London South Bank
University

	PAPER NO: AC.20(12)	
Board/Committee:	Audit Committee	
Date:	20 June 2012	
Paper title:	Audit Approach Memorandum for the year ending 31st July 2012	
Author:	Grant Thornton, External Auditors	
Executive sponsor:	Richard Flatman, Executive Director of Finance	
Recommendation by the Executive:	The Committee is requested to note the attached Audit Approach Memorandum for the year ending 31st July 2012	
Aspect of the Corporate Plan to which this will help deliver?	Reporting financial performance	
Matter previously considered by:	None	
Further approval required?	None	
Communications – who should be made aware of the decision?	University Executive, Internal Audit, Finance staff	

Executive summary

Grant Thornton will be performing the audit of London South Bank University for the year ending 31st July 2012. The attached memorandum sets out the key elements of their proposed audit strategy.

The committee is requested to note the contents of the report.

Audit Approach Memorandum

London South Bank University

For the year ended 31 July 2012

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To the Audit Committee of London South Bank University

We are pleased to be engaged to perform the audit of London South Bank University for the year ended 31 July 2012. This memorandum highlights the key elements of our proposed audit strategy for the benefit of those charged with governance, in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260.

We have considered our independence and objectivity in respect of the audit and do not believe there are any matters which should be brought to your attention. This memorandum has been prepared on the basis of the limitations set out in 'The small print'.

We look forward to working with you during the course of the audit.

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1 Our audit approach

1.1 Engagement objectives

Our engagement objectives are as follows:

- to audit the financial statements of London South Bank University ("the University") and its subsidiary undertaking, South Bank University Enterprises Limited (SBUEL)
- to produce a concise and constructive report of key issues to the University (our "Key Issues Memorandum")
- to draw to your attention any material weaknesses in internal control that come to our attention during our audit work.

Our audit approach is based on an assessment of the audit risk relevant to the individual elements of the financial statements. We focus much of our audit effort on the areas that we deem to be of highest risk of material misstatement. Our work in other areas will typically be proportionately lower than for high risk areas.

1.2 Audit strategy

We will be working closely with the finance team to ensure that we meet audit deadlines and conduct the audit efficiently, with the minimum of disruption to the University's staff.

In summary our audit strategy comprises:

- updating our understanding of the business through discussions with management and a review of the management accounts
- reviewing the design and implementation of the internal financial control systems to the extent that they have a bearing on the highest risk areas of the financial statements
- assessing the audit risk and, based on that assessment and the assessment of the design of the internal control system, developing and implementing appropriate audit procedures
- reviewing the adequacy of material disclosures in the financial statements
- verifying all material balance sheet accounts and performing analytical review of income and expenditure streams.

1.3 Identified high risk areas

In summary, our audit approach in respect of high risk areas will be as follows:

- Student numbers and existence of HEFCE income
- Existence of tuition fee income and recoverability of debtors
- Existence of income from Strategic Health Authority education contracts
- Existence of accommodation income and recoverability of debtors
- Existence of payroll costs
- Completeness of creditors
- Valuation of properties
- SBUEL negative reserves – presentation and measurement of proposed restructuring

These are further detailed in table 2.1.

1.4 Materiality

An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Materiality is set at the outset of planning to ensure that an appropriate level of audit work is planned. It is then used throughout the audit process in order to assess the impact of any item on the financial statements. Any identified errors or differences greater than 2% of materiality will be recorded on a schedule of potential misstatements. These are assessed individually and in aggregate, discussed with you and, if you do not adjust, signed off by you in your letter of representation to us, confirming your view that they are immaterial to the financial statements.

An item of low value may be judged material by its nature, for example any item that affects the disclosure of directors' emoluments. An item of higher value may be judged not material if it does not distort the truth and fairness of the financial statements.

1.5 Internal controls

Auditing standards require that we evaluate the design effectiveness of internal controls over the financial reporting process to identify areas of weakness that could lead to material misstatement. Therefore, we will focus our control review on the high risk areas of the financial statements.

