Meeting of the Board of Governors

4.00 pm on Thursday, 21 November 2019
in Technopark, SE1 6LN

Agenda

No.	*Item*	*Pages*	*Presenter*
10.	External audit findings	3 - 36	FN
12.	Remuneration Committee report to Board	37 - 44	JP

Date of next meeting
4.00 pm on Thursday, 12 March 2020

Members: Jerry Cope (Chair), Douglas Denham St Pinnock (Vice-Chair), Duncan Brown, John Cole, Michael Cutbill, Nelly Kibirige, Mark Lemmon, Hilary McCallion, Mee Ling Ng, Jeremy Parr, David Phoenix, Rashda Rana, Tony Roberts, Deepa Shah, Nazene Smout and Vinay Tanna

Apologies: Peter Fidler

In attendance: Pat Bailey, Michael Broadway, Richard Flatman, James Stevenson and Fleur Nieboer

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Year end report 2018/19

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London South Bank University (Group and University)

21 November 2019

Agenda Item 10

Introduction

To the Audit Committee of London South Bank University

We are pleased to have the opportunity to meet with you on 7 November to discuss the results of our audit of the consolidated financial statements of London South Bank University (the ‘University’) and its subsidiaries (the ‘Group’), as at and for the year ended 31 July 2019.

We are providing this Report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This Report should be read in conjunction with our audit plan and strategy report, presented on 13 June. We will be pleased to elaborate on the matters covered in this Report when we meet.

Our audit now complete. There have been no significant changes to our audit plan and strategy. Subject to your approval of the financial statements, we expect to be in a position to sign our audit opinion on 21 November,.

We expect to issue an unmodified auditor’s report on the financial statements.

We draw your attention to the important notice on page 3 of this Report, which explains:

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

Yours faithfully,

Fleur Nieboer

21 November 2019

How we have delivered audit quality

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. Some of the ways in which we drive audit quality are demonstrated throughout our Report and include:

Subsidiaries

This Report also covers the following subsidiary entities:

- South Bank Colleges
- South Bank University Enterprises Ltd.
- SW4 Catering Ltd.

Contents

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Important notice

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

— Circulation of this Report is restricted.

— The content of this Report is based solely on the procedures necessary for our audit.

This Report has been prepared for the University's Group Audit Committee, in order to communicate matters of interest as required by ISAs (UK and Ireland), and other matters coming to our attention during our audit work that we consider might be of interest, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone (beyond that which we may have as auditors) for this Report, or for the opinions we have formed in respect of this Report.

Purpose of this Report

This Report has been prepared in connection with our audit of the consolidated financial statements of London South Bank University (the 'University') and its subsidiaries (the 'Group'), prepared in accordance with UK Generally Accepted Accounting Practice, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102) and the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (FEHE SORP), as at and for the year end 31 July 2019.

Limitations on work performed

This Report is separate from our audit report and does not provide an additional opinion on the University's financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors. We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

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

Status of our audit

Following receipt of the management representation letter on 21 November our audit will be complete.

Restrictions on distribution

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

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Summary of findings

Scepticism Challenge

Assessment of the control environment

Significant control deficiencies	0
Other control deficiencies	2

Other control deficiencies identified to date relate to:

- Impairment review – we have not identified any impact on the financial statements but have made recommended that the impairment review process is strengthened.
- Pension assumptions review - we have not identified any impact on the financial statements but have made recommended that the review is strengthened.

We have included recommendations to address the deficiencies identified and followed up the status of recommendations from our prior year audit in Appendix One.

Representations

You are required to provide us with representations on specific matters such as your going concern assertion. We provided a draft of this representation letter to the Group CFO on 23 October 2019. We draw your attention to the requirement in our representation letter for you to confirm to us that you have disclosed all relevant related parties to us. We have requested that management make an additional disclosure to confirm that, to the best of the Group's knowledge, no provision expense is required in the group accounts in respect of the claim brought against South Bank Colleges.

Audit adjustments

We identified no unadjusted audit differences as a result of our audit.

We identified one audit differences that have been adjusted.

Further details are set out in Appendix Two.

Risks	Risk change	Our findings
Significant Risks		Page 5 - 10
1. Consolidation of South Bank Colleges	New	We concluded that the consolidation has been appropriately prepared.
2. Valuation of the local government pension scheme net liability	No change	The core assumptions used to calculate the pension liability were found to be appropriate. We identified an adjustments in respect of the value of the scheme
3. Fraud risk from revenue recognition	No change	The results of our testing were satisfactory. We considered the amount of revenue recognised to be acceptable.
4. Management override of control	No change	We have no issues to report in respect of this work.
5. Carrying value of land and buildings	No change	We concluded that the land and buildings transferred from Lambeth College had been transferred at fair value.
Other areas of audit focus		Page 11 and 18
4. Going concern	Increased	The going concern basis of accounting was appropriate and that no disclosure of material uncertainty is required.
5. Use of funds	No change	We have no issues to report in respect of this work.
Key accounting judgements		Page 12
A. Net pension liability	Cautious	We assessed the assumptions made in determining the value of the pension liability against KPMG;s benchmarks. Assumptions were found to be slightly cautious.
B. Accruals and deferred income	Cautious	We reviewed the calculation of Accruals and deferred income for a sample of items. Through our testing we found the calculation of accruals and deferred income to be slightly cautious.

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Financial statements audit - significant risks

Scepticism Challenge

❶ Consolidation of South Bank Colleges

Related risk register risks	624. LSBU Family integrated service benefits

Significant audit risk

The risk

At the beginning of the year LSBU set up a new subsidiary, South Bank Colleges. On 31 January Lambeth College dissolved as an entity and its operations transferred to South Bank Colleges, which continues to operate as a wholly owned subsidiary of London South Bank University. This presents several audit risks; such as;

- The transfer of the College's assets and liabilities to South Bank Colleges;
- The consolidation of South Bank Colleges in the Group London South Bank University accounts;
- The accounting treatment of specific transactions, such as the funding granted by the Transaction Unit and the loan novated to LSBU from Lambeth College.

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Planned response

As presented to you in our audit plan dated May 2019 we agreed to perform the following audit procedures:

- Evaluate the completeness, accuracy and valuation of assets and liabilities transferred from Lambeth College. This will include assessing the valuation of fixed assets that are transferred to the College, for which we will involve a valuation specialist if required. We have completed the audit of the College's final six month period which will assist with this procedure.
- Review the consolidation of South Bank Colleges accounts into the accounts. This will include reviewing the treatment of intra-group transactions and the disclosure of related party transactions.
- Review the accuracy and presentation of the loan funding granted by the Transaction Unit and the loan agreement with Barclays. We agreed the accounting treatment of both transactions with management during the transition.

Outcome from audit work

- We concluded that the consolidation has been appropriately prepared and could be agreed to the positions of each of the individual entities. We did not identify any intercompany transactions that had been included in the consolidation.
- We concluded that the revalued asset values for the fixed assets of Lambeth College had been correctly reflected in the Group accounts.
- We identified in the draft accounts intra-group related party transactions had not been disclosed in the Group accounts in line with the requirements of FRS 102.

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Financial statements audit - significant risks

Scepticism Challenge

❷ Valuation of the local government pension scheme net liability

Related risk register risks	3. Sustainability of current pension schemes

Significant audit risk

The risk

- LSBU participates in three multi-employer defined benefit pension schemes – the Teachers' Pension Scheme (TPS); London Government Pension Scheme (LGPS); and the Universities Superannuation scheme (USS). The total value of the pension deficit in 2017/18 was £100.7m.
- It is important that the assumptions included within the valuation of the schemes reflect the profile of the University employees, and are based on most recent actuarial valuation. It is also important that assumptions are derived on a consistent basis year to year.

