

Meeting of the Audit Committee

4.00 - 6.00 pm on Thursday, 9 November 2017
in 1B16 - Technopark, SE1 6LN

*** Meeting with the External Auditors at 6.00pm in 1B16, Technopark**

Agenda

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1.	Welcome and apologies		SB
2.	Declarations of interest		SB
3.	Minutes of the previous meeting	3 - 8	SB
4.	Matters arising	9 - 10	SB
Internal audit			
5.	Final internal audit annual report (to note)	11 - 34	JM
6.	Internal audit progress report (to discuss)	35 - 48	JM
7.	IT risk diagnostic update	49 - 50	DP
Other matters			
8.	Prevent annual return (to recommend to the Board)	To Follow	ES
9.	GDPR update	51 - 52	JS
10.	Annual value for money report (update)	53 - 54	RF
11.	Modern slavery act statement (to review)	55 - 60	RF
12.	Anti-fraud, bribery and corruption report (to note)	61 - 62	RF
13.	Speak up report (to note)	63 - 64	JS
14.	Audit Committee business plan (to note)	65 - 72	MB
Financial reporting for the year 2016/17			
15.	External Audit progress report	73 - 80	FN
16.	External audit findings (to review)	81 - 106	FN
17.	Going concern review (to approve)	107 - 116	RF

<i>No.</i>	<i>Item</i>	<i>Pages</i>	<i>Presenter</i>
18.	External audit letter of representation (to recommend to Board)	117 - 126	RF
19.	Draft report and accounts for year to 31 July 2017 (to recommend to Board)	127 - 178	RF
20.	Audit Committee Annual Report (to approve)	179 - 188	JS
21.	Annual Provider Review to HEFCE (quality assurance) (to recommend to Board)	189 - 212	SW
External audit			
22.	External audit performance against KPI's (to review)	213 - 218	RF
23.	External audit - review of non-audit services (to review)	219 - 220	RF
24.	Matters to report to the Board following the meeting		SB
25.	Any other business		SB

**Date of next meeting
4.00 pm on Thursday, 8 February 2018**

Members: Steve Balmont (Chair), Shachi Blakemore, Duncan Brown, Mee Ling Ng and Roy Waight

In attendance: David Phoenix, Natalie Ferer, Richard Flatman, James Stevenson, Michael Broadway, Mandy Eddolls (item 4), Shân Wareing (item 21), and Ed Spacey (item 8)

Apologies: Joe Kelly

Internal Auditors: Justin Martin, Lucy Gresswell

External Auditors: Fleur Nieboer, Jack Stapleton

**Minutes of the meeting of the Audit Committee
held at 4.00 pm on Tuesday, 3 October 2017
1B16 - Technopark, SE1 6LN**

Present

Steve Balmont (Chair)
Duncan Brown
Mee Ling Ng
Roy Waight

Apologies

Shachi Blakemore
David Phoenix

In attendance

Natalie Ferer
Richard Flatman
James Stevenson
Michael Broadway
Joe Kelly
Justin Martin
Lucy Gresswell
Fleur Nieboer
Jack Stapleton

1. Welcome and apologies

The Chair welcomed members to the meeting. Apologies were received from Shachi Blakemore and David Phoenix.

2. Declarations of interest

Duncan Brown declared he was a former partner of PwC, the University's internal auditors, which was not considered to be a conflict.

No member declared a conflict of interest in any item on the agenda.

3. Minutes of the previous meeting

The committee approved minutes of the meeting of 8 June 2017 and their publication, with the additional redactions suggested at the meeting.

4. Matters arising

The committee noted the Action Sheet.

Item 6: the committee requested an update on gender pay gap reporting.

Item 17: the committee ratified the TRAC(T) return.

The committee noted the update on apprenticeships.

5. Internal audit plan and progress report, 2017/18

The committee discussed the progress report from PwC. The 2016/17 programme was complete. Work had begun on the programme for 2017/18.

The committee noted that 97% of recommendations had been implemented.

The committee requested that target dates for implementation of recommendations are reviewed, particularly for substantial objectives, to provide interim assessment points towards achieving targets.

The committee noted that the planned ICT audit would come to the next meeting.

6. Internal audit report - Contract Management

The committee discussed the internal audit report on contract management. The report was rated as medium risk.

The committee noted the areas of good practice and progress identified in the report, and also the challenges posed by a high level of staff turnover. There was a training programme for all contract managers.

7. Internal audit report - Risk Management

The committee discussed the internal audit report on risk management which is rated low risk.

8. Internal audit report - Key Financial Systems 16/17 P2 (Jan-July 17)

The committee discussed the Continuous Audit review of Key Financial Systems (Jan-July 2017).

The committee noted the decline in performance in payroll, which has moved from amber to red. The committee noted that there had been a loss of experienced staff in payroll issues with payroll were encountered due to the loss of experienced staff. A new payroll manager and HR Services manager are being appointed.

The committee requested the Executive Director of HR to attend the next meeting to provide a further update.

Management confirmed that as part of the response on key financial controls, a member of procurement staff was being formally disciplined. The committee requested an update at the next meeting.

9. Draft internal audit annual report, 2016/17

The committee discussed the draft internal audit annual report. The final report would be considered at the meeting of 9 November 2017.

The committee noted the draft audit opinion that the “governance, risk management and control, and value for money arrangements were generally satisfactory. However, there are some areas of weakness in the framework of governance, risk management and control and value for money arrangements which potentially put the achievement of objectives at risk”.

10. Internal audit charter

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

11. General Data Protection Regulations (GDPR) readiness assessment test report

The committee discussed the summary GDPR Readiness Assessment Report from PwC. The full report would be circulated to committee members.

The committee noted that significant work was needed and that the Executive is developing a costed compliance plan. A Data Protection Officer is being recruited. An update was requested at the next meeting.

12. Pensions assumptions

The committee approved the assumptions used for the FRS102/IAS19 pension fund disclosures as at 31 July 2017. The external auditors confirmed that the assumptions were within the sector benchmark.

The committee requested that the assumptions in the Universities Superannuation Scheme (USS) are reviewed prior to the finalisation of the accounts taking account of materiality.

13. Corporate risk register

The committee discussed the corporate risk register ahead of the annual detailed review by the Board.

The committee discussed the impact of lower than expected student recruitment and the consequent risk of revenue reduction, which remained critical. The actions being taken to mitigate the risk were noted.

It was noted that plans for replacement of the student record system should reduce the system risk to lower likelihood.

The committee requested interim assessment points to actions with a longer timeframe to monitor progress.

14. **Risk appetite and strategy**

The committee recommended the risk appetite statement to the board for approval. The committee approved the revised risk strategy and operating procedures.

15. **Internal controls - annual review of effectiveness**

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

16. **Draft corporate governance statement, 2016/17**

The committee approved the draft corporate governance statement for inclusion in the annual report, subject to necessary amendments.

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

17. **Draft public benefit statement, 2016/17**

The committee approved the draft public benefit statement, as required for all charities, subject to necessary amendments.

18. **Speak up report**

The committee noted the speak up report.

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

The committee noted the anti-fraud, bribery and corruption report.

No instances of fraud, bribery or corruption had been identified since the previous meeting.

20. **Audit Committee business plan**

The committee noted the Audit Committee annual business plan.

The committee noted the planned Copyright Licensing Authority audit.

21. **Membership and Terms of Reference**

The committee noted the Membership and Terms of Reference.

22. Matters to report to the Board following the meeting

The committee noted that a summary of the internal audit reports and discussion of the corporate risk register and risk appetite were on the Board agenda for 12 October 2017.

**Date of next meeting
4.00 pm, on Thursday, 9 November 2017**

Confirmed as a true record

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**AUDIT COMMITTEE - TUESDAY, 3 OCTOBER 2017
ACTION SHEET**

Agenda No	Agenda/Decision Item	Action	Date Due	Officer	Action Status
4.	Matters arising	Update on gender pay gap reporting		Mandy Eddolls	Verbal update
5.	Internal audit plan and progress report, 2017/18	Target dates for implementation of recommendations to be reviewed to include interim assessment points, particularly on more substantial items		Richard Flatman / PwC	Ongoing
8.	Internal audit report - Key Financial Systems 16/17 P2 (Jan-July 17)	Exec. Dir. HR to attend Audit Com. on 9 November Update on disciplinary action to Audit Com on 9 November		Mandy Eddolls Richard Flatman	On agenda Verbal update
11.	General Data Protection Regulations (GDPR) readiness assessment test report	GDPR report to be circulated to all Audit Com members Appointment of Data Protection Officer - update to Audit Com, 9 November		James Stevenson James Stevenson	Completed On agenda
13.	Corporate risk register	Interim assessment points to be added for actions with longer timeframes		Richard Flatman	Ongoing

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	CONFIDENTIAL
Paper title:	Internal Audit Annual Report – 2016/17
Board/Committee	Audit Committee
Date of meeting:	9 th November 2017
Author:	PriceWaterhouse Coopers
Executive/Operations sponsor:	Richard Flatman – Chief Financial Officer
Purpose:	For Information; to provide Committee with the annual report on the work of the Internal Audit programme.
Which aspect of the Corporate Strategy will this help to deliver?	The internal audit plan relates to controls and processes that relate to the entire organisation, and provides assurance against all of the risk types within the Corporate Risk Appetite statement.
Recommendation:	Committee is requested to note: <ul style="list-style-type: none"> • the report and its findings

Executive Summary

Note: The report is unchanged from the version presented to the October meeting, and is now presented in final.

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

The opinion within this report for 2016/17 is “generally satisfactory with some improvements required”. This is consistent with the previous year, and the second highest of four potential categories.

The commentary on page two highlights these areas, which mainly relate to the report into the delivery of Apprenticeships, and recognises that 97% of agreed actions falling due in 16/17 were implemented, a further improvement on the 88% reported in 15/16.

- The Committee is requested to note the 1617 Internal Audit annual report.

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Internal audit annual report 2016/17

**London South
Bank University**

November 2017

FINAL

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 4. Outstanding recommendations
 5. Mapping of internal audit work

Distribution list

For action: Richard Flatman, Chief Financial Officer
Audit Committee

For information: James Stevenson, University Secretary



Executive summary

Introduction

This report outlines the internal audit work we have carried out for the year ended 31/07/2017.

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

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

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

The Audit Committee agreed to a level of internal audit input of 127 days, of which 128 days were delivered. Whilst this report is a key element of the framework designed to inform the Audit Committee’s Annual Report to HEFCE, there are also a number of other important sources to which the Audit Committee should look to gain assurance. This report does not override the Audit Committee’s responsibility for forming their own view on governance, risk management, control and value for money arrangements.

Head of internal audit opinion

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

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



Executive summary

Opinion

Our opinion is as follows:

Generally satisfactory with some improvements required

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

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

Basis of opinion

Our opinion is based on:

- All audits undertaken during the year.
- Any follow up action taken in respect of audits from previous periods.
- Any significant recommendations not accepted by management and the resulting risks.
- The effects of any significant changes in the organisation's objectives or systems.
- Any limitations which may have been placed on the scope or resources of internal audit.

The commentary on page 5 provides the context for our opinion and together with the opinion should be read in its entirety.

Executive summary

Commentary

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

- Our view on London South Bank University’s (LSBU’s) operational control environment and governance arrangements is underpinned by the audit reviews that we have performed during the year. There has been one high risk rated report, two medium risk rated reports and two low risk rated reports prepared during the financial year. The findings from these reports are not considered significant in aggregate to the system of internal control. None of the individual assignments completed in 2016/17 have an overall classification of critical risk.
- We identified one high risk report this year, the Apprenticeships review. This area was selected for review due to the University’s objective to expand the current apprenticeship training provision. We identified one high risk finding which was caused by the late external approval of Apprenticeship standards. Management were concerned about the risks to the student learning experience if course starts were delayed, and managed this risk by post hoc completion of course paperwork. Our high risk finding relates to specific issues and is not deemed to represent systemic threats to the entire control and governance environment.
- Our Continuous Auditing work shows that on the whole the core financial control environment has remained robust during the year with no significant exceptions or control recommendations raised. There have been some exceptions identified through our substantive controls testing of Accounts Payable processes and we have noted another incidence of deterioration in performance in payroll control, see details in section 3, however the findings identified are not considered to be significant in aggregate to the key financial control environment.
- The timely implementation of internal audit recommendations by management is a key indicator of good governance and a target rate of 75%+ should be aspired to by management. LSBU’s implementation rate has improved in 2016/17; 97% of agreed actions have been implemented compared to 88% in the 2015/16.
- LSBU’s risk management arrangements continue to be strong as evidenced by our low risk report. In particular, LSBU has a clear risk governance structure and consistent approach to identifying and managing risk at all levels. The University’s approach integrates risk management with the strategic and business planning process which is in line with good practice and has an established risk appetite which is aligned with strategic objectives.
- Our work over value for money indicates that the processes in place to ensure value for money is achieved are in accordance with good practice, for example: adherence to financial controls and use of purchase consortiums.

Acknowledgement

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

Summary of findings

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

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

Description	Detail
<p>Overview</p> <p>We completed 11 internal audit reviews. This resulted in the identification of 0 critical, 1 high, 13 medium and 11 low risk findings to improve weaknesses in the design of controls and/or operating effectiveness.</p> <p>Over the past three years, the number of findings has remained consistent which demonstrates that LSBU has a stable control environment. The risk profile has changed over the course of the three year period with more low risk findings and fewer high risk findings.</p>	<ul style="list-style-type: none"> • Our audit plan was scoped to address LSBU’s key risks and strategic objectives. • We mapped each review to these areas in our Internal Audit Risk Assessment and Internal Audit Plan 2016/17. • We have completed our Internal Audit Plan in line with the set timescales.
<p>Risk Management, Control and Governance</p> <p><i>Risk Management</i></p> <p>Risk management arrangements remain robust. We were pleased to see that despite a low risk rated report in 2015/16, management have continued to implement improvements to further strengthen the University’s approach to risk management.</p> <p>The current year review identified just two low risk findings which relate to omissions in the organisational risk registers and minutes not being available for risk discussions at the School/ Professional Service Group level.</p> <p><i>Control</i></p> <p>Our review of Apprenticeships identified that this is a high risk area for the University. We identified one high risk finding which is summarised opposite.</p>	<p><i>Apprenticeships – high risk finding</i></p> <p>We identified one high risk finding relating to LSBU’s compliance with the ESFA higher education institution funding rules:</p> <ul style="list-style-type: none"> • For 19/20 apprentices we tested, we found that the apprenticeship agreement and commitment statement had not been signed by all parties ahead of the apprenticeship start date; • Employer incentive payments were claimed for seven of the 20 students in our sample. In all seven cases, the payment had not been transferred to the employer within the 10 working day deadline set by the ESFA. In one instance, the employer incentive claim form could not be located; and • Attendance records could not be provided for 6/20 apprentices. All of these apprentices were in the School of Health and Social Care.

Summary of findings

Description	Detail
<p>The results of our Key Financial Systems Continuous Auditing has remained largely consistent throughout the year, with the exception of payroll where we have seen an increase in the number of operating effectiveness exceptions identified. A summary of Continuous Auditing performance and the results of individual reviews is included in Section 3. Despite the decline in performance, we do not consider the findings to be significant in aggregate to the control environment.</p>	
<p>Value for Money</p> <p>Institutions have a duty of care to ensure the proper use of public funds and the achievement of value for money. Our audit approach considers value for money as an integral objective of LSBU's systems of internal control. Our work indicates that LSBU has processes in place to ensure value for money which are in accordance with good practice, examples are provided opposite.</p>	<p>Value for Money has been demonstrated through the following activities:</p> <ul style="list-style-type: none"> • <i>Use of purchasing consortiums</i> – LSBU is a member of the London Universities Purchasing Consortia; • <i>Adherence to financial controls</i> - as part of our Continuous Auditing work we test to ensure transactions are approved and reviewed in accordance with LSBU's delegated authority framework. No significant issues have been noted this year; and • <i>Value for Money Working Group</i> – a working group was established in 2013 and is attended by senior officers across the organisation. This also focuses on delivering value for money for students.
<p>Data Submission</p> <p>The MAA includes a mandatory requirement for quality assurances to be provided by Institutions over the data submitted to the Higher Education Statistics Agency (HESA) and HEFCE.</p> <p>Whilst there is no requirement for our internal audit programme to provide a conclusion in respect of data quality, our internal audit programme in 2016/17 has been designed to support the Audit Committee in forming its conclusion in respect of such matters.</p>	<p>Continuous Auditing</p> <p>The two Student Data Continuous Auditing reports issued in 2016/17 were both classified as medium risk. We have not identified any significant exceptions regarding student data controls, but we have seen an increase in exceptions over the course of the year which suggests that there has been a deterioration in performance. This should be monitored by management to ensure that this trend does not continue.</p>

Summary of findings

Description	Detail
<p>Data Submission (continued)</p>	<p><i>HR System Implementation</i></p> <p>LSBU integrated the HR module of Midlands iTrent during the year. The objective of this review was to assess whether appropriate controls were in place to ensure the complete and accurate migration of employee data. This review was classified as low risk. One medium risk finding was identified as there was no process in place to identify lessons learnt from the project.</p>
<p>Good practice</p> <p>We also identified a number of areas where few weaknesses were identified and / or areas of good practice.</p>	<p><i>Contract Management and Spend Activity</i></p> <p>Although this review was medium risk rated, we found some key examples of good practice:</p> <ul style="list-style-type: none"> • All Contract Managers stated that they felt supported by the Procurement team. From our interviews with Procurement, we are aware that the Head of Procurement has started work on preparing a new framework for managing contracts which will be tailored to each contract based on their impact. We agree that this will significantly improve contract management going forwards. • One contract we reviewed demonstrated good practice with established KPIs, monthly supplier meetings and a robust audit trail of all discussions with the supplier. We recommend that this practice is shared with other Contract Managers. <p><i>HR System Implementation</i></p> <p>Our review over the implementation of the new HR System, iTrent, was classified as low risk. We identified just two findings (one medium risk and one low risk) and found that there was a clear plan in place to implement the system successfully.</p> <p><i>Risk Management</i></p> <p>Risk Management arrangements remain strong with a number of areas of good practice, for example: documented roles and responsibilities, established management escalation routes and a defined Risk Strategy and Risk Appetite which is regularly reviewed and discussed at Board level.</p>

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Internal audit work conducted

Introduction






The table below sets out the results of our internal audit work. The following page shows direction of control travel and a comparison of planned and actual internal audit activity. The criteria for our report classifications and the definitions applied in the assessment of our individual findings are included in Appendix 3.

Results of individual assignments

Review	Report classification	Report status	Number of findings			
			Critical	High	Medium	Low
Continuous Auditing: Key Financial Systems – Phase 1	No Classification	Final	-	-	3	-
Continuous Auditing: Key Financial Systems – Phase 2	No Classification	Final	-	-	1	1
Continuous Auditing: Student Data – Phase 1	No Classification	Final	-	-	-	2
Continuous Auditing: Student Data – Phase 2	No Classification	Final	-	-	-	1
HEFCE: 5 Year Review	No Classification	Final	-	-	-	-
HR System Implementation	Low	Final	-	-	1	1
Placements	Medium	Final	-	-	4	2
Apprenticeships	High	Final	-	1	2	1
IT audit	No classification	<i>The review has been delayed and will be presented to the November Audit Committee</i>				
Risk Management	Low	Final	-	-	-	2
Contract Management and Spend Activity	Medium	Final	-	-	2	1
Total			-	1	13	11

Internal audit work conducted

Direction of control travel

Finding rating	Trend between current and prior year	Number of findings		
		2016/17	2015/16	2014/15
Critical		-	-	-
High		1	2	4
Medium		13	14	13
Low		11	4	9
Total		25	20	26

Over the past three years, the number of findings has remained consistent which demonstrates that LSBU has a stable control environment. The risk profile has changed over the course of the three year period with more low risk findings and fewer high risk findings. There have been no critical risk rated findings over the past three years which is positive.

The trend should be considered in the context that we conduct different reviews each year which present different risk profiles. In 2015/16, both the high risk findings came from the Data Security internal audit which has not been included in the 2016/17 internal audit programme.

Implications for management

- The high risk finding in the current year relates to the Apprenticeships report. This report was classified as high risk due to signed apprenticeship agreements not being in place for the majority of apprentices tested (19/20), lack of attendance records for 6/20 apprentices tested and non-compliance with the rules set by the Education & Skills Funding Agency (ESFA) in relation to transferring employer incentive payments. We will follow up on the findings from this review and provide an update at the next Audit Committee meeting.
- The majority (24%) of findings were from the Placements report. We have followed up on the agreed actions during the year and we're pleased to report that 5/6 agreed actions have now been implemented and 1/6 agreed actions is partially implemented (see details and revised implementation date in Appendix 4).
- In the prior year, Data Security was the primary area of concern, with a high risk rating overall. As part of the 2016/17 internal audit programme, we have conducted a benchmarking exercise to understand which aspects of the IT control environment present the greatest risk. This report has been delayed, however we anticipate that this review will highlight the areas of focus for the 2017/18 IT audit.
- No classification has been given for four reviews performed, these relate to Continuous Auditing. An analysis of findings in these areas has been provided on the next page. We have provided risk-rated findings where exceptions were noted in our testing. The results of our Continuous Auditing show a decline in performance during the year, however we have not identified any risks which are pervasive to the entire control environment.

Internal audit work conducted


























Analysis of the Continuous Auditing programme

Whilst no overarching classification is assigned for our Continuous Auditing reports, we have summarised below the findings identified in each period under consideration as part of the 2016/17 audit programme. The comparative performance for 2015/16 is also shown.

Key Financial Systems

The table below represents our view of the overall risk for each system within each financial cycle. This includes phase one of the 2017/18 key financial systems as this captures the results of testing during the 2016/17 financial year (January 2017 – July 2017). The numbers in brackets represents the number of operating effectiveness exceptions identified from our work. The control design recommendations identified are included within the table included on page 9.