We are also required to assess whether the controls have been implemented as intended. We will do this through a combination of inquiry and observation procedures, and, where appropriate, systems walkthroughs. However, our work cannot be relied upon necessarily to identify defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive controls review exercise might identify.

1.6 Reliance on internal audit

We will work with the internal audit function to ensure our audit approach takes account of the risks identified and the work they have conducted, subject to our review of the internal audit function.

1.7 Audit of IT and outsourced systems

Our audit approach assumes that our clients use a computer system for accounting applications that process a large number of transactions. Accordingly, our approach requires a review of the University's internal controls in the information technology (IT) environment.

We may choose to involve one of our Technology Risk Services team members during the audit. The extent of their involvement will depend upon the complexity of IT used in the significant transaction cycles and the control risk assessment. In addition, we may be able to use our data interrogation software to analyse raw data from your financial reporting system. If this is the case, we will contact your IT team before the year end to obtain the required files at the year-end date.

2 Key audit issues and financial reporting matters

We will report to you in our Key Issues Memorandum our findings/conclusions in respect of each of the risks that we have identified at the planning stage of the audit:.

2.1 Key audit issues

Issue	Response
Student numbers and existence of HEFCE income The recognition of HEFCE funding has been a significant issue for the sector as a whole in recent years and continues to be a complex area. Whilst we understand there are not expected to be any issues in the current year and the University has just received the highest rating in the latest HEFCE assurance review, the inherently complex nature of the funding rules means this remains a key audit area.	We will review the process that the Governing Body has gone through to satisfy themselves of the integrity of the student data. This will include reviewing correspondence with the funding council during the year, reviewing relevant reports prepared by the internal audit team during the year and discussing processes and procedures with the finance team. We will review the initial calculations for the allocation of funding to ensure that the amounts designated to the University by HEFCE appear reasonable and are in line with the standard funding allocation. We will test the receipt of the income to bank statements and remittance advices. We will then review the student data returns and reconciliations on actual numbers prepared by the University to ensure that these have been appropriately prepared and that any provision that may be required has been accurately accounted for and disclosed in the financial statements.

Issue	Response
Existence of tuition fee income and recoverability of debtors Income from tuition fees continues to form an increasing part of the University's income each year. It should be noted that the University has an effective credit control function and consequently does not consider the recoverability of student debts to be a significant risk area.	We will • review the reconciliation of the balance due from the Student Loans Company during our interim planning visit • conduct an analytical review of tuition fee income for the year and perform "proof in total" testing where appropriate • compare the year-end provision to prior years and review the process used by the University to calculate the bad debt provision to determine whether the process is reasonable, consistent with the prior year and reflective of actual historic recovery rates.
Existence of income from Strategic Health Authority education contracts These contracts constitute a significant proportion of the University's income and, given the current changes in the NHS, this income stream could potentially be at risk.	We will • conduct an analytical review of income for the year to understand any fluctuations from previous years • test the receipt of the income to bank statements and remittance advices.
Existence of accommodation income and recoverability of debtors Income from residences, catering and conferences continues to form a significant part of the University's income each year.	We will • review the internal audit report in the year on residences • conduct an analytical review of accommodation and other income for the year and perform "proof in total" testing where appropriate • compare the year-end provision to prior years and review the process used by the University to calculate the bad debt provision to determine whether the process is reasonable, consistent with the prior year and reflective of actual historic recovery rates.
Existence of payroll costs Payroll expenditure constitutes a significant proportion of the University's costs.	We will: • analytically review payroll expenses in comparison to prior years and budgets and investigate any significant or unexpected variances • gain an understanding of procedures and controls in place to record and process employee remuneration and to process starters and leavers • review any work done by internal audit on payroll systems and controls during the year including the additional work which is currently underway.

