017
				Departmental Business Planning process		Cheryl King-McDowall	Conduct EES Pulse survey for key themes.	31 May 2017	
				Direct staff feedback is encouraged through the "asktheVC@" email address and through feedback forms on intranet and 'developing our structures' microsite.		Jo Sutcliffe	Complete soft launch of new staff intranet.	31 Oct 2016	
				Scheduled Team meetings					
					Regular Business review meetings				



# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
2	Revenue reduction if course portfolio, or related marketing activity and admissions process does not achieve Home/EU recruitment targets	Ian Mehrtens	<p><b>Cause:</b></p> <ul style="list-style-type: none"> <li>- Changes to UGFT fees</li> <li>- Increased competition (removal of SNC cap in 15/16)</li> <li>- Failure to develop and communicate brand &amp; lsbu graduate attributes</li> <li>- Lack of accurate real-time reporting mechanisms</li> <li>- Poor league table position</li> <li>- Portfolio or modes of delivery do not reflect market need</li> <li>- Tighter tariff policy during clearing</li> </ul> <p><b>Effect:</b></p> <ul style="list-style-type: none"> <li>- Under recruitment</li> <li>- loss of income</li> <li>- Loss of HEFCE contract numbers - to 14/15</li> <li>- Failure to meet related income targets</li> <li>- cost of legal challenge relating to CMA guidance</li> </ul>	I = 4 L = 3 Critical (12)	<p>Report on student applications is presented to every monthly meeting of Operations Board &amp; reviewed by Board of Governors</p> <hr/> <p>Weekly Report linking student numbers to anticipated income levels circulated to Ops Board.</p> <hr/> <p>Advance predictions of student recruitment numbers informs the Annual five year forecast submitted to Hefce each July</p> <hr/> <p>Differentiated marketing campaigns are run for FTUG, PTUG and PG students on a semesterised basis.</p>	I = 4 L = 2 Critical (8)	Pat Bailey	Oversee Executive scenario planning activity, to explore growth opportunities within portfolio, and to consider action in the event of an income shortfall.	30 Dec 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
3	Staff pension scheme deficit increases	Richard Flatman	<p><b>Cause:</b></p> <ul style="list-style-type: none"> <li>- Increased life expectancies</li> <li>- Reductions to long term bond yields, which drive the discount rate</li> <li>- Poor stock market performance</li> <li>- Poor performance of the LPFA fund manager relative to the market</li> <li>- Impact of change from FRS17 to FRS102</li> <li>- Further change to accounting requirements for TPS &amp; USS schemes</li> </ul> <p><b>Effect:</b></p> <ul style="list-style-type: none"> <li>- Increased I&amp;E pension cost means other resources are restricted further if a surplus is to be maintained</li> <li>- Balance sheet is weakened and may move to a net liabilities position, though pension liability is disregarded by HEFCE</li> <li>- Significant cash injections into schemes may be required in the long term</li> <li>- Inability to plan for longer term changes</li> </ul>	I = 3 L = 3 High (9)	<p>Regular monitoring of national/sector pension developments and attendance at relevant conferences and briefing seminars</p> <hr/> <p>Annual FRS 102 valuation of pension scheme</p> <hr/> <p>Regular participation in sector review activity through attendance at LPFA HE forum, &amp; UCEA pensions group by CFO or deputy.</p> <hr/> <p>Regular Reporting to Board via CFO Report</p> <hr/> <p>DC pension scheme for SBUEL staff.</p> <hr/> <p>Tight Executive control of all staff costs through monthly scrutiny of management accounts</p> <hr/> <p>Strict control on early access to pension at redundancy/restructure</p>	I = 3 L = 2 High (6)			

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
6	Management Information is not meaningful, reliable, or does not triangulate for internal decision or external reporting	Richard Flatman	<b>Cause:</b> - Lack of strategic vision for ICT - Proliferation of technology solutions - Data in systems is inaccurate - Data in systems lacks interoperability - Resource constraints & insufficient staff capability delay system improvement - Lack of data quality control and assurance mechanisms  <b>Effect:</b> - Insufficient evidence to support effective decision-making at all levels - Inability to track trends or benchmark performance - Internal management information insufficient to verify external reporting - unclear data during clearing & over-recruitment penalties - League table position impaired by wrong data - Failure to satisfy requirements of Professional, Statutory and Regulatory bodies (NHS, course accreditation etc)	I = 3 L = 3 High (9)	Data Assurance Group meets to review matters of data quality and provides reports to Operations Board.	I = 3 L = 2 High (6)	Mandy Eddolls	Deliver i-trent HR data system replacement	28 Feb 2017
					Internal Auditors Continuous Audit programme provides regular assurance on student and finance information, including UKVI compliance.  Engagement between International Office, Registry & School Admin teams to ensure UKVI requirement compliance, specifically regarding: - Visa applications and issue of CAS - English language requirements - Reporting of absence or withdrawal  Systematic data quality checks and review of key data returns prior to submission by B.I.U.  Sporadic internal audit reports on key systems through 3 year IA cycle to systematically check data and related processes: - HR systems - Space management systems - TRAC - External returns		Shan Wareing	Develop a specification for a new Student Record system, underpinned by configuration requirements and workflows.	29 Jul 2017

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
14	Loss of NHS contract income	Warren Turner	<p><b>Cause:</b> NHS financial challenges/ structural change is resulting in a total review of educational commissioning by Health Education England with an expected overall reduction in available funding (affecting CPPD).</p> <p>Plus London Educational Contracts (pre-registration) are running out from Sept 2017 with students paying their own fees via student loan system. Recruitment to contracted programmes is buoyant currently but could dip following shift from bursaries to tuition fees.</p> <p><b>Effect:</b> Reduction in income Reduced staff numbers Reduced student numbers</p>	I = 3 L = 3 High (9)	<p>Named Customer Manager roles with NHS Trusts, CCGs and HEE.</p> <hr/> <p>Monitor quality of courses (QCPM and NMC) annually in autumn (QCPM) and winter (NMC)</p> <hr/> <p>Support with numeracy and literacy test preparation.</p> <hr/> <p>Complete review in 2016/17 of all post-registration/ PG and CPPD courses and modules to ensure these remain leading edge and fit for the future. Review programmed to involve all stakeholders and to be employer driven.</p>	I = 3 L = 2 High (6)	Anthony Mcgrath	Increase formal progression/ access partnerships with FE colleges and establish FE partner health & social care network to increase supply chain for FE-entrants to pre-reg education	31 Dec 2016
							Sue Mullaney	Improve NSS participation & scores Develop action plans for Departments and School from results of 2015 NSS	28 Feb 2017
							Warren Turner	Plan for renewal of Havering lease in 2018/19 or alternative site. Continue discussions with NHS partners in NE London (BHR, NELFT and Barts) together with Queen Mary School of Medicine and Dentistry re potential for revitalising the Harold Wood site for the future.	31 Dec 2016
							Anisa Salim	Provide clear, timely and accurate advice to potential students re change from bursaries to student loans through improvements to web site and at open days	30 Sep 2016
							Warren Turner	Grow into new markets for medical and private sector CPPD provision - include as part of Ipsos Mori bi-annual survey to identify workforce/ education requirements. Include these in CPPD course review	31 Dec 2016
							Sheelagh Mealing	Increase uptake in band 1-4 activity Support Trusts in seeking external (non NHS) funding Work with NHS partners to meet demand for apprenticeship programmes/ Foundation Degrees (esp around Assistant/ Associate Practitioner roles)	31 Mar 2017
							Anisa Salim	Develop a programme of open events held jointly with our NHS partners to ensure that we reach all sectors of the community re attracting the best pre-reg students for Sept 2017 and beyond	31 Dec 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
37	Affordability of Capital Expenditure investment plans	Richard Flatman	<b>Cause:</b> - Poor project controls - Lack of capacity to manage/deliver projects - Reduction in agreed/assumed capital funding - Reduction in other government funding  <b>Effect:</b> - Adverse financial impact - Reputational damage - Reduced surplus - Planned improvement to student experience not delivered - Inability to attract new students	I = 3 L = 3 High (9) 	Management Accounts, with a CAPEX report section, are provided to each meeting of the FP&R Committee, and the Board receives business cases in relation to all planned capital expenditure > £1million.	I = 3 L = 1 Medium (3) 	Ian Mehrtens	Complete report on the final Student Centre negotiations. Update: the 12 month defects liability period concluded & working through the final defect list. POE was due by Feb 14.	30 Apr 2013
					Full Business Cases prepared; using guidance and process approved by Executive - including clarity on cost and funding, for each element of Estates Strategy, and approved by Board of Governors where cost = >£1M  Clear requirement (including authority levels) for all major (>£1m) capital expenditure to have Board approval  Major Projects & Investments Committee (MPIC) is a Board sub-committee with remit to review all property related capital decisions, and is empowered to approve all unplanned capital expenditure > £500K but <£1M.  Capex reporting routines established and embedded into regularly updated financial forecasts & management accounts and regular Board reports.		Ian Mehrtens	Creation and submission of business case for wider estate development programme to MPIC Board Committee.	30 Nov 2016