Overall there has been a deterioration in performance during this period due to an increase in the number of operating effectiveness and control design exceptions identified. Payroll in particular has continued to deteriorate and has moved from a green rating to a red rating over the two year period. A key theme underlying the decline in payroll performance is missing evidence and lack of timely input by the HR and payroll teams.

System / Rating	Trend	2017/18 IA Programme		2016/17 IA Programme		2015/16 IA Programme	
		P1 2017/18	P2 2016/17	P1 2016/17	P2 2015/16	P1 2015/16	
Payroll	↓	 Red (5)	 Amber (5)	 Amber (4)	 Amber (5)	 Green (0)	
Accounts Payable	↔	 Amber (1)	 Amber (2)	 Green (1)	 Green (0)	 Green (2)	
Accounts Receivable	↔	 Green (0)	 Green (2)	 Green (1)	 Green (3)	 Green (1)	
Cash	↔	 Green (0)	 Green (1)	 Amber (1)	 Green (1)	 Green (0)	
General Ledger	↔	 Green (2)	 Green (0)	 Amber (1)	 Green (1)	 Green (1)	

Internal audit work conducted

Student Data

The table below summarises the overall performance for Student Data Continuous Auditing. This is based on the number and severity of findings identified for each Phase. We classified the overall area as medium risk in both Phases in 2016/17; this was classified as low risk for both Phases in 2015/16. The table shows a decline in performance during the year: 35 operating effectiveness exceptions were identified in Phase 1; this increased to 41 exceptions Phase 2. One control design exception was also identified in Phase 2 (Phase 1: two exceptions). The increase in exceptions is driven by evidence not being available to confirm that a control has operated effectively.

Control	P2 16/17 Effectiveness	P2 16/17 Control design	P1 16/17 Effectiveness	P1 16/17 Control design	Trend
S1	14	-	3	1	↓
S2	-	-	5	-	↑
S3	1	-	4	-	↑
S4	1	-	4	1	↑
S5	6	-	5	-	↓
S6	5	-	9	-	↑
S7	-	1	1	-	↔
S8	8	-	1	-	↓
S9	N/A	-	N/A	-	↓
S10	1	-	-	-	↓
S11	5	-	3	-	↓
Total	41	1	35	2	↓

In Phase 1, we applied Computer Assisted Audit Techniques (CAATS) to perform data mining procedures over a sample of courses and modules to confirm that student timetabling data is correct and to highlight any potential exceptions to management. We identified just two minor exceptions in Phase 1. Due to the significant improvement in the CAATS results in Phase 1, we agreed to remove CAATs testing from the scope of the review in Phase 2.

Internal audit work conducted

Comparison of planned and actual activity

Audit unit	Budgeted days	Actual days
<i>Continuous Auditing: Financial Controls – Phase 1</i>	13	15
<i>Continuous Auditing: Financial Controls – Phase 2</i>	12	15
<i>Continuous Auditing: Student Data Controls – Phase 1</i>	15	15
<i>Continuous Auditing: Student Data Controls – Phase 2</i>	15	12
<i>DEFCE: 5 Year Review</i>	5	5
<i>HR System Implementation</i>	9	9
<i>Placements</i>	8	8
<i>Apprenticeships</i>	7	7
<i>IT audit</i>	10	9*
<i>Risk Management</i>	5	5
<i>Contract Management and Spend Activity</i>	10	10
<i>Value for Money</i>	3	3
<i>Audit management and follow up</i>	15	15
Total	127	128

* The IT audit has not been finalised.

Implications for management

- Five additional days were required to complete the Financial Controls Continuous Audit due to the number of exceptions which arose during testing.
- We used three less days than budgeted for the Student Data Continuous Audit – Phase 2. This was due to a change in scope as we removed the CAATs testing over timetabling data. This change was agreed with Audit Committee following the significant improvement in testing results in Phase One as only two minor exceptions were identified.
- In light of the variance between budgeted and actual days for both Continuous Audits, we have amended the 2017/18 Internal Audit budget and allocated 30 days to Financial Controls and 25 days to Student Data.
- The IT audit has not yet been completed. There have been delays to this review due to the number of stakeholders required to provide input into the report. We have currently used 9 days of the allocated budget, we expect that all 10 days will be used.

Follow up work conducted

Introduction

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

Within the Internal Audit Risk Assessment and Internal Audit Plan 2016/17, ten days were assigned for following up agreed actions raised in previous and current periods in order to assess whether agreed actions had been implemented by management. The table below summarises the follow up work performed.

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

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

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

Results of follow up work

29 agreed actions were due for implementation by 31 July 2017. The table below summarises the follow up work performed.

Status	Number of agreed actions due by 31/07/2017
Implemented	28
Partially implemented and deferred to 2016/17	1
Not implemented	0
Total	29

Summary

There is one agreed action (3%) which was due to be resolved by year end, but additional work is required to close the action. We have provided details of the current status of the finding and the revised implementation deadlines in Appendix 4.

We will continue to work collaboratively with management in 2017/18 to ensure that implementation timescales agreed for management actions in year are achievable, taking in to account any known or expected changes in LSBU’s processes or regulatory requirements.

Appendix 1: Limitations and responsibilities

Appendix 2: Opinion types

Appendix 3: Basis of our classifications

Appendix 4: Outstanding recommendations

Appendix 5: Mapping of internal audit work

Appendices

Appendix 1: Limitations and responsibilities

Limitations inherent to the internal auditor's work

Our work has been performed subject to the limitations outlined below.

Opinion

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

Internal control

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

Future periods

Our assessment of controls relating to LSBU is for the year ended 31/07/2017. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

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

Responsibilities of management and internal auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

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

Appendix 2: Opinion types

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

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

Appendix 3: Basis of our classifications

Individual finding ratings

Critical

A finding that could have a:

- **Critical** impact on operational performance resulting in inability to continue core activities for more than two days; or
- **Critical** monetary or financial statement impact £5m; or
- **Critical** breach in laws and regulations that could result in material fines or consequences over £500k; or
- **Critical** impact on the reputation or brand of the organisation which could threaten its future viability, e.g. high-profile political and media scrutiny i.e. front-page headlines in national press.

High

A finding that could have a:

- **Significant** impact on operational performance resulting in significant disruption to core activities; or
- **Significant** monetary or financial statement impact of £2m; or
- **Significant** breach in laws and regulations resulting in significant fines and consequences over £250k; or
- **Significant** impact on the reputation or brand of the organisation, resulting in unfavourable national media coverage.

Medium

A finding that could have a:

- **Moderate** impact on operational performance resulting in moderate disruption of core activities or significant disruption of discrete non-core activities; or
- **Moderate** monetary or financial statement impact of £1m; or
- **Moderate** breach in laws and regulations resulting in fines and consequences over £100k; or
- **Moderate** impact on the reputation or brand of the organisation, resulting in limited unfavourable media coverage.

Appendix 3: Basis of our classifications

Individual finding ratings

Low

A finding that could have a:

- **Minor** impact on the organisation’s operational performance resulting in moderate disruption of discrete non-core activities; or
- **Minor** monetary or financial statement impact of £500k; or
- **Minor** breach in laws and regulations with limited consequences over £50k; or
- **Minor** impact on the reputation of the organisation, resulting in limited unfavourable media coverage restricted to the local press.

Advisory

A finding that does not have a risk impact but has been raised to highlight areas of inefficiencies or good practice.

Report classifications

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

Findings rating	Points
Critical	40 points per finding
High	10 points per finding
Medium	3 points per finding
Low	1 point per finding

Report classification	Points
 Low risk	6 points or less
 Medium risk	7 – 15 points
 High risk	16 – 39 points
 Critical risk	40 points and over

Appendix 4: Outstanding recommendations

Breakdown of outstanding recommendations

There is one agreed actions which has been partially implemented by 31 July 2017. We have provided a breakdown of the original finding raised, agreed action, risk rating, status and revised due date below.

Review	Agreed Action	Risk Rating	Original due date	Revised due date	Status
Placements Page 32	<p><u>InPlace findings</u></p> <ol style="list-style-type: none"> 1. We will involve key users in the tailoring of the software in terms of reports and monitoring functionality, to enable a smoother transition when the system goes live, and enable the system to be used to the best of it's capacity. 2. We will formulate a general survey which will be input into InPlace and allow wide-scale student interaction and feedback. 3. We will explore the reporting tools within InPlace and utilise a report which will show when placements are coming to an end, so that the placement provider can be contacted to understand their business needs and the possibility of further placements for LSBU students. 4. We will tailor training courses to different schools and user groups to ensure that they understand how to get the best out of the software and how it can improve both staff productivity and student experience. 5. We will use the reporting function on InPlace to track the progress of placement applications and follow-up on slow-moving placement applications where appropriate. 6. Appropriate due diligence checks will be completed before giving placement providers access. If access is granted to placement providers, their access will be limited to prevent them viewing sensitive data. 	<p>●</p> <p>Medium</p>	30/06/2017	31/12/2017	<p>Partially implemented.</p> <ol style="list-style-type: none"> 1. Stakeholder groups are being created for new academic year. The Governance Board will start in semester two of the 2017/18 academic year to manage change processes. 2. Feedback surveys have been incorporated into InPlace. 3. Not yet implemented. 4. Tailored training courses by Schools will be delivered in the new academic year based on student placement timings. A full communications plan being agreed with Marketing. 5. Not yet implemented. 6. The School of Health are exploring employer access to InPlace. No other Schools will have this functionality enabled.

Appendix 5: Mapping of internal audit work

Reporting responsibilities

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

Audit unit	Governance	Risk management	Control	Value for money	Data submission
Continuous Auditing: Financial Controls – Phase 1	■	■	◆	■	■
Continuous Auditing: Financial Controls – Phase 2	■	■	◆	■	■
Continuous Auditing: Student Data Controls – Phase 1	■	■	■	■	◆
Continuous Auditing: Student Data Controls – Phase 2	■	■	■	■	◆
HEFCE: 5 Year Review	◆	■	■	■	■
HR System Implementation	■	■	■	■	◆
Placements	◆	■	●	●	■
Apprenticeships	■	◆	■	●	■
IT audit	◆	■	■	■	■
Risk Management	■	◆	■	●	●
Contract Management and Spend Activity	■	■	◆	◆	●
Value for Money	■	■	■	◆	■

Key

- ◆ Testing focused on this area
- Testing was peripheral
- Not tested

Data submission

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

This document has been prepared only for London South Bank University and solely for the purpose and on the terms agreed with London South Bank University in our agreement dated 15/05/2015. We accept no liability (including for negligence) to anyone else in connection with this document, and it may not be provided to anyone else.

Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to Memorandum of Assurance and Accountability between Higher Education Funding Council for England (HEFCE) and institutions. As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

If you receive a request under freedom of information legislation to disclose any information we provided to you, you will consult with us promptly before any disclosure.

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	CONFIDENTIAL
Paper title:	Internal Audit Progress Report – November 2017
Board/Committee	Audit Committee
Date of meeting:	9 th November 2017
Author:	PriceWaterhouse Coopers
Executive/Operations sponsor:	Richard Flatman – Chief Financial Officer
Purpose:	For Information; to provide Committee with the current progress of the work of the Internal Audit programme.
Which aspect of the Corporate Strategy will this help to deliver?	The internal audit plan relates to controls and processes that relate to the entire organisation, and provides assurance against all of the risk types within the Corporate Risk Appetite statement.
Recommendation:	Committee is requested to note: <ul style="list-style-type: none"> • the report and its findings

Executive Summary

27% of the agreed internal audit programme for 17/18 is now complete.

The progress overview accompanies the final versions of the 1617 annual report and the audit charter.

Three recommendations were followed up in this period, and all have now been implemented (100%) (*details in appendix A on p13*)

- The Committee is requested to note the report and the progress made.

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Internal Audit Progress Report 2017/18

*London South Bank
University*

FINAL

November 2017

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- A. Follow up on audit actions
- B. Thought leadership

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Summary (1 of 2)



Purpose of this report

We are committed to keeping the Audit Committee up to date with Internal Audit progress and activity throughout the year. This summary has been prepared to update you on our activity since the last meeting of the Audit Committee and to bring to your attention any other matters that are relevant to your responsibilities.

Progress against the 2017/18 internal audit plan

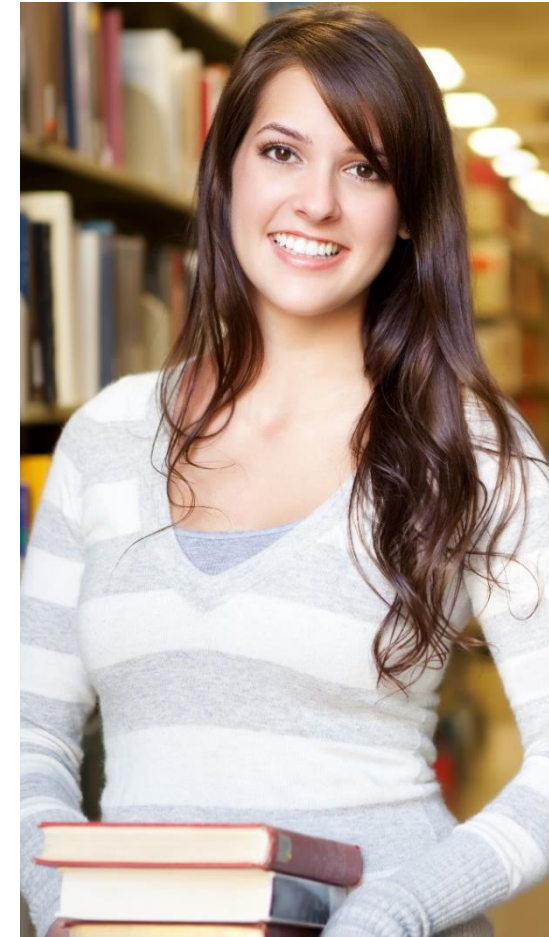
We have completed 29% of our 2017/18 internal audit programme for the year. For this Audit Committee, we present our final 2017/18 Internal Audit Charter and our final 2016/17 Internal Audit Opinion.

We have also completed the work in the 2016/17 plan on benchmarking risk in the IT environment. The report is currently with the Executive for consideration of the findings and development of an associated action plan. This will be presented to the February Audit Committee meeting.

Findings of our Follow Up Work

We have undertaken follow up work on actions with an implementation date of 31/10/2017 or sooner. We have discussed with management the progress made in implementing actions falling due in this period. Where the finding had a priority of low or advisory, we have accepted management's assurances of their implementation; otherwise, we have sought evidence to support their response.

A total of three actions have been followed up this quarter. All three actions have been implemented (100%). Progress is summarised in Appendix A.



Summary (2 of 2)



Other Matters

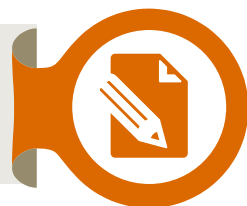
As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. Our Higher Education Centre of Excellence and the PwC's Public Sector Research Centre (PSRC) produce a range of research and are the leading centres for insights, opinion and research on good practice in the higher education sector. In Appendix B we have summarised some of our recent publications.

Recommendations

- That the Audit Committee **notes** the progress made against our 2017/18 Internal Audit Programme.
- That the Audit Committee **notes** our final 2017/18 Internal Audit Charter and final 2017/18 Internal Audit Opinion.



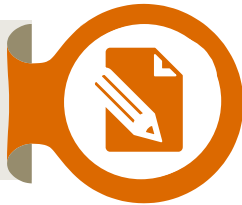
Progress against 2017/18 plan (1 of 3)



The below table outlines the progress against the 2017/18 Internal Audit Plan:

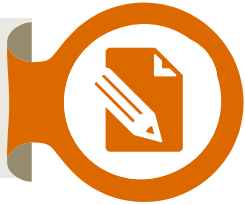
Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 1: August 2017 – October 2017											
Continuous Auditing: Key Financial Systems – January 2017 to July 2017											
15 (15)	02/08/2017	14/08/2017	15/09/2017	19/09/2017	N/A						
Health and Safety											
12 (10)	18/09/2017	09/10/2017									
Quarter 2: November 2017 – January 2018											
International Partnership Arrangements											
10 (1)											
Continuous Auditing: Student Data – April 2017 to October 2017											
13 (1)					N/A						

Progress against 2017/18 plan (2 of 3)



Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 3: February 2018 – April 2018											
Continuous Auditing: Key Financial Systems - August 2017 to December 2017											
15 (0)					N/A						
Continuous Auditing : Student Data - November 2017 to March 2018											
12 (0)					N/A						
HR audit											
10 (0)											
IT audit											
15 (0)											

Progress against 2017/18 plan (3 of 3)



Days	ToR	Field work start	Exit Meeting	Final Report	Report Classification	Total findings	Ratings				
							Critical	High	Medium	Low	Advisory
Quarter 4: May 2017 – July 2017											
Risk Management											
5 (0)											
Other											
18 (9)	Planning, contract management, reporting, value for money and follow up										
Total	125 (36)										

Appendices

Appendix A: Follow up (1 of 2)

#	Review	Agreed Action	Original due date	Risk rating	Status
1	Apprenticeships	<p><u>Centralised guidance</u></p> <p>We will create a centralised guidance document on the apprenticeships process. This will cover all requirements of the ESFA and will be distributed to all relevant staff and stakeholders.</p>	30/09/2017	<p>●</p> <p>Medium</p>	<p>Implemented</p> <p>All agreed actions have been implemented.</p>
2	Apprenticeships	<p><u>Administration</u></p> <p>1. We have implemented the Docusign platform to collect and store signed apprenticeship documents. This will improve the timeliness of collating signatures.</p> <p>2. The introduction of a centralised guidance document will reiterate to staff the key checkpoints which must be completed before the apprenticeship commences.</p> <p>3. Apprentices will no longer be able to start their course with LSBU if the apprenticeship agreement and commitment statement has not been signed by all parties.</p> <p>4. Going forward, employer incentive payments will be made directly to the employer from the ESFA. In the meantime, Finance will implement a process to ensure that employer incentive payments are transferred to the employer within 10 working days of receipt.</p> <p>5. Attendance records will be retained for all apprentices, including those in the School of Health and Social Care.</p>	30/09/201	<p>●</p> <p>High</p>	<p>Implemented</p> <p>All agreed actions have been implemented.</p>

Appendix A: Follow up (2 of 2)

#	Review	Agreed Action	Original due date	Risk rating	Status
3	Apprenticeships	<p><u>Apprenticeships process</u></p> <ol style="list-style-type: none"> 1. We will introduce a declaration on the apprentice’s application form for support needs and any state benefits claimed. 2. Where we are claiming funding for the additional support needs of a student, we will retain evidence for how LSBU are providing support to the apprentice. 3. We will retain evidence of the apprentice’s relevant experience and achievements, both inside and outside their current working role. 4. We will retain evidence of prior learning that affects the learning or the funding of any of the learning aims or programme for all students. 	30/09/2017	<p>●</p> <p>Medium</p>	<p>Implemented</p> <p>All agreed actions have been implemented.</p>

Appendix B: Recent publications and thought leadership

As part of our regular reporting to you, we plan to keep you up to date with the emerging thought leadership we publish. The PwC PSRC produces a range of research and is a leading centre for insights, opinion and research on best practice in government and the public sector alongside our in-house blog which discusses current issues in the education sector. We have included an extract of our most recent report below.

Align in Higher Education

The financial stability of higher education is under significant strain. Changing student demographics, increasing operational and people costs, political uncertainty and challenges to traditional income routes are combining to put the financial security of many Higher Education Institutions (HEIs) under intense pressure.

Our recent publication, 'HE Matters – Managing Risk' considered how universities are finding new ways of working when operating against this backdrop of economic uncertainty, as well as rapid changes in technology and rising expectations from students. However, transforming how an institute operates is not a straightforward process and many are finding themselves with an increasing cost base as a result of trying to keep up with the current pace of change.

As the delivery and purpose of higher education continues to change in order to compete in an increasingly global market, so must the approach to budgeting and funding core activities.

While HEIs have proven to be resilient, overcoming many challenges in the past, they now need to take pre-emptive action to reduce costs and better align them to strategic goals so as to develop a robust financial model for the future. Only then can they have confidence in developing a sustainable, balanced budget regardless of the climate within which they are operating.

In this paper we discuss what HEIs need to be doing to ensure financial stability in uncertain times. The full publication can be viewed here:

<http://www.pwc.co.uk/services/consulting/align-costs-strategy/align-in-higher-education.html>

We are happy to provide full electronic or hard copy versions of our publications at your request.

All publications can be read in full at www.psrc.pwc.com/ and www.pwc.blogs.com/publicsectormatters/education/

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Internal audit work was performed in accordance with PwC's Internal Audit methodology which is aligned to the Higher Education Funding Council for England's (HEFCE) Memorandum of Assurance and Accountability (MAA). As a result, our work and deliverables are not designed or intended to comply with the International Auditing and Assurance Standards Board (IAASB), International Framework for Assurance Engagements (IFAE) and International Standard on Assurance Engagements (ISAE) 3000.

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	CONFIDENTIAL
Paper title:	IT Risk Diagnostic Review
Board/Committee	Audit Committee
Date of meeting:	9 th November 2017
Author:	Ian Mehrtens, COO
Executive/Operations sponsor:	Ian Mehrtens, COO
Purpose:	For information
Recommendation:	The Committee is requested to note the report.

Executive Summary

This review has been undertaken by PwC as part of the 2016/2017 internal audit programme, which has been approved by the University's Audit Committee, at the request of the Executive.

The review was performed during May/June 2017 and all findings relate to the control environment at that time. The purpose of this review was to establish a baseline understanding of the IT risk environment and maturity of internal controls across the IT Audit landscape within London South Bank University. This was performed by carrying out a series of meetings and workshops with the IT management team, to understand the processes and controls in place across seven core IT areas. Management's subsequent self-assessment of controls maturity in the seven areas have been benchmarked against both "good practice" and a group of 30+ organisations which includes both public and private sector organisations.

The Director of Academic Related Resources is reviewing the recommendations in that review and will prepare an action plan as a result. This will be reviewed by the Executive and once agreed will be presented to a subsequent Audit Committee meeting for review.