Issue	Response
Completeness of creditors Due to the nature of the University's activities creditors and accruals are significant and therefore there is a high risk that liabilities relating to the year could be missed in significant volumes, giving rise to a material impact on the reported results.	We will: • Compare year-end creditors and accruals to prior years and investigate any significant or unexpected variances • Review significant post year-end payments to ensure any items relating to 2011/12 have been accrued at the year-end
Valuation of properties The University has now finalised its plans for the Terraces and, subject to Board approval of the proposals on 24 May, the Terraces will be redeveloped at an estimated further cost of £13.5m. The resulting total spend will likely exceed the final carrying value and so an impairment charge of £3m (being the stabilisation costs incurred in previous years) will be incurred in the year. The University is also continuing its plans for the development of the Student Union building. It is likely that the final cost of the building will exceed the resulting 'market value', but the Board do not consider that the property will be impaired due to the wider benefits provided to the University from having a new Student Union building (for example improving student experience).	We will: • review the detailed business plans and forecasts for capital expenditure on the Terraces approved by the Board on 24 May during our interim visit • review the accompanying paper on the carrying value of the Terraces and the forecast cashflows and assumptions therein to determine whether these assumptions are reasonable • ensure that the impairment charge has been calculated correctly. • review the detailed impairment reviews (including a review of the NPV calculations, and support for the cash flow figures and discount rates used) prepared for the rest of the properties, including the Student Union building, to establish whether any further impairment charges are required.
SBUEL negative reserves – presentation and measurement of proposed restructuring For a number of years, SBUEL has been making gift aid payments of taxable surpluses to the University, despite having negative reserves. This is not in accordance with Company Law. Following legal advice received, the directors intend to convert the loan due to the University to equity, followed by a capital reduction.	We will: • review correspondence with legal advisors on the restructuring • ensure that Companies Act requirements have been met (for example, solvency statement issued) • ensure that the correct accounting entries have been made to reflect the restructuring, and that adequate disclosures are made in the year-end financial statements.

2.2 Financial reporting matters

Issue	Response
Defined Benefit Pension Scheme The University will receive an actuarial report for the Local Government Pension Scheme (LPGS) at the year end. The Governors are responsible for ensuring that the assumptions used in these reports are appropriate to the members.	We will review the assumptions used in the valuation against their expectations and their experience of other valuations currently being carried out. We will also carry out a review of the detailed disclosures within the financial statements to ensure that full compliance with FRS 17 is met.

2.3 Other matters

Issue	Response
Loan covenants The University has loans with financial institutions. The breaching of any of the covenants in these loans could lead to the University having to repay these amounts on demand and would need to be disclosed as such within the financial statements in accordance with Financial Reporting Standard 25. We understand that the finance team reviews and reports on these on a monthly basis and will review these covenants prior to the year end and, in the unlikely event that there are any breaches, will seek to obtain assurance from the relevant institution before the end of the financial year that the debt will not be called in early.	We will review the calculations in relation to all financial covenants to ensure these have been appropriately calculated and will review compliance with any non-financial covenants. If there are any breaches in covenants we will ensure that any waivers have been appropriately documented and the appropriate disclosure is included within the financial statements.