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Planned response

As presented to you in our audit plan dated May 2019 we agreed to perform the following audit procedures:

— Evaluate the competency and objectivity of the Scheme actuaries to confirm their qualifications and the basis for their calculations. We will perform inquiries with the Scheme actuaries to assess the methodology and key assumptions made, including actual figures where estimates have been used by the actuaries, such as the rate of return on pension fund assets;

— Review the input from the Group into the calculation of the LGPS valuation;

— Review the appropriateness of the key assumptions made by, and validate the methodology used by, the Scheme actuaries with the use of a KPMG Actuary;

— Agree the total assets held in the LGPS at the year end to confirmation from the Fund's auditors;

— Assess the appropriateness of assumptions used to determine the University's share of the overall LGPS assets; and

— Review the actuarial valuation and consider the disclosure implications in the financial statements.

Outcome from audit work

We have included our high level assessment of key judgements on page 12.

The key assumptions used are within KPMG's benchmark range. We consider the assumptions used at LSBU to be balanced and those to be used at South Bank Colleges to be cautious.

We found that the fund assets for both London South Bank University and South Bank Colleges had been calculated based on actual rates of return for the first 10 months of the year, then an estimate was used for the remaining two months of the year. The actual rate of return for the final two months was higher than the estimate made by the actuary, meaning the pension provision was overstated by £2,990k at LSBU and £892k at SBC.

The pension provision has been adjusted to take into consideration the outcome from the McCLoud judgement reached in December 2018. The adjustment made to the LSBU provision fell within our materially acceptable range. The adjustment made to the South Bank Colleges liability following the McCloud judgement fell outside of our expected range by an immaterial amount and therefore does not require adjusting.

The presentation of the pension fund disclosures was in line with relevant reporting requirements.

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Financial statements audit - significant risks

Scepticism Challenge

❸ Fraud risk from revenue recognition

Related risk register risks	2. Revenue reduction if course portfolio, and related marketing activity, does not achieve Home UG recruitment targets

Significant audit risk

The risk

Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.

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Tuition fee and education contract income: There is a risk of fraud and error associated with the recognition of tuition fee and education contract income.

Funding council income: There is generally limited scope for fraudulent revenue recognition for grant income from the Office for Students as the University receives an annual confirmation of the funding to be made available and the amount disbursed during the year.

Planned response

As presented to you in our audit plan dated May 2019 we agreed to perform the following audit procedures:

Tuition fee income

- Review the completeness of fee income through reconciliations with the student record system and confirm the appropriateness of bursary/scholarship and fee waiver recognition through review of relevant schemes and policies.
- Review the procedures in place regarding the determination of tuition fee income and will perform Data and Analytics procedures to provide assurance over tuition fee income.
- Review the income recognition for programmes crossing the year end and any other flexible provision, as well as considering the income recognition and debtor recoverability.

Funding council income

- Agree the income received to the notification from the Office for Students and the ESFA and verify the amount received to cash receipts.

Outcome from audit work

Tuition fee income

We were able to fully test 79.7% of tuition fee income using data and analytics routines. We tested the residual population through sample testing and agreeing back to source documentation. No issues were identified in our testing of tuition fee income. Further information is included on page 14.

We identified two transactions at £257k that related to health income that were classified as other income, and three transactions at £235k classified as other income that should have been classified as health income. This is a classification issue, the net impact of which is below our AMPT threshold.

Funding council income

We were able to agree a sample of funding council income to underlying documentation to confirm the existence and completeness of income reviewed.

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Financial statements audit - significant risks

Scepticism Challenge

Significant audit risk

The risk (continued)

Other operating income: The main sources of income included are income from residences and catering income. We rebut the assumption of a significant risk of fraudulent revenue recognition.

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Research grants and contracts: The University applies an accounting policy to recognise income from research grants on an accruals basis, matching income against the expenditure that has been incurred in delivering the project. We consider the risk of material misstatement to be low and so rebut the fraudulent revenue recognition risk over research income.

Investment income and Donations and endowments are immaterial to the Group financial statements.

Planned response

Other operating income

- Perform substantive procedures over other operating income based upon the nature of the income to confirm the completeness and accuracy of the income.

Research grants and contracts

- Assess whether research income has been recognised in line with the grant agreement and accounting standards, and classified in the correct reporting period.

Outcome from audit work

Other operating income

We agreed a sample of other income transactions to underlying documentation to confirm that it had been recorded accurately and in the correct period. No issues were identified during this testing.

Research grants and contracts

We concluded that the sample of grant income reviewed had been recognised in line with the grant agreement and in accordance with accounting standards. All items tested had been recorded in the correct period.

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Financial statements audit - significant risks

Scepticism Challenge

❹ Management override of control	
Related risk register risks	None identified.

Significant audit risk

The risk

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

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

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

Planned response

As presented to you in our audit plan dated May 2019 we agreed to perform the following audit procedures:

- We will test the operating effectiveness of controls over journal entries and post closing adjustments.
- We will analyse all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals prepared at the end of the year impacting on overall financial performance.
- We will also assess the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.
- We will review the appropriateness of the accounting for significant transactions that are outside the University's normal course of business, or are otherwise unusual.

Outcome from audit work

As a result of our procedures, including testing of journal entries, accounting estimates and significant transactions outside the normal course of business, no instances of fraud or management override were identified.

No issues were noted in respect of accounting policies. There have been no significant changes to the methods used to prepare assumptions.

No significant transactions that were outside the Group's normal course of business, or that were otherwise unusual, were identified.

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Financial statements audit - significant risks

Scepticism Challenge

❺ Carrying value of land and buildings

Related risk register risks	37. Impact or affordability of Capital Expenditure Investment Plans

Significant audit risk

The risk

At 31 July 2018 the University had £217.8m of fixed assets, £189.0m of which is land and buildings. The University adopted a valuation accounting policy of deemed cost as part of the FRS 102 transition there are risks around the valuation, depreciation and impairment of the University estate, together with a risk around the treatment of repair and refurbishment costs. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

The Group has also inherited two sites (at Vauxhall and Clapham Common) from the transfer of operations of Lambeth College. The closing value of these assets at deemed cost at the time of the transfer was £77.9m.

The University has a capital plan to refurbish its London Road, Technopark and Perry Library sites and completing the St. George's Quarter development. The plan will take place in three phases, the first of which will result in £80m of capital spend, split across the refurbishment of London Road (£65m) and Project Leap, which is a £65m upgrade and improvement project for the student records system.

Planned response

As presented to you in our audit plan dated May 2019 we agreed to perform the following audit procedures:

- Review the carrying value of the land and buildings transferred from Lambeth College to South Bank Colleges, and assess whether they have been incorporated into LSBU's Fixed Asset Register;
- Vouch the accuracy of any capital additions in the year to supporting documentation;
- Review the appropriateness of the useful economic lives for a sample of assets and any impairments identified by the University, and recalculate the depreciation figure as stated in the accounts;
- Review the reconciliation that takes place between the University's fixed asset register and general ledger; and
- Consider the process for capitalising expenditure and review a sample of capitalised assets to assess whether they have been appropriately capitalised (specifically focussing on the St George's Quarter development).

Outcome from audit work

We concluded that the land and buildings transferred from Lambeth College had been transferred at fair value, in line with the requirements of FRS102. The assumptions made by the external valuer were within our tolerable range.