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	CONFIDENTIAL
Paper title:	General Data Protection Regulations (GDPR)
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Executive sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors
Purpose:	To update the committee on actions taken to progress compliance with General Data Protection Regulations (GDPR)
Recommendation:	The committee is requested to note the report.

Executive Summary

At its meeting of 3rd October 2017, the committee requested a report on progress in relation to achieving compliance with the general data protection regulation, which comes into force on 25 May 2018.

The following actions are being taken:

- Candidates for the replacement Data Protection / Information Compliance Officer are currently being interviewed. An interim consultant will be appointed initially, followed by a permanent appointment. In the interim, advice is being provided by the legal team.
- Following recruitment, the existing Data Protection Champions' Network will be the starting point for the time limited compliance project group (to involve key stakeholders, including: Schools, Student Support, ICT Services, ICT Security, Registry, People & Organisation, Governance & Legal). The project deliverable will be to prepare a two to three year costed compliance plan and take any necessary action to reasonably mitigate risk of non-compliance prior to May 2018.
- Participation at the ICSA's data governance conference on 3rd November 2017 to understand best practice and approaches in other sectors.

- Continuation of PwC's special characteristics workshop on 30th November 2017 (which progresses the work already done on the readiness-assessment test, reported to the previous meeting of the committee).
- Contingency rehearsal on 11th December 2017 for Deans and Directors of a scenario where LSBU is under cyber-attack.

The committee will be kept informed of any additional developments.

	CONFIDENTIAL
Paper title:	Value for Money update
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Penny Green, Head of Procurement
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To Note
Recommendation:	Audit Committee is requested to note the report.

HEFCE Value for Money Reporting Requirements

To date, HEFCE, as part of its grant letter, has required HEFCE-funded institutions to produce an annual VFM report. HEFCE used information from these reports to report the aggregate efficiency of the sector. The Value for Money report was made mandatory for the first time last year, with a recommended expanded reporting scope (LSBU received positive feedback from HEFCE on our 2016 report).

HEFCE commissioned an independent review of the 15/16 VFM reports. The review analysed the nature and volume of the savings reported and the approaches taken to achieve them. It also assessed the extent to which the reports assisted governors in understanding and improving value for money, and suggested what information value for money reports should contain, based on good practice in the sector.

HEFCE issued new guidance on 6 October 2017 advising that HEFCE-funded institutions should consider reporting on value for money internally to their governing bodies, but confirming that it is no longer a requirement to submit full value for money reports to HEFCE.

New HEFCE guidance advises that under the [memorandum of assurance and accountability](#), internal auditors and audit committees are required to give an opinion, addressed to the governing body and the accountable officer, on the provider's arrangements for ensuring the three elements of value for money: economy, efficiency and effectiveness. (These reports are not new and are already provided at LSBU on an annual basis). New guidance for governors has been published 'Getting to Grips with Efficiency' that describes how governors can ensure the efficient and effective use of resources at their provider. This guide was produced by the Leadership Foundation for Higher Education, supported by funding from HEFCE.

New HEFCE Efficiency Reporting Requirements

HEFCE have introduced a new mandatory report 'Annual Efficiency Return', requiring 'HEFCE-funded higher education institutions to provide data on efficiencies realised in the 2016-17 academic year. Reportable efficiencies are those that release cash or resources, or result in productivity gains or capital receipts.

The annual efficiency return must be approved by the accountable officer and presented to the institution's governing body. The deadline for returns is Wednesday 31 January 2018.

Revised LSBU VFM/Efficiency Reporting Timetable

LSBU will continue to produce a Value for Money report for internal reporting purposes. This will be produced in January to align with the new 'Annual Efficiency' return and the Efficiency Measurement Model (EMM) returns that both have January deadlines for submission to HEFCE (NB like the VfM report, the EMM return is also not mandatory).

Given the late notification of the new requirements, HEFCE has confirmed that the Annual Efficiency return can this year be approved by Board at the earliest opportunity after submission in January.

	CONFIDENTIAL
Paper title:	Modern Slavery Act statement
Board/Committee:	Audit Committee
Date of meeting:	9 November 2017
Author:	Richard Flatman
Executive sponsor:	Richard Flatman
Purpose:	Approval
Recommendation:	Audit Committee is requested to recommend this statement for approval by the Board of Governors.

Executive summary

The Modern Slavery Act 2015 requires companies with turnover of £36M or more, to report annually on the steps that they have taken during the financial year to ensure that slavery and human trafficking are not taking place in their own business or in their supply chains.

The statement was reviewed in detail by the Executive and no changes were requested.

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Anti-slavery and Human Trafficking Statement November 2016

1. Introduction

1.1 This statement is made under the Modern Slavery Act 2015 and sets out the steps that London South Bank University (LSBU) is taking with the aim that slavery and human trafficking are not taking place within its supply chain or its business.

1.2 LSBU is a UK higher education institution. LSBU purchases around £60 million p.a. in goods, services and works through various supply chain arrangements.

2. Policy on slavery and human trafficking

2.1 LSBU is committed to procuring goods and services and employing people without causing harm to others. In doing so, LSBU is committed to supporting the UK Government's approach to implementing the UN Guiding Principles on Business and Human Rights.

2.2 In implementing this approach LSBU supports the Base Code of the Ethical Trading Initiative (ETI):

- employment is freely chosen
- freedom of association and the right to collective bargaining are respected
- working conditions are safe and hygienic
- child labour shall not be used
- living wages are paid
- working hours are not excessive
- no discrimination is practised
- regular employment is provided
- no harsh or inhumane treatment is allowed

3. Identified risks and mitigation

3.1 Direct employment – LSBU mitigates the risk of modern slavery in directly employed staff by following its own policies on selection and recruitment.

3.2 Agency staff – agency staff are recruited through established sources, which should provide assurance that they comply with the requirements of

legislation relating to the rights and welfare of their candidates and employees.

3.3 Students – although the risk is low, LSBU recognises that students living in south London and the surrounding area may become aware of instances of modern slavery or human trafficking. If such circumstances occur, students will be encouraged to seek assistance, support and advice on their wellbeing from the Student Life Centre.

3.4 Supply chain – LSBU's supply chains are managed under the following categories:

- estates* (including capital estate projects, works, maintenance, utilities)
- facilities* (including cleaning, security, reception, catering, furniture, health & safety including personal protective equipment)
- insurance
- capital & specialist equipment
- professional clothing*
- ICT hardware* & software (including audio visual, telecoms, print)
- professional services (including recruitment, marketing, and HR services)
- research & enterprise
- publications
- travel
- office supplies*
- laboratory consumables and equipment*
- international student recruitment representatives

3.5 LSBU's reasonable assessment at this time is that categories highlighted with an asterisk * carry potentially higher risks relating to modern slavery in their supply chains.

4. Raising concerns

4.1 Any person who has a concern that there is malpractice in relation to LSBU's activities anywhere in the world may raise their concern via the independent speak up helpline provided by Safecall (details are in the speak up policy).

5. Current action

- 5.1 LSBU is committed to carrying out procurement of goods and services in an environmentally, socially, ethically and economically responsible manner and to entering into agreements and contracts with suppliers that share and adhere to this commitment.
- 5.2 LSBU's procurement is either: (1) collaborative, through national public sector or regional higher education purchasing consortia; or (2) by in-house tendering and contracting.
- 5.3 LSBU is a member of the London Universities Purchasing Consortium (LUPC). LSBU engages with its purchasing consortia to support the inclusion of ethical sustainability, including addressing slavery and human trafficking, in their procurement programmes.
- 5.4 When procuring goods, works and services the university reviews corporate social responsibility in a range of methods, depending on the type of procurement being undertaken. All employees involved in university procurement processes are required to uphold the university's procurement code of ethics. This includes specific reference to modern slavery.
- 5.5 The university's sustainability steering group is responsible for the oversight, development and ongoing monitoring of the university environmental and sustainability policies and strategy (which include modern slavery).

6. The future

- 6.1 LSBU will continue to develop its approach to better understand its supply chain and to encourage greater transparency and responsibility towards people working within them.
- 6.2 LSBU will continue to review its supply base and procurement processes to assess what steps need to be taken to prevent, monitor and mitigate risks where supply chains may pose particular risks

This statement has been approved by LSBU's Board of Governors and will be reviewed annually.

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	PAPER NO:
Paper title:	Anti-fraud, bribery and corruption report
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To alert Committee to any instances of fraud, bribery or corruption arising
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Financial performance and control
Recommendation:	That the Committee notes this report

Executive Summary

Since the last report there is one incident to report.

A member of the Payroll team was contacted during September through a staff email account requesting that bank details held on the Payroll system be changed. Following an email exchange between the Payroll team and the email correspondent, a change of bank details form was sent to payroll and the employee's bank details subsequently changed on the Payroll system.

The member of staff later contacted Payroll to say that they had not received their pay as usual in October and said that they had not made the request to change their bank details. The individual made three further requests to change employee bank details, all by email with an accompanying form, and all were actioned, resulting in the University making 4 payments to the individual totalling £14,947.94.

Payments have now been made to the genuine members of staff who did not receive their October salary and the matter has been reported to the police through their online reporting site, Action Fraud.

The amounts involved are below the threshold for reporting to HEFCE and hence we have not alerted them.

IT security

An initial investigation by the Head of Information Security has taken place. Those affected users have likely been sent an email purporting to be from either ICT, their bank, Facebook etc., informing them to change their passwords. If the users have clicked through this process they will have been breached.

In the case of one employee specifically, it's likely they were a victim of the Onliner Spambot breach in August this year. Unfortunately while we are able to see the logs of this happening, we are unable to see the source of the emails.

We've been through our endpoint protection, antimalware logs and found nothing out of the ordinary. It is unlikely that our infrastructure has been compromised but the team are actively monitoring that now, in addition to our normal security monitoring.

Revised Payroll Procedures

It would appear that this is a cyber-security fraud rather than a breach/lack of compliance with internal control procedures. However, it has highlighted a weakness in the current controls. With immediate effect, staff requesting a change of bank details will be asked to bring the form and ID to Payroll in person or in another way that allows the team to verify the identity of the requester.

Pension Matters

During the email exchange relating to the first request, the individual said that they needed to withdraw funds from the University's pension fund and the payroll team referred them to the USS pension scheme, which the genuine employee was a member of. USS have confirmed that someone did contact them with regard to withdrawing funds and have noted that this was a fraudulent request.

Next steps

An investigation is underway in line with the University's Fraud Response Plan, including checks on staff as there is a possibility that this is internal although the early indications are that this wasn't the case.

Recommendation

The Committee is requested to note this report.

	CONFIDENTIAL
Paper title:	Speak up report
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Michael Broadway, Deputy University Secretary
Executive sponsor:	James Stevenson, University Secretary and Clerk to the Board of Governors
Purpose:	To update the committee on any speak up matters raised since the last meeting
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	N/A - The speak up policy enables workers and students to report any concerns about malpractice, helping to create an open and ethical culture in the workplace.
Recommendation:	Audit Committee is requested to note the report.

Executive Summary

No speak up issues have been reported since the last Audit Committee meeting. There are no further updates on the outstanding issue relating to SBUEL employees.

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Paper title:	Committee business plan, 2017/18
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Michael Broadway, Deputy University Secretary
Board sponsor:	Steve Balmont, Chair of the Committee
Purpose:	To inform the committee of its annual business plan
Recommendation:	To approve the committee's annual business plan

Audit Committee Business Plan

The Audit Committee business plan is based on the model work plan for audit committees developed by the CUC. It is intended to help the committee review the adequacy and effectiveness of risk management, control and governance (including ensuring the probity of the financial statements) and for the economy, efficiency and effectiveness of LSBU's activities delegated to it from the Board.

As agreed at the meeting of 5 November 2015, the committee's business plan will be a standing item on agendas.

The plan lists regular items. Ad hoc items will be discussed as required.

The Audit Committee is requested to note its annual business plan.

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Audit committee plan, 2017/18

Agenda Item	Consider By	Date	Decision By	Date	Lead Officer
3 October 2017					
Internal audit charter			Audit Committee	3 Oct 2017	Richard Flatman
Public benefit statement			Audit Committee	3 Oct 2017	James Stevenson
Corporate governance statement			Audit Committee	3 Oct 2017	James Stevenson
Corporate Risk register			Audit Committee	3 Oct 2017	Richard Flatman
Speak up report			Audit Committee	3 Oct 2017	James Stevenson
Pensions assumptions			Audit Committee	3 Oct 2017	Richard Flatman
Membership and terms of reference			Audit Committee	3 Oct 2017	Michael Broadway
Internal controls - annual review of effectiveness	Executive	27 Sep 2017	Audit Committee	25 Oct 2017	Richard Flatman

Agenda Item	Consider By	Date	Decision By	Date	Lead Officer
Internal audit progress report	Executive	27 Sep 2017	Audit Committee	3 Oct 2017	Richard Flatman
Draft internal audit annual report	Executive	27 Sep 2017	Audit Committee	3 Oct 2017	Richard Flatman
Audit Committee business plan			Audit Committee	3 Oct 2017	Michael Broadway
Anti-fraud, bribery and corruption report			Audit Committee	3 Oct 2017	Richard Flatman
Risk strategy and appetite	Executive Audit Committee	27 Sep 2017 3 Oct 2017	Board of Governors	12 Oct 2017	Richard Flatman
9 November 2017					
Corporate risk register	Operations Board	17 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman
Speak up report			Audit Committee	9 Nov 2017	James Stevenson
Internal audit progress report	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman

Agenda Item	Consider By	Date	Decision By	Date	Lead Officer
Final internal audit annual report	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman
External audit performance against KPIs	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman
External audit - review of non-audit services	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Michael Broadway
Audit Committee business plan			Audit Committee	9 Nov 2017	Michael Broadway
Audit Committee annual report	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	James Stevenson
Anti-fraud, bribery and corruption report	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman
Annual value for money report	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman
Prevent annual report	Executive Audit Committee	8 Nov 2017 9 Nov 2017	Board of Governors	23 Nov 2017	Ian Mehrtens
External audit letter of representation	Executive	1 Nov 2017	Audit Committee	9 Nov 2017	Richard Flatman

Agenda Item	Consider By	Date	Decision By	Date	Lead Officer
External audit findings	Executive	25 Oct 2017	Audit Committee	9 Nov 2017	Richard Flatman
Annual report and accounts	Executive Audit Committee	1 Nov 2017 9 Nov 2017	Board of Governors	23 Nov 2017	Richard Flatman
Quality Assurance return to HEFCE	Executive Audit Committee	1 Nov 2017 9 Nov 2017	Board of Governors	23 Nov 2017	Shan Wareing
Modern Slavery Act statement	Executive	1 Nov 2017	Audit Committee	9 Nov 2017	Richard Flatman
8 February 2018					
Corporate risk register	Executive	24 Jan 2018	Audit Committee	8 Feb 2018	Richard Flatman
TRAC return to HEFCE to be ratified			Audit Committee	8 Feb 2018	Richard Flatman
Speak up report			Audit Committee	8 Feb 2018	James Stevenson
Internal audit progress report	Executive	24 Jan 2018	Audit Committee	8 Feb 2018	Richard Flatman

Agenda Item	Consider By	Date	Decision By	Date	Lead Officer
FMI structure and leadership team			Audit Committee	8 Feb 2018	Richard Flatman
Data assurance report	Executive	24 Jan 2018	Audit Committee	8 Feb 2018	Richard Flatman
Audit Committee business plan			Audit Committee	8 Feb 2018	Michael Broadway
Anti-fraud, bribery and corruption report	Executive	24 Jan 2018	Audit Committee	8 Feb 2018	Richard Flatman
UKVI audits	Executive	8 Nov 2017	Audit Committee	8 Feb 2018	Mandy Eddolls
7 June 2018					
Corporate risk register			Audit Committee	7 Jun 2018	Richard Flatman
TRAC return to HEFCE			Audit Committee	7 Jun 2018	Richard Flatman
Speak up report			Audit Committee	7 Jun 2018	James Stevenson
Internal audit progress report	Executive	23 May 2018	Audit Committee	7 Jun 2018	Richard Flatman

Agenda Item	Consider By	Date	Decision By	Date	Lead Officer
Internal audit plan	Executive	23 May 2018	Audit Committee	7 Jun 2018	Michael Broadway
Indicative pensions assumptions			Audit Committee	7 Jun 2018	Richard Flatman
External audit plan	Executive	23 May 2018	Audit Committee	7 Jun 2018	Richard Flatman
Audit Committee business plan			Audit Committee	7 Jun 2018	Michael Broadway
Anti-fraud, bribery and corruption report	Executive	27 Jun 2018	Audit Committee	7 Jun 2018	Richard Flatman
Anti-fraud policy review			Audit Committee	7 Jun 2018	Michael Broadway
Annual debt write off			Audit Committee	7 Jun 2018	Richard Flatman
Non-regular items					
Apprenticeships update			Audit Committee	3 Oct 2017	Shân Wareing

	CONFIDENTIAL
Paper title:	External Audit Progress Report – November 2017
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To note external audit progress
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Committee note the attached report

Executive summary

It is recommended that the Committee note the attached report.

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Progress Report and Technical Update

London South Bank University
External Audit 2016-17
November 2017

External Audit Progress Report – November 2017

Since the last Audit Committee on 3 October we have...

- Commenced the fieldwork of our audit of the University's financial statements and those of the University's subsidiary, South Bank Enterprises Ltd. Our fieldwork is substantially complete at this stage.
- The findings from our work are presented in our Audit Report, which is presented to this Committee; and
- Prepared the management representation letter.

Ahead of the next meeting of the Audit Committee in February 2018 we will...

- Have concluded our 2016/17 audit.
- Have issued our signed opinions on the University and SBUJEL accounts.
- Have met with management to feed back on the approach to the audit and identify lessons learnt for next year.

Actions arising from this report

We ask the Audit Committee to:

- **NOTE** this progress report;
- **NOTE** our Audit Report; and
- **APPROVE** the management representation letter.

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Issue	Impact and insight
<p><i>FRS 102 Triennial review</i></p> <p>The Financial Reporting Council (FRC) has recently published FRED 67, which outlines their approach to the FRS 102 triennial review.</p> <p>The principal amendments that may be relevant to the University are:</p> <ul style="list-style-type: none"> • There will be fewer intangible assets required to be separated identified from goodwill in a business combination; • For investment properties rented to another group entity, there is now an accounting policy choice to measure these at cost less depreciation or fair value. At present these are required to be measured at fair value; and • The definition of basic financial instruments has been widened. <p>A consultation on the triennial review was completed during June 2017 and it is anticipated that the revised standards will be effective from 1 January 2019.</p> <p>The Financial Reporting Council has confirmed that revisions to International Financial Reporting Standards currently being implemented, including those relating to revenue and leases, will be considered for the next triennial review to be effective from January 2022.</p>	<p>The Committee should note the update.</p>
<p><i>Guidance on severance pay and the remuneration of senior staff</i></p> <p>There is significant student and public interest in the remuneration of heads of HEFCE-funded higher education institutions (HEIs) and in the severance payments and packages received by those vacating office. There is also considerable press interest annually in these matters, with HEIs and other charities being challenged and held to account for high levels of pay for their chief executives.</p> <p>Governing bodies will therefore be required to disclose severance payments to outgoing senior staff and the setting of the remuneration of the head of institution and staff earning over £100,000.</p>	<p>The Committee should note the update.</p>
<p><i>Corporate criminal offence – final HMRC guidance published</i></p> <p>Tax evasion and its facilitation are already criminal offences, however it has to date been difficult to attribute criminal liability to an organisation where such instances occur.</p> <p>The Criminal Finances Bill 2017 introduces new criminal offences to apply to organisations who fail to prevent their agents from criminally facilitating tax evasion. The legislation becomes effective on 30 September with the expectation that reasonable procedures will be subject to ‘rapid implementation’.</p> <p>The guidance from the HMRC has now been finalised, and organisations should not delay in finalising and executing plans to respond to the requirements of the Act.</p> <p>More guidance can be found at https://home.kpmg.com/uk/en/home/insights/2017/09/Corporate%20criminal%20offence%20E2%80%93%20final%20HMRC%20guidance%20published.html</p>	<p>The Committee should note the update.</p>

Issue	Impact and insight
<p><i>Subject level Teaching Excellence Framework (TEF)</i></p> <p>The Department for Education (DfE) has recently announced the pilot of subject-level TEF for universities. This follows the announcement of the first round of TEF scores at an institutional level in June 2017. DfE is seeking up to 40 higher education providers to take part in a 'by exception' model and a 'bottom up' model, where the composite of subject assessments forms the overall judgement. A formal consultation on the approach to subject-level TEF is expected to be published later this year and reviewed following a lessons learned exercise to review the outcomes of the first TEF review.</p> <p>Key factors relating to the pilot are:</p> <ul style="list-style-type: none"> • There won't be any published judgements from the pilots which will run alongside TEF3. • The University of Exeter's Provost, Janice Kay, will chair the subject pilots and will be joined by 110 new assessors and panel members who will be grouped into seven broad subject areas. • There will be a new measure introduced of teaching intensity, a combination of contact hours and staff: student ratio. The greater level of scrutiny is likely to be controversial as it brings TEF into questions of teaching inputs and away from the dominance of outcome measures. • Entities have until 25th September to respond to HEFCE's invitation to join the pilot exercise. 	<p>The Committee should note the update.</p>
<p><i>General Data Protection Regulation (GDPR) Regime</i></p> <p>New data protection rules are to be implemented from May 2018, which carry possible fines of the higher of 4% of global turnover or €20m for business who do not comply. It is therefore imperative for institutions to ensure their privacy strategies adhere to the new requirements. Institutions need to consider the following in preparation:</p> <ul style="list-style-type: none"> • Definition of the University's privacy strategy, ensuring this has the endorsement of senior management and disseminated amongst staff. • Identifying the extent to which the new rules will impact the university and determining the level of privacy risk the university deems to be acceptable. • Adapting functions to consider the new rules, such as IT and compliance and legal. • Considering engaging third party assurance to perform due diligence and conclude on compliance with the new rules. • Establishing processes and an adequate audit trail to ensure accountability can be demonstrated. This will required embedding the processes required to comply with the new rules as business as usual. 	<p>The Committee should note this update.</p> <p>https://home.kpmg.com/xx/en/home/insights/2017/07/ready-for-gdpr.html</p>

Issue	Impact and insight
<p><i>Value for money reporting</i></p> <p>HEFCE have announced changes to the mechanisms for value for money reporting for 2016-17 onwards. Previously higher education institutions (HEI) have been required to prepare an annual value for money report as part of their annual accountability return.</p> <p>The revised reporting process will consist of a data collection exercise focusing on the efficiencies that have been achieved. The reporting deadline for the revised submission will be 31 January 2018.</p> <p>Although the external reporting requirements have changed HEIs will still be required to ensure that there is appropriate consideration of value for money arrangements within their management and governance structures.</p> <p>Following the 2015-16 value for money submissions HEFCE provided guidance on the sources of information and assurance that may be available to support HEIs in reviewing their value for money achievement, with the main sources identified being:</p> <ul style="list-style-type: none"> • Statistics from national data collections, such as the HESA or TRAC returns; • Efficiencies achieved through internal changes or business cases; • Data from surveys undertaken by sector professional bodies; and • Benchmarking data made available to the sector. 	<p>The Committee should note the changes to the required reporting mechanisms for value for money.</p> <p>The University will need to determine how it wishes to obtain assurance over the value for money achieved during the year. Further guidance is expected to be issued by HEFCE in October 2017.</p>
<p><i>Changes to the Memorandum of Assurance and Accountability</i></p> <p>HEFCE published a revised MAA on 26 July 2017. The main changes are as follows:</p> <ul style="list-style-type: none"> • The mandatory requirement for HEIs to subscribe to Jisc expired on 31 July 2017 however it will be extended for a further year to 31 July 2018, to cover the period of HEFCE's closure and the creation of the Office for Students.. • From 1 August 2017, the adjusted net operating cash flow (ANOC) measure, developed in conjunction with the BUFDG, will be used as the basis for calculating institutions' financial commitment thresholds. The threshold will be set at six times the average ANOC taken from the financial forecasts submitted by HEIs to HEFCE on 31 July 2017. Where an HEI's existing financial commitments exceed the revised threshold at 1 August 2017, a higher limit to accommodate these commitments will be approved without the HEI needing to submit an application to HEFCE. Service concession arrangements are now included in the financial commitments calculation and interest rate hedges (such as swaps) are now excluded. • HEFCE has amended its definition of 'connected undertaking' in the current HEFCE-funded sector. The development of more diverse corporate forms in the sector and the area reviews of further education which have recommended a number of mergers with higher education providers have led to a revised definition of 'related undertaking'. This definition allows two providers within the same group structure to be treated as separate providers for HEFCE funding, and for data and regulatory purposes. <p>More information about the changes can be found at: http://www.hefce.ac.uk/reg/MAA/</p>	<p>The Committee should note the changes.</p>



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	CONFIDENTIAL
Paper title:	External Audit Findings
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To present the findings from the audit for the year ending 31 July 2017.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Committee note and consider the attached audit findings from KPMG.