# Standard Risk Register



Risk Ref	Risk Title	Risk Owner	Cause & Effect	Inherent Risk Priority	Risk Control	Residual Risk Priority	Person Responsible	Action Required	To be implemented by
					LSBU Project methodology & Estates & Facilities Dept project controls, including Governance arrangements applied to all Capex projects.				
305	Student & corporate data not accessed and stored securely or appropriately	Ian Mehrtens	<p><b>Cause:</b> Loss or inappropriate access to data, or breach of digital security; either en masse (e.g. address harvesting) or in specific cases (e.g. loss of sensitive files / data)</p> <p><b>Effect:</b> Reputational damage, regulatory failure, undermining of academic credibility or compromise of competitive advantage.</p>	I = 3 L = 2 High (6)	Responsibility for control over data protection risks at an institutional level allocated to Director of ARR (Academic Related Resources)	I = 3 L = 2 High (6)	Craig Girvan	Deliver project to ensure mandatory training is delivered to staff via ICT log on, to include data security awareness.	29 Jan 2016



	CONFIDENTIAL
Paper title:	Value for Money report (VFM)
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Penny Green - Head of Procurement Services Richard Duke – Head of Planning, Performance and Assurance
Executive/Operations sponsor:	Richard Flatman - Chief Financial Officer
Purpose:	To note the Internal Audit Annual Report
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	All
Recommendation:	The Executive recommends that the Audit Committee note this report and the conclusion that LSBU has delivered value for money during the period under review.

## Executive summary

This report sets out the measures taken by the University to meet its duty of care to ensure that spend of public funds demonstrates good value for money. This is a duty and condition of grant in the memorandum between the Department for Business, Innovation, & Skills and HEFCE and is delegated to LSBU through our financial memorandum with HEFCE. This annual VFM report is now required by HEFCE– previously it was optional.

The full document in current form is for internal purposes only. Given that the report will be in the public domain, the Executive has requested for the data included to be reviewed before submission to HEFCE

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## Executive Summary

### Introduction

There is an increasing expectation for the sector to provide more evidence to demonstrate how value for money in higher education is being achieved. Reporting from institutions is fundamental to supporting any case for investment in English higher education. HEFCE requires information to produce a forthcoming annual report on the aggregate efficiency of the sector (a further requirement of our recent grant letter and in keeping with the recommendations of the 2015 UUK review of efficiency, effectiveness and value for money led by Professor Sir Ian Diamond, available at [www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/efficiency-effectiveness-and-value-for-money.aspx](http://www.universitiesuk.ac.uk/policy-and-analysis/reports/Pages/efficiency-effectiveness-and-value-for-money.aspx)).

**“Drivers for efficiency and value for money are about more than just austerity.** Universities across the UK are responding to a more competitive environment, with the needs of a diverse student community paramount. There is an imperative to invest in facilities in a more restrained public funding environment, and to ensure a world class workforce is available to serve the needs of learners and to deliver excellent research. These factors mean that universities have had to work hard to continue delivering value for money.”

*Universities UK – Efficiency, effectiveness and value for money*

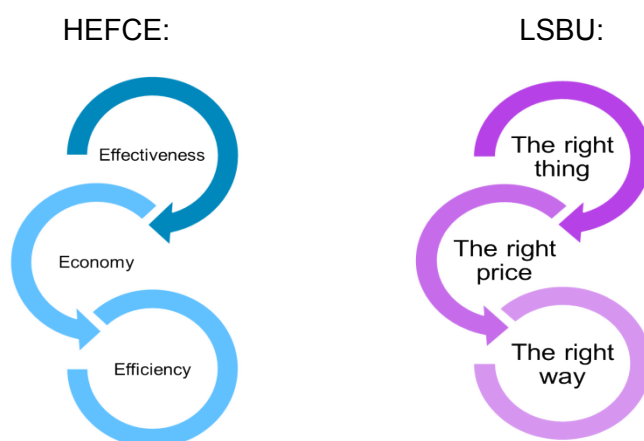
The University’s Corporate Strategy 2015-2020 highlights the rapid movements in Higher Education and the need to continue to innovate to keep pace.

“Students do not want to simply sit in a lecture theatre and they will, quite rightly, continue to demand more for their money and they will expect that their investment in education will enhance their future career prospects. It is clear that the institutions who strive to successfully meet and manage these expectations are the ones who will prosper.” Corporate Strategy 2015-2020

### What is Value for Money (VFM)

Value for money is defined by HEFCE as effectiveness, economy, and efficiency. The LSBU Value for Money Working Group agreed an easy to understand LSBU definition.

- Effectiveness - The extent to which corporate objectives are met (doing the right thing)
- Economy - Appropriately minimising the cost of an activity (the right price)
- Efficiency - Performing tasks well (the right way)



Value for money is not about cuts. It is about making sure that the University’s resources are used in the right way to generate outcomes that align with the University’s corporate objectives, and that any expenditure or time spent on an activity is appropriate to the outcome. Value for money is the combination of doing the right thing, at the right price, the right way. Disproportionate emphasis on one of the three aspects could impact on overall value for money.

### Conclusion

The Executive is confident, based on the content of this report that LSBU has delivered Value for Money (VFM) across the broad range of its spend and activities for 2015/16.

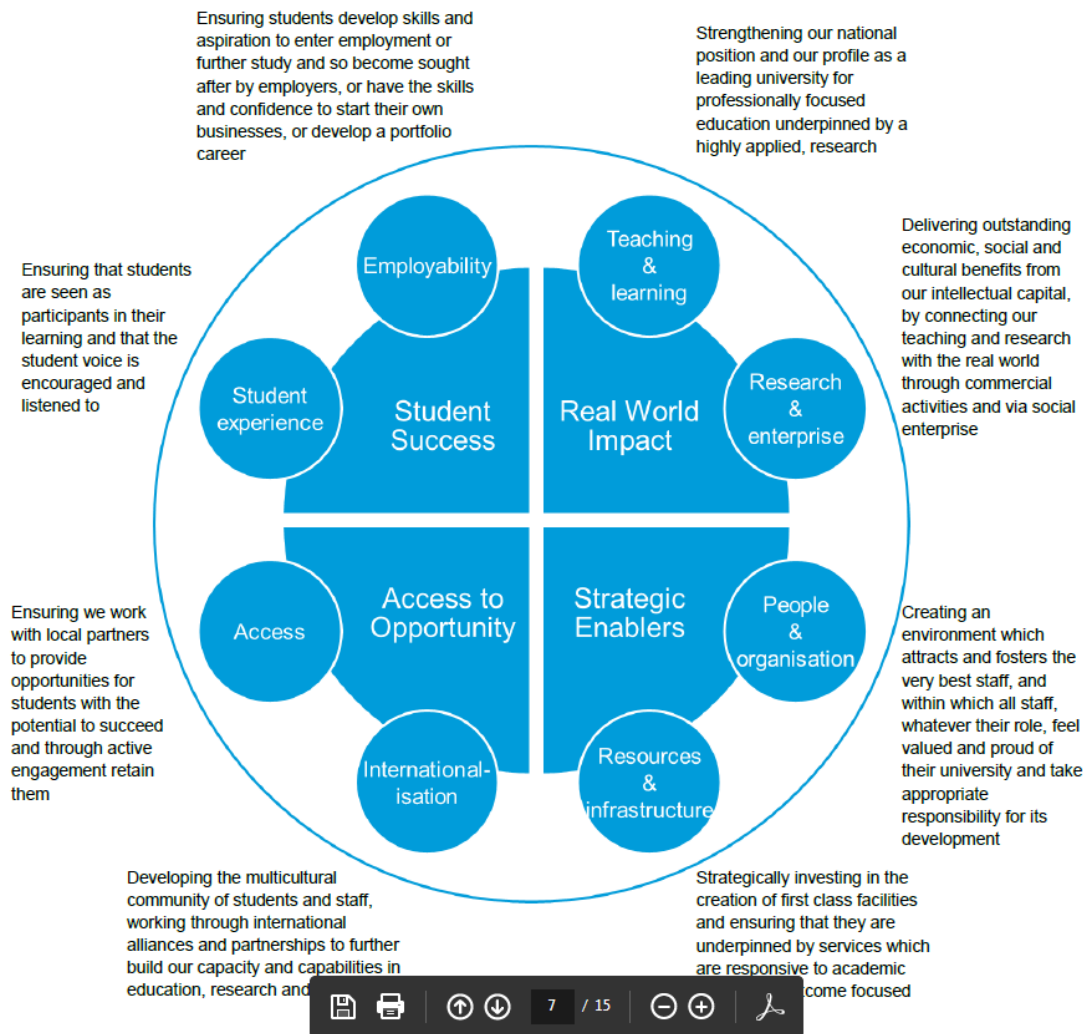
**VFM Activities in 2015/16**

This report focuses on the initiatives which are in place to ensure that we are becoming more efficient and productive and on Value for Money achievements in year.