We found that additions to fixed assets had been accurately recorded and appropriately classified.

Our recalculation of the depreciation charge did not identify any material discrepancies, and the useful economic lives used by the University are appropriate compared to the wider sector.

Our review of the Fixed Asset Register reconciliation with the general ledger did not identify any discrepancies.

We reviewed the process for capitalising expenditure and found that it was designed and implemented appropriately. We reviewed a sample of additions and found that they had all been appropriately capitalised. Our testing of expenditure did not identify any assets that should have been capitalised that were not.

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Financial statements audit - areas of focus

Scepticism Challenge

❶ Going concern

Related risk register risks	2. Revenue reduction if course portfolio, and related marketing activity, does not achieve Home UG recruitment targets

Other area of audit focus

The risk

The University's budget for 2018-19 indicated that the University was forecasting a surplus of £1.5 million for the year-ending 31 July 2019.

Despite shortfalls in full time undergraduate student recruitment against target, management are still forecast to achieve their budgeted surplus due to increases in overseas student recruitment and reductions in staff costs. At February 2019 the University was on track to exceed this by £0.1m.

Following the transfer of operations from Lambeth College the Group has inherited a component that has struggled financially in previous years. The University has secured funding to mitigate these losses and has developed a three year financial plan to improve the financial performance of the College in the medium term.

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Planned response

As presented to you in our audit plan dated May 2019 we agreed to perform the following audit procedures:

— Review of the University's overall financial position at the year end as part of our review of the financial statements;

— Consider the University's final outturn compared to the forecast position, with particular reference to income recognition, the fees and funding regime and the performance of the University's commercial activities;

— Assess the University's actual 2019/20 student numbers against plan, as well as assessing medium and long term forecast financial performance for the Group (including South Bank Colleges);

— Assess the disclosures required in the financial statements of the University in respect of going concern.

— Assess whether that the University has complied with bank covenants in the year and is forecast to comply based on the future forecasts.

Outcome from audit work

We noted that the University's position at year-end was ahead of budget. The University's income position was in line with budget, and expenditure was £1.4m better than budget.

We have considered whether events or conditions exist that could indicate there is a material uncertainty over the University's ability to continue as a going concern. As part of this we considered:

- The size of the LGPS pension deficit;
- The acquisition of Lambeth Colleges; and
- The claim brought against South Bank Colleges by CMOL.

In each case we concluded that these events did not constitute a risk to the University's ability to continue as a going concern, and did not lead to events or circumstances that would indicate there is a material uncertainty over the Group or University's ability to continue as a going concern.

We concluded that the University had complied with bank covenants during the year.

We reviewed management's going concern assessment and concluded that the assumptions used could be appropriately supported by historical performance.

Overall we concluded that the adoption of the going concern basis of accounting was appropriate and that no disclosure of a material uncertainty over the Group's ability to continue as a going concern were required.

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Financial statements audit - judgements

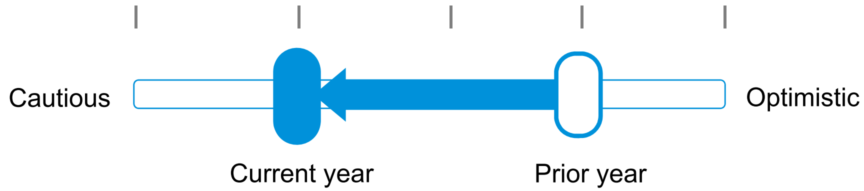
Scepticism Challenge

Page 14

Our view of management judgement

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

Cautious means a smaller asset or bigger liability; optimistic is the reverse. We have only considered material judgements for the purpose of our reporting here.



Asset/liability class	Our view of management judgement	Balance [(£m)]	YoY change [(£m)]	Our view of disclosure of judgements & estimates	Further comments
	Cautious Neutral Optimistic			Needs improvement Neutral Best practice	
Valuation of net pension liability		**(112.3)**	**(12.5)**		In 2017-18 we assessed the assumptions used to calculate the pension provision for LSBU as cautious. In the current year we have assessed those assumptions to be more balanced. At a group level, the provision includes the pension liability of South Bank Colleges, which we have assessed to be cautious, and therefore continue to assess the total provision held as slightly cautious. Further information is included on page 27 Appendix 4.
Recognition of accruals and deferred income		**(25.2)**	**(0.7)**		The university places all cash received initially into a deferred income code and then a process is carried out to release this into income where necessary. This is to ensure revenue is not over recognised. We have therefore assessed the recognition of accruals and deferred income as cautious.

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Financial statements audit - other matters

Scepticism Challenge

Annual report

We have read the contents of the Annual Report (including the Directors' Report, Statement of Corporate Governance and Statement of Internal Control) and checked compliance with the requirements of the Annual Report and financial statements with the Accounts Direction published by the Office for Students. Based on the work performed:

- We have not identified any inconsistencies between the contents of the Annual Report and the financial statements.
- We have not identified any material inconsistencies between the knowledge acquired during our audit and the director's statements. As Directors you confirm that you consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provides the information necessary for patients, regulators and other stakeholders to assess the University's performance, business model and strategy.
- We will comment on the disclosures included in the remuneration report to be appropriate; and
- The Statement of Corporate Governance and Statement of Internal Control were consistent with the financial statements and comply with the guidance set out within the Accounts Direction.

In the course of our audit work we assessed the quality of your disclosures in the Statement of Corporate Governance in relation to Brexit in addition to assessing the quality of disclosures generally. We concluded that the disclosures are largely satisfactory with regard to the nature of the impact on the business model and strategy, the impact of economic/political changes on the current year and future performance of the business, the principal risks arising from Brexit and how these are monitored. Minor improvements may be made to the disclosures to highlight the future financial forecasts for the group and to include further detail on the significant campus development.

Independence and Objectivity

ISA 260 also requires us to make an annual declaration that we are in a position of sufficient independence and objectivity to act as your auditors, which we completed at planning and no further work or matters have arisen since then.

Other matters

We are required under ISA 260 to communicate to you any matters specifically required by other auditing standards to be communicated to those charged with governance; and any other audit matters of governance interest.

Reconfirming materiality

We can confirm that we have completed all our audit work to the materiality that we proposed at the planning stage of the audit, which was a total performance materiality of £2.3m with an audit differences posting threshold of £145k.

Audit Fees

Our fee for the audit was £99,886 plus VAT for the Group and £55,000 for London South Bank University (50,635 in 2017/18). This fee was in line with that highlighted within our audit plan agreed by the Audit Committee in June 2019. We have also completed non audit work during the year on tax compliance services and have included in appendix five confirmation of safeguards that have been put in place to preserve our independence.

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Financial statements audit - data and analytics

D&A Scepticism Challenge

Tuition fees

As part of our audit we performed data and analytics routines over tuition fee data in the registry system in order to gain assurance over 100% of the transactions recorded. We sought to reconcile for each student record the income recognised to the expected income as per the business rules used for determining the amount to be charged.