Matter previously considered by:	Executive	1 November 2017
Further approval required?	None	n/a

Executive Summary

Note main findings and recommendations

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Audit Highlights Memorandum

DRAFT

London South Bank University

Year ended 31 July 2017

-

9 November 2017

Contents

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3. Summary of financial performance	
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This report is made solely to the Board of Governors of London South Bank University, in accordance with the terms of our engagement. It has been released to London South Bank University on the basis that this report shall not be copied, referred to or disclosed, in whole (save for the Board of Governor's own internal purposes) or in part, without our prior written consent. We acknowledge that London South Bank University will disclose this report to the Higher Education Funding Council for England (HEFCE), to enable HEFCE to verify that a report to the Board of Governors by way of management letter has been commissioned by the Board of Governors and issued by the University's auditors, and to facilitate the discharge by HEFCE of its functions in respect of the University. Matters coming to our attention during our audit work have been considered so that we might state to London South Bank University those matters we are required to state to the Board of Governors in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the Board of Governors, for our work referable to this report, for this report, or for the opinions we have formed.

Please note that this report is confidential between London South Bank University and this firm and between HEFCE and this firm. Any disclosure of this report beyond what is permitted above will prejudice this firm's commercial interests. A request for our consent to any such wider disclosure may result in our agreement to these disclosure restrictions being lifted in part. If London South Bank University or HEFCE ('you') receive a request for disclosure of this report under the Freedom of Information Act 2000, having regard to these actionable disclosure restrictions you must let us know and you must not make a disclosure in response to any such request without our prior written consent.



Introduction

Structure of this report

This report is structured as follows:

- The executive summary outlines the headline messages;
- Sections 1 and 2 outline the progress on significant audit risks and other audit issues identified in our Audit Strategy and Planning Memorandum;
- Section 3 outlines how we have considered a number of significant judgments and estimates affecting the University; and
- Section 4 provides an update on other information of interest to the Audit Committee.

Our recommendations are included in Appendix 1. We have also reviewed your progress in implementing prior year recommendations and this is detailed in Appendix 2.

The purpose of our audit

The main purpose of our audit which is carried out in accordance with International Auditing Standards (ISAs) issued by the Auditing Practices Board, is to report to the University whether in our opinion the financial statements:

- Give a true and fair view of the state of the affairs of the Group and University as at 31 July 2017 and of the Group's and University's income and expenditure, gains and losses and changes in reserves and of the Group's cash flows for the year then ended;
- Have been properly 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);
- meet the requirements of HEFCE's *Accounts direction to higher education institutions for 2016/17 financial statements*; and
- have been properly prepared in accordance with the Companies Act 2006.

We also give an opinion on matters prescribed in the HEFCE Audit Code of Practice issued under the Further and Higher Education Act 1992, that, in all material respects:

- Funds from whatever source administered by the Group and the University for specific purposes have been applied to those purposes;
- Funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and
- the requirements of HEFCE's Accounts Direction to higher education institutions for 2016/17 financial statements have been met.

Executive summary – Audit progress and key audit issues

The purpose of this report is to set out certain matters which came to our attention during the course of our audit of the accounts of London South Bank University (the University) for the year ended 31 July 2017, fulfilling our obligation under International Standard on Auditing (ISA) 260 to provide a summary of the work we have carried out to discharge our statutory audit responsibilities to those charged with governance at the time they are considering the financial statements.

This report also covers the key findings arising from the audit of the University's subsidiary, South Bank University Enterprises Ltd.

Issue	Summary
<p>Audit progress and status</p> <p>We anticipate being able to provide clean audit opinions on both the financial statements and use of funds audits</p>	<p>Our audit is now substantially complete and we anticipate being able to report in our opinion that the financial statements:</p> <ul style="list-style-type: none"> — give a true and fair view of the state of the affairs of the Group and University as at 31 July 2017 and of the Group's and University's income and expenditure, gains and losses and changes in reserves and of the Group's cash flows for the year then ended; — have been properly prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102) and the FEHE SORP; — meet the requirements of HEFCE's Accounts direction to higher education institutions for 2016/17 financial statements; and — have been properly prepared in accordance with the Companies Act 2006. <p>We also provide an opinion on certain other matters prescribed in the HEFCE Audit Code of Practice and anticipate being able to report that, in all material respects:</p> <ul style="list-style-type: none"> — Funds from whatever source administered by the Group and the University for specific purposes have been applied to those purposes; — Funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them; and — The requirements of HEFCE's Accounts direction to higher education institutions for 2016/17 financial statements have been met. <p>Finally, we anticipate that, subject to the outstanding matters referred to below, we will report that in our opinion the information given in the Strategic Report of London South Bank University for the financial year for which the financial statements are prepared is consistent with the financial statements.</p> <p>The following matters are currently outstanding:</p> <ul style="list-style-type: none"> — We are finalising our procedures in relation to staff costs and property rentals in the SBUEL accounts; and — We are reviewing the audit evidence for an accrual held for both income and expenditure in respect of a catering contract in order to confirm the value. The amount of both the income and expenditure accrual is c£1.5 million which is below our materiality level.

Executive summary - Audit progress and key audit issues (cont.)

Issue	Summary
Financial Position and going concern	We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.
Audit adjustments identified	Our audit has not identified any misstatements greater than our triviality threshold. We identified several minor presentational adjustments which have all been corrected by the University. A comprehensive summary is listed at Appendix 3.
Recommendations arising from our audit	<p>We have identified three recommendations which we are required to bring to your attention. These relate to the following issues:</p> <ul style="list-style-type: none"> ■ The Financial Controller conducts a monthly review of all journals posted. However the volume of journals posted on a monthly basis means this is a time consuming exercise, and not all journals are reviewed in detail prior to posting. ■ During our testing we identified a number of transactions that were not supported by backing documentation on the Agresso system, and further instances where the backing did not provide sufficient evidence to enable us to corroborate the accuracy or the reasonableness of the journal that was posted. ■ Through our testing of Fixed Assets we identified £407k worth of assets for which evidence of their existence or current use could not be provided. All assets had been fully depreciated meaning there is no impact on the surplus/deficit figure for the year, but could indicate that the cost and accumulated depreciation figures within the Fixed Assets note is overstated. <p>We have reviewed the University's response to recommendations raised by the previous external auditor. The University has implemented five of the seven recommendations raised in the prior year. The two recommendations that have not been implemented relate to journals authorisation and are superseded by the recommendation we have raised within Appendix One.</p>
Other significant matters	We have a responsibility to consider fraud and we considered the risk of fraud in our assessment of your controls framework. We have also considered your arrangements for the prevention and detection of fraud and corruption, and do not have any significant matters to bring to your attention.

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Executive summary - Audit progress and key audit issues (cont.)

Issue	Summary
Subsidiary audits There were no significant matters arising from our audit	We have carried out an audit of South Bank University Enterprises Ltd. pursuant to International Auditing Standards and issue an opinion in accordance with the Companies Act 2006. We did not identify any significant matters during the course of our work.
Independence	ISA 260 ' <i>Communication of audit matters with those charged with governance</i> ' requires us to communicate at least once a year regarding all relationships between KPMG and London South Bank University that may be reasonably thought to have bearing on our independence. KPMG conforms to the highest governance standards at all times and we will ensure that any additional services are approved in advance as appropriate in order to ensure transparency. The KPMG audit team have made enquiries of all KPMG teams providing services to the University and in their professional judgement are satisfied that KPMG is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Partners and audit staff is not impaired. See Appendix 5 for more details.

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Acknowledgements

We would like to take this opportunity to thank the Chief Financial Officer, Financial Controller, Finance Team and all other staff we met during our audit for their co-operation and assistance.

Section one

Significant risks

The following provides an update on significant audit risks identified in our Audit Strategy and Planning Memorandum.

Significant risk	Summary of findings
<p>Fraud risk from revenue recognition</p> <p>There were no significant matters arising from our audit in respect of this significant risk</p>	<p>We have considered the extent to which the University's finance, student records and planning functions are integrated to ensure complete and timely data and information in areas such as:</p> <ul style="list-style-type: none"> ■ the University's fee matrix for calculating tuition fee values; and ■ reconciliation processes, especially the reconciliation for year end and the associated evidence base. <p>During the year under review:</p> <ul style="list-style-type: none"> ■ We have reviewed the completeness of fee income for student fees raised through the student record system by reviewing the year-end reconciliation with the general ledger. ■ We reviewed the calculation of tuition fees for a sample of students by reviewing the classification of students and recalculating the fee based on the University's fee matrix. We agreed a sample of invoices issued to students back to underlying records to assess whether the correct fee had been applied. ■ We have considered income recognition and debtor recoverability. ■ We substantively tested research grant income to confirm the completeness and accuracy of balances and did not identify any indication of fraudulent reporting. ■ We completed substantive procedures over other income (HEFCE funding, deferred income, other income and investment income). <p>No significant concerns arose from our work in these areas.</p>
<p>Management override of controls</p> <p>There were no significant matters arising from our audit in respect of this significant risk</p>	<p>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.</p> <p>We note that there is no automated authorisation of journals that are posted to the ledger. A lack of segregation of duties means that individuals with access to the ledger could post journals that misrepresent the University's performance. Through our substantive testing of high risk journals we have been able to assure ourselves that there are no material journals of this nature that have been posted. We have raised one recommendation in this respect in Appendix One.</p>

Significant risks

Significant risk	Summary of findings
<p>Defined benefit pension schemes</p> <p>There were no significant matters arising from our audit in respect of this significant risk</p>	<p>KPMG actuaries have reviewed the actuarial valuation for the LPFA and USS pension schemes. They have also considered the disclosure implications and compared the actuarial valuation to KPMG’s internal benchmarks.</p> <p>We have reviewed the accounts to consider whether the pensions disclosures are appropriate and we have reviewed the accounting treatment for annual pension charges through the Statement of Comprehensive Income. We have also reviewed the disclosures in respect of the Teacher’s Pension Scheme and the London South Bank University Defined Contribution Scheme.</p> <p>We note that the University has opted to use the Barnett Waddingham assumptions to calculate the deficit of the USS pension scheme, to ensure consistency with the calculation method of the LPFA scheme. This is consistent to the approach taken in the prior year. We have performed sensitivity analysis over the assumptions and calculated that the difference (£66k) in the USS pension provision between the two assumptions is below our triviality threshold.</p> <p>We have also confirmed with the auditor of the LPFA that there are appropriate controls in place to ensure that data passed to the actuary is complete and accurate.</p> <p>Overall we consider the assumptions adopted to be within our benchmark range, producing a net liability that is within our benchmark range. See Appendix 4 for more details.</p>

Section two

Other areas of audit focus

The following provides an update on other audit issues identified in our Audit Strategy and Planning Memorandum.

Other areas of audit focus	Summary of findings
Opening balances	<p>In line with professional auditing standards we met with Grant Thornton as the outgoing auditor to ensure that key information and significant findings were communicated to us. Where possible we placed reliance on their findings. We agreed the opening balances to the audited 2015/16 financial statements.</p> <p>We performed substantive procedures over the opening balances included within the fixed assets note, and raised one recommendation in this respect. We did not identify any significant issues that impact on our overall opinion.</p>
Valuation of fixed assets	<p>Through our work we considered the capitalisation and classification of additions to the estate. We reviewed the costs capitalised as assets under construction and assessed whether these had been appropriately classified as at the balance sheet date. We reviewed any judgements made over the capitalisation of costs to confirm their appropriateness.</p> <p>We considered the approach the University has taken to review potential impairments to its estate.</p> <p>We reviewed capital projects held as assets under construction, and assessed the appropriateness of their classification. For assets that have been transferred out of assets under construction (AUC) we reviewed how the University had identified the cost as assets are brought into use.</p> <p>We also considered the disclosures in relation to capital commitments and the presentation and disclosure of the funding and borrowing associated with the University's estates plans.</p> <p>Through our testing of fixed assets we identified £407k worth of assets for which evidence of existence or current use could not be provided. All assets had been fully depreciated meaning there is no impact on the net asset figure for the year or any requirement to write off capital costs to the income and expenditure account. This does however indicate that the cost and accumulated depreciation figures within the fixed assets note is overstated. We have raised a recommendation in respect of this in Appendix One. We have no other significant matters to report in respect of this work.</p>
Transaction with Lambeth College – Project Larch	<p>We discussed the transaction with management and reviewed minutes of the Board of Governors in relation to Project Larch. The transaction has not progressed to a stage where the University exerts control over the Lambeth College, meaning consolidation was not required in the 2016/17 financial statements.</p> <p>We did not identify any significant transactions with Lambeth College during the course of our audit, and we did not identify any matters that would require disclosure as a post balance sheet event. We therefore did not identify any significant issues that impact on our overall opinion.</p>
Use of funds	<p>We have completed our use of funds audit programme to confirm compliance with the requirements of the HEFCE Memorandum of Assurance and Accountability, and in addition our testing of controls and substantive items of expenditure has 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.</p>

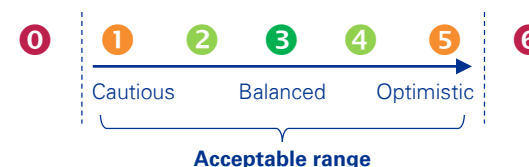
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Section three

Key accounting judgements

During the audit we have considered a number of key accounting judgements and estimates affecting the University this year and alongside the summary of significant risks and other matters arising in Section One above, we have summarised our findings below to give the Audit Committee a view as to whether we believe these judgements are reasonable:

Level of prudence



Subjective areas	2016/17	Commentary
Provisions	3	The University's total bad debt provision is £5.2m. £4.2m of this balance relates to tuition fees that are not recovered from the Student Loans Company. The University calculates the provision based on an estimated position at year-end. At the date of our fieldwork (three months after year end) we reviewed payments received that had been estimated by management. The difference between actual receipts and management's estimate was well below our triviality threshold, leading us to conclude that this estimate is balanced.
Property, Plant and Equipment (asset lives)	2	We have reviewed the University's policy for depreciating assets through our review of the depreciation charge. The University assigns different useful economic lives depending on the category of the asset. The University holds a number of assets on the fixed asset register with a nil net book value, which may indicate that the useful economic lives allocated are in some cases prudent. We have raised a recommendation in this respect in Appendix One.
Pensions	2	The pension deficit within the funded LGPS has decreased over the year by £8.8m. Our actuarial team has reviewed the assumptions that make up this calculation, and have noted that the CPI assumption of 2.7% is prudent when compared to benchmarked results (2.35%), and results in higher liability. However we identified that the discount rate of 2.7% applied was more optimistic than the KPMG actuarial assumption of 2.45%, reducing the liability. Overall we have therefore judged this as a prudent assumption, as the variance between the CPI assumption and the benchmarked range (which results in a higher liability) is greater than the variance between the discount factor and the benchmarked range. Further information is included in Appendix Three.

Section three

Key accounting judgements

Going concern

The financial statements have been drawn up on the basis that the University is a going concern and will continue as such for the foreseeable future. The following table summarises the budgeted income and expenditure for 2017/18.

	£'000
Income	
Tuition fee and education contract	109,626
Funding body grants	14,075
Research grants and contracts	2,200
Other income	24,491
Investment income	150
Total income	150,541
Expenditure	
Staff costs	84,990
Other operating expenses	48,514
Depreciation	11,130
Interest and other finance costs	4,408
Total expenditure	149,042
Surplus/deficit	1,500

- The majority of the University's income is derived from tuition fee income. In 2016/17 the University exceeded its tuition fee and education contract forecasts by 3.8%. We note that the University's forecast income for 2017/18 is 0.5% higher than the actual income. The number of applications received was down 2% in year, compared to a national average drop of 5%. If student recruitment were to drop 5% (in line with the national average drop in applications) the University would lose approximately £1.125m in income, meaning the University would still make an in-year surplus, which supports the going concern assumption.
- The University has forecast a rise in staff costs of 6%, however this will be offset in part by the increase in tuition fee income. In 2016/17 the University spent £4.8m less in staff costs than forecast. We also note that there is £3m of contingency to off-set any in-year student recruitment shortfall.
- The University has a strong cash position, holding £48.8m in cash and liquid investments at year end, which is enough to cover all of the University's short term creditors.
- The University has forecast a surplus of £1.5m for 2017/18. In 2016/17 the University recorded an actual surplus of £1.9m, which was £0.3m better than forecast.

The above points support the University's ability to forecast accurately and show positive financial performance. This supports the assumption that the University's accounts should be prepared on the going concern basis.

Section four

Other matters

Strategic report

We read all the financial and non-financial information in the Strategic Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit.

We have reviewed the University's annual report and can confirm it is not inconsistent with the financial information contained in the audited financial statements.

Corporate governance statement

The University is required to include in its annual financial statements a statement on internal control (corporate governance). In formulating their statement, the University is required to have regard to best practice guidance, including guidance from the British Universities Finance Directors Group.

We are required to review the University's statement to assess whether the description of the process adopted by the University in reviewing the effectiveness of the system of internal control is consistent with our understanding of the process and report any inconsistencies in our opinion. We are not required to provide an opinion on the University's system of internal control.

We have reviewed the corporate governance statement and consider it consistent with our understanding of the process followed by the University during the year.

Fraud

We have a responsibility to consider fraud and we addressed this in our assessment of your controls framework. We have also considered your arrangements for the prevention and detection of fraud and corruption, alongside our accounts audit work.

We have nothing significant to report in this respect.

Management representations

In accordance with ISA 580 *Written representations*, we request written representations from those charged with governance on certain matters relating to the audit of the University.

The draft written representations will be provided within the papers for the meeting on 9 November 2017. We require a signed copy of your management representations before we issue our audit opinion.

Internal audit

In accordance with ISA 610 *Considering the work of Internal Audit* we have considered work carried out by the internal auditors during the year, where appropriate including:

- The overall scope of their work as set out in their strategic and annual plan;
- The detailed work they have carried out in the areas identified within the annual plan, specifically the areas related to core financial systems.

There are no other matters which we wish to draw to your attention in addition to those highlighted in this report.



Appendices

Recommendations arising from our audit

We have given each recommendation a risk rating and agreed what action management will need to take.

The University should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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Priority rating for recommendations

<p>1 High priority: 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.</p>	<p>2 Medium priority: 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.</p>	<p>3 Low priority: 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.</p>
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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	2	<p>Journals authorisation</p> <p>Currently the Financial Controller conducts a monthly review of all journals posted. However the volume of journals posted on a monthly basis means this is a time consuming exercise, and not all journals are reviewed in detail prior to posting.</p> <p>Management has been working to implement an authorisation workflow within the Agresso system, to ensure certain types of journals are authorised before being posted. We recommend that automated journal approval is introduced to ensure that all journals are reviewed in detail with most (other than those that are simply moving transactions between cost centres) being reviewed prior to posting.</p>	<p>Agreed</p> <p>We will put in place a process for the authorization of journals with most being authorized prior to posting and only in limited circumstances allowing journals to be authorized retrospectively</p> <p>Responsible officer: Natalie Ferer, Ravi Mistry</p> <p>Deadline: 30 November 2017</p>

Recommendations arising from our audit

recommendation a risk rating and agreed what action management will need to take.