1. Corporate Performance

Value for Money is embedded in all aspects of LSBU’s Corporate Strategy 2015-2020 and its key outcomes (see below).

**Strategy at a glance: key outcomes 2015-2020**



Value for Money is explicit in the University’s Operating Principles, outlined in the Corporate Strategy:

**One Organisation:** strategy driven from the centre, schools focussed on teaching, learning and enterprise, with quality support from professional functions.

**Customer-focussed:** adopting professional service models that clearly meet the needs of our customers.

**Accountable:** clearly identified responsibility for performance and processes with delegated to staff wherever possible

**Efficient:** streamlined and efficient processes and functions

**Effective:** performance management embedded and driving improved delivery, data integrity assured

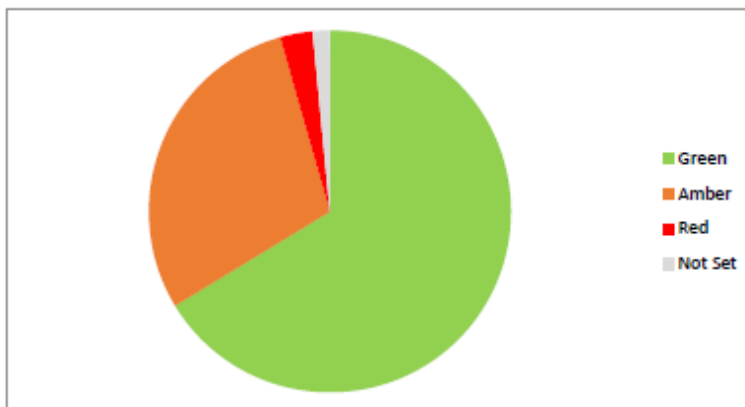
LDP Tracker

In 2015/16 an electronic process was launched to provide an efficient database driven tool to enable Schools and Professional Functions to record progress against the actions recorded within their Local Delivery Plans (LDPs) on a quarterly basis. This new tool enabled each initiative to be aggregated by each goal of the Corporate Strategy for the Operations Board to review. Results are also presented at the mid-year review meeting with the Executive.

LSBU - ALL

LDP Action progress rating overview - 15/16 Q4

724 Actions



## 2. Learning and Teaching

Significant improvements in student outcomes and satisfaction were delivered in 15/16, with no increase in cost compared to the previous year and an academic staff headcount reduction of 39 FTE.

LSBU TRAC (T) returns show a 2.4% increase in cost per student FTE between 2013/14 and 2014/15 (£8,400 in 2013/14 and £8,598 in 2014/15). The decline in student FTE was the primary driver for this increase. Notwithstanding the decline in student FTE, a 2.4% increase represents a static position when considering increases in staff costs as a result of pay award and incremental uplifts.

This improved performance, against static resource, can be partially attributed to cultural change from staff development schemes and regular reviews of objectives and performance. The “my career matters” initiative provides clarity as to what is expected of staff performing at respective grades and supports through professional development where there are skills gaps. Significantly increased engagement with the appraisal process further demonstrates this, with staff set clear objectives linked with the institutional corporate plan objectives. These are reported on in further detail in the ‘Workforce’ section.

The portfolio has been reviewed to ensure that only courses which demonstrate efficiency in relation to income and expenditure can run. In addition, there have been targeted interventions, where it has been identified that individual students or modules with poor pass rates require additional support. LSBU’s Skills for Learning unit, delivers core English, maths and academic writing skills to students that require extra support in these areas. Interventions at module level have seen dramatic improvements in pass rates as a result. This assists with progression, satisfaction and employability outcomes.

With the exception of satisfaction levels surrounding postgraduate teaching, all core metrics relating to teaching have shown an improvement. Projected learning outcomes (against benchmark) have improved, with progress made towards targeted outcomes. Employability rates have significantly improved. LSBU is now above the overall sector average and NSS scores have consistently improved for first degree students.

Measure	2014	2015	2016	Notes
NSS Overall Satisfaction	80	82	82	All modes - First degree
NSS Teaching	83	83	84	All modes - First degree
NSS Assessment & Feedback	68	70	71	All modes - First degree
NSS Academic Support	74	76	77	All modes - First degree
DLHE Employment or Further Study	85.7	90.2	90.8	EPI
DLHE Highly Skilled Employment	48.6	67.4	75.4	EPI
Projected Learning Outcomes (compared to Benchmark)	-9.5	-6.7	-5.8	T5 HESA Stats
PTES	76.3	72.9	74.0	Overall

## 3. Research, Enterprise and Knowledge Exchange

### **Strategic Alignment**

LSBU’s mission is ‘to be recognised as an enterprising civic university that addresses real world challenges’.

There is a clear agenda for delivering real world impact and a key driver in achieving this is to ensure we provide dynamic, evidenced-based education which is underpinned by highly applied research and enterprise activity.

Our over-arching aim in relation to knowledge exchange (KE) therefore is to develop and position LSBU as the key provider of business support services (access to affordable office accommodation; academic expertise and cutting-edge R&D facilities) in south London and our new strategic plan for Research and Enterprise - ‘Driving

Research, Enterprise and Innovation' outlines our approach to implementing and embedding a cross-campus approach to our research, enterprise and KE activities. It builds upon our successful track record and commitment to working and forging partnerships with public, private and third-sector organisations, contributing to their prosperity as well as benefiting our students, graduates, the UK economy and our international partners.

### **Research Outputs**

REF2014 results measured over 71% of outputs submitted as world leading or world excellent. Since the previous exercise in 2008, LSBU has improved its overall average rating – also known as the Grade Point Average (GPA) - by 12.5%.

REF2014 results showed LSBU as a top modern university in London for its research 'impact'. Nearly three-quarters of London South Bank University's (LSBU) research projects were awarded the two highest possible ratings for 'impact' by the latest university research excellence exercise - REF 2014. LSBU emerged as one of the top three modern universities in London after 73% of its research was given the two highest ratings (4\* and 3\*) for 'impact' - an assessment of the reach and significance a research project has achieved.

### **Technology**

New software was introduced in 15/16 to improve efficiency and effectiveness. This included Scival to identify quality, Symplectic to capture research outputs, and PhD manager to manager doctoral students.

### **Disseminating Knowledge**

All publications have been accessible since 2014 under the open access policy. Information is also disseminated through annual brochures of the research community, impact, as well as research and enterprise institutes.

### **Structure**

We have developed a comprehensive support structure where each of our 7 schools has:

- a dedicated Business Development Manager that 'sits' centrally but has responsibility to drive enterprise activity across the school
- a Director of Research and Enterprise that has school-wide responsibility for encouraging academic engagement in research and enterprise activity
- an Enterprise Champion that leads on embedding enterprise in the curriculum and supporting student enterprise and entrepreneurship.

To ensure areas of joint collaboration are identified and supported, this 'team' of 3 meets at both a school and institution-wide level on a regular basis.

All Business Development roles now reside within a centrally-based Research, Enterprise and Innovation team and the aim is to create a more flexible and responsive team, under single line management, with the necessary mass, mix of skills and capabilities, and responsiveness to react to opportunities as and where they arise.

Adopting this approach ensures that students receive the right level of support for their enterprise and entrepreneurship endeavours; academics are supported with their KE activities; and businesses can access the right level of support.

The University has a dedicated Knowledge Exchange institute that leads on engagement with external organisations through well-established KE methods – such as Knowledge Transfer Partnerships and LSBU specific KE products. LSBU's KE Voucher Scheme was introduced in 15/16, which connects PhD Researchers with industry. Knowledge Transfer collaborations (KTC) were also introduced in 15/16, which are industry funded PHD programmes.