Issue	Response
Going Concern Each year the Governors and Directors of the University and its subsidiary consider the going concern status of the entities for a minimum of 12 months from the signing of the statutory accounts. Part of this consideration is the availability of sufficient funding for that period, including availability of loan facilities that can be drawn immediately. HEFCE Circular 20/2011 advised of a revision to be made to the 2011-12 Accounts direction in respect of going concern and liquidity risk as follows: "Following good practice in private sector corporate governance HEFCE is reflecting on the scope of a going concern disclosure to be made by HEIs in 2011-12 financial statements. This will be informed by the outcome of the current inquiry into going concern assessments by the Financial Reporting Council. The Accounts Direction for 2011-12 will be revised in this respect in light of the Financial Reporting Council inquiry". The University should look to follow the guidance the Financial Reporting Council issued in 2009 on going concern. This document provides useful guidance on the measures the Board should consider when assessing going concern and useful examples of the disclosures required in the financial statements. Broadly these fall under the following key principles: 1 The Board should make and document a rigorous assessment of whether the University is a going concern when preparing the financial statements. 2 The Board should consider all available information about the future when concluding whether the University is a going concern at the date they approve the financial statements. Their review should usually cover a period of at least twelve months from the date of approval of the financial statements. 3 The Board should make balanced, proportionate and clear disclosures about going concern for the financial statements to give a true and fair view. The University will not be advised of its final grant allocation for 2012/13 until 2014 which will cause issues for both the Board and auditors in being able to conclude on going concern. HEFCE have been advised of this issue. We will review and perform sensitivities to understand the impact of	In the context of the HEFCE circular, we will perform a detailed review of budgets and cashflow forecasts prepared by management for a period of at least 12 months from the date of approval of the financial statements. We will review the budgets for 2012/13, the 5-year forecasts due to be submitted to HEFCE by 20 June 2012 (and the assumptions therein) and the availability of funding. In reviewing these forecasts, and associated sensitivities, we will consider the initial demand from students, given the fee levels set by the University, and therefore the ability of the University to continue to deliver teaching provision in line with its funding allocation and to continue to meet its ongoing liabilities as they fall due. For SBUEL we will also review available budgets and business plans to support their going concern status. In addition to this, we will consider the appropriateness and completeness of the associated disclosures included within the financial statements.

potential changes in HEFCE funding on the cashflow requirements of the University.

3 Logistics

3.1 Timetables and milestones

The following proposed timetable and deadlines have been set:

Event	Date
Planning meeting with finance team	14 May 2012
Presentation of audit approach memorandum to audit committee	20 June 2012
Pre year end fieldwork including internal controls review	wc 2 July 2012
Commence post year end fieldwork	17 September 2012
Clearance meeting to discuss our findings	tbc
Partner visit to review work	tbc
DRAFT Key Issues Memorandum submitted to Audit Committee	18 October 2012
Presentation of Key Issues Memorandum to Audit Committee	30 October 2012
Board approval of statutory accounts	tbc

The audit process is underpinned by effective project management to ensure that we co-ordinate and apply our resources efficiently to meet your deadlines. It is therefore essential that we work closely with your team to achieve this timetable.

3.2 Engagement team

Our engagement team for the audit will include:

Name	Role	Contact details
David Barnes	Audit partner	T: 020 7728 2026 E: david.barnes@uk.gt.com
Claire Hersey	Audit manager	T: 01908 359652 E: claire.hersey@uk.gt.com

Please note that, because of ethical standards, preparation of the corporation tax computation is completed by different staff from those undertaking the audit. The tax manager in charge of your tax affairs is Louise Veragoo.

3.3 Fees

Our fee estimate (excluding VAT and disbursements) is set out below:

Service	Current period proposed fees £	Prior period actual fees £
Proposed audit fee as per tender document	38,625	37,500

We have proposed this fee on the basis that:

- draft statutory accounts are presented to us by 17 September 2012 for audit, subject only to routine audit and tax adjustments
- supporting schedules for all figures in the accounts are supplied by the agreed dates
- the tax analysis schedules are completed by the University
- all books and records are made available to us
- a trial balance together with reconciled control accounts are presented to us by 17 September 2012
- your staff are available to help us locate information and to provide explanations
- we will have access to members of the finance team as agreed
- all deadlines agreed with us are met.

Our ability to deliver to the agreed timetable and fee will depend upon this. If there are any variances to the above plan, we will discuss them with you and agree any additional fees before costs are incurred, wherever possible.

Any work outside the scope of this proposal such as completing tax, consolidation and account analysis schedules will be billed separately after discussion with you.

Fee notes are payable on presentation. Any additional costs will be billed as soon as they are agreed with the University and these fees will be due when the fee notes are issued.

4 Sector update

IFRS – an update

Under current proposals by the Accounting Standards Board, it is likely that the University will be required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS) for the year ended 31 July 2016. As a result, a "transition balance sheet" will need to be prepared and audited as at 1 August 2014 which is just over two years away.