The University should closely monitor progress in addressing specific risks and implementing our recommendations.

We will formally follow up these recommendations next year.

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No.	Risk	Issue and recommendation	Management response/responsible officer/due date
2	2	<p>Attaching supporting documentation to journals</p> <p>During our testing we identified a number of transactions that were not supported by backing documentation on the Agresso system, and further instances where the backing did not provide sufficient evidence to enable us to corroborate the accuracy or the reasonableness of the journal that was posted.</p> <p>The University should ensure that each journal has sufficient backing documentation to corroborate the accuracy and reasonableness of the journal prior to it being approved for posting. If possible the automated approval process should require backing documentation to be attached to the journal, and this should be checked by the approver prior to posting.</p>	<p>Agreed</p> <p>guidance notes detailing supporting documentation required to be attached will be updated and staff given further training in this area. a monthly review of all journals posted will take place to ensure adequate supporting documentation is attached</p> <p>Responsible officer: Natalie Ferer, Ravi Mistry</p> <p>Deadline: 30 November 2017</p>
3	2	<p>Cleansing of the Fixed Asset Register</p> <p>Through our testing of PPE we identified £407k worth of assets for which evidence of their existence or current use could not be provided. All assets had been fully depreciated meaning there is no impact on the reported results for the year, but it does mean that the cost and accumulated depreciation figures within the fixed asset note are overstated.</p> <p>We recommend that management undertake a one off exercise to clear all nil net book value assets that are no longer in use from the Fixed Asset Register. The University should consider whether any of the assets at nil NBV are still in use, and if so, whether the allocated useful economic life is reasonable.</p>	<p>Agreed</p> <p>we will undertake a one off exercise to verify the existence of all assets held on our fixed asset register and then on will conduct an annual exercise to verify the existence of assets and if they are still in use.</p> <p>Responsible officer: Natalie Ferer</p> <p>Deadline: 31st March 2018</p>

Summary of audit differences

This appendix sets out the significant audit differences identified during the audit for the year ended 31 July 2017.

We report on all audit differences over our triviality threshold of £105k.

We are required by ISA (UK and Ireland) 260 Communication of Audit Matters to Those Charged with Governance to communicate all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance. We are also required to report all material misstatements that management has corrected but that we believe should be communicated to those charged with governance to assist it in fulfilling its governance responsibilities.

Corrected audit differences

We did not identify any corrected audit differences during the course of our audit.

Uncorrected audit differences

We identified the below misstatements during the course of our work. However as they are not above our materiality threshold, we do not require the University to adjust for these amounts.

Issue	Income and expenditure account (£000)		Balance sheet (£000)	
	Dr	Cr	Dr	Cr
We identified £936k of expenditure that related to capital projects above the University's capitalisation threshold that had not been capitalised.		£936k	£936k	
We identified £124k of income that related to 2017/18, and therefore should have been deferred.	£124k			£124k

Presentational issues

In addition to the above we identified a small number of presentational issues during our audit and these have all been amended by the University.

- Computer lease – we identified a computer lease in the TB with a cost of £2.9m and accumulated depreciation of £2.9m. However as the lease had finished and the computer equipment had been replaced this should have not been included in the cost or accumulated depreciation figure. There is no impact on the total NBV figure.
- LSBU has correctly presented software as an intangible asset, however the prior year comparators had not been included in the note.
- We identified £1,079k of depreciation in the fixed assets note which related to the amortisation of software.

South Bank University Entreprises Ltd.

We have no other matters to report to you in this respect, however we highlight that there are a limited number of procedures outstanding related to journals and staff costs.

Summary of financial performance - retirement benefits

Accounting requirements

The Local Government Pension Scheme (LGPS) is a Defined Benefit Pension Scheme and participating education employers are required to report their pensions obligations in relation to the scheme under the FRS102 accounting standard. Under FRS102, the balance sheet position is calculated on an 'accounting basis', which must be determined based on principles prescribed by the FRS102 accounting standard. The accounting assumptions used are required to represent the Actuary's 'best estimate' of the cost of providing the promised benefits, with the calculations based on market conditions at the respective date.

Cash contributions

As a result of the prescribed basis, the pension expense and balance sheet liabilities stated in the employers FRS102 accounts have no bearing on the actual cash contributions that the employer currently pays, or will pay in the future. An employers' ongoing cash obligations to the LGPS Fund they participate in is to pay the contributions to cover the build-up on accruing benefits for current employees, and contributions towards recovering any deficit revealed at the most recent LGPS funding valuation. This may be, and usually is, very different to an accounting basis.

The ongoing contributions required to be paid by the employer are determined by the Actuary at each valuation on a 'funding' basis. The funding basis is based on market conditions and the respective LGPS funding methodology of the advising Actuary firm. Contributions can therefore be volatile over time. Whilst current contributions may be sustainable, employers should consider whether future adverse experience or a change in the funding methodology used by their LGPS Funds could result in increase in obligations and a necessary increase in contributions to their LGPS Funds.

There is a significant lack of consistency across the approaches taken to valuing employer funding liabilities across the four LGPS Actuary firms. This means that some employers are paying considerable more, or less than employers in other Funds for identical benefits for employees. Paying a lower rate of contributions in the short term will lead to either the need for a higher level of contributions to be paid in the longer term, or require investment assets to outperform current expectations. Consideration should be given to the effect that a significant increase in the level of contributions required would have on the employers overall business plans and objectives.

Ultimate employer obligations

Whilst prudent assumptions are required to be used in the LGPS funding valuation, employers should also bear in mind that their ultimate obligation to the LGPS Funds are the cessation liabilities. Under the LGPS regulations, when an employers' last active member leaves a participation (i.e. on cessation of accrual), a termination (exit) debt will be triggered will need to be paid to the LGPS Fund. The termination liabilities are the expected cost of providing all the benefits promised to members, determined on basis that is in usually more prudent than the ongoing funding basis. The termination debt is the difference between the liabilities and the employers assets held within the Funds. If an employer not admitting new employees into the Fund then there may be a potential cessation debt which should be understood by the employer.

Further assistance

Employers who require further advice in relation to the management of their LGPS, TPS or USS pension liabilities should contact David Spreckley (David.Spreckley@KPMG.co.uk) or Emma Patterson (Emma.Patterson@KPMG.co.uk) in KPMG's Public Service Pensions team.

Appendix three

Summary of financial performance - retirement benefits

Below we have compared the assumptions used by the LPFA actuary (Barnett Waddingham) to the assumptions used by the KPMG Actuarial team. All the assumptions used by Barnett Waddingham fall within our tolerable range, and are therefore considered reasonable.

	Employer assumption	KPMG Central assumption	Assessment	KPMG Comments
Overall				
Discount rate	2.7%	2.45%		The proposed assumption is less prudent than our central assumption, placing a lower value on the liabilities. The assumption is within our usual range of tolerance and can be considered reasonable.
CPI inflation/Pension increases	2.7%	2.35%		The proposed assumption is more prudent than our central assumption, placing a higher value on the liabilities. The assumption is towards the upper end of our usual range of tolerance and moving to the edge of our central range of tolerance could decrease liabilities by 1.1-1.2%.
Net discount rate (Discount rate – CPI)	0%	0.1%		The net discount rate is within our acceptable range.
Salary growth	4.2%	1%-2.5% above CPI		As the assumptions are reflective of the Employer's long term salary expectations, we consider this assumption to be reasonable.
Life expectancy				
Current male/female pensioner (age 65)	21.2/24.2 years	22.2/24.3 years		The assumption has been set in line with demographic assumptions in the most recent triennial valuation. This approach can be considered reasonable.
Future male/female pensioner (age 45)	23.6/26.5 years	24.0/26.2 years		



Outside of KPMG's benchmark range. Potential audit difference.

Within a reasonable tolerance of KPMG's central assumption.

In line with the KPMG central assumption.

Summary of financial performance - retirement benefits

Assumption	KPMG methodology
Discount rate	Based on valuing sample pension scheme cash flows with different durations using a yield curve approach and to calculate the single equivalent discount rate for each set of cash flows. Therefore the appropriate discount rate can vary by scheme depending on the liability profile and duration of the scheme. The yield curve used in our models is the AA Corporate yield curve published by Merrill Lynch, extrapolated beyond 30 years using swap curves and Nelson-Siegel-Svensson methodology.
RPI inflation	Similar to discount rate, based on valuing sample pension scheme cash flows with different durations to calculate a single equivalent inflation assumption, based on inflation spot rate projections published by the Bank of England. Therefore the appropriate inflation rate can vary by scheme depending on the liability profile and duration of the scheme.
CPI inflation	RPI inflation less 1.00%, to reflect structural differences in the way CPI and RPI are constructed, historical differences as well as prevailing market practice.
Salary growth	Should reflect the long-term remuneration policy of the employer. Typical range seen across companies is 0% -1.5% above RPI inflation. May not be applicable if scheme is closed to future accrual and benefits are no longer linked to future salary growth.
Pension increases	“Black-Scholes” model used with a volatility assumption of 1.85% and 1.55% for RPI- and CPI-linked pension increases respectively to calculate the average single rate that will be applicable to future pension increases, allowing for the expected future impact of caps and floors. The appropriate CPI / RPI inflation measure should be used in line with scheme rules.
Life expectancy	Typically set by first considering a mortality table to reflect current expected experience, and then an appropriate allowance for future improvements in longevity: — Default base tables: SAPS table S2PXA (normal, all pensioners), but any best estimate scheme specific base table with supporting evidence is acceptable. — Future improvements: CMI 2015 projections with a long term improvement rate of 1.25% for males / females. There are a number of difficulties in deriving best estimates. In particular, many schemes are not large enough to rely on their own experience and UK life expectancies are known to be increasing at a rapid but uncertain rate. For companies that have yet to move to a scheme specific approach, consideration should be given to the overall assumption. Life expectancy may also vary with factors such as socio-economic group, size of pension and geographical location. Therefore, although our central base tables are suitable for a typical UK scheme, we would expect the base table adopted by a Company to reflect the UK Scheme’s specific membership.
Commutation	Should be in line with expected scheme experience. It is typical in UK schemes for members to commute some of their pension into tax-free cash.
CETV take up rate	No allowance made for transfers, unless the company or pension scheme has carried out an exercise that may affect the future take up of this option (e.g. a communications exercise to deferreds and/or actives), in which case the assumption should be reviewed to reflect a best estimate of future take up.

Summary of financial performance - retirement benefits

Assumption	Methodology	Consistency	Reasonableness
Discount rate	The discount rate is based on the Merrill Lynch AA-rate corporate bond yield curve at the appropriate duration.	This is consistent with the methodology used last year.	See duration-specific comments.
RPI inflation	The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields based on data published by the Bank of England.	This is consistent with the methodology used last year.	Used to derive the CPI assumption. See duration-specific comments on CPI assumption.
CPI inflation	RPI inflation less 0.9% p.a.	This is consistent with the methodology used last year.	See duration-specific comments.
Salary growth	Salary increase assumption from 2016 valuation (in line with CPI to 2020 then CPI +1.5% p.a. after)	The approach used to derive the assumption is consistent, (i.e. based on the most recent triennial valuation) but updated to reflect the 2016 valuation, which was completed since the previous accounting period.	The salary growth assumption should reflect the long term remuneration policy of each employer. If the assumptions are reflective of the employers' long term salary expectations, then we would consider these assumptions to be reasonable.
Pension increases	In line with CPI.	This is consistent with the methodology used last year.	This assumption can be considered reasonable.
Life expectancy	In line with the demographic assumptions adopted at the triennial valuation of the fund at 31 March 2016.	The approach used to derive the assumption is consistent, (i.e. based on the most recent triennial valuation) but updated to reflect the 2016 valuation, which was completed since the previous accounting period.	An assumption in line with the most recent actuarial valuation of the fund would usually be considered reasonable.
Commutation	In line with the demographic assumptions adopted at the triennial valuation of the fund at 31 March 2016.	The approach used to derive the assumption is consistent, (i.e. based on the most recent triennial valuation) but updated to reflect the 2016 valuation, which was completed since the previous accounting period.	An assumption in line with the most recent actuarial valuation of the fund would usually be considered reasonable.
CETV take up rate	In line with the demographic assumptions adopted at the triennial valuation of the fund at 31 March 2016.	The approach used to derive the assumption is consistent, (i.e. based on the most recent triennial valuation) but updated to reflect the 2016 valuation, which was completed since the previous accounting period.	An assumption in line with the most recent actuarial valuation of the fund would usually be considered reasonable.

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Summary of financial performance - retirement benefits

Approach typically used by Barnett Waddingham

We have based our comments on Barnett Waddingham's approach on their IAS19 results report dated 14 April 2017.

The asset share for each individual employer is rolled forward from the previous year (as at 31 December 2016) allowing for 'net new money' (i.e. each employer's contribution less benefits paid) and a pro rata share of the investment return earned by the fund as a whole.

At each triennial valuation, a pro rata adjustment is made to ensure that the sum of the asset shares for each individual employer equals the total fund value. This adjustment then flows through as an experience item on the assets. We note from Barnett Waddingham's IAS19 report that the asset values were updated to be those available from the fund as at 31 December 2016.

Where asset shares have not previously been calculated then the approach is generally to give an initial asset share based on a pro rata share of the liabilities, e.g. if an employer had a 10% share of the liabilities, an initial asset share would be set up equal to 10% of the total assets.

Limitations of the method

Assets in LGPS funds are not ring fenced at employer level and it is therefore impossible to run these funds without some degree of cross subsidy between employers. The extent of any cross subsidy will depend on the methods used.

The approach involves an element of approximation. Due to, for example, differences in timing of cash flows and investment returns on those amounts, an adjustment or "miscellaneous" item split across employers will be necessary from time to time to ensure that the sum of individual asset shares will exactly match the total assets.

Other disadvantages of the methodology include:

- The calculations can be difficult to follow for participating employers.
- A change for one employer could have a knock on effect on other employers.

- The total asset figure for the whole fund does not easily reconcile with the estimated asset shares derived for FRS102 reporting (due to different accounting year end dates and the fact not all employers request FRS102 figures).

Alternative method – unitisation

Unitisation is a systematic mechanism whereby assets are allocated between subsections of the overall fund. It is a formal arrangement with a good audit trail.

Assets of the fund are notionally converted to units with each employer holding a share of overall units.

All incoming and outgoing cashflows are separately tracked for each employer.

Employers with a positive cashflow will buy more units from time to time (as money is invested) whereas those with a negative cashflow will sell units from time to time (as money is disinvested).

Unit prices are updated regularly to reflect the performance of the underlying assets. Investment returns will be allocated to each employer depending on the number of units held.

Such a system would be the most accurate way of splitting assets between employers but also the most complex to implement and maintain.

Pooling

In some LGPS funds, groups of employers are "pooled", meaning that for cash funding purposes they share risk and pay the same contribution rate.

For those employers in a "pool", further investigation would be required to understand the impact of this on the asset share under the accounting standard and in particular whether the asset share is reflective of the average experience of the pool or of the individual employer itself.

Conclusion

In our view, Barnett Waddingham's approach is pragmatic (in the absence of full unitisation) and should result in a reasonable split of assets between employers which is appropriate for the purpose of reporting under the accounting standard.

Confirmation of independence and objectivity

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

Professional ethical standards require us to communicate to you as part of planning all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of Fleur Nieboer and the audit team. This letter is intended to comply with this requirement although we will communicate any significant judgements made about threats to objectivity and independence and the appropriateness of safeguards put in place.

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;
- Breaches of applicable ethical standards;
- 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 APB Ethical Standards. 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

Permissible non-audit services that auditors may perform for their audit clients are enshrined in the APB's Ethical Standard 5. The principal threats to an auditor's objectivity and independence are; self interest, self review, acting as management, acting as advocate, familiarity, and intimidation.

As a result we operate a proprietary global system (Sentinel) to ensure that all requests from London South Bank University via local KPMG offices, for KPMG to provide non-audit services are considered in the context of company policy and our professions ethical standards. Where necessary, further information is sought and specific approvals obtained from the Audit Committee.

In relation to all services provided, consideration is given to any threats to our objectivity and independence. In relation to non audit services which may impact on the financial statements, we apply appropriate safeguards. These include separation of personnel from the audit team and ensuring no decisions or accounting judgements were made by KPMG LLP on behalf of management. In particular, in relation to tax compliance, we do not provide tax accounting schedules.

In summary, in the light of the above safeguards, our assessment is that the above matters have been properly addressed in accordance with APB Ethical Standards and do not threaten our objectivity or independence.

Summary of fees

Any additional services provided by KPMG to you are approved by management under delegated authority from the Board of Governors to ensure transparency. In addition to the audit of the financial statements, during 2016/17 KPMG has also undertaken other work as follows:

- Corporation Tax Compliance.



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	CONFIDENTIAL
Paper title:	Going Concern Review
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	John Baker, Corporate & Business Planning Manager
Executive sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To present the going concern report for the financial year 16/17.
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	The going concern report relates to the financial sustainability of LSBU.
Recommendation:	The Committee is asked to review the report.

Executive Summary

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

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

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

Areas of assurance include:

- regular KPI reporting in areas which are relevant to the sustainability of LSBU
- an effective risk management process (rated in September 2017 as low risk by the internal auditors and subject to review by HEFCE in January 2017 without any significant findings)
- financial strategy and forecasts, which provide for financial surpluses each year over the forecast period to 2020 in line with the corporate strategy
- a financial surplus of £1.9m for 2016/17 which is ahead of the budgeted surplus of £1m
- a budget surplus of £1.5m agreed by the Board for 2017/18. Recruitment and re-enrolment has been challenging but income is likely to remain flat or show marginal growth compared with 16/17 and the Executive is confident that we can deliver agreed budget outcomes
- cash and cash deposits of £48.8m at 31 July 2017
- approved cashflow forecasts which provide for sufficient annual net cash inflows to enable the University to meet its future investment plans
- a range of scaleable estate options which allow us to match delivery with available funding.

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

Executive Summary

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

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

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

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

2016/17 has been a successful year with income growth of 4.6% to £144.5m in line with budget, building on earlier change, re-structuring and investment for future success. Full time undergraduate recruitment remained challenging but this was offset by increases in postgraduate, overseas student income and health contract income together with better than anticipated numbers of re-enrolling students reflecting improvements in progression and retention. A financial surplus of £1.9m is reported (ahead of the approved budget surplus for the year of £1m) as a result of continued sound financial management and effective cost control. This is after accounting for the write off of both the costs associated with the demolition of Hugh Aster Court and the development costs associated with the planned St. George's Quarter development.

A budget surplus of £1.5m has been approved for 2017/18, reflecting the need for continued surplus whilst maintaining appropriate levels of investment spend to drive the necessary corporate strategic outcomes. Clearing however has been even more challenging this year. Student numbers are expected to fall short of target as a result of a number of factors including a downward national trend in the number of applications, increased levels of market competition as a result of this downward trend and the removal of health bursaries. However, we are confident that we can manage this position in year and still deliver to the agreed budget surplus through the implementation of actions agreed and in the process of development. A longer term strategic response will be developed but this does not put the going concern basis at risk and income in 2017/18 is expected to be in line with previous year or marginally higher.

The University continues to generate positive cash inflows from operating activities and has a strong cash position with £48.8m cash and bank deposits at 31 July 2017.

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

1. KPI reporting

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

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

The latest KPI report for 2016/17 is attached as Appendix 1. In terms of financial KPIs the only red rated item relates to levels of enterprise income which were behind budget for the year, but which still demonstrated an 18% growth on the 15/16 result, to £9.2m.

However, the budget was aggressive in terms of growth and the turbulence in the sector and uncertainty in the political environment have had a direct impact on strategic plans in these areas.

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

2. Risk management

- We have an effective risk management process (rated as low risk by our internal auditors as recently as September 2017), linked to the achievement of institutional objectives as set out in the corporate strategy 2015/20 and designed to identify, evaluate and effectively manage risk. Where there are serious issues or risks, this process helps ensure that appropriate controls

are in place and/or remedial actions taken as appropriate. We have also continued during 2016/17 to ensure that we have aligned our processes to the Board's assessment of risk appetite.

3. Financial sustainability

Financial strategy and forecasts

- The University's financial strategy is expressed through its rolling five year financial forecasts. Those forecasts are kept under constant review and have been thoroughly revised in 2017 to reflect latest assumptions.
- The key elements of the financial strategy are to:
 - Aim for a surplus of 5% of income. This will not be achievable each year over the next 5 years because we are increasing our revenue (as well as capital) investment to deliver the outcomes set out in the University corporate strategy. However, the approved annual surplus over the next 5 years will generate sufficient cash reserves both to support investment at current planned levels and manage the financial position in the short term
 - Deliver growth in income, with a particular focus on apprenticeships, enterprise and income from international students
 - manage staff costs, including agency costs, to an agreed maximum percentage of income
 - Ensure flexibility, to allow management to respond as necessary to changes as they arise. The revenue budget each year includes an investment pool which can be flexed as required in response to changing circumstances. In 2017/18 those revenue investment funds amount to £2.5m. We have also set aside in 2017/18 a further contingency of £3m to help manage potential downside income risk related to recruitment given the challenging environment this year
 - Invest at an appropriate level to provide for future sustainability in buildings and infrastructure
 - Ensure that all aspects of the University's operation are as lean and efficient as possible without compromising quality or student success

- Maintain cash balances at agreed levels (minimum £20m).
- The current forecasts will be reviewed again early 2018 to reflect the continued challenging financial environment over the next few years. However, future forecasts are expected to deliver:
 - Financial surpluses over the forecast period (minimum £1m p.a.)
 - Sufficient operating cash to enable the University to meet its stated investment.
- Within our monitoring framework we have set targets for a small number of leading KPIs linked closely to delivery of the financial forecasts and which are monitored closely by the Board. The key targets are:
 - Minimum new student recruitment at FTUG Home/EU of 2,500 (latest indications for 17/18 are that at close to 2,400 we fell short of this target but plan to return to this level or above by 2020)
 - Improving YR1/YR2 progression to 80% by 2020
 - Additional income of £20 m p.a. (at surplus of 20%) by 2020
 - Capital Investment of £20mpa over the life of the forecasts.
 - Maintaining income in the Health and Social Care (HSC) at forecast levels.