## Recognition

Our approach has been externally validated. LSBU received the GCEC Outstanding Emerging Entrepreneurship Centre Award in 2016 and has been shortlisted (results pending) for:

- The Institute of Enterprise and Entrepreneurs' Enterprising Learning Provider Awards;
- National Business Awards - Duke of York Award for University Entrepreneurship and;
- Times Higher Award for Entrepreneurial University of the Year.

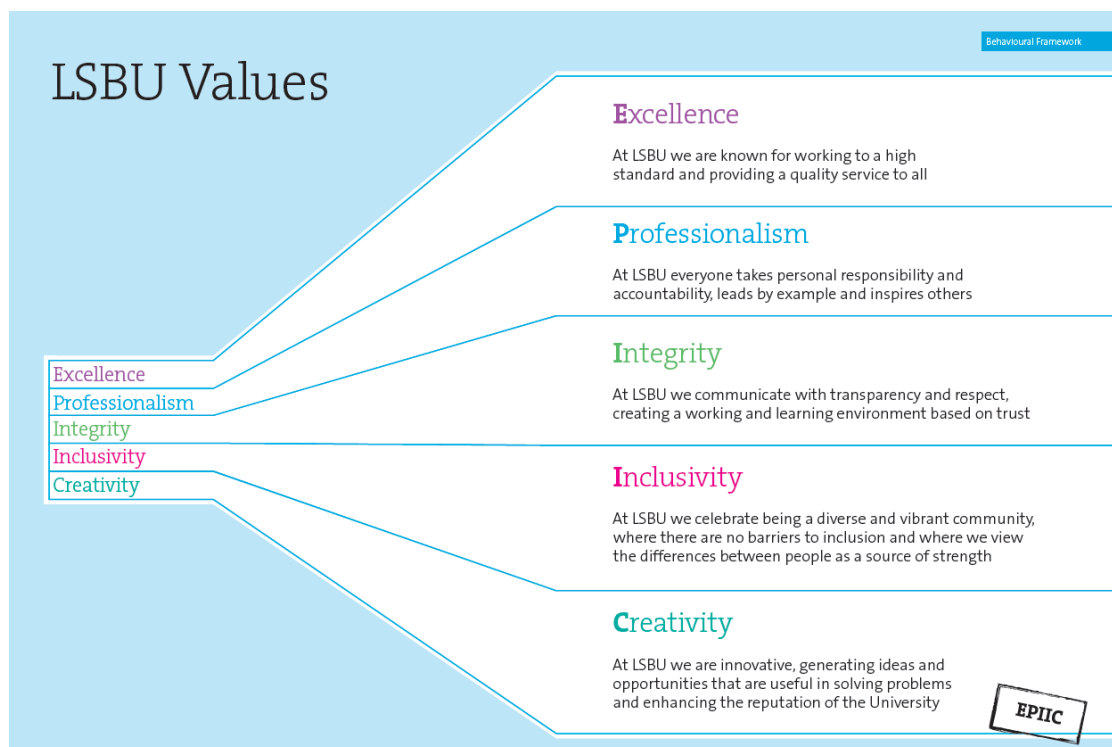
## 4. Workforce

"If we do not have a workforce that is the correct 'shape', and people with the correct skills, exhibiting appropriate behaviours, we will fail to progress."

*LSBU Corporate Strategy 2015-2020*

### 'Adding value, feeling valued' - Behavioural Framework and Values

The Behavioural Framework, Values and the 'Adding value, feeling valued' theme continues to be embedded into our systems and processes to ensure they underpin everything we do.



Our Values are integral to how the University delivers Value for Money, reflecting the type of organisation we strive to be and our determination to ensure that efficiency and effectiveness is delivered in how we do things as well as what we do.

"Continually challenging ourselves to demonstrate these values through our behaviours is critical to the delivery of our strategic goals and to enhancing student and staff satisfaction"

*Professor David Phoenix, Vice-Chancellor & Chief Executive*

A Leadership Academy programme was developed following consideration of the external context, staff and student feedback and after exploring what good leadership and development support would need to look like at LSBU.



The programme was developed at Executive level and is now being embedded at middle management and line management level.

Leadership Attributes were developed and launched in 15/16 that articulate the expectations of our leaders. These are summarised below and are entirely consistent with our objective of delivering value for money in all that we do.



**Employee Engagement**

Our Employee Engagement Survey 2016 results indicate that despite the unprecedented scale and scope of change across LSBU over the last two years, our employee engagement score has remained stable since 2013. We are developing



local and LSBU wide action plans to take forward recent findings. We have an active network of employee champions who challenge and support colleagues to engage in activities to improve LSBU's effectiveness and efficiency and help make it a great place to work.

### **Appraisal**

We have made significant improvements in our approach to appraisal. Starting from a very low completion rate in 2013/14 with staff seeing little value in the process, we embedded the EPIIC values, improved the forms, adopted a more rigorous approach to compliance, moved to an online system and supported with good practice training. We now have significantly increased completion rates and expect to see improvements in satisfaction in our next employee engagement survey.

### **Integrated HR and Payroll solution**

The procurement of the integrated HR and Payroll solution was concluded in December 2015, and the system build and implementation of related processes commenced in early 2016. In October 2016, LSBU implemented an iTrent HR management system, replacing the existing Oracle system and integrating HR and payroll activity. In addition to core HR and payroll, this new system provides centralised absence management, e-recruitment, and employee and manager self-service. iTrent will also replace the in-house learning and development database, and Moodle will be further developed to provide a staff e-learning platform, launching January 2017.

Expected benefits from the integrated solution include:

- singular, consistent, high-quality HR processes across the entire Staff population (e.g. Annual Performance reviews, Role/career paths, Staff Development, Recruitment & On-boarding, etc)
- a modern, efficient and empowering face of the University to help attract, engage and retain high-quality staff members through HR Self Service, eRecruitment, eExpenses, etc.
- a single source of reliable Staff data, aligned with the incoming Identity Management system, reducing the manual effort and quality risks currently involved in Staff data management and regulatory and statistical reporting and enabling future Staff and wider Business analytics opportunities.
- substantial direct and indirect cost savings from reducing from two core HR/payroll systems to one, with immediate and future potential integration benefits with other systems (Finance, Identity Management, CRM, etc).

### **Customer Service**

Service quality is measured at LSBU by using the Institute of Customer Service model. LSBU made significant achievements in recognition of its customer service in 15/16 and is now recognised as a sector leader in customer service.



**UKCSI | London South Bank University**  
Satisfaction trends



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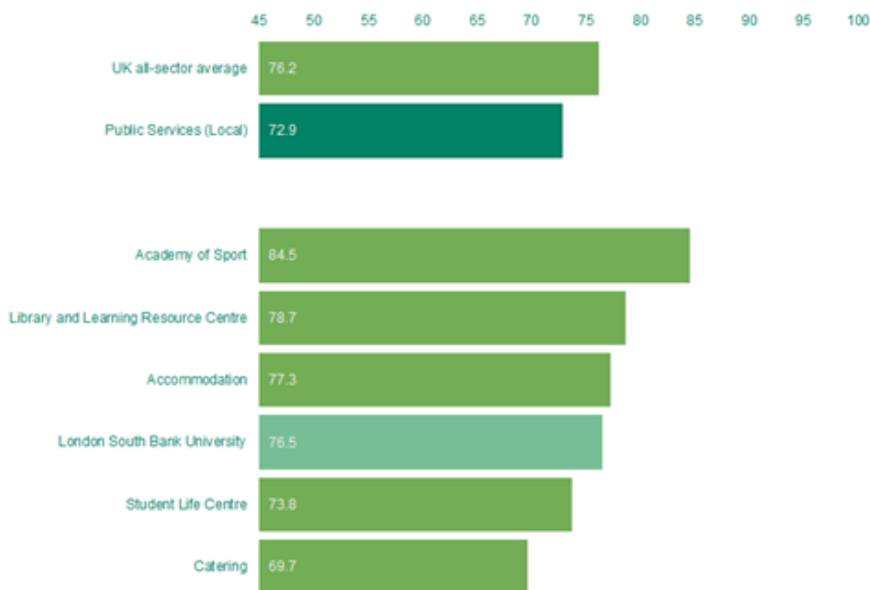
3

UKCSI July 2015 | Public Services (Local) sector results

Customer Service VFM achievements in 15/16 included:

- receiving four ServiceMark accreditations for our key student facing services: Academy of Sport, Accommodation, Library & learning Resources, and Student Life Centre.