Test	Description of results	Commentary
Fees reconciled to fee table	For 11,480 out of 15,292 student records we were able to match the fees charged to the student exactly to the expected level of fees to be charged per the University's fee tables.	The total value of fees for which we were able to gain assurance that the amount charged matched the expected level of fees exactly was £75m. This represents 75% of the number of student records and 79.7% of total tuition fee income.
Differences from expected fee income	We identified 1,501 student records where the amount charged for the course did not match the expected level based on the University's fee tables. This represented £13.3mm of fee income.	This exception was caused mainly by apprentice students who are not included within the fee matrix and students who are in receipt of a discount on their fee. As a follow up procedure we have selected a sample of students falling under this category to confirm that the fee charged is accurate.
Records with complexities	We identified 2,044 student records where the fee could not be recalculated due to complexities. This represented £8.2m of fee income.	This exception was caused mainly by partially attending students whose fees are recorded in a different manner to other students. As a follow up procedure we have selected a sample of students falling under this category to confirm that the fee charged is accurate.
No corresponding student record	We identified 64 students that were a fee had been recorded but no corresponding student record and therefore the fee could not be recalculated. This represented £256k of fee income.	This exception is driven by students who have been excluded and therefore no longer on the recorded provided. As a follow up procedure we have selected a sample of students falling under this category to confirm that the fee charged is accurate.
Records excluded from income	We identified 203 records that were excluded from testing as fees had been cancelled. This represented £298k fee income that had been cancelled.	Records have been excluded from are testing as they relate to credit notes for tuition fee in previous years. As a follow up procedure we have selected a sample of students falling under this category to confirm that they are correctly excluded and relate to prior years.
Reconciliation to general ledger	We reviewed the differences between income recorded in the registry system and the total tuition fee income shown in the general ledger. The total variance between the registry system and the accounts was £1.86m.	The difference of £1.86m between the student record system and the general ledger has been validated and is due to tuition fees that are not billed directly to students but instead are part of a contract and/or billed to a company or an organisation so do not appear in the QL system.

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Subsidiaries

Scepticism Challenge

❶ South Bank Colleges

For the year ended 31 July 2019 we have undertaken the statutory audit of South Bank Colleges. South Bank Colleges is an exempt charitable company limited by guarantee.

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

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

A separate report will be presented to the company's Audit Committee providing detailed results of our audit.

Planned response

Significant risks

As set out in our audit plan presented on 7 June 2019 we recognised significant risks relating to:

- Transfer of assets and liabilities from Lambeth College;
- Valuation of the pension scheme liability;
- Going concern;
- Income and revenue recognition; and
- Management override of control.

Outcome from audit work

Findings in response to significant risks

- Transfer of assets and liabilities from South Bank Colleges – we concluded that the assets and liabilities had been appropriately transferred from Lambeth College. The College's land and buildings had been revalued to fair value in line with the requirements of FRS 102. The assumptions made by the College's valuer were within our material threshold.
- Valuation of the pension scheme liability – The key assumptions used are within KPMG's benchmark range. We consider the assumptions used at SBC to be cautious. The fund assets had been calculated based on actual rates of return for the first 10 months of the year, and an estimate was used for the remaining two months of the year. The actual rate of return for the final two months was higher than the estimate made by the actuary, meaning the pension provision was overstated by £892k.
- Going concern – we did not identify any issues through this review.
- Income and revenue recognition – Our sample testing of tuition fee income and period end testing found that transactions where recorded in the correct period and recorded accurately.
- Management override of control – we did not identify any issues through our review of journals.

There were no material adjustments arising from our audit at Group level. There was one adjustment related to the fair value of pension scheme assets which was above the Group triviality threshold:

Dr	Pension liability (Balance sheet)	£862k
Cr	Actuarial gains and losses (I&E)	£862k

We have prepared a separate detailed audit report for South Bank Colleges which highlights adjustments material to the entity.

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Subsidiaries

Scepticism Challenge

❷ South Bank University Enterprises Ltd.

For the year ended 31 July 2019 we have undertaken the statutory audit of South Bank University Enterprises Ltd.

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

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

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Planned response

Significant risks

As set out in our audit plan presented on 7 June 2019 we recognised significant risks relating to:

— Income and revenue recognition; and

— Management override of control.

Outcome from audit work

Findings in response to significant risks

– Revenue recognition: We found a misstatement regarding project income which we have detailed below. We have not found any other issues regarding project income or the other streams of income.

– Management override of controls: We did not identify any issues through our journals testing.

We raised 3 adjustments below our Group triviality threshold relating to following below:

- Project income – Misstatement of £25.5k as an item was inaccurately posted. This has not yet been corrected by management but is below our materiality threshold and does not require adjustment.

- Cash/Debtors - £26k Upon review of a ledger posting, it was noticed that payment for an invoice had been coded to the incorrect period, the posting had been posted to period 1 19/20 instead of period 12 18/19. This has not yet been corrected by management but is below our materiality threshold and does not require adjustment.

- Cash – A duplicate journal was posted for an amount of £5,400. This has not yet been corrected by management but is below our materiality threshold and does not require adjustment.

❸ SW4 Catering Ltd.

For the year ended 31 July 2019 we have undertaken the statutory audit of SW4 Catering Ltd..

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

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

Planned response

Significant risks

As set out in our audit plan presented on 7 June 2019 we recognised significant risks relating to:

— Income and revenue recognition; and

— Management override of control.

Outcome from audit work

Findings in response to significant risks

– Income and revenue recognition – income mainly relates to recharges from SBC.

– Management override of controls – we concluded that the controls in place regarding journals were operating effectively.

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Use of funds

Scepticism Challenge

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

Risk assessment	Controls	Substantive procedures
We compared the financial performance for the year to budget and the cause of variances. The University exceeded it's budget target of £1.5m surplus in the year. We reviewed the reports produced by internal audit during the year to consider whether there were any matters raised that may demonstrate funds were not used appropriately. Although internal audit raised points on core financial systems during the year, these did not result in funds not being spent in line with funding conditions and do not impact on our use of funds opinion. We reviewed how the University had assessed its compliance with the requirements of the Committee of University Chairs code of practice for setting the remuneration of the head of provider. The Vice-Chancellor's remuneration is decided by the University's Remuneration Committee in relation to their performance during the year.	We assessed whether there were appropriate controls in place for the management of expenditure, including findings from our payroll and non-pay expenditure work. Our controls testing did not identify any issues that would impact on our regularity conclusion. We confirmed that an up to date register of interests was in place and whether there had been any transactions with related parties during the year. No risks were identified relating to transactions with related parties.	As part of our substantive audit procedures we undertook sample testing of research income and expenditure. We confirmed that expenditure incurred against funding received was utilised for appropriate purposes. We did not identify any instances of non-compliance with laws or regulations. Through our testing of controls and substantive items of expenditure, we have tested whether, in all material respects, funds have been used for the purposes given (including all sources of grant funding). We have no issues to report in respect of the above.

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Appendices

Contents

Recommendations raised and followed up

The recommendations raised as a result of our work in the current year are as follows:

Priority rating for recommendations					
1	Priority one: issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.	2	Priority two: issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.	3	Priority three: issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date
1	2	**Impairment review** Management's review of buildings to assess whether they show signs of impairment has historically focused on the Clarence Centre as the only building held for commercial purposes. Given the extent of capital works being undertaken both at University and Group level the University will maintain an increased number of assets for varying purposes. We recommend that the process for undertaking the annual impairment review is formalised, and considers the full University estate. Management should consider each of the indicators of impairment listed in FRS 102 section 27.9 to consider whether any indicators apply as part of this process.	**Agreed** The entire estate will be reviewed at least annually for impairment and this process will be documented as a financial procedure. **Responsible officer:** Natalie Ferer **Due date:** 31 January 2020
2	2	**Review of pension assumptions** The pensions assumptions used by Barnett Waddingham are derived by qualified actuaries based on a number of factors. The judgement involved in forming these assumptions and the size of the University's pension liability mean that a small variance could result in a material impact on the financial statements. Management currently present the assumptions used in the calculation of the pension provision to the Audit Committee for approval, however this does not contain detail on the extent to which management has challenged the assumptions to ensure they are appropriate for LSBU. We recommend that management document in more detail the precision with which they review the pensions assumptions and challenge the actuaries on the assumptions they have set. Specifically, they should perform an assessment of membership numbers to ensure that the rolled forward number and assumptions applied are in line with current year figures. Additionally, management should challenge the actuary on their estimate of the return on investment to determine if there would be a material impact if actual data as received subsequent to year end was used.	**Agreed** Ae will continue to review the indicative assumptions final assumptions used by the actuaries to ensure that they are appropriate to the University and subsidiaries, including use of estimates as they impact on returns on investments. **Responsible officer:** Natalie Ferer **Due date:** 30 June 2020