We have made no assumptions about fee inflation with regulated fees pegged at £9,250 over the life of the forecasts.

Cashflow

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

4. Sustainability in estates & infrastructure investment

- LSBU continues to develop its strategic investment in the estate to create sustainable, first class facilities which will enhance both the learning and social experiences of students and support the delivery of the academic mission. The estate strategy includes plans to build new facilities and for the refurbishment of existing buildings. Appropriate control mechanisms

are in place to ensure that specific projects within the master plan are prioritized and potential funding sources identified. The funding approach adopted supports future financial sustainability by unlocking the potential value of the existing estate through innovative solutions. A small amount of additional external borrowing may be required over the life of the forecasts depending on the development option(s) chosen but not at levels that would put the financial model / forecasts at risk.

Attachments

1. Latest KPI report 16/17 Academic Year

		Report Date	9th October 2017	Benchmark	Past Performance			Target	Result	DU			
Out comes	#	Corporate Strategy Goals	20/20 Success Measures	#	Key Performance Indicators	Competitor Group 12/13 average	13/14	14/15	15/16	16/17			
Student Success	1	Teaching and Learning	Top 50% of universities for graduate employment / starting salaries.	1	Graduate level employment &/or Further study (EPI population)	n/a (local indicator)	49%	68%	76.0%	77%	82.1%	↑	
	2	Student Experience	Top quartile of all universities in NSS	2	NSS scores – overall satisfaction (First Degree respondents)	81.7%	80%	82%	82%	84%	82%	→	
				3	International Student barometer (% recommending LSBU)	not available	72.40%		77%	78%	77%	→	
				4	PGT experience (% satisfaction)	not available	77%	74%	74%	76%	74%	→	
				5	Student Staff Ratio	21.2	17.2:1	16.4:1	17:1	17.5:1			
Real World Impact	3	Employability	95% students in employment / further study (EPI) Top 10 UK universities for student start ups	6	DHLE Positive Outcomes; employment or further study (EPI)	88.5%	85.5%	90.2%	90.8%	92%	94.6%	↑	
				7	Number of Student start ups	47.86	1	30	50	70	65 (Forecast)		
	4	Research & Enterprise	Top 50% UK for Research & Enterprise Income	8	Research Income (non Hefce)	£6.1	£1.8	£2.0	£1.9	£2.6	£2.8	↑	
				9	Enterprise Income	not available	£8.4m	£8.1	£7.8	£9.9	£9.2	↑	
Access to Opportunity	5	Access	Top London Modern for LPN recruitment	10	% recruitment from low participation neighbourhoods	6.4%	7.4%	7.7%	8.4%	7.5-8.5%	9.2%	↑	
				11	% FT UG students (excluding HSC contract) recruited before Clearing	not available	73.6%	71.8%	71.8%	72%	71.1%	↓	
				12	First Degree completion projection (from HESA benchmark)	-3.13%	-9.5%	-7%	-5.8%	-4%	-5.5%	↑	
			13	Exceed expectations on completion	13	Year 1 progression	not available	69.9%	73.1%	77.2%	79%	74% (tbc)	
					14	Good Honours	62.2%	61.0%	61.2%	66.4%	63-67%		
	15	PGT completion	not available	54.8%	61.5%	58.7%	65%						
	6	International	4 QS Stars	16	QS Star Rating	not available	2 (prov.)	3 stars	3 stars	3	4 stars	↑	
17				Overseas student income (millions)	£29.5m	£9.3 m	£11.2	£9.8	£10.7	£11.2	↑		
Strategic Enablers	7	People and Organisation	Rated as a good employer	18	Appraisal completion %	not available	37%	90%	91%	95%			
				19	Average Engagement Score as a %	70%	-		58%	62%	62%	↑	
	8	Resources & Infrastructure	Grow our income by 25% to £170m annually, deliver an operating surplus of 5% and an EBITDA margin of 15%	20	Surplus as % of income	9.6%	2.3%	0.9%	2.4%	0.7%	1.3%	↓	
				21	Income (£m)	£188.2m	£134.8m	£140.8m	£138.2	£144.5m	£144.5	↑	
				22	EBITDA margin (EBITDA expressed as % of income)	9.20%	11.4%	9.2%	11.8%	11.7%	12.0%	↑	
				23	Student satisfaction ratings with facilities & environment (FD)	82.7%	83.0%	87.7%	90.0%	90.0%	87.2%	↓	
24	ICS Service Index %	-	-	68%	76%	78%	66%	↓					
League Tables	Overall	Top London Modern university (excl UAL)	25	Times - League table ranking	92.3	122/123	120 / 127	120 / 128	115	106 / 128	↑		
			26	Guardian – League table ranking	87.1	112/116	111 / 119	107 / 119	102	92 / 121	↑		
			27	Complete University Guide – League table ranking	85	120/123	119 / 126	115 / 127	110	108 / 129	↑		

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	CONFIDENTIAL
Paper title:	Letter of Representation to the Auditor
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To agree the Letter of Representation
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Committee agree the attached Letter of Representation and recommend approval to the Board. The draft is recommended for approval by the Executive.

Executive Summary

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

Recommendation

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

Attachments:

- Letter of representation

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(London South Bank University Letterhead)

KPMG LLP
15 Canada Square
Canary Wharf
London
E14 5GL

[Date]

Dear Sirs

This representation letter is provided in connection with your audit of the Group and University financial statements of London South Bank University (“the University”), for the year ended 31st July 2017, for the purpose of expressing an opinion as to whether the financial statements:

- i. give a true and fair view of the state of the Group’s and University’s affairs as at 31st July 2017 and of the Group’s and University’s income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended;
- ii. have been properly prepared in accordance with, including *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)* and the Statement of Recommended Practice: Accounting for Further and Higher Education 2015 (FEHE SORP);
- iii. meet the requirements of HEFCE’s Accounts Direction to higher education institutions for 2016-17 financial statements; and
- iv. have been prepared in accordance with the Companies Act 2006.

These financial statements comprise the Group and University balance sheets as at 31st July 2017, the Group and University Statements of Comprehensive Income, the Group and University Statements of Changes in Reserves, and the Group Statement of cash flows, and notes, comprising a summary of significant accounting policies and other explanatory notes.

The Governing Body confirms that the representations it makes in this letter are in accordance with the definitions set out in the Appendix to this letter.

The Governing Body confirms, to the best of its knowledge and belief, having made such inquiries as it considered necessary for the purpose of appropriately informing itself:

Financial statements

1. The Governing Body has fulfilled its responsibilities, as set out in the terms of the audit engagement dated [insert date], for the preparation of financial statements that:
 - give a true and fair view of the state of the Group’s and the University’s affairs as at the end of its financial year and of the Group’s and University’s income and expenditure, gains and losses, changes in reserves and cash flows for the year then ended; and

- have been properly prepared in accordance with UK Generally Accepted Accounting Practice and the FEHSORP; and
- have been prepared in accordance with the Companies Act 2006.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by the Governing Body in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which Section 32 of FRS 102 (*Events after the End of the Reporting Period*) requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in the aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

Information provided

5. The Governing Body has provided you with:
 - access to all information of which it is aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters;
 - additional information that you have requested from the Governing Body for the purpose of the audit;
 - unrestricted access to persons within the Group and the University from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. The Governing Body confirms the following:
 - (i) The Governing Body has disclosed to you the results of its assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

- (ii) The Governing Body has disclosed to you all information in relation to:
 - (a) Fraud or suspected fraud that it is aware of and that affects the Group and the University and involves:
 - management;
 - employees who have significant roles in internal control; or
 - others where the fraud could have a material effect on the financial statements;
 and
 - (b) allegations of fraud, or suspected fraud, affecting the Group and the University's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, the Board acknowledges its responsibility for such internal control as it determines necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, the Board acknowledges its responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

8. The Governing Body has disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
9. The Governing Body has disclosed to you and has appropriately accounted for and/or disclosed in the financial statements in accordance with Section 21 of FRS 102 and the FEHE SORP all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
10. The Governing Body has disclosed to you the identity of the Group and the University's related parties and all the related party relationships and transactions of which it is aware and all related party relationships and transactions have been appropriately accounted for and disclosed in accordance with Section 33 of FRS 102.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as we understand them and as defined in FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

11. The Governing Body confirms that:
 - (a) The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the University's and Group's ability to continue as a going concern as required to provide a true and fair view.
 - (b) Any uncertainties disclosed are not considered to be material and therefore do not cast significant doubt on the ability of the University and the Group to continue as a going concern.
12. On the basis of the process established by the Governing Body and having made appropriate enquiries, the Governing Body is satisfied that the actuarial assumptions underlying the valuation of pension scheme liabilities are consistent with its knowledge of the business and in accordance with the requirements of section 28 of FRS 102 .

We agree with the findings of Barnett Waddingham as the University's actuarial specialists in preparing the London Pension Fund Authority Pension Fund pension valuations. The Governing Body did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an impact in the independence or objectivity of the specialists.

13. The Governing Body further confirms that:
 - (a) all significant retirement benefits, including any arrangements that are:
 - statutory, contractual or implicit in the employer's actions;
 - arise in the UK and the Republic of Ireland or overseas;

- funded or unfunded; and
 - approved or unapproved,
- have been identified and properly accounted for; and

(b) all settlements and curtailments have been identified and properly accounted for.

14. The Governing Body confirms that costs or credits attributable to the agreement of a deficit recovery plan for the Universities Superannuation Scheme (USS) are calculated using assumptions that are consistent with its knowledge of the business. In particular, the Governing Body confirms that the assumptions for assumed salary inflation in each year during the life of the plan and assumed USS membership changes during the life of the plan are consistent with the University's projected employee population profile.

15. In particular the Governing body confirms that:

- There are no significant matters that have arisen that would require a restatement of the corresponding figures.
- There are no issues arising from the finalisation of student data for the year ending 31 July 2017 which has been used to produce the University's 2017 HESA return/re-creation of HESES16 which would have a material impact on the HEFCE teaching funding or English undergraduate fee income recognised in the financial statements.
- to the best of our knowledge and belief the University has complied with the terms and conditions of any capital grant funding received during the year and in respect of other capital grant funding received in prior years. In all instances, the University is satisfied that the agreed outputs against which each project will be assessed will be delivered.
- to the best of our knowledge and belief the University has complied with the terms and conditions of any revenue grant funding (for example research funding) received in recent years and where agreed outputs are to be delivered as part of the grant agreement, the University has or anticipates delivering these.
- To the best of our knowledge and belief we are satisfied that no impairment provision is necessary in respect of the University's estate.
- In all material respects funds from whatever source administered by the Group and the University for specific purposes have been applied to those purposes during the year ended 31 July 2017;
- In all material respects the University has complied with the requirements of its Memorandum of Assurance and Accountability with the Higher Education Funding Council for England during the year ended 31 July 2017.

This letter was tabled and agreed at the meeting of the Governing Body on [insert date].

Yours faithfully,

[Chair]

[Secretary/Chief Financial Officer]

Optional cc Audit Committee

Appendix A to the Representation Letter of London South Bank University: Definitions

Financial Statements

A complete set of financial statements comprises:

- Group and University balance sheets as at the end of the period;
- Group and University Statement of Comprehensive Income for the period;
- Group and University Statements of Changes in Reserves for the period;
- Group Statement of Cash Flows for the period; and
- notes, comprising a summary of significant accounting policies and other explanatory information.

Material Matters

Certain representations in this letter are described as being limited to matters that are material.

FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland* states that:

Omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions of users taken on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or combination of both, could be the determining factor.

Fraud

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity's assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.

Error

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- a) was available when financial statements for those periods were authorised for issue; and
- b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

Management

For the purposes of this letter, references to “management” should be read as “management and, where appropriate, those charged with governance”.

Related Party and Related Party Transaction

Related party:

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in *FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland* as the “reporting entity”).

- a) A person or a close member of that person’s family is related to a reporting entity if that person:
 - i. has control or joint control over the reporting entity;
 - ii. has significant influence over the reporting entity; or
 - iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- b) An entity is related to a reporting entity if any of the following conditions apply:
 - i. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - ii. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - iii. Both entities are joint ventures of the same third party.
 - iv. One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - v. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
 - vi. The entity is controlled, or jointly controlled by a person identified in (a).
 - vii. A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
 - viii. The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

Related party transaction

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Appendix B to the Management Representation Letter of London South Bank University

Summary of unadjusted audit differences

Under the requirements of ISA 260 we are required to present any unadjusted audit differences, other than those which are clearly trifling, to the Audit Committee.

We list below the unadjusted audit differences:

	Income and expenditure account (£000)		Balance sheet (£000)	
	Dr	Cr	Dr	Cr
We identified £936k of expenditure that related to capital projects above the University's capitalisation threshold that had not been capitalised.		£936k	£936k	
We identified £124k of income that related to 2017/18, and therefore should have been deferred.	£124k			£124k

Adjusted audit differences

ISA 260 also requires us to report differences found during our audit which have been adjusted by management in arriving at the final results for the University. These adjusted amounts need to be considered by the Audit Committee as they may indicate broader failures in systems of controls which will need addressing.

There were no adjusted differences identified during the course of our audit.

There were also a number of other presentational adjustments made to the accounts following our review including grossing up of balances and reclassification of other balances. These have all been adjusted for and are reflected in the financial statements.

Paper title:	Annual Report and Accounts for the year ending 31 July 2017
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To review the draft Annual Report and Accounts for the year ending 31 July 2017
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	It is recommended that the Committee review and note the attached Report and Accounts

Executive summary

The audit for the year ended 31 July 2017 is complete. The draft report and accounts are presented here and KPMG are in the process of finalising their audit letter.

Committee members should in particular draw their attention to the following sections in the accounts:

- A commentary on the financial results for the year is shown on pages 7-11. Results for the year have previously been considered in the July management accounts. KPMG are in the process of finalising their review of the accounts but no material adjustments are proposed or anticipated.
- Pages 3-6 of the 'Strategic Report' sets out the University's objectives and strategy for achieving those objectives in its performance through the year and its prospects for the future. This narrative is taken from the Corporate Strategy Progress Report presented to the Board.

- A description of the principal risks and uncertainties facing the University is shown on pages 6-7.
- An assessment of the University as a going concern, as will be presented to the Board, is shown on page 12.
- Remuneration of higher paid staff, including the Vice Chancellor, is frequently the subject of FOI requests. Relevant sections to note include:
 - Staff numbers by category (page 35)
 - Remuneration of higher paid staff (pages 36-37)
 - Key Management Personnel (page 37)
 - Related Party Disclosures (page 37)

Outstanding steps to completion

- Resolution of outstanding audit queries raised by KPMG
- Completion of review work by KPMG
- Issuing of letter of representation by LSBU to KPMG
- Review by Audit Committee
- Review by Finance, Planning and Resources Committee
- Approval by Board of Governors and signing of accounts

Recommendation

It is recommended that the Committee review and note the attached report and accounts.



Report and Financial Statements

31 July 2017

Version 5 1/11/17

Draft for Audit Committee

Report and financial statements 2017

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Strategic Report

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

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

The governing body of the University is responsible for the effective stewardship of the University and has control of the revenue and the property of the University. The University's corporate governance arrangements are described on pages 17-22 and the members of the Board of Governors during the year ended 31 July 2017 are listed on pages 2-3. The Governors are also directors under the Companies Act 2006.

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

Solicitors

Shakespeare Martineau LLP
1 Colmore Square
Birmingham B4 6AA

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

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

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

Michelmores LLP
48 Chancery Lane,
London WC2A 1JF

Eversheds
70 Great Bridgewater Street
Manchester
M1 5ES

Penningtons Manches
125 Wood Street,
London, EC2V 7AW

Auditor

KPMG LLP
15 Canada Square
London
E14 5GL

Internal Auditor

PricewaterhouseCoopers LLP
1 Embankment Place
London
WC2N 6RH

Bankers

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

Structure, Governance and Management

The following were Governors throughout the year ended 31 July 2017 except as noted:

Board of Governors

Name	Dates
Mr Jeremy Cope (Chair)	
Professor David Phoenix OBE (Vice Chancellor and Chief Executive)	
Miss Temi Ahmadu	Retired 30 June 2017
Mr Sodiq Akinbade	Appointed 1 July 2017
Mr Steve Balmont	
Mrs Shachi Blakemore	

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Ms Julie Chappell	Appointed 1 July 2017
Mr Michael Cutbill	
Mr Douglas Denham St Pinnock	
Professor Neil Gorman	Retired 31 July 2017
Mrs Carol Hui	
Professor Hilary McCallion CBE	
Mr Kevin McGrath	
Dr Mee Ling Ng OBE	
Mr Andrew Owen	Retired 31 July 2017
Ms Jenny Owen	
Mr Tony Roberts	
Mr Suleyman Said	Appointed 1 July 2017
Mr Calvin Usuanlele	Retired 30 June 2017
Changes in Governors since 31 July 2017:	
Mr Duncan Brown	Appointed 1 August 2017
Professor Peter Fidler CBE	Appointed 1 August 2017

Principal Officers:

Name	Position
Professor David Phoenix	Vice Chancellor
Professor Patrick Bailey	Deputy Vice Chancellor
Mrs Mandy Eddolls	Executive Director of Organisational Development and HR
Mr Richard Flatman	Chief Financial Officer
Professor Paul Ivey	Pro Vice Chancellor (Research and External Engagement)
Miss Nicole Louis (appointed 2 May 2017)	Chief Marketing Officer
Mr Ian Mehrtens	Chief Operating Officer
Mr James Stevenson	Secretary and Clerk to the Board of Governors
Professor Shân Wareing	Pro Vice Chancellor (Education and Student Experience)

A separate Corporate Governance Statement is shown on pages 17-22.

Objectives and Activities

London South Bank University has been transforming lives, communities and businesses for 125 years. At its creation, its aims were to improve social mobility for the people of south London by improving their employment opportunities, and to support the community by providing access to the applied knowledge that would advance their businesses.

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Strategic Report

Other than an increasingly global reach, that mission remains almost unchanged today – LSBU provides a highly applied academic environment which supports students into professional careers by providing the knowledge and skills that are attractive to employers. At the same time, it supports employers and the professions by providing the education, consultancy and high quality applied research they need.

Our mission is to be recognised as an enterprising civic university that addresses real world challenges. London South Bank University's (LSBU) Corporate Strategy 2015–2020 sets out how the University will achieve its vision of becoming London's top modern university by 2020. The University's strategy has three key outcomes:

Student success

- Ensuring we are externally recognised for providing a personalised, high calibre education which equips graduates for employment and prepares them to make a positive contribution to society.

Real world impact

- Ensuring we provide dynamic evidence-based education which is underpinned by highly applied research and enterprise activity.

Access to opportunity

- Building opportunity through partnership: ensuring we are actively widening participation, engaging with our communities and are a partner of choice.

Student Success

We aim to ensure that our teaching remains highly applied, professionally accredited and demonstrably linked to research and enterprise, delivering the attributes that will make our graduates highly sought after. Students are seen as participants in their learning and their voices are encouraged and listened to. We provide students with an individualised learning experience to develop the skills and aspirations that enable them to enter employment, further study or start their own business. Our approach continues to pay dividends:

- LSBU achieved a Silver rating for teaching excellence under the Government's new Teaching Excellence Framework (TEF). The University was particularly praised for its focus on personalised learning and emphasis on supporting graduates into employment, with courses designed to give our students the skills, knowledge and confidence that employers want.
- LSBU was named 'University of the Year for Graduate Employability and Prospects' in The Times 2018 League table, which noted in particular "London South Bank has an outstanding record for graduate employment. It is a shining example of all the best qualities held by the modern university sector. Year after year, the university appears close to the top of our tables for graduate employment and graduate salaries."
- LSBU is in the top 25 of all UK universities for graduate employment and further study. 82% of LSBU leavers were in graduate employment and further study (UK average 75%).
- LSBU is a top UK 12 university for Graduate Starting Salaries [The Times Good University Guide].
- The Destination of Leavers from Higher Education survey again generated positive results with 94.6% of graduates in employment or further study, showing a continued improvement on 2015/16.
- Our NSS overall satisfaction result remained constant at 82%, whilst the sector average fell by two percentage points, meaning we have improved our relative position.
- Our project to manage student appeals more effectively was shortlisted in the Outstanding Student Services Team category in the 2017 THELMAs from THE.
- LSBU was ranked 32nd of all UK universities for "value added" by the Economist magazine, which used published data to analyse the "value added" by individual universities to their students based on actual and expected earnings.
- HEFCE identified our work on the Prevent agenda as leading UK practice, which led to a Foreign Office nomination and ongoing partnership work, rolling out our approach internationally.

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Strategic Report

Our work to enhance the student experience continues. The Student Journey Transformation Project implemented a wide range of programmes. These included initiatives to encourage greater student participation in extracurricular activities to support their employability. We also implemented the InPLace software solution for managing and quality assuring student placements to support our policy of offering all students work experience or study abroad opportunities. Alongside we implemented new software to deliver the Higher Education Achievement Report (HEAR) with the 2016/17 cohort being the first to receive these in 2019. The new LSBU employment and temping agency, 'LSBU Employment' is scheduled to launch in January 2018, and will connect current students to opportunities for part time work, and 3rd years and graduates with full time opportunities. We have already seen a 200% increase on student engagement with Employability initiatives, with over 3000 unique visitors in year.

Real World Impact

We aim to deliver outstanding economic, social and cultural benefits from our intellectual capital, by connecting our teaching and research to the real world through commercial activities and social enterprise.