**UKCSI | London South Bank University**  
UK Customer Satisfaction Index (UKCSI)



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24

UKCSI July 2015 | Public Services (Local) sector results

- LSBU is the first UK organisation to achieve 4 ServiceMarks at the same time.
- These service marks were achieved within 2 years of joining the ICS programme, way ahead of our 4 year strategy.
- We have exceeded the UKCSI benchmark for both our own and all sectors within 2 years
- A Customer Service Steering Group has been created, including representatives from Schools, Professional Service Groups, and external companies

### Staff Costs

Staff costs continue to be the single largest category of expenditure for London South Bank University totalling £75M in 15/16. With an income of £138M, staff costs represented 54.3% of income. This is lower than the internal target maximum of 55%.

Year	11/12	12/13	13/14	14/15	15/16
Staff Costs	£74.0M	£75.6M	£73.8M	£78.4M	£75.0M
Income	£138.7M	£138.4M	£134.8M	£141.1M	£138.2M
Staff Cost %	53.4%	54.6%	54.8%	55.5%	54.3%

The percentage spend on staff costs in 15/16 is broadly consistent with previous years.

The Times Higher also publishes data every year including staff costs as a % of income. The most recent published data refers to 14/15. The THE figure excludes Third party staff, hence the figures are lower than the table above, and in this table again the University compares favourably when compared to its peers (and has improved its position since.)

University	Staff Cost % Of Income in 14/15
London South Bank University	52.8%
London Metropolitan University	62.7%
University of Westminster	50.9%
City University London	56.1%
University of East London	50.0%
Goldsmiths University of London	58.1%

In terms of Workforce efficiency, the University also performs well when considering Student / Staff ratios.

University	Student : Staff ratio (Guardian League tables 2017)
London South Bank University	17.2
London Metropolitan University	17.4
University of Westminster	19.8
City University London	16.6
University of East London	20.0
Goldsmiths University of London	13.8

The University is taking steps to improve its Staff Student Ratio but within the staff cost target set by the Board of Governors.

The University is also mindful of the amounts paid to recruitment consultants. This has increased over the last few years as several changes have been made to the senior leadership team of the University. However, costs have been reduced in 15/16. The amount paid out in 15/16 was less than the 5 year average when expressed in both £'s and percentage terms.

Year	11/12	12/13	13/14	14/15	15/16
Staff Costs	£74.0M	£75.6M	£73.8M	£78.4M	£75.0M
Cost of Staff Recruitment	£185K	£521K	£562K	£186K	£294K
Recruitment cost as a % of Total Staff costs	0.25%	0.69%	0.76%	0.24%	0.39%

In addition to the areas highlighted above, there are many other 16/17 activities that will help drive workforce related aspects of efficiency and effectiveness at LSBU. These include;

- developing and implementing our approach to workforce planning
- building a coaching and mentoring culture
- continuing our work on Equality, Diversity and Inclusion
- revising our reward and recognition strategy
- building on our successful Staff Conference and Awards

## 5. Estates

### **Space**

The University is committed to ensuring that all newly developed space across its' campuses will be multi use (i.e. multi-disciplinary laboratories) wherever possible.

A Space Dashboard is being created to report to the Universities Strategic Space Management Group on a range of space KPIs, including, among others, standards recommended by AUDE.

### **Energy**

LSBU is committed to reducing its carbon footprint by a minimum of 35% by 2020. Implementation of a number of energy saving projects, supported by a focused target & monitoring regime within Estates and Academic Environment (EAE) saw a decrease of 14% in the 15/16 academic year alone. This equated to savings of approximately £92k which has been re-invested in energy saving initiatives such as replacement LED lighting and installation of water meters which will enable the University to focus its attention on its Scope 3 emissions reduction target & monitoring processes. Since 2010, LSBU has achieved a 34% reduction against its 2020 35% reduction target.

### **Utilisation**

Up to 2015/16 space utilisation has been poor. The annual study undertaken in November 2015 identified a space utilisation rate of 20.9%. This is well below sector best practice of 30-35%. This has been addressed through the centralisation of the University's timetabling function under the management of EAE. A space survey will be undertaken in November 2016 and it is anticipated that the utilisation will be closer to 25% with further improvements expected going forward.

**Cost**

Taking into consideration the increased cost of outsourced contracts and services and the rising cost of living, prioritisation of expenditure has been essential and a fully compliant campus has been maintained with a budget significantly less than 14/15.

6. Procurement

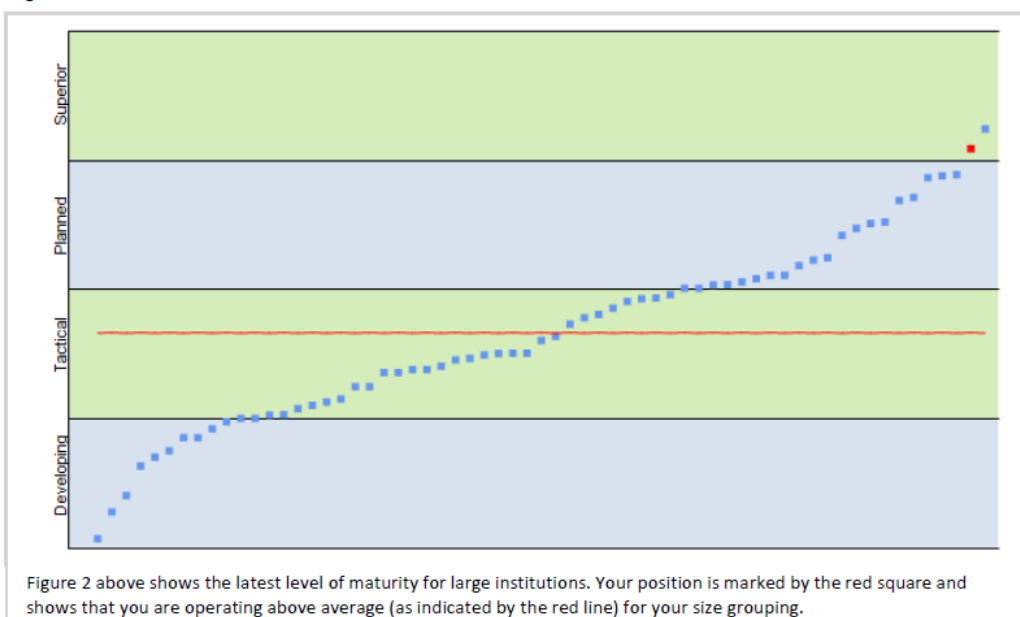
**Procurement Maturity**

LSBU's Procurement team has engaged in a sector-wide Procurement Maturity Assessments (PMA). The purpose of the assessment is to help institutions to understand and improve the efficiency and effectiveness of their procurement functions, which can, in turn, lead to significant efficiency savings.

In 15/16 LSBU were scored as 'Superior'. We are only the second institution of our size in the sector to hit this target. The figure below shows our maturity in comparison to other institutions in the sector. Over 95 institutions have taken part in the assessments since they were introduced.