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Recommendations raised and followed up

We have also follow up the recommendations from the previous years audit, in summary:

Total number of recommendations	Number of recommendations implemented	Number outstanding (repeated below):
5	4	1

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2019)
1	❶	**Bank reconciliations** In September 2017 HSBC closed a Euro account held with HSBC containing €843k (£751k) due to inactivity on the account. Due to an error on HSBC's behalf these funds were not transferred back into LSBU's principal account. The amount was held within the same ledger code and bank reconciliations were performed with the brought forward balance on the old account, therefore the missing amount was not identified, and this was not picked up during review. This was therefore not followed up until the time of our fieldwork in October 2018. We recommend that when accounts are closed, remaining funds are held as reconciling items on the bank statement or journaled into the expected ledger account to ensure they are followed up on a regular basis where they are not received.	**Agreed** In July 2018 when we discovered that this had happened, we decided to transfer the balance to our Natwest account and it was this instruction that HSBC did not action. **Responsible Officer**: Loretta Audu / Rebecca Warren **Due date**: 31 October 2018	**Implemented** Although LSBU has not closed any bank accounts in the year, we concluded that the bank reconciliation control was operating effectively in the 2018/19 financial year. We did however identify one reconciling item in the SBUEL bank reconciliation that had not been appropriately cleared.
2	❷	**Controls over journal entries** Management have made improvements to journals controls by introducing automated approval workflow for all G6 journals in the last year. As the user is required to select the type of journal, if the journal type G6 is not selected the automated approval workflow is not triggered. Management have introduced a review of non-G6 journals on a monthly basis, however we did not see evidence that this had operated throughout the period. We recommend that the review of non-G6 journals on a monthly basis is reintroduced. This should be reviewed by the Financial Controller to provide assurance that the control has operated effectively.	**Agreed** The process of reviewing journals that have not gone through an automated authorization process has been in place since November 2017 but this review has not always been formally documented and was not always carried out by the Financial Controller. Going forward a formal review will be carried out as part of the month end process. **Responsible officer**: Natalie Ferer **Due date**: 31 October 2018	**Implemented** A process has been implemented in line with the recommendation, however a review of unauthorised journals does not take place every month. This has been picked up by internal audit and will be followed through as part of their recommendation tracking process.

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Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2019)
3	2	**Capturing data to calculate pay multiples** This year the Office for Students introduced new requirements for calculating pay multiples. This should include substantive and temporary staff. Due to the way the data for temporary staff is captured by the University, it is difficult to accurately calculate the pay multiple including temporary staff as time worked cannot be easily matched to invoices. The OfS have permitted institutions to calculate the ratio omitting this data for this year, but could require this for 2018-19. We recommend that management review how they collate data relating to the time worked by temporary staff, and ensure that this can be cross referenced to invoices received to enable the University to perform this calculation in future years if required.	**Agreed** Agreed, we will review how to collate data on temporary agency staff in order to perform this calculation in the future **Responsible Officer**: Natalie Ferer and Ed Spacey **Due date**: 31 January 2019.	**Superseded** The Accounts Direction issued by the OfS for 2019-20 does not require agency staff to be included in the pay multiple calculation, and can be early adopted for the 2018-19 financial year, meaning this action is no longer required.
	2	**Intercompany recharges** During 2017-18 it was identified that for some transactions which had previously been processed through SBUEL it would have been more appropriate to recharge them to the University. This resulted in an adjustment during the 2017-18 audit and a further corporation tax charge relating to 2016-17. We recommend that management undertake regular reviews of the transactions which have been processed through SBUEL to confirm that they have been appropriately posted and do not represent LSBU activity which should be recharged to the University.	**Agreed** The key members of the Financial Accounting team now fully understand that invoices (or parts of invoices) relating to the acquisition of Lambeth College do not relate to SBUEL. We will continue to pay the invoices for the particular consultant through SBUEL because they relate partially to SBUEL, but will apportion them quarterly (as part of the preparation of the VAT return, for which the invoices will also need to be apportioned) and recharge the Lambeth element to the University. **Responsible Officer**: Rebecca Warren, Head of Financial Accounting **Due date**: Ongoing, linked to quarterly VAT cycle	**Implemented** We found that consultancy costs had been appropriately recorded in our testing of expenditure.

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Recommendations raised and followed up

#	Risk	Issue, Impact and Recommendation	Management Response / Officer / Due Date	Current Status (November 2019)
5	❸	**Maintenance of employment contracts** In our review of payroll HR were unable to find one employment contract. This related to a member of staff that has since left the University, and we were able to verify the existence of this member of staff through enquiry with the individual's line manager. The remaining 62 samples were held on file and no issued were noted with these samples. We understand that management can record in Midland iTrent whether a contract is held on file for a particular member of staff. We recommend management perform a one-off exercise/check to identify members of staff that do not have a contract in the system/file, and follows up with the respective areas of the University to assess whether contracts are held locally within the School.	**Agreed** A wider one off exercise will take place **Responsible Officer**: Dave Lee **Due date**: 28 February 2019.	**Implemented** Our review of a sample of 61 payroll transactions found that appropriate supporting documentation had been maintained in each case.

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Audit differences – London South Bank University

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are 'clearly trivial', which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor's report, individually or in aggregate. As communicated previously with the Audit Committee, details of all adjustments greater than £145K are shown below:

Unadjusted audit differences (£'000)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Depreciation Cr Accumulated Depreciation	£247k £-	- £247k	Our testing of assets under construction identified an asset which was completed towards the end of 2017/18 but not yet transferred to the fixed asset register and therefore not depreciated in the year. This asset should have been depreciated in the year inline with the depreciation policy of the university.
Total		£247k	£247k	

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Adjusted audit differences (£'000)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Pension liability Cr Actuarial gains and losses	- £2,990k	£2,990k -	The fair value of the plan assets in the actuarial report issued by the University's actuaries was based on actual returns for the first 10 months of the year and estimated returns for the final two months of the year. The actual return for the final part of the year was 2% higher than predicted by the actuary.
Total		£2,990k	£2,990k	

We also identified minor presentation adjustments to the Related Parties note and the classification of income between Strategic Health Income and Other Income.

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Audit differences - South Bank Colleges

Under UK auditing standards (ISA (UK&I) 260) we are required to provide the Audit Committee with a summary of unadjusted audit differences (including disclosure misstatements) identified during the course of our audit, other than those which are ‘clearly trivial’, which are not reflected in the financial statements. In line with ISA (UK&I) 450 we request that you correct uncorrected misstatements. However, they will have no effect on the opinion in our auditor’s report, individually or in aggregate. We have not identified any unadjusted audit differences.

Under UK auditing standards (ISA UK&I 260) we are required to provide the Audit Committee with a summary of adjusted audit differences (including disclosures) identified during the course of our audit. The adjustments below have been included in the financial statements.