Although the exact approach will be agreed with you and your team to ensure it fully meets your own requirements, we would expect to assist the University in this process by providing the following:

- delivering training to the finance team and Board Members on issues that should be considered as part of the transition process
- we will issue model specific higher education model accounts prepared under IFRS well in advance of the 2016 year end
- agree a project plan for transition and discuss and agree accounting policies which would ensure that all aspects of IFRS and its financial reporting implications are considered well ahead of the transition date.

Further changes in Higher Education

Whilst the sector begins the year in a strong financial position, the impact on a number of significant changes arising from government policy means that the future for universities continues to be one of challenge. This requires not only clear strategic focus but at the same time Universities must remaining alert and responsive to the changing environment in which they operate. The key changes include:

- an effective overall reduction of 15,000 student places in 2012/13;
- the removal of 20,000 undergraduate places from all institutions for 2012/13, which were then pro-rated between the 36,000 places which were bid for (10,354 places being awarded to 155 FE colleges);
- the ability for universities to recruit as many AAB+ students as they want;
- the impact on overall enrolment following the introduction of £9,000 fees;
- the payment profile of Student Loan Company balances in 2012/13 which will be in three tranches (25%, 25%, 50%) and will be dependent on continued student attendance through the year. This is likely to have significant revenue and cashflow implications;
- the proposed changes to student number controls and teaching funding for 2013/14 (currently under consultation);
- the impact on student visa rules which came into effect on 6 April 2012.

Pensions

Auto-enrolment

With the additional employment costs that will arise following the introduction of Pension Auto Enrolment, many employers are considering introducing salary sacrifice for pension contributions as a means of reducing employment costs while increasing the take-home pay of employees. If you have already implemented pension salary sacrifice you may need to consider how easily it may be extended to those employees who are not currently pension members.

On 17 April 2012 HMRC announced they would be changing their rules on salary sacrifice to accommodate pension auto enrolment, which will alleviate many of the concerns employers may have had about pension salary sacrifice. Information about the change in rules is available at the following website (http://www.professionalpensions.com/professionalpensions/news/2168347/hmrc-reveals-salary-sacrifice-ae-opt-changes) but in brief:

- Pension salary sacrifice can save employer NIC while at the same time increasing employee net take home pay. For every 100 employees earning £20,000 pa, contributing 5% to the pension scheme, the combined savings can amount to over £25,000 per annum.
- There is no change to the level of pension contributions - the same amount of money goes into the pension fund and the benefits are unchanged.
- Clearance needs to be obtained from HMRC, so the risk is proactively managed.

Companies Legislation

The Bribery Act

The Bribery Act 2010 (the Act) modernises the law on bribery. The Act came into force on 1 July 2011 following the Secretary of State for Justice's publication of guidance on the interpretation and use of the Act on 30 March 2011.

The Act introduces four new offences:

- offering, promising or giving a bribe
- requesting, agreeing to receive or accepting a bribe
- bribing a foreign public official
- a corporate offence of failing to prevent bribery.

The Act also introduces a new crime of "failure to prevent" bribery which means that corporates and partnerships must be able to demonstrate that they have implemented "adequate procedures" to prevent corrupt practices within their own organisations or by third parties on their behalf. The Ministry of Justice's guidance on what constitutes adequate procedures is based on six principles which require an organisation to:

- have procedures in place to prevent bribery which should be proportionate to the bribery risk it faces
- demonstrate top level management commitment to preventing bribery
- assess its exposure to risks of bribery
- apply due diligence on those who perform services for it
- ensure its bribery prevention policies and procedures are embedded and understood throughout the organisation through internal and external communication, including training
- monitor and review its procedures to prevent bribery and make improvements where necessary.

The guidance provides some clarification on hospitality, promotional and other business expenditure, such as bona fide expenditure which seeks to improve the image of a commercial organisation to better present products and services or establish cordial relations is recognised as an established and important part of doing business.

So called "facilitation payments" (small payments paid to low level foreign public officials to secure the provision of a service) are prohibited by the Act regardless of the amount of the payment. However, the guidance recognises that there are circumstances in which individuals are left with no alternative but to make payments in order to protect against loss of life, limb or liberty. The common law defence of duress may be available in such circumstances.