2 Procurement Maturity Across the Sector

Figure 2

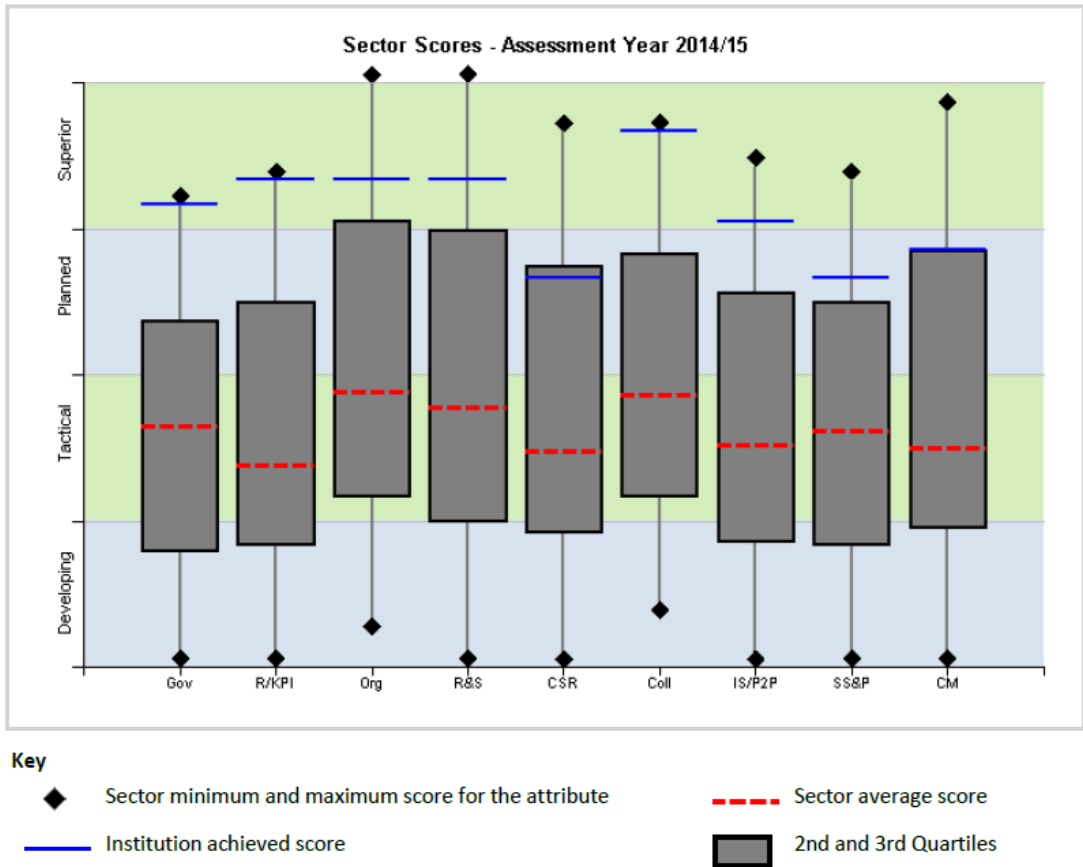


The attributes assessed in the PMA are Governance, Reporting and KPI, Organisational, Resources and Skills, Corporate and Social Responsibilities, Collaboration, Information Systems/P2P, Supplier Strategy and Policy, Category Management. Our performance against these are shown in the table below together with sector average, minimum and maximum scores.

**3 Benchmarked Performance against UUK Procurement Attributes**

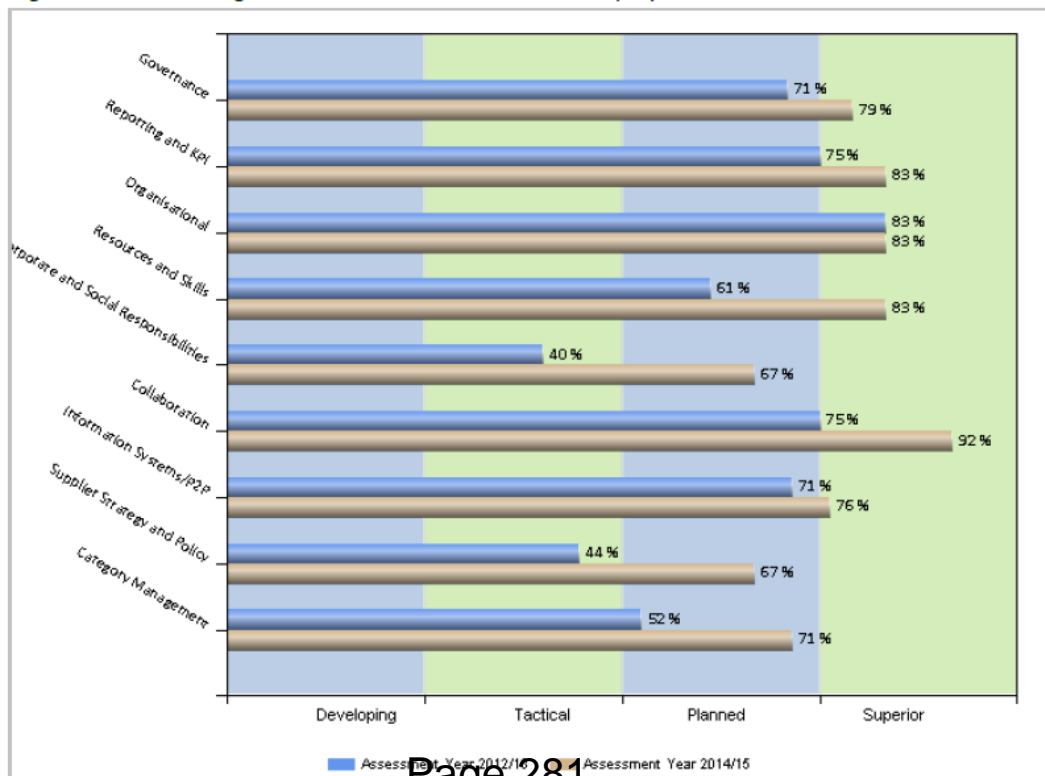
The table below maps the 9 Procurement Attributes against the four stages of maturity and seeks to show your position in comparison to the sector average, the maximum and minimum scores and to the quartiles around the midpoint of the range for the attribute. The sector data in the chart below reflects the latest score from all participating institutions. Each solid blue line positions your institution at a point in its maturity for that attribute.

Figure 3



LSBU’s Procurement team was first assessed in 2010, scoring ‘Planned’ and undertook their second assessment in 2015. Our progress in the various attributes since our 2010 assessment is shown in the below figure.

Figure 4 : Performance against UUK Procurement Attributes : Multiple years



### **Procurement Restructure**

The new Procurement team structure and central travel booking service was implemented in 2015, increasing the size of the team to provide central operational buying services for schools, ICT, travel buying and the P2P administrative process.

Significant changes were made to travel buying during the year. Use of the central booking service was mandated, and processes have been introduced to capture targeted travel outcomes, post trip reports and enhanced travellers safety support. Launch of the mandated service will be introduced in 16/17.

The new centralized booking service was piloted with positive results. All travellers and administrators who had used the service in the first 6 months were asked to feedback on customer satisfaction. 96% of those who responded were either satisfied or extremely satisfied.

### **Adding value through the supply chain**

A number of initiatives were delivered in 15/16 to harness opportunities for our supply chain to contribute to our business growth and student satisfaction.

The Procurement team worked closely with the Employability team on a number of initiatives to engage the University's supply base in employability initiatives. These proved successful and are being widened in 16/17.

A detailed value enabling tool was created by the team to identify value initiatives by category against the CIPS value enabler tool. Baseline analysis was completed for 16 categories, and 5 year plans were completed for 8 categories.

Following a 'make or buy' review in 2014, it was agreed that external consultants would only be employed to work on major or specialist/critical projects. In house posts were created and staff with the relevant skill sets employed to undertake work on minor projects (up to £5m) previously undertaken by the external consultants. This resulted in cost savings of between 12-20% of the project value depending on the type of work being undertaken.

Early Procurement and Estate engagement enabled tendering to be undertaken for two projects during the business case process. Tendered costs then formed part of the final business case, enabling final investment decisions to be made on a more informed basis. Projects were reviewed for appropriateness of this approach before approaching the market in this way. This included the Grads Kitchen business case, which was ultimately not taken forward as it was not deemed value for money.

Standard specifications were developed and will be implemented in 16/17 for all refurbishment projects and new build. Sourcing strategies are under review on supply chain tiering and optimal levels of contracting. It is hoped that this method of procurement can be integrated with the standard specification process and will result in savings on agent fees and mark-ups by contractors.

### **Efficiencies**

Efficiency calculations for 15/16 have been calculated, however are not available in the formal report format as the survey has not yet been launched for completion.

- Price Reduction: £2.018m contract term savings
- Cost Avoidance: £417k
- Collaboration: 26% of influenceable spend was through consortia arrangements
- eOrders and PCards: 100% orders placed either electronically or by purchasing card

The University has a strong track record in delivering surpluses and 15/16 was no different. The University delivered 230% ahead of budget, 5 of our 7 Schools delivered ahead of budget as did 8 of our 11 Professional Functions.

The level of surplus delivered was also larger than the previous year in terms of both £ and %.

<b>£Ms</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>
	Actuals	Actuals	Actuals	Actuals
Income	138M	135M	141M	138M
Surplus	5.5M	3.1M	1.2M	3.3M
Surplus %	4.0%	2.3%	0.9%	2.4%

The 14/15 level of surplus delivered was comparable to other institutions and the University has improved its position since.

<b>University</b>	<b>Surplus % of Income in 14/15 before exceptionals from THE</b>
London South Bank University	0.9%
London Metropolitan University	-4.9%
University of Westminster	11.3%
City University London	-0.1%
University of East London	3.6%
Goldsmiths University of London	1.6%

However, in order to ensure sustainability, the Board of Governors have approved a surplus target of 5% by 2020 and this has been factored into our HEFCE submissions. We will continue to focus on value for money to ensure that we achieve these objectives.

## 8. ICT

A number of key ICT developments were implemented in 2015/16.