The profile of our research within and beyond LSBU has been enhanced with new Research and Enterprise Institutes, all with increased supporting activity. The Annual University Research Audit (AURA) informed preparations for further research development and led to the creation of 33 research groups and 15 research centres. Particular achievements during the year have included:

- LSBU's research centres in non-destructive testing and coatings and resins at the Cambridge Technology Park attracted projects worth over £10m in their first year.
- LSBU's new London Doctoral Academy now provides a physical space for research students to create a community of practice.
- Research income showed an increase of 42% on 2015/16 total and ahead of target
- Contracted activity for 2017/8 is strong with recent research bid successes including two awards from the EPSRC; a £400K award for a project modelling the mechanism of cats' whiskers for spacecraft design, a £200K for a project exploring heat re-use from sewers, and a further £600K of funding through the Welding Institute partnership.
- LSBU is now the number 2 London Modern for Knowledge Transfer Partnerships; South Bank Enterprises led on sales of commercial enterprise with a total value of £4.4m during 2016/17.
- Over one hundred and fifteen bids were submitted for research funding which was ahead of target, SME partnerships exceeded three hundred and fifty during the year.
- Two European Regional Development Fund (ERDF) projects have been secured around access to innovation and simulation for digital health. Both will work with around four hundred SME's over the next three years and will have a total value of around two million pounds. LSBU is also a partner organisation for two further ERDF projects with a total value of one million pounds.
- The Centre for Research Informed Teaching (CRIT) has been established to generate greater awareness of pedagogic developments and assist in ensuring our research activities inform our teaching.

Access to Opportunity

There are two strands to this part of the LSBU strategy. Locally, LSBU works with partners to provide opportunities for students with the potential to succeed.

- We have invested in a new Higher and Degree Apprenticeship programme to provide students and employers with a more diverse education and skills offer. Up to 25 higher and apprenticeship programmes are being offered for 2017/18 within five Schools. LSBU is a leader in the HE sector and one of only 18 institutions to receive funding from the HEFCE degree apprenticeship development fund. 105 apprentices were enrolled during 16/17, and the number is predicted to rise to 500 during 17/18.
- LSBU is establishing a new Institute for Professional and Technical Education to support educational pathways into higher and degree level technical education and, with partners, is investing over £12m in increasing provision for apprenticeships.

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- The University Academy of Engineering (UAE), which recruited to target for the 2017/18 entry cohort, received a ‘Good’ rating in its first Ofsted assessment.
- The University Technical College (UTC) has now taken up residence in its new Brixton Hill facility.

The University has also been strengthening its internationalisation activities to meet its aim of developing a multi-cultural community of students and staff. Through international alliances and partnerships LSBU is building its capacity and capabilities in education, research and enterprise and is already making significant progress:

- LSBU featured in the Times Higher Education (THE) World University Rankings in 2016-17 for the first time and is one of only 93 UK institutions featured in the international ranking.
- LSBU achieved a 4 star rating in the QS World Rankings 2017-18 with 5 stars for internationalisation. “LSBU is highly visible and involved in a high number of collaborations with other top higher education institutions” (QS World Ranking Report). This was a 2021 target achieved ahead of time.
- LSBU’s partnership with BUE in Egypt is the now the largest site for transnational education (TNE) in the Middle East and North African region with nearly 4000 students.
- Following approval by the Ministry of Education in Bahrain, LSBU Engineering programmes will begin at the Applied Science University in Bahrain in September 2018.

Principal risks and uncertainties

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

The Corporate Risk Register has been the subject of careful and frequent review, and is aligned to the Corporate Strategy. The principal risks which the institution faces, considering external factors in the main, and the associated mitigation strategies are as follows:

Risk and Impact	Mitigation Strategies
Revenue reduction if course portfolio, and related marketing activity, does not achieve Home UG recruitment targets	<ul style="list-style-type: none"> - Implement School and College outreach strategy - Development of revised BI dashboard for applications cycle - Revised approach to brand management and articulation - Program of advanced market insight analysis - Annual review and approval of four year financial forecasts
Progression rates don’t rise	<ul style="list-style-type: none"> - Focused study support, skills and welfare provision through Library and Learning, and Student Centre support teams - Minimum specification for personal tutoring
Anticipated international and EU student revenue unrealised	<ul style="list-style-type: none"> - Targeted partnership development utilising defined partnership models - Establishment of overseas offices to coordinate activity - Routine compliance training and regular reporting of visa refusal rates
Impact of Low staff engagement on organisational objectives	<ul style="list-style-type: none"> - Cascade meeting cycle and local roadmap process connects staff to institutional priorities - Engagement champions in all areas with regular review of action plans - New staff intranet and other comms technology projects enabling better connectivity
Increasing pensions deficit	<ul style="list-style-type: none"> - Participation in sector review activity - Strict control procedures on early access - DC pension scheme for some staff

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Affordability of Capital Expenditure investment plans	<ul style="list-style-type: none"> - External partners appointed to develop finance options - Clear sign off process within financial regulations utilising business case methodology
Potential loss of NHS contract income	<ul style="list-style-type: none"> - Named customer manager roles with Trusts and CCGs - Annual Quality review process with reports to funders - Increase band 1-4 activity and development of Apprenticeship programmes
Management Information perceived as unreliable, doesn't triangulate	<ul style="list-style-type: none"> - Data Quality Processes established, with pre-submission scrutiny through Planning, Performance and Assurance (PPA) team - Data Warehouse established with MIKE access layer for all key corporate data - Performance scorecards in development for all areas of the institution
Corporate data not used, processed, or maintained securely	<ul style="list-style-type: none"> - Mandatory training programme includes data protection - Logical security and live synch protocols applied to user accounts and approvals - Regular vulnerability assessments with Technical Roadmaps to chart future state - Development of GDPR options appraisal
Introduction of Higher Apprenticeships	<ul style="list-style-type: none"> - Specialist team established to manage activity and promotion - Regular scrutiny of activity by Steering Group and Apprenticeships Committee for operations - Specialist centre in development to link with LSBU family associations
Impact of EU Referendum result on regulation and market trends	<ul style="list-style-type: none"> - Academic Leads for Research Institutes to build strategic relationships - Partnership approach to EU student recruitment - Participation in Governmental and Sector forums
Academic programmes not engaged with technological and pedagogic developments	<ul style="list-style-type: none"> - CRIT established to lead on digital enhancement through TEL strategy, monitored through Academic Board - Moodle baseline established and reviewed for all programmes
Organisational responsiveness to policy changes, external perception and shifts in competitive landscape	<ul style="list-style-type: none"> - Corporate Affairs unit established to maintain relationships with key stakeholders - Strategic approach to Business Intelligence through PPA team and MIKE data platform - Annual Corporate Roadmaps revisit strategy and drive planning and reporting processes - Ongoing Portfolio review processes

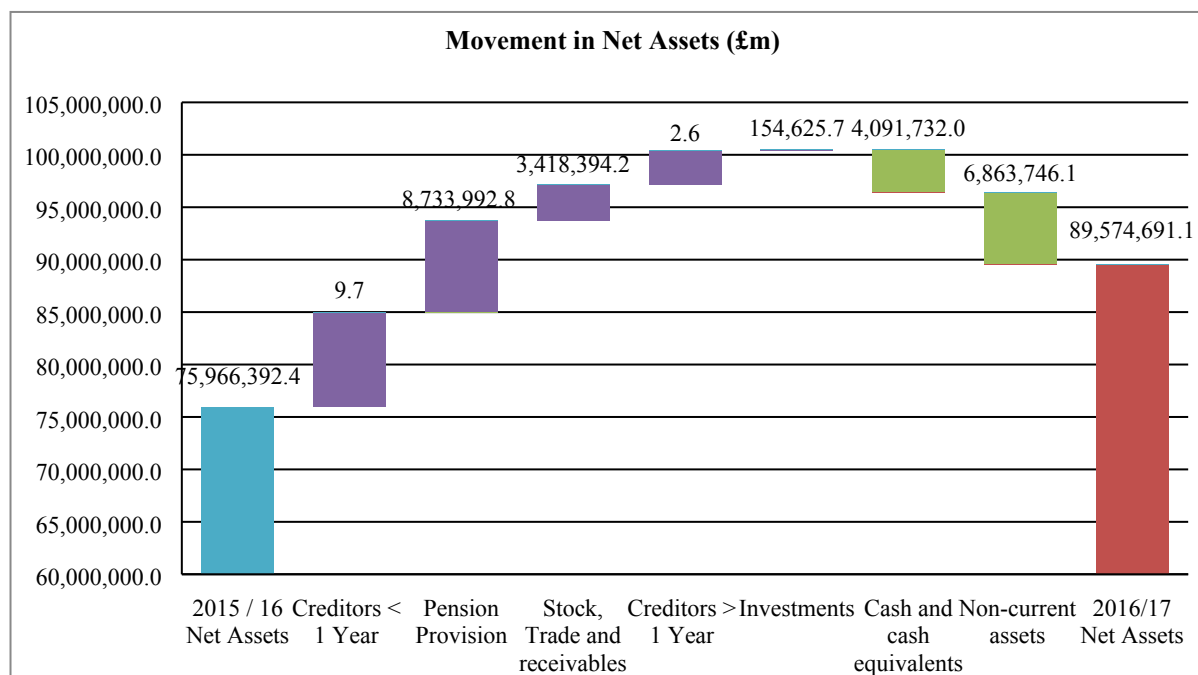
Financial Review

Balance sheet and liquidity

The Group's net assets increased by 18% during the year moving, from £76.0m to £89.6m. The principal reason for the change is the re-measurement of the net assets in the London Pension Fund Authority Scheme which is included within Other Comprehensive Income within the year.

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The University always plans to have sufficient liquid assets to meet its liabilities as they fall due and the reduction in cash balances will not compromise the group's ability to do so. Cash balances and bank deposits have decreased from £52.7m to £48.8m. Bank and other loans have reduced from £25.6m at 31 July 2016 to £24.3m at 31 July 2017 reflecting loan repayments made during the year. No new loans were taken out during the year.

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

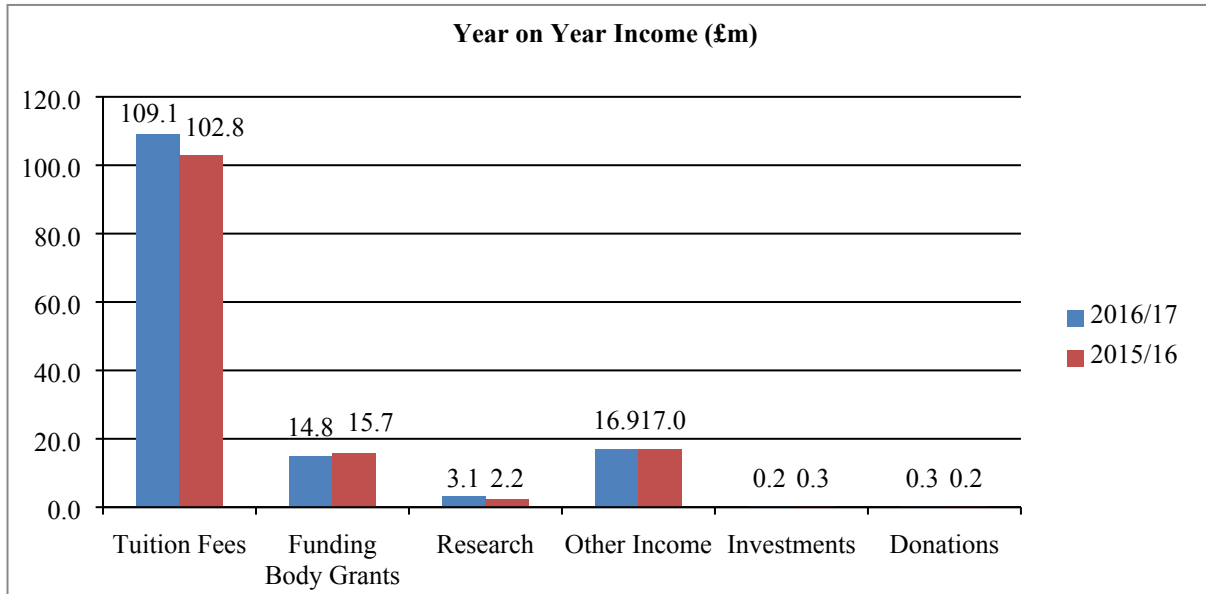
Result for the Year

Financial Summary in £m	Variance from 2015 / 16 £m	
	2016/17	2015/16
Income	144.5	138.2
Expenditure	142.6	134.9
Surplus for the year	1.9	3.3
Surplus %	1.3%	2.4%

The operating surplus of £1.9m is ahead of the agreed budget of £1.0m and the forecast surplus of £1.5m submitted to HEFCE in July 2017. In the context of the continuing investment being made by the University and the recruitment challenges across the sector in 2016/17, particularly with regard to changes in the full time undergraduate demographic and the decline of the part time student market, this is considered a strong result.

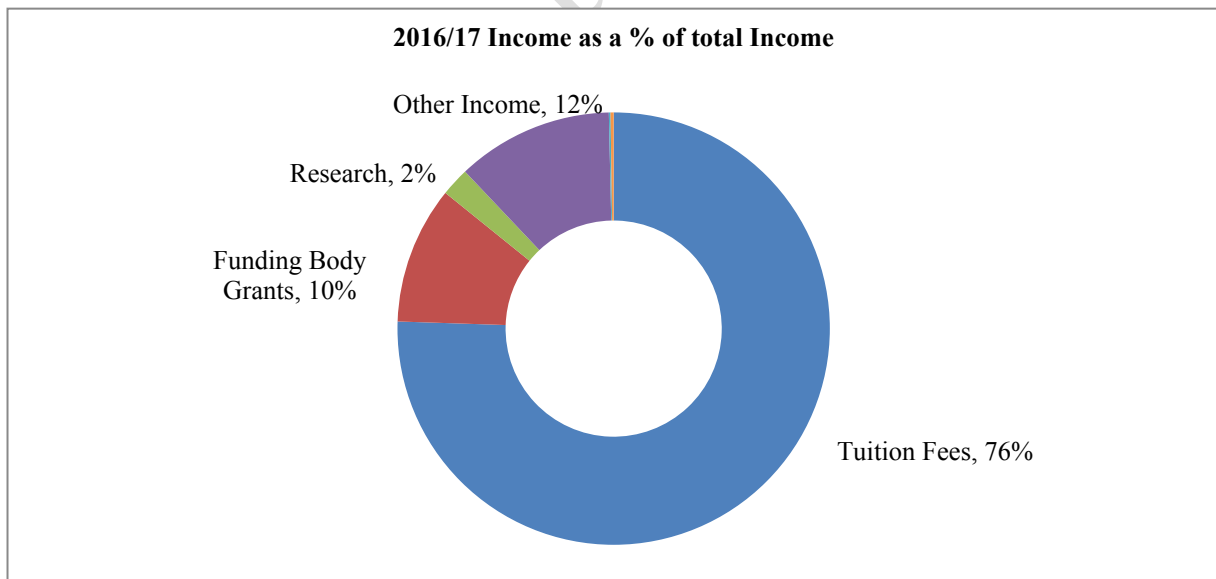
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Strategic Report

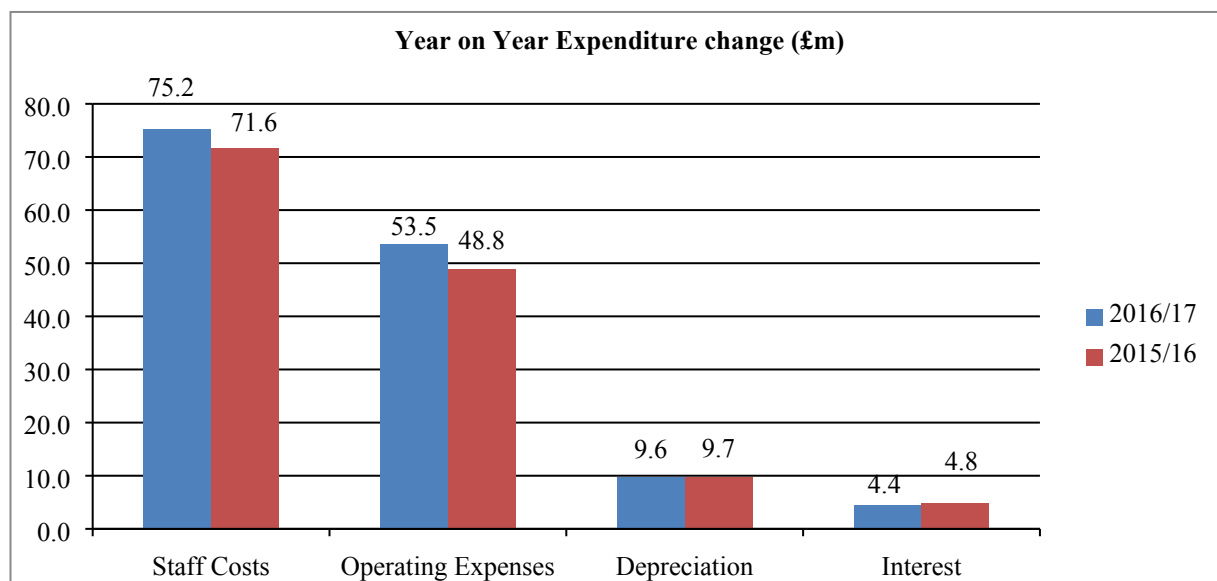


Total income increased by 4.6% (6.3m) to £144.5m (2015/16: £138.2m) income. Academic fees (including NHS contract income) and Funding Council grants remain the main sources of income for the university representing 75.5% and 10.3% respectively (2015/16 = 74.4% and 11.4%). There was a reduction in Funding Grant due to the continued impact of the new fee regime for both undergraduate (UG) and Post graduate (PG) students. This fall, however, was offset by an increase in Full Time Home / EU undergraduate fees and a significant increase in fees from Home / EU Postgraduate students. The other factors affecting income were an increase in International student income and an increase in income from students sponsored by the NHS.

The key driver for the decline in grant income is the introduction of the new fee regime for Undergraduate students.

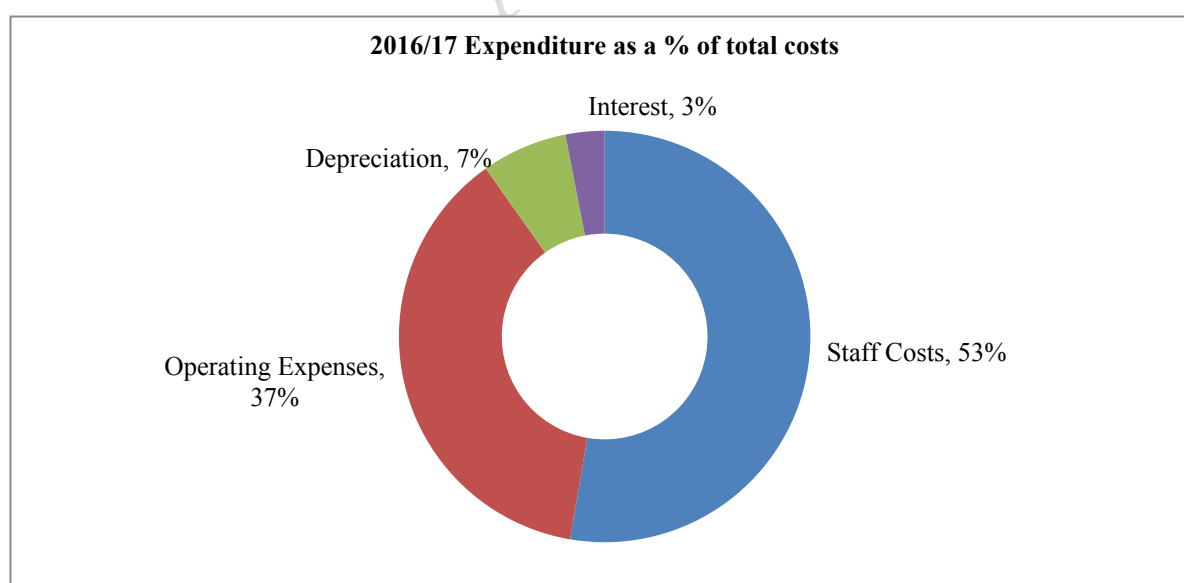


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In terms of Expenditure, Staff costs increased by 5.0% from £71.6m in 2015/16 to £75.2m in 2016/17 representing 52.0% of income (2015/16: 51.8%). After including agency staff costs, which are included in the accounts as operating expenditure, total staff costs represent 54.3% of income. This is better than our target of 55%. Although this year's performance is strong, staff costs remain an area of continued focus for the university in 2017/18.

Other operating expenses increased by 9.6% from £48.8m in 2015/16 to £53.5m. There were some large one off costs in 2016/17 primarily relating to the preliminary development costs of the University's estate, the continued investment in computing software and computing software consultancy as we review our digital infrastructure and costs associated with the wider strategic investments particularly on the development of the LSBU family. Other significant increases include the increase in security and cleaning costs due to the full implementation of the London living wage, an increase in Overseas Agent Fees due to the increase in Overseas Student recruitment and an increase in the cost of Bursaries as the University invests in Research activities.



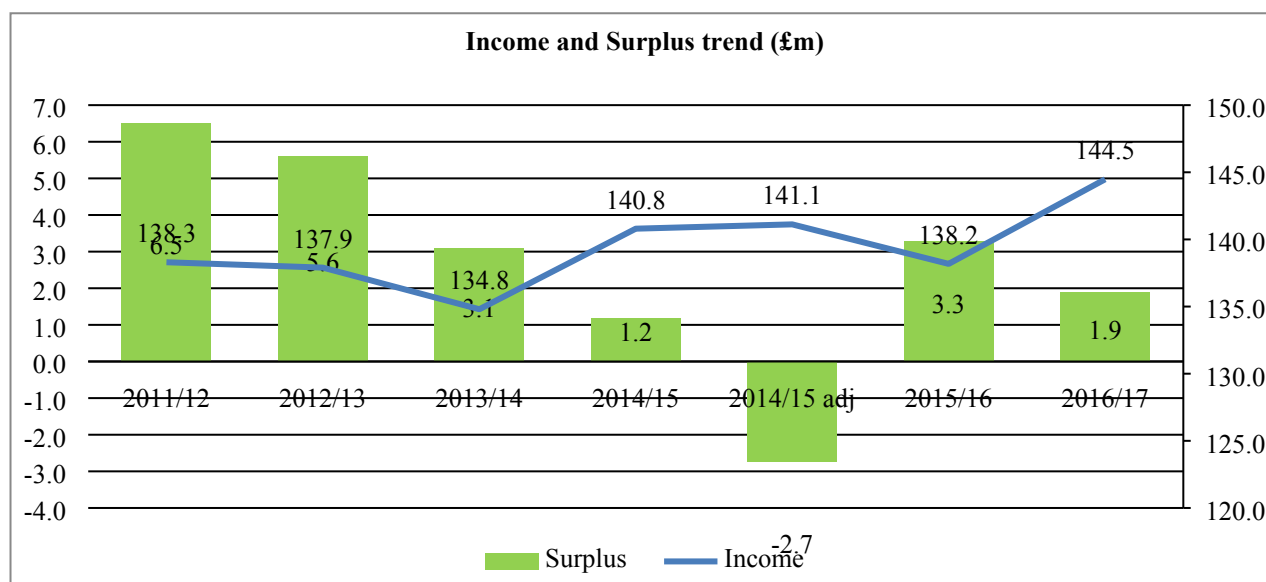
The University's fixed assets decreased by £6.9m during the year. The reduction of assets was primarily due to depreciation. There were no asset disposals.