Adjusted audit differences (£’000)				
No.	Detail	SOCI Dr/(cr)	SOFP Dr/(cr)	Comments
1	Dr Funding body grant income Cr Accruals and deferred income	£131.6k £-	£- £131.6k	There is an unspent balance relating to the learner support fund. An incorrect journal posting was made for this deferral, whereby income was credited and deferred income debited. We would expect the journal to be the other way around with the income account code being debited and the deferred income account being credited to show the movement of income into deferred income.
2	Dr Pension liability Cr Actuarial gains and losses	- £892k	£892k -	The fair value of the plan assets in the actuarial report issued by the University’s actuaries was based on actual returns for the first 10 months of the year and estimated returns for the final two months of the year. The actual return for the final part of the year was 2% higher than predicted by the actuary.
Total		£131.6k	£131.6k	

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Appendix Three

Required communications with the Audit Committee

Under UK auditing standards (ISA (UK&I) 260) we are required to set out certain communications to the Audit Committee. We have summarised below the required communications and the status of these.

Type	Status	Response
Our draft management representation letter	OK	Our draft representation letter is included for the Committee's review. We have requested that management make an additional disclosure to confirm that, to the best of the Group's knowledge, no provision expense is required in the group accounts in respect of the claim brought against South Bank Colleges by CMOL.
Adjusted and unadjusted audit differences	OK	We have provided a summary of audit differences in Appendix Two.
Control deficiencies	OK	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit. Details of our recommendations are provided in Appendix One.
Related parties	OK	We identified minor adjustments to the University's related parties note which were reflected in the final accounts.
Other matters warranting attention by the Audit Committee	OK	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Actual or suspected fraud, non-compliance with laws or regulations or illegal acts	OK	No actual or suspected fraud involving group or component management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.
Significant difficulties	OK	No significant difficulties were encountered during the audit.
Modifications to auditor's report	OK	None.
Disagreements with management or scope limitations	OK	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	OK	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. We have provided a summary of our findings on page 13.
Breaches of independence	OK	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	OK	Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed	OK	The were no significant matters arising from the audit.

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Pensions

With a number of changes to the Local Government Pension Schemes there is potential for volatility and increased liabilities on the Balance Sheet. It is therefore important that the University has appropriately assessed the assumptions used to value the defined benefit pension obligation.

The table below shows the movement in the net pension liability from 31 July 2018:

Liability	31 July 2019 (£'000)	31 July 2018 (£'000)
Present value of funded liabilities	(271,384)	(243,634)
Fair value of plan assets	159,128*	143,869
Net pension liability	112,256	99,765

Source: draft financial statements
** Excluding unfunded obligations totalling £10,420k in 2018-19 (£10,884k in 2017-18)*

*The fair value of the plan assets in the actuarial report issued by the University's actuaries was based on actual returns for the first 10 months of the year and estimated returns for the final two months of the year. The actual return for the final part of the year was 2% higher than predicted by the actuary, and is included as an adjusted misstatement in Appendix Two.

Assumptions

We have set out the findings from our review of the assumptions used by the actuary on the following page. The scope of this report is restricted to a review of the assumptions adopted for determining the value of the pensions obligations under FRS102 only. In our view the overall set of assumptions proposed by the Employer can be considered to be balanced in respect of London South Bank University and cautious in respect of South Bank Colleges, relative to our central rates for a typical UK scheme with a duration of 21.2 years but within our normally acceptable range.

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Appendix Four

Pensions

Level of prudence compared to KPMG central assumptions

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

Acceptable range

London South Bank University Overall assessment of UK assumptions for FRS 102 for audit consideration	
The overall assumptions adopted by the Company are considered to be Balanced relative to our central rates and within our normally acceptable range overall for a Fund with a duration of 20 years.	*Balanced*

Underlying review of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with FRS 102?	University	KPMG central	Assessment vs. KPMG central	Significant assumptions
Discount rate		AA corporate bond yield curve	✓	✓	2.10%	2.11%		✓
CPI inflation		Market-implied inflation curve	✓	✓	2.40%	2.32%		✓
Pension increases	CPI inflation increases capped at 5% p.a.	Market-implied inflation curve	✓	✓	2.40%	2.32%		✓
Salary increases		CPI plus 1.5% p.a.	✓	✓	3.90%	In line with long-term remuneration policy		✓
Mortality	Base tables	Club Vita	✓	✓	Club Vita	In line with best-estimate Scheme experience		✓
	Future improvements	Updated annually	✓	✓	CMI 2018 projections model with a long term rate of 1.50%	CMI 2018 projections model with a 1.25% long-term trend rate and default smoothing and initial addition parameters		
Other demographics		In line with the last scheme valuation	✓	✓	In line with the last scheme valuation	In line with best-estimate Scheme experience		

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Pensions

Level of prudence compared to KPMG central assumptions

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

Acceptable range

South Bank Colleges

Overall assessment of UK assumptions for FRS 102 for audit consideration

The overall assumptions adopted by the Company are considered to be Balanced relative to our central rates and within our normally acceptable range overall for a Fund with a duration of 19 years.

Cautious

Underlying review of individual assumptions		Methodology	Consistent methodology to prior year?	Compliant methodology with FRS 102?	University	KPMG central	Assessment vs. KPMG central	Significant assumptions
Discount rate		AA corporate bond yield curve	✓	✓	2.10%	2.09%		✓
CPI inflation		Market-implied inflation curve	✓	✓	2.40%	2.33%		✓
Pension increases	CPI inflation increases capped at 5% p.a.	Market-implied inflation curve	✓	✓	2.40%	2.33%		✓
Salary increases		CPI plus 1.5% p.a.	✓	✓	3.90%	In line with long-term remuneration policy		✓
Mortality	Base tables	Club Vita	✓	✓	Club Vita	In line with best-estimate Scheme experience		✓
	Future improvements	Updated annually	✓	✓	CMI 2018 projections model with a long term rate of 1.50%	CMI 2018 projections model with a 1.25% long-term trend rate and default smoothing and initial addition parameters		
Other demographics		In line with the last scheme valuation	✓	✓	In line with the last scheme valuation	In line with best-estimate Scheme experience		

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Audit independence

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

To the Board of Governors/Audit Committee members

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

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

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

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

General procedures to safeguard independence and objectivity

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

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

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

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

Summary of fees

We have considered the fees charged by us to the University and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the company and its related entities for significant professional services provided by us during the reporting period below, as well as the amounts of any future services which have been contracted or where a written proposal has been submitted. Total fees charged by us for the period ended 31 July 2019 can be analysed as follows:

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Audit independence

Component of audit (all fees exclude VAT)	2018/19	2017/18
Audit services – statutory audit		
London South Bank University	£55,000	£50,635
South Bank Colleges	£40,000	£45,000
SW4 Catering Limited	£2,000	N/A*
South Bank Enterprises	£2,866	£2,815
Sub-total	*£99,866*	*£97,150*
Non audit fees		
Audit related assurance services (covenant compliance)	£5,000	£-
All other non-audit services		
Corporation tax compliance services	£6,475	£5,491
International tax compliance	£33,850	£11,659
Tax services for the transfer of Lambeth College	£34,500	
Total fee for Group	**£179,691**	**£105,690**

*The previous audit of SW4 Catering Ltd. was not conducted by KPMG LLP.

The ratio of non-audit fees to audit fees for the year was 1.8: 1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

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

Independence and objectivity considerations relating to other matters

We set out below our consideration of other matters which, in our professional judgement, have a bearing on our independence and objectivity.