These included:

- Head of Digitally Enhanced Learning appointed, to provide strategic direction and operational focus to development of learning technology.
- A dedicated team supports and provides continuous improvement to the core learning platform, Moodle.
- To guide longer term investments, LSBU has created a 'classroom for the future' – a space for prototyping and testing potential enhancements to teaching.
- Desktop, classroom and lecture theatre hardware investment programme, including a full refresh of audio-visual kit and the implementation of a full lecture capture and video streaming service (deployment continuing into 1617).
- Improved systems that support performance management at corporate, operational and individual levels. This included building corporate performance reporting dashboards, incorporating external data across the sector and nearest-neighbour group. Supplementing the organisation's local delivery planning process, LSBU built a simple system for tracking and monitoring local activity against strategic objectives.
- Online performance appraisal and workplanning system built to ensure performance reviews and targets set for all staff.
- The introduction of ITIL best practice processes for ICT Service Delivery is transforming the way the ICT services operate on a day-to-day basis.

Most staff are now trained and certified to a foundation level giving a common working practice standard and greater adherence to process. This is enhanced by the management focus on customer service standards using the Service Desk Institute (SDI) and Customer Service Institute (CSI) training and performance metrics. These new working practices are also enhanced by the implementation of new hardware and software tools to reduce overall workload and improve response and fix times for ICT assets.

- LSBU implemented Symplectic Elements and ePrints: a directory of research publications, matching to researchers' ORCID identifiers, and external repository for publications and research data. Further investment in Symplectic is now adding functionality around review and assessment of research staff. By Christmas 2016 the university will have implemented Haplo PhD Manager, a portal for PhD management and services, and a first step towards the university's strategic objective of a full Central Research Information System.
- Workflows and reports were developed on enterprise and business development for REI last year to more effectively manage opportunities including Knowledge Exchange.

In 2016/17 an 'innovation space' will be created to explore the development of social learning spaces.

#### 9. Learning Resources

The learning resources scores continued to improve in the NSS. NSS learning resources % agree results for all students:

Year	Learning resources (% agree)	16. The library resources and services are good enough for my needs. (% agree)	17. I have been able to access general IT resources when I needed to. (% agree)	18. I have been able to access specialised equipment, facilities or rooms when I needed to. (% agree)
2016	89	90	93	84
2015	88	89	91	83
2014	83	84	88	78

15/16 resource was directed towards improvement initiatives identified as a result of NSS analysis and other feedback mechanisms which has led to the success in the NSS and improved student experience. Feedback pathways were increased to develop appropriate improvement action plans.

These included:

- LLR staff attended 111 course boards to capture feedback to module level on learning resources and the library services provided
- biennial LLR satisfaction survey
- LLR Customer Service ServiceMark accreditation by the Institute of Customer Service. The accreditation process included a student survey)
- All sites have feedback walls where students can write their comments
- All LLR buildings have Happy cards, which are postcards where students can add feedback comments.
- pre-enrolment workshops for students - supporting the transition into HE.





	CONFIDENTIAL
Paper title:	Modern Slavery Act 2015 – annual statement
Board/Committee	Audit Committee
Date of meeting:	Thursday 10 <sup>th</sup> November 2016
Author:	James Stevenson, University Secretary
Executive sponsor:	James Stevenson, University Secretary
Purpose:	Approval
Recommendation:	The executive recommends the proposed Modern Slavery Act compliance statement to the Audit Committee for final approval by the Board of Governors.

Matter previously considered by:	Executive	2 November 2016
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## Executive summary

At its meeting of 22<sup>nd</sup> September 2016, the audit committee noted the work of the operations board time limited working group to review LSBU's compliance with the Modern Slavery Act 2015. Further consultation has taken place and the proposed final statement is attached for approval by the committee. The statement will be reviewed annually.

As a reminder, an appendix summarising the requirements of the Modern Slavery Act 2015 has been included.

## **Anti-slavery and Human Trafficking Statement November 2016**

### **1. Introduction**

1.1 This statement is made under the Modern Slavery Act 2015 and sets out the steps that London South Bank University (LSBU) is taking with the aim that slavery and human trafficking are not taking place within its supply chain or its business.

1.2 LSBU is a UK higher education institution. LSBU purchases around £60 million p.a. in goods, services and works through various supply chain arrangements.

### **2. Policy on slavery and human trafficking**

2.1 LSBU is committed to procuring goods and services and employing people without causing harm to others. In doing so, LSBU is committed to supporting the UK Government's approach to implementing the UN Guiding Principles on Business and Human Rights.

2.2 In implementing this approach LSBU supports the Base Code of the Ethical Trading Initiative (ETI):

- employment is freely chosen
- freedom of association and the right to collective bargaining are respected
- working conditions are safe and hygienic
- child labour shall not be used
- living wages are paid
- working hours are not excessive
- no discrimination is practised
- regular employment is provided
- no harsh or inhumane treatment is allowed

### **3. Identified risks and mitigation**

3.1 Direct employment – LSBU mitigates the risk of modern slavery in directly employed staff by following its own policies on selection and recruitment.

3.2 Agency staff – agency staff are recruited through established sources, which should provide assurance that they comply with the requirements of

legislation relating to the rights and welfare of their candidates and employees.

3.3 Students – although the risk is low, LSBU recognises that students living in south London and the surrounding area may become aware of instances of modern slavery or human trafficking. If such circumstances occur, students will be encouraged to seek assistance, support and advice on their wellbeing from the Student Life Centre.

3.4 Supply chain – LSBU's supply chains are managed under the following categories:

- estates\* (including capital estate projects, works, maintenance, utilities)
- facilities\* (including cleaning, security, reception, catering, furniture, health & safety including personal protective equipment)
- insurance
- capital & specialist equipment
- professional clothing\*
- ICT hardware\* & software (including audio visual, telecoms, print)
- professional services (including recruitment, marketing, and HR services)
- research & enterprise
- publications
- travel
- office supplies\*
- laboratory consumables and equipment\*
- international student recruitment representatives

3.5 LSBU's reasonable assessment at this time is that categories highlighted with an asterisk \* carry potentially higher risks relating to modern slavery in their supply chains.

#### **4. Raising concerns**

4.1 Any person who has a concern that there is malpractice in relation to LBSU's activities anywhere in the world may raise their concern via the independent speak up helpline provided by Safecall (details are in the speak up policy).

#### **5. Current action**

- 5.1 LSBU is committed to carrying out procurement of goods and services in an environmentally, socially, ethically and economically responsible manner and to entering into agreements and contracts with suppliers that share and adhere to this commitment.
- 5.2 LSBU's procurement is either: (1) collaborative, through national public sector or regional higher education purchasing consortia; or (2) by in-house tendering and contracting.
- 5.3 LSBU is a member of the London Universities Purchasing Consortium (LUPC). LSBU engages with its purchasing consortia to support the inclusion of ethical sustainability, including addressing slavery and human trafficking, in their procurement programmes.
- 5.4 When procuring goods, works and services the university reviews corporate social responsibility in a range of methods, depending on the type of procurement being undertaken. All employees involved in university procurement processes are required to uphold the university's procurement code of ethics. This includes specific reference to modern slavery.
- 5.5 The university's sustainability steering group is responsible for the oversight, development and ongoing monitoring of the university environmental and sustainability policies and strategy (which include modern slavery).

## **6. The future**

- 6.1 LSBU will continue to develop its approach to better understand its supply chain and to encourage greater transparency and responsibility towards people working within them.
- 6.2 LSBU will continue to review its supply base and procurement processes to assess what steps need to be taken to prevent, monitor and mitigate risks where supply chains may pose particular risks

This statement has been approved by LSBU's Board of Governors and will be reviewed annually.

*Board of Governors*  
● *November 2016*

## Appendix

### Summary of the requirements of the Modern Slavery Act 2015

The Act requires commercial organisations that supply goods or services (including incorporated educational and charitable organisations), having a global turnover above £36 million, to publish an annual slavery and human trafficking statement.

The statement must:

1. disclose what steps the organisation has taken to ensure that human trafficking is not taking place in any of its supply chains or its business or state that it has taken no such steps;
2. be signed by a member of the governing body and approved by the board; and
3. be published:
  - for each financial year that ends on or after 31<sup>st</sup> March 2016 (and annually thereafter);
  - within six months of the organisation's financial year end; and
  - on a prominent place on the company website.

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	CONFIDENTIAL
Paper title:	Anti-Fraud , bribery and corruption report
Board/Committee	Audit Committee
Date of meeting:	10 <sup>th</sup> November 2016
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman – CFO
Purpose:	To alert Audit Committee to any instances of fraud, bribery or corruption arising in the period since the committee last met.
Recommendation:	That the Committee notes this report

Matter previously considered by:	Audit committee	At each meeting
Further approval required?	n/a	On:

### Summary

Since the last report there is nothing to report

### Recommendation

That the Committee notes this report.