The final guidance also brought in a significant change in providing a radically different interpretation on a UK company's responsibility for the action of its overseas subsidiaries in a joint venture relationship. UK companies benefiting from corrupt activity only indirectly, through the receipt of dividends from its subsidiary, will not be enough by itself to trigger the offence. However, the Serious Fraud Office has recently used civil recovery powers under the Proceeds of Crime Act to target upstream share dividends from subsidiary companies (or investments) which are derived from contracts won through unlawful conduct.

Penalties for committing crime under the Act are:

- a maximum of 10 years' imprisonment and/or
- an unlimited fine and/or

- the potential for the confiscation of property under the Proceeds of Crime Act 2002 and/or
- disqualification of directors under the Company Directors Disqualification Act 1986.

Corporate tax legislation

Changes to the rate of UK corporation tax

In the 2012 Budget, the Chancellor announced a reduction in the main rate of corporation tax as follows:

- With effect from 1 April 2012 - 24%
- With effect from 1 April 2013 - 23%

Deferred tax should be measured by reference to the rates which are enacted or substantively enacted at the balance sheet date. The 24% corporation tax for 2012/13 has been substantially enacted from 26 March 2012 and so accounts with balance sheet dates on or after this date should have deferred tax recognised at 24%.

Duties of senior accounting officers of qualifying companies

For accounting periods beginning on or after 21 July 2009, senior accounting officers of qualifying companies have an annual obligation to certify the adequacy of the company's accounting systems for reporting taxes and duties to HMRC.

A 'qualifying company' is a UK company (registered under the Companies Act 2006) with a turnover of more than £200 million, or gross assets of more than £2 billion in the previous financial year. The results of all UK-registered companies in a group are aggregated when applying these limits and there is no exclusion of inter-company amounts.

The provisions apply to corporation tax, VAT, amounts collected through the PAYE regulations, insurance premium tax, stamp duty land tax, stamp duty reserve tax, petroleum revenue tax, customs duties and excise duties.

Qualifying companies have to identify the senior accounting officer to HMRC and failure to do so within the period for filing the accounts for the financial year could incur a penalty of £5,000. Penalties of £5,000 can be levied on the senior accounting officer for each of the following:

- Failure to maintain and monitor that the company has appropriate tax accounting arrangements
- Failure to provide a certificate, or providing a certificate that contains a careless or deliberate inaccuracy

Disguised remuneration

The new disguised remuneration legislation results in an upfront income tax charge and National Insurance contributions where a reward or sum of money is earmarked for or loaned to an employee by a third party as part of an arrangement in connection with employment.

The original draft of the legislation was very wide ranging and caught many commercial arrangements with no tax avoidance element. Although the latest changes to the legislation do address many of the anomalies, there are still key issues which need to be considered when a company is to introduce any reward, benefit or incentive arrangement which includes a party other than the employee and employer in the structure.

Transfer pricing

Profits for tax purposes are required to be computed as if all transactions with related parties are carried out at arm's length. The directors are responsible for ensuring that any transactions with related parties are reflected in the corporation tax return on an arm's length basis. In order to adhere to these rules directors should ensure that appropriate documentation is in place to support the treatment in the corporation tax return.

Other tax matters

Real Time Information

Improving the operation of Pay As You Earn (PAYE) is high on the list of HM Revenue & Customs' (HMRC's) priorities. Real Time Information (RTI) is intended to improve the operation of PAYE by making it easier for employers, pension providers and HMRC to administer it.

HMRC hopes that RTI will lead to fewer and smaller under or overpayments of tax and tax credits after the end of the tax year.

RTI will require employers to provide information to HMRC about the deductions made from an employee's salary every time the employee is paid. Reporting will be integrated within the payroll process. Employers using RTI will no longer be required to provide information to HMRC using Forms P35 and P14 after the end of the tax year, or to send Forms P45 or P46 to HMRC when employees start or leave a job.

HMRC will begin a phased introduction of RTI on 6 April 2012, with around 300 employers who have volunteered to take part in the pilot.