Other relationships

Number 20

During the year, the following directors/ employees were members of our client hub, Number 20 Grosvenor Street

- Steve Balmont

This facility is extended by invitation to senior management of KPMG audit and non-audit clients. Audit client members are provided access to the KPMG business lounge. They are also allowed to use the bar and restaurant if they wish to do so (i.e., without a KPMG person present) and can make meeting room bookings subject to certain restrictions although all food, drink and meeting room bookings must be paid for and are charged in full at normal commercial rates. We do not believe that this facility creates any familiarity threats to our objectivity and independence as auditor.

Confirmation of audit independence

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

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

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

Yours faithfully

KPMG LLP

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Audit independence

Description of scope of services	Principal threats to Independence	Safeguards Applied	Basis of fee	Value of Services Delivered in the YE 31.07.2019
Covenant compliance	1. Self-interest 2. Self-review 3. Management	1. The fee for the work is not dependent on the compliance with the covenants, and is not material to KPMG or LSBU. 2. The work will not involve the preparation of any financial information which will be subject to review. 3. LSBU will be responsible for preparing the covenant compliance statement.	Fixed fee	£0 (all services performed after year end)
Corporation tax compliance	1. Management 2. Advocacy	1. KPMG will not provide any advice on how the transaction should be recorded in the financial statements from a tax perspective. The advice will be supported by tax law or regulation, other precedent or established practice. 2. The service will be provided by KPMG professionals who are not members of the audit team.	Fixed fee	£6,475
International tax services	1. Self-review 2. Management	1. The service will be provided by KPMG professionals who are not members of the audit team. 2. KPMG will not provide any advice on how the transaction should be recorded in the financial statements from a tax perspective. The advice will be supported by tax law or regulation, other precedent or established practice.	Time and Materials	£33,850
Tax services for the transfer of Lambeth College	1. Self-review 2. Management	1. The service will be provided by KPMG professionals who are not members of the audit team. 2. KPMG will not provide any advice on how the transaction should be recorded in the financial statements from a tax perspective. The advice will be supported by tax law or regulation, other precedent or established practice.	Fixed fee	£34,500

In addition to the above we have currently submitted written proposals for the following services which have not yet been awarded:

- Due diligence services over the acquisition of a company providing training services.

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KPMG's audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

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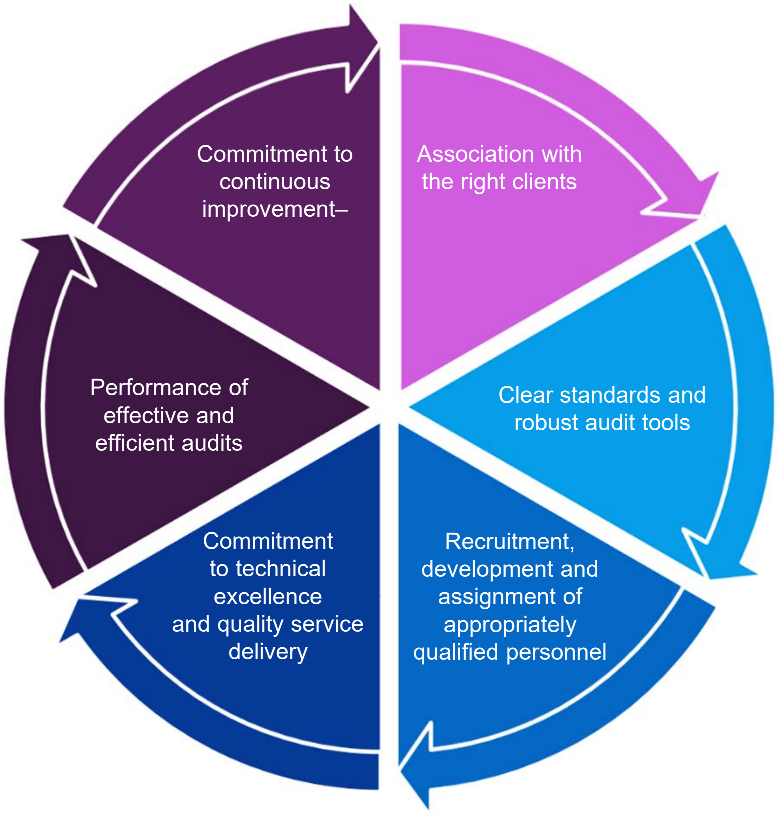
- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications



- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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Annual Remuneration Report, 2018/19

Introduction

This remuneration report sets out the University's approach to determining senior pay and outlines performance and reward during the year.

The Remuneration Committee is responsible for determining the remuneration of the Vice Chancellor and Senior Executives covered by the Senior Remuneration Policy as approved by the Board. Senior Executives are the senior leaders of LSBU who report directly to the Vice Chancellor. The Senior Executives for the year are listed on page x.

The Board has adopted the CUC Remuneration Code and approved a senior remuneration policy.

Full details of the senior pay policies referred to in this report are available on the LSBU website.

Terms of Reference

The Remuneration Committee's Terms of Reference are available online.

Committee Membership 2018/19

The members of the committee for the year 2018/19 were Mee Ling Ng (Committee Chair until July 2019 and committee member throughout the year), Jeremy Parr (Committee Chair from July 2019), Jerry Cope (Chair of the Board), Michael Cutbill and Douglas Denham St Pinnock. All members of the committee are independent governors. No members of the executive are members of the committee. The Vice Chancellor is invited to committee meetings where appropriate, such as to make recommendations on pay awards and bonuses of senior executives. No member of the executive was present for any discussion on their own remuneration.

Committee meetings 2018/19

The committee met twice in the 2018/19 academic year.

- 6 November 2018
- 2 July 2019

In addition, the committee made a decision via email in February 2019.

The committee also met on 21 November 2019 to consider Senior Executive performance and remuneration for 2018/19.

Approach to remuneration of all staff in 2018/19 and for 1 August 2019 onward

LSBU is a large complex organisation requiring both general and specialised leadership to fulfil its strategic objective of being seen as the leading Modern University in London. This requires the provision of high quality teaching and support to its students, at home and overseas, enabling them to face the real world confidently and successfully. The teaching environment will be underpinned by input from employers and will have a strong focus on Enterprise and applied Research.

To achieve this objective, LSBU needs to attract, retain and motivate a strong calibre of leaders with competitive remuneration packages, within both a London and international labour market. However, the approach to senior remuneration must be framed within a context that all LSBU employees are, and feel, remunerated fairly for their roles and responsibilities and enthusiasm for the success of the University.

At LSBU, we create an environment which attracts and fosters the very best staff, and in which all staff, whatever their role, feel valued and proud of the University and take appropriate responsibility for its development. Embracing and integrating equality and diversity and inclusion is fundamental to our success and growth as an institution of higher education.

Senior Remuneration

In setting senior remuneration, LSBU has adopted the CUC Higher Education Senior Staff Remuneration Code (2018).

LSBU's Senior Remuneration Policy sets out the following principles for senior remuneration:

- Remuneration will be applied to ensure that it is discrimination free, and based on job scale and complexity;
- Overall remuneration levels, including benefits, will be comparable, taking account of geography and affordability, to a set of equivalent institutions, decided by the Remuneration Committee but independently validated and, if appropriate, refreshed at least once every three years;
- Starting packages will reflect the experience and capability and particular circumstances of candidates, and the size and challenge of the particular role facing them;
- New starters will initially therefore often receive higher than average annual increases as their performance moves above the median expected for the role;
- Overall nonetheless the average % annual pay increases for senior executives as a whole will normally be no higher than for all employees, including the value of increments, where paid;
- Account will also be taken of the ratio of the VC's base salary and total remuneration to the median earnings of the Institution as a whole, both absolute and the change from the previous years.