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	CONFIDENTIAL
Paper title:	Anti-bribery policy review
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Michael Broadway, Deputy University Secretary
Executive/Operations sponsor:	James Stevenson, University Secretary
Purpose:	To approve the revised anti-bribery policy
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Compliance with legislation
Recommendation:	The meeting is requested to approve the policy

## Executive Summary

The policy sets out LSBU's zero tolerance of bribery and its commitment to compliance with the Bribery Act 2010.

Following review, the policy has been amended in line with the new guidance on policies, agreed by the Operations Board in July 2016. The principles in the policy have not changed. The procedures have been separated from the policy statement and are included for information.

Please note the potential bribery risk scenarios which are included as an appendix.

The meeting is requested to approve the revised anti-bribery policy.

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## **Anti-bribery policy**

### **1. Policy statement**

- 1.1 London South Bank University is committed to acting in accordance with the highest ethical and legal standards. The integrity of our staff, and those with whom we do business, is critical to our success and one of our EPIIC values.
- 1.2 LSBU is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates.
- 1.3 LSBU has zero-tolerance to bribery
- 1.3 LSBU is committed to uphold all laws to prevent bribery in all the countries in which we operate. In particular, we are committed to compliance with the Bribery Act 2010, in respect of our conduct both at home and abroad.
- 1.4 The offer of bribes or facilitation payments is against LSBU policy.
- 1.5 The prevention, detection and reporting of bribery and other forms of corruption are the responsibility of all those working for us or under our control. All staff are required to avoid any activity that might lead to, or suggest, a breach of this Policy.

### **2. Definitions**

- 2.1 A bribe is an inducement or reward offered, promised or provided in order to gain any commercial, contractual, regulatory or personal advantage.
- 2.2 Facilitation payments are typically small, unofficial payments made to secure or expedite a routine or necessary government action by a government official, when we have already paid for, or are entitled to, that action.

### **3. Scope**

- 3.1 This policy applies to all people or companies working for LSBU at all levels, including all employees (whether permanent, fixed-term or temporary), consultants, contractors, trainees, seconded staff, casual staff and agency staff, volunteers, interns, agents, sponsors, or any other person



associated with us, or any of our subsidiaries or their employees, wherever located (collectively referred to as “staff” in this policy).

- 3.2 Compliance with this policy is mandatory. Any employee who breaches this policy will face disciplinary action, which could result in dismissal for gross misconduct.

#### **4. Links to other policies**

- 4.1 The LSBU gifts and hospitality policy and the gift acceptance policy should be read in conjunction with this policy as in some circumstances unreasonable or disproportionate gifts or hospitality may be used as bribes.

*Approved by the Operations Board on 24 October 2016*

*Approved by the Audit Committee on \* 2016*



## **Procedures**

- 1 All staff must ensure that they read, understand and comply with this Policy.
- 2 All staff are encouraged to raise concerns about any issue or suspicion of bribery at the earliest possible stage – potential bribery risk scenarios are listed below.
- 3 Staff should report anything that they believe to be a bribe immediately to the Chief Financial Officer or by following the procedure set out in LSBU Speak Up Policy.
- 4 If you are unsure whether a particular act constitutes bribery, or if you have any other queries, these should be raised with your line manager OR the University Solicitor.
- 5 If you are asked to make a facilitation payment on LSBU's behalf, you should immediately discuss this with your line manager or the University Solicitor or the Head of Procurement.
- 6 LSBU's zero-tolerance approach to bribery [and corruption] must be communicated to all suppliers, contractors and business partners at the outset of our business relationship with them and continuing.



**Potential bribery risk scenarios: "red flags" at London South Bank University**

The following is a list of possible red flags that may arise during the course of your work, whether academic or support, and which may raise concerns about compliance with the UK Bribery Act 2010. The list is not intended to be exhaustive.

If you encounter any of these "red flags" while working for LSBU, you must report them promptly to your line manager OR to the University Solicitor OR under the LSBU speak up policy (see staff Gateway):

- (a) a student offers you a payment or gift and requests that you provide some academic advantage to the student;
- (b) a student's family offers you a payment or gift and requests that you provide some academic advantage to the student;
- (c) an LSBU academic is offered an unusually generous gift or offered lavish hospitality by a student or the student's family prior to an important academic assessment;
- (d) you learn that a student recruitment representative has a reputation for paying bribes, or requiring that bribes are paid to them, or has a reputation for having a "special relationship" with foreign government officials;
- (e) a student recruitment representative requests that payment is made to a country or geographic location different from where they do business;
- (f) a student recruitment representative requests or requires the use of an agent or intermediary that is not typically used by or known to us;
- (g) a supplier to LSBU requests payment in cash and/or refuses to sign a formal commission or fee agreement, or to provide an invoice or receipt for a payment made;
- (h) you become aware that a supplier to LSBU engages in, or has been accused of engaging in, improper business practices; you receive an invoice from a supplier to LSBU that appears to be non-standard or customised;
- (i) a service provider to LSBU requests an unexpected additional fee or commission to "facilitate" a service;



- (j) a potential supplier to LSBU demands or offers lavish entertainment or gifts before commencing or continuing contractual negotiations or provision of services;
- (k) a potential contractor of LSBU insists on receiving a commission or fee payment before committing to sign up to a contract with us;
- (l) a contractor insists on the use of side letters or refuses to put terms agreed in writing;
- (m) an existing contractor requests that a payment is made to "overlook" potential legal violations by them;
- (n) you notice that LSBU is invoiced for a commission or fee payment that appears large given the service stated to have been provided.

*"Red flags" updated January 2014*

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	CONFIDENTIAL
Paper title:	Speak up report
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Michael Broadway, Deputy University Secretary
Executive sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors
Purpose:	To update the committee on any speak up matters raised since the last meeting
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	N/A - The speak up policy enables workers and students to report any concerns about malpractice, helping to create an open and ethical culture in the workplace.
Recommendation:	The committee is requested to note the report.

## Executive Summary

The committee discussed a speak up issue that had been raised on Halls of Residence restructuring at its last meeting. The chair will provide an update at the meeting on the outcome of the investigation.

One speak up matter has been raised through Safecall since the previous committee meeting. This speak also relates to the Hall of Residence restructuring. An update will be provided at the meeting.

The committee is requested to note the report.

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Paper title:	Committee business plan, 2016/17
Board/Committee	Audit Committee
Date of meeting:	10 November 2016
Author:	Michael Broadway, Deputy University Secretary
Board sponsor:	Steve Balmont, Chair of the Committee
Purpose:	To inform the committee of its annual business plan
Recommendation:	To approve the committee's annual business plan

Matter previously considered by:	Audit Committee	At each meeting
Further approval required?	No	Date: N/A

## **Audit Committee Business Plan**

The Audit Committee business plan is based on the model work plan for audit committees developed by the CUC. It is intended to help the committee review the adequacy and effectiveness of risk management, control and governance (including ensuring the probity of the financial statements) and for the economy, efficiency and effectiveness of LSBU's activities delegated to it from the Board.

As agreed at the meeting of 5 November 2015, the committee's business plan will be a standing item on agendas.

The plan lists regular items. Ad hoc items will be discussed as required.

The Audit Committee is requested to note its annual business plan.

	Feb	June	Sept	Nov
Anti-bribery policy review				x
Audit Committee, Annual Report to Board and VC				x
Audit Committee business plan	x	x	x	x
Audit Committee, self-assessment of performance	x			
Membership and Terms of Reference - approve			x	
Speak up report	x	x	x	x
Annual Report and Accounts				x
Anti-fraud policy review		x		
Anti-fraud, bribery and corruption report	x	x	x	x
Data assurance report	x			
Debt write off - annual		x		
External audit findings				x
External audit letter of representation				x
External audit management letter				x
External audit performance against KPI's				x
External audit plan		x		
External audit tender			x	
External auditors - consider policy in relation to non-audit services				x

Financial personnel succession planning	x			
Internal audit annual report			x (draft)	x (final)
Internal Audit plan - approval		x		
Internal audit plan - review at each audit cttee meeting	x	x	x	x
Internal audit progress reports	x	x	x	x
Internal audit reports (inc continuous audit)	x	x	x	x
Internal Controls - review				x
Pensions assumptions		x (indicative)	x	
Risk Register	x	x	x	x
Risk strategy and appetite			x	
TRAC return to HEFCE to be ratified	x			
TRAC(T) return to HEFCE to be ratified		x		
Value for money report, annual				x

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