All employers will be required to use RTI from 6 October 2013.

5 The small print

Engagement terms
Our engagement letter dated 13 October 2011 sets out our terms of reference as auditors and has been provided to the Board.

The purpose of this memorandum is to highlight the key elements in the proposed strategy for the audit of the University for the year ended 31 July 2012.

The document is also used to report to management in order to meet the mandatory requirements of International Standard on Auditing (UK and Ireland) 260.

Confidentiality
This memorandum is strictly confidential, and although it has been made available to management to facilitate discussions, it may not be taken as altering our responsibilities to the University arising under our audit engagement letter.

The contents of this Audit Approach Memorandum should not be disclosed to third parties without our prior written consent.

Ethical standards
We have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of adverse or unexpected findings
We will communicate any adverse or unexpected findings affecting the audit on a timely basis with the appropriate person within the business. Such communication will be made either informally or via an audit progress memorandum.

The actual or potential resolution of significant audit and accounting issues will be discussed and agreed with the division, company and group management and documented for the Audit Committee's consideration.

Audit quality assurance
Grant Thornton's UK audit practice is currently monitored by the Audit Inspection Unit. The Audit Inspection Unit (AIU) of the Financial Reporting Council (FRC) undertakes independent inspections of the overall audit quality of the auditing function in the UK in relation to listed and other major public interest entities.

The AIU published a report on the findings of its 2009/11 inspection of the firm on 26 July 2011.

The full report is available on the FRC's website at the following address:

http://www.frc.org.uk/images/uploaded/documents/Grant%20Thornton%20Public%20Report%202009-11.pdf.

The audit practice is also monitored by the Quality Assurance Directorate of the ICAEW.
Grant Thornton UK LLP also conducts internal quality reviews of engagements.

We would be happy to discuss further the firm's approach to quality assurance.

Independence and robustness
To maintain our independence as auditors we ensure that:

- audit partners are rotated off the audit of a listed company every five years and audit managers every seven years
- Grant Thornton, its partners and the audit team have no family, financial, employment, investment or business relationship with the **University**
- our fees paid by the **University** do not represent an inappropriate proportion of total fee income for either the firm, office or individual partner.

At all times during the audit, we will maintain a robustly independent position in respect of key judgement areas.

ISAUK 260 requires communication of:
- relationships that have a bearing on the independence of the audit firm and the integrity and objectivity of the engagement team
- nature and scope of the audit work
- significant findings from the audit

Audit and non-audit services

Services supplied to the University during the year are set out below:

	£
Audit services	
2011 audit fee	37,500
Tax services	
Tax compliance for SBUEL	2,400
Other services	
iXBRL conversion for SBUEL	850

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

Communication with those charged with Governance

Communication with those charged with governance is an essential element of the audit. We will discuss with the **Audit Committee** the scope of our work in advance. We propose that we meet with them following the conclusion of our procedures in order to communicate the matters arising

We would also welcome the Audit Committee's, and indeed the Board's input in relation to any areas of known concern within the Group.

We would also be interested to hear if there are other matters that the Audit Committee would like us to address and to understand more fully the Committee's expectations and requirements from the audit process.

Roles and responsibilities

The directors are responsible for the preparation of the financial statements which show a true and fair view of the University's affairs and for making available to us all the information and explanations we consider necessary.

Legislation requires that the directors' report must contain a statement that, for each person who was a director when the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware
- they have taken all steps they ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Legislation also requires that the University maintains such books and records as will be sufficient to show the nature of all transactions and disclose, at any time, the financial position of the University.

The University's management is responsible for:

- the identification, assessment, management and monitoring of risk
- developing, operating and monitoring the system of internal control
- providing assurance to the Board that this has been done.

The Audit Committee is required to review the University's internal financial controls. In addition, the Committee is required to review all other internal controls and approve the statements included in the annual report in relation to internal control and the management of risk.

The Audit Committee should receive reports from management as to the effectiveness of the systems they have established, as well as the conclusions of any testing conducted by internal audit.