- Individual annual pay increases will be influenced by performance, but in general good or exceptional performance will be rewarded mainly by annual unconsolidated bonus rather than basic pay;
- This individual performance annual bonus scheme, currently set at a maximum of 10% of basic pay, will be based on pre-agreed clear measurable output-based objectives; no individual bonus will normally be paid unless the University meets an overall financial target set by the Board as a whole;
- At the Remuneration Committee's discretion, a team bonus awarded against specific team objectives in addition to the individual bonus will operate, currently set at a maximum of 5% with the potential to rise to 10% on the approval of the Remuneration Committee
- At the Board's discretion, the overall package may also include a longer-term incentive scheme, the perceived value of which should be included in assessing comparability with equivalent institutions;
- The Board will publish the value of the packages of some or all of its senior executives, in the way defined and required by the Office for Students (OfS);
- These principles will be resubmitted to the full Board for endorsement, as a minimum once every three years and will be published in LSBU's Report & Accounts

Benchmarking

An independent review of the benchmark set for Senior Executive salaries was carried out by Korn Ferry in September 2018 and based on recommendations a revised approach to benchmarking was approved by the Committee at its meeting of 6 November 2018.

The committee agreed that based on the distinctive challenges and structure of the LSBU group the following relevant benchmarks and indicators will be taken into consideration when setting and reviewing Senior Executive salaries:

- Institutions of similar size and type based on UCEA data (this data will be interpreted to take account of LSBU's London location by adding 5%);
- London modern universities; and
- Other universities with a group structure or similar complexity of structure or regulatory framework.

The Hay Group Guide Chart Profile Method of job evaluation was used to set the benchmark for all Executive level jobs and salaries.

Institutional performance, 2018/19

The Board monitors the performance of the University through the agreed key performance indicators. As set out in the *Strategic Report*, the University performed well in terms of both financial and strategic outcomes.

Institutional performance including areas measured by the key performance indicators plus individual objectives are reviewed as part of individual Senior Executives' appraisals and are overseen by the Remuneration Committee.

Vice Chancellor performance, 2018/19

This assessment of Vice Chancellor performance is for academic year 2018/19. The bonus awarded based on performance for academic year 2018/19 will be paid in financial year 2019/20 and appear in next year's accounts.

The Vice Chancellor's performance was reviewed by the Chair of the Board as part of the appraisal process, looking at key results both against key KPIs for the University, which the Vice Chancellor oversees, and against the specific personal objectives (marked *) set for the Vice Chancellor by the Remuneration Committee:

- *The financial stability of the organisation has been ensured and the diversity of income streams has been increased;
- Recruitment in 2019, has been above expectation, where others have struggled, thanks to the growing reputation of the University;
- Progression rates were flat but disappointingly below target:
- *Institutional reputation and specifically League table rankings across all tables have improved above the average improvement by comparators;
- *The transaction for Lambeth College, as part of the family of educational institutions' strategy, has been completed;
- Costs have been controlled carefully, but with investment in key strategic areas;
- *The staff engagement score improved by a considerable 4%, at a time of significant change;
- *Progress has been made on the Estates strategy with major improvements across the elephant estate, and work started at Vauxhall;
- * The family of educational institutions concept has progressed within a new approved 2020-2025 Group strategy; and
- There has been strong and confident leadership both internally and externally, including representing LSBU to key stakeholders.

So in summary LSBU has had a further excellent year at a particularly complex and challenging time and is well placed to thrive in a potentially tough environment going forward, The Board recognises the importance of maintaining a strong and determined leadership team at this time.

During the year under review, the Vice Chancellor was awarded a bonus of £20k for individual performance (a bonus of £19k was awarded for performance in 2017/18) and a bonus of £10.5k for team performance.

Performance related pay, 2018/19 and 2019/20

Under the Senior Remuneration Policy, for 2018/19, the Vice Chancellor and Senior Executives are eligible for a bonus of up to 10% of salary and for a team bonus of up to

5% of salary as set out in the remuneration principles above. The award of both individual and team bonuses is reviewed and approved by the Remuneration Committee.

During the year, the University met its overall financial target and eight members of the executive were eligible to receive an individual bonus and a team bonus. Following the appraisal process and a report on performance against individual measurable objectives, the Committee approved eight individual (including the Vice Chancellor) bonuses and a team bonus (of 4.5%) together totalling £136k (for 2017/18 performance, eight individual bonuses were awarded totalling £80k).

For 2019/20, a separate team bonus to a maximum of 8% will operate in addition to the individual bonuses set out above and in line with a policy to increase the proportion of pay related annually to performance.

There is a separate performance related pay scheme for Senior Managers (grades A – B. Bonus of up to 3% of salary) and Senior Leaders (grade C. Bonus of up to 10% of salary). Staff eligible for performance related pay receive annual inflation uplifts to their base pay. Bonuses for performance during 2018/19 will be determined in November 2019 (32 bonuses were awarded totalling £165k in 2018/19 for performance during 2017/18).

Total Remuneration: Vice Chancellor

The table below sets out payments to the Vice Chancellor during 2018/19 with a comparison to 2017/18. The bonus figure relates to performance in the previous year.

Emoluments of the Vice Chancellor	2018–19	2017–18
	£'000	£'000
Salary	234	228
Performance related pay	19	18
Taxable benefits	10	10
Subtotal	263	256
Pension scheme contributions or payments in lieu of pension contributions	34	34
Total	297	289

In August 2019, the Vice Chancellor paid back a loan of £350k in full to the University (full details of the loan are included in note 8(E)). From August 2019, the Remuneration Committee agreed a central London accommodation allowance of £10,000.

For the current year, the Vice Chancellor has been awarded a pay increase of 1.8%, in line with the average annual pay rise for all employees.

Pay Multiple

The Vice Chancellor's basic salary is 6.15 times the median pay of staff across the organisation, where the median pay is calculated on a full-time equivalent basis for the salaries paid by the provider to its staff.

The Vice Chancellor's total remuneration salary is 6.78 times the median total remuneration of staff, where the median pay is calculated on a full-time equivalent basis for the salaries paid by the provider to its staff.

The pay multiple has remained in line with that of previous years.

Year	Ratio – basic salary	Ratio – total remuneration
2018/19	6.15	6.78
2017/18	6.18	6.86
2016/17	6.33	7.01
2015/16	6.10	6.97

The ratios do not include agency workers.

The LSBU basic salary ratio compares to the sector ratio of 6.9 (based on UCEA data for 2018).

External appointments, expenses and severance

LSBU's policy on the retention of income generated from external bodies is that Executive members are expected to declare any external income. The expectation is that external income will not be retained but on occasion permission to retain income may be given by the Vice Chancellor (and in the case of the Vice Chancellor by the Chair of the Board). Where Executive members are appointed on a fractional basis it may well be external activity can be accommodated outside of contract but it should still be declared to avoid conflict. The Remuneration Committee reviews these declarations.

In 2018/19, the Vice Chancellor donated royalties to the University's hardship fund. The Vice Chancellor did not undertake any external remunerated activity.

LSBU's Expense policy is available online. It applies to all staff including Senior Executives.

In 2018/19, the Vice Chancellor's expenses totalled £2.5k. These are payments on a purchasing card for travel, accommodation, meals, entertaining and other authorised costs. In addition, work-related travel costs of £2k were booked through the University’s central travel buying team for the Vice Chancellor.

The Remuneration Committee has approved a policy on severance arrangements.

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