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Financial trend analysis

14/15 adjusted for FRS 102 adjustments



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

Income growth in 14/15 was due to extraordinary levels of International recruitment and one off deferred income released. The income growth in 16/17 is due to increased retention and progression from Undergraduate students as well as significant increase in Postgraduate and International income. There were also increases in Research and Enterprise income in line the University's strategic aspirations.

The University remains focused on both income growth and cost management in order to ensure the university grows sustainably. The University delivered a surplus of £1.2m in 14/15 although this was reported as a deficit of £1.2m after technical FRS102 adjustments.

Pension liability

The pension liability with the London Pension Scheme Authority (LPFA) has reduced from £121.5m to £112.7m, mainly as a result of actuarial gains. The charge to staff costs for the year is £7m, interest £3.4m and an £11.7m gain is charged to other comprehensive income and expenditure.

Creditor payment policy

It is the University's policy to abide by the terms of payment agreed with suppliers. Unless special terms apply, payment is made within 30 days of receipt of a valid invoice or after acceptance of the goods or services, whichever is the later. Average creditor days during the year were 29 (2016: 28).

Accounting policies

The University's financial statements have been prepared in accordance with the Statement of Principal Accounting Policies set out on pages 29-33. The University's Governing Body has reviewed the Group's accounting policies and considers them to be the most appropriate to the group's operations.

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Strategic Report

Subsidiaries

South Bank University Enterprises Limited (“SBUEL”) provides consultancy and other services to a range of commercial organisations. SBUEL has entered into Gift Aid arrangements in order that its taxable profits can be donated to the University. SBUEL donated £nil in gift aid to the University (2016: £0.19m).

SBUEL is fully consolidated into the Group accounts.

Going Concern

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

2016/17 has been a successful year with income growth of 4.6 % to £144.5m in line with budget, building on earlier change, re-structuring and investment for future success. Full time undergraduate recruitment remained challenging but this was offset by increases in postgraduate, overseas student income and health contract income together with better than anticipated numbers of re-enrolling students reflecting improvements in progression and retention. A financial surplus of £1.9m is reported (ahead of the approved budget surplus for the year of £1m) as a result of continued sound financial management and effective cost control. This is after accounting for the write off of costs associated with the demolition of Hugh Astor Court and the preliminary development costs associated with the planned St. George’s Quarter development.

A budget surplus of £1.5m has been approved for 2017/18, reflecting the need for continued surplus whilst maintaining appropriate levels of investment spend to drive the necessary corporate strategic outcomes. Enrolment and re-enrolment are continuing but the early signs are that clearing is even more challenging this year. Student numbers are expected to fall short of target as a result of a number of factors including a downward national trend in the number of applications, increased levels of market competition as a result of this downward trend and the removal of health bursaries. However, we are confident that we can manage this position in year and still deliver to the agreed budget surplus through the implementation of actions agreed and in the process of development. A longer term strategic response will be developed but this does not put the going concern basis at risk and income in 2017/18 is expected to be in line with previous year or marginally higher.

The University continues to generate positive cash inflows from operating activities and has a strong cash position with £48.8m cash and bank deposits at 31 July 2017.

Public Benefit statement

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

Charity Commission Guidance on Public Benefit

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

Charitable Objects

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

- conduct a university for the public benefit for the advancement of education, promotion of research and dissemination of knowledge;
- provide full time and part time courses of education at all levels; and

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Strategic Report

- provide facilities to promote these objects and provide associated support and welfare for students.

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

The University advances education for the public benefit by:

- providing teaching to its students in the form of lectures, seminars, personal tuition and online resources;
- delivering many courses accredited by recognised professional bodies, both full and part time;
- setting and marking assessments, giving feedback to students and providing evidence of achievement by the awarding of degrees, diplomas and certificates.

The University promotes research and the dissemination of knowledge by:

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

The University provides student support and services for students through:

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

Beneficiaries

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

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

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

The University has one "linked" exempt charity: the LSBU consolidated charitable fund for the welfare of students. [This fund was worth £761,457 on 31 July 2017 (2016: £755,551). The funds are managed with the aim of securing capital growth and an annual income. In 2016/17 the income received was £24,427 (2015/16: £18,420). The income is allocated for distribution by the University's Hardship Panel to students in financial difficulty.

The University's curriculum is firmly rooted in professional courses supported by accreditation from professional, statutory and regulatory bodies that enhance employability and career success. In 2016, 84.5% of graduates were in

Report and financial statements 2017

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graduate employment and/or further study 6 months after leaving (DLHE survey results 2016 – 17). Over 7746 LSBU students are sponsored to study by their employers, including NHS funded students.

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

Disclosure of information to auditors

At the date of making this report each of the Governors, as set out on pages 2-3, confirm the following:

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

Auditor

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

Directors' report

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

Approval

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

Mr Jeremy Cope (Chair)

Professor David Phoenix (Vice Chancellor and Chief Executive)

Date

Statement of Responsibilities of the Board of Governors

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

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

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

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

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

The Board of Governors has taken reasonable steps to:

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

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

Signed on behalf of the Board of Governors by:

Draft for Audit Committee

Mr Jeremy Cope
Chair of the Board of Governors
23 November 2017

Corporate Governance Statement

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

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

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

Governance and Legal Structure

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

Compliance with the CUC Higher Education Code of Governance

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

Decision making

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

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

During the year, the Board met five times (five times in 2015/16) plus once for an extraordinary meeting. In addition, the Board held two strategy days (two in 2015/16) allowing further time to discuss and debate longer-term strategic challenges for the University. All governors are expected to attend meetings and to contribute effectively. Attendance at meetings is recorded and monitored by the Chair. In the year under review there was an 83% (2015/16: 93%) attendance rate at Board meetings.

The Board has due regard to Charity Commission guidance on public benefit when making decisions (see separate statement of public benefit on pages 12-14 (1.2). It receives assurance that the institution meets the requirements of the Memorandum of Assurance and Accountability through the Audit Committee (1.3).

Compliance

All governors and members of the Executive are required to declare their interests on appointment, on an annual basis and are required to declare any interests which relate to decisions at meetings. During the year under review, all declared interests were authorised by the Board. No conditions were attached to any of these interests (2.2). The

Corporate Governance Statement

governing body affirms that it makes decisions without any undue pressure from external interest groups, which is assured through the declaration of interests' process (2.3).

HEFCE undertook its five-yearly assurance visit in January 2017. The Chair of the Board of Governors and the chairs of the Audit Committee and the Finance, Planning and Resources committee were interviewed along with members of the Executive team as part of this process. HEFCE concluded that it could place reliance on LSBU's accountability information, the highest opinion of the four possible.

The Board receives annual reports on the institution's compliance with key legislation, for example health and safety; equality, diversity and inclusion; and otherwise by exception reporting (3.6). In addition, independent governors have the right to external, independent advice at the University's expense where necessary in order to fulfil their duties. Material adverse change is reported to HEFCE when discovered and annually as part of the Accountability and Assurance statement (3.6). No material adverse changes were reported to HEFCE during the year. [to confirm at November 2017 meeting]

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

Sustainability

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

Academic governance

The Board has oversight of academic governance across the institution, twice yearly meeting with the Academic Board to discuss strategy. The Board has reviewed the quality process and agreed an assurance statement during the year under review. [to confirm at November 2017 meeting]

The Board has regard to the principle of academic freedom (4.1, 4.2, 4.3).

External activities

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

Equality and Diversity

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

The Board regularly reviews its composition and considers equality and diversity in its appointments. The Nomination Committee has agreed that in the event of underrepresentation of any group, targeted recruitment would be used to address this (6.3, 6.4, 6.5).

Structures and processes

The Board when fully complemented consists of 18 governors: 13 independent governors (7.1), the Vice Chancellor, two student governors and two academic staff members nominated by the Academic Board. Governors serving for the period are listed on pages 2-3. The Board determines the number and composition of the Board of Governors within parameters set by the University's Articles of Association. Staff and student governors were not excluded from any items at Board meetings during the year (1.4).

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

Corporate Governance Statement

Committees

The Board delegates authority to a number of committees. All committees are formally constituted with appropriate terms of reference, which are reviewed annually (3.6). Terms of reference and membership of each committee are available on the governance pages of the University's website. Each committee has a majority of independent governors. The chairs of each committee are independent governors and are set out on pages 19-20 under Key Individuals. The following principal committees met throughout the year:

- Appointments Committee
- Audit Committee
- Finance, Planning and Resources Committee
- Major Projects and Investment Committee
- Nomination Committee
- Remuneration Committee.

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

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

There is a Remuneration Committee which decides the remuneration of senior post-holders, including the Vice Chancellor (3.13). Membership of the committee is four independent governors, including the Chair of the Board (3.14). No individual is present for discussions that directly affect them. The committee considers comparison information and use of public funding when deciding remuneration (3.15, 3.16.). Details of the remuneration of higher paid staff and emoluments of the Vice Chancellor are shown in note 8 to these accounts.

The Board completed an interim effectiveness review in July 2017. Following this review no major changes to the Board's structure have been proposed.

Key Individuals

Position	Name
Chair of the Board of Governors	Jeremy Cope
Vice Chair of the Board of Governors	Andrew Owen (retired 31 July 2017) Douglas Denham St Pinnock (appointed 1 August 2017)
Head of Institution (Vice Chancellor and Chief Executive)	David Phoenix
Chair of Audit Committee	Steve Balmont
Chair of Finance, Planning and Resources Committee	Andrew Owen (retired 31 July 2017) Professor Hilary McCallion CBE (appointed 1 August 2017)

Corporate Governance Statement

Chair of Major Projects and Investment Committee	Douglas Denham St Pinnock
Chair of Nominations Committee	Jeremy Cope
Chair of Appointments Committee	Jeremy Cope
Chair of Remuneration Committee	Mee Ling Ng
University Secretary and Clerk to the Board of Governors	James Stevenson

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

Statement of Primary Responsibilities of the Board of Governors

1. To approve the educational character, mission and strategic vision of the institution, together with its long-term academic and business plans and key performance indicators, and to ensure that these meet the interests of stakeholders.
2. To delegate authority to the head of the institution, as chief executive, for the academic, corporate, financial, estate, personnel and health and safety management of the institution, and to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the head of the institution.
3. To ensure the establishment and monitoring of quality assurance and systems of control and accountability, including financial and operational controls and risk assessment, and procedures for handling internal grievances and for managing conflicts of interest.
4. To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the institution against the plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
5. To establish processes to monitor and evaluate the performance and effectiveness of the governing body itself, and to carry out such reviews at appropriate intervals.
6. To conduct its business in accordance with best practice in higher education corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
7. To safeguard and promote the good name and values of the institution.
8. To appoint the head of the institution as chief executive, and to put in place suitable arrangements for monitoring his/her performance.
9. To appoint a secretary to the governing body and to ensure that, if the person appointed has managerial responsibilities in the institution, there is an appropriate separation in the lines of accountability.
10. To be the employing authority for all staff in the institution and to be responsible for establishing a human resources strategy.

Corporate Governance Statement

11. To be the principal financial and business authority of the institution, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall responsibility for the University's assets, property and estate.
12. To be the institution's legal authority and, as such, to ensure that systems are in place for meeting all the institution's legal obligations, including those arising from contracts and other legal commitments made in the institution's name.
13. To make such provision as it thinks fit for the general welfare of students.
14. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution or its students.
15. To ensure that the institution's constitution is followed at all times and that appropriate advice to the Board is available to enable this to happen.

Statement on Internal Control

As the governing body of London South Bank University, we have responsibility for ensuring that there is a process for maintaining a sound system of internal control that supports the achievement of policies, aims and objectives of the University, whilst safeguarding the public and other funds and assets for which we are responsible, in accordance with the responsibilities assigned to the governing body in the Articles of Association, and the Memorandum of Assurance and Accountability with HEFCE.

The system of internal control is designed to manage rather than eliminate the risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process linked to the achievement of institutional objectives and designed to identify the principal risks to the achievement of policies, aims and objectives, to evaluate the nature and extent of those risks and to manage them efficiently, effectively and economically. This process has been in place for the year ended 31 July 2017 and up to the date of approval of the financial statements, and accords with HEFCE guidance.

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

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

- An organisation-wide register of key corporate risks is maintained, together with individual risk registers for each school and professional service group. Review procedures cover risk to achievement of strategic objectives, operational business matters, and regulatory compliance as well as financial risk;
- Senior Managers meet regularly to consider risk, assess the current exposure and keep up to date the record of key corporate risks facing the University;
- A network of risk champions exists to support risk management activity in all schools and professional service groups; Update training is provided as required to support delivery;
- Formal risk management and internal control procedures have been embedded within ongoing operations. Our review of the effectiveness of the system of internal control is informed by internal audit, which operates to standards defined in the HEFCE Audit Code of Practice and which was last reviewed for effectiveness by the HEFCE Audit Service in January 2017. The internal auditors submit regular reports, which include their independent opinion on the adequacy and effectiveness of the institution's system of internal control, governance and risk management processes, with recommendations for improvement. Our review of the effectiveness of the system of internal control is also informed by the work of the executive managers within the institution, who have responsibility for the development and maintenance of the internal control framework, and by comments made by the external auditors in their management letter and other reports.

The Corporate Governance and Internal Control statements were approved by the Board of Governors on 23 November 2017 and were signed on its behalf by:

Mr Jeremy Cope

Chair of the Board of Governors
23 November 2017

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of London South Bank University ("the University") for the year ended 31 July 2017 which comprise the University and its subsidiary, South Bank University Enterprises Limited and related notes, including the principle accounting policies.

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and the University's affairs as at 31 July 2017, and of the Group's and the University's income and expenditure, gains and losses and changes in reserves, and of the Group's cash flows, for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 102 *The Financial Reporting Standard applicable in the UK and Republic of Ireland*, and with the 2015 *Statement of Recommended Practice – Accounting for Further and Higher Education*;
- meet the requirements of HEFCE's Accounts Direction to higher education institutions for 2016-17 financial statements; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

Other information

The directors are responsible for the other information, which comprises the Strategic Report, the Statement of Responsibilities of the Board of Governors and Corporate Governance Statement. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the other information;
- in our opinion the information given in the Strategic Report, the Statement of Responsibilities of the Board of Governors and Corporate Governance Statement, which together constitute the directors' report for the financial year, is consistent with the financial statements; and
- in our opinion the directors' report has been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent University, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent University's financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in these respects.

Board of Governors responsibilities

As explained more fully in their statement set out on pages 15-16, the Board of Governors (who are the Directors of the University company for the purposes of company law) is responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as it determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the group and parent University's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless it either intends to liquidate the group or the parent University or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

We are required to report on the following matters under the HEFCE Audit Code of Practice (effective 1 August 2016) issued under the Further and Higher Education Act 1992.

In our opinion, in all material respects:

- funds from whatever source administered by the Group or the University for specific purposes have been properly applied to those purposes and managed in accordance with relevant legislation; and
- funds provided by HEFCE have been applied in accordance with the Memorandum of Assurance and Accountability and any other terms and conditions attached to them.

THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

This report is made solely to the Board of Governors, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and section 124B of the Education Reform Act 1988 (*for post-1992 institutions*). Our audit work has been undertaken so that we might state to the Board of Governors those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the University and the Board of Governors for our audit work, for this report, or for the opinions we have formed.

Fleur Nieboer (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

9 November 2017

**Consolidated and University Statement of Comprehensive
Income and Expenditure
Year ended 31 July 2017**

	Note	Consolidated		University	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Income					
Tuition fees and education contracts	1	109,119	102,794	109,119	102,794
Funding body grants	2	14,845	15,684	14,358	15,141
Research grants and contracts	3	3,089	2,232	2,866	2,122
Other income	4	16,910	16,960	15,106	15,467
Investment income	5	184	313	183	310
Total income before other grants and donations		144,147	137,983	141,632	135,834
Donations and endowments	6	332	195	332	195
Total income		144,479	138,178	141,964	136,029
Expenditure					
Staff costs	7	75,160	71,581	73,771	70,380
Other operating expenses	9	53,488	48,822	52,334	47,894
Depreciation and Amortisation	12,13	9,620	9,749	9,620	9,749
Interest and other finance costs	11	4,369	4,755	4,369	4,755
Total expenditure		142,637	134,907	140,094	132,778
Surplus before other gains and losses		1,842	3,271	1,870	3,251
Gains on investments	20	52	12	52	12
Surplus for the year		1,894	3,283	1,922	3,263
Actuarial gain / (loss) in respect of pension schemes	26	11,715	(29,519)	11,715	(29,519)
Total comprehensive income / (expenditure) for the year		13,609	(26,236)	13,637	(26,256)
Represented by:					
Endowment comprehensive income for the year		52	12	52	12
Restricted comprehensive income for the year		-	-	-	-
Unrestricted comprehensive income / (expenditure) for the year		13,557	(26,248)	13,585	(26,268)
		13,609	(26,236)	13,637	(26,256)

All activities consist of continuing operations.

London South Bank University

	Note	Income and Expenditure Reserve		Revaluation Reserve	Total Reserves
		Endowment	Unrestricted		
Consolidated		£'000	£'000	£'000	£'000
Balance at 1 August 2015		742	72,767	28,693	102,202
Surplus before other gains and losses from the statement of comprehensive income and expenditure		-	3,271	-	3,271
Other comprehensive income / (expenditure)		12	(29,519)	-	(29,507)
Transfers between revaluation and income and expenditure reserve	21	-	724	(724)	-
Total comprehensive income / (expenditure) for the year		12	(25,524)	(724)	(26,236)
Balance at 1 August 2016		754	47,243	27,969	75,966
Surplus before other gains and losses from the statement of comprehensive income and expenditure		-	1,842	-	1,842
Other comprehensive income	26	52	11,715	-	11,767
Transfers between revaluation and income and expenditure reserve	21	-	587	(587)	-
Total Comprehensive income / (expenditure) for the year		52	14,144	(587)	13,609
Balance at 31 July 2017		806	61,387	27,382	89,575
University					
Balance at 1 August 2015		742	72,633	28,693	102,068
Surplus from the statement of comprehensive income and expenditure		-	3,252	-	3,252
Other comprehensive income / (expenditure)		12	(29,519)	-	(29,507)
Transfers between revaluation and income and expenditure reserve		-	724	(724)	-
Total comprehensive income / (expenditure) for the year		12	(25,543)	(724)	(26,255)
Balance at 1 August 2016		754	47,090	27,969	75,813
Surplus from statement of other comprehensive income and expenditure		-	1,870	-	1,858
Other comprehensive income		52	11,715	-	11,767
Transfers between revaluation and income and expenditure reserve		-	587	(587)	-
Gift aid received		-	36	-	36
Total Comprehensive income / (expenditure) for the year		52	14,172	(587)	13,660
Balance at 31 July 2017		806	61,286	27,382	89,473

Consolidated and University Statement of Changes in Reserves

London South Bank University

Consolidated and University Balance sheets
As at 31 July 2017

	Notes	Consolidated		University	
		2017 £'000	2016 £'000	2017 £'000	2016 £'000
Non-current assets					
Intangible assets	12	1,990	3,011	1,991	3,011
Tangible fixed assets	13	216,881	222,724	216,881	222,724
Investments	14	38	38	38	38
		<u>218,909</u>	<u>225,773</u>	<u>218,910</u>	<u>225,773</u>
Current assets					
Stocks		8	11	8	11
Trade and other receivables	15	18,378	14,956	18,135	14,780
Investments	22	16,620	16,465	16,620	16,465
Cash and cash equivalents	22	32,146	36,238	31,484	35,778
		<u>67,152</u>	<u>67,670</u>	<u>66,247</u>	<u>67,034</u>
Creditors: amounts falling due within one year	16	<u>(34,653)</u>	<u>(44,318)</u>	<u>(33,839)</u>	<u>(43,834)</u>
Net current assets		<u>32,499</u>	<u>23,352</u>	<u>32,408</u>	<u>23,200</u>
Total assets less current liabilities		<u>251,408</u>	<u>249,125</u>	<u>251,318</u>	<u>248,973</u>
Creditors: amounts falling due after more than one year	17	(48,056)	(50,647)	(48,056)	(50,648)
Provisions					
Pension provisions	19	(113,778)	(122,512)	(113,778)	(122,512)
Total net assets		<u>89,574</u>	<u>75,966</u>	<u>89,484</u>	<u>75,813</u>
Restricted reserves – endowment reserves	20	806	754	807	754
Unrestricted reserves					
Income and expenditure reserve		61,386	47,243	61,295	47,090
Revaluation reserve	21	27,382	27,969	27,382	27,969
Total Reserves		<u>89,574</u>	<u>75,966</u>	<u>89,484</u>	<u>75,813</u>

These financial statements were approved by the Board of Governors on 23 November 2017 and were signed and authorised on their behalf by:

London South Bank University

Consolidated Statement of Cash Flows Year ended 31 July 2017

	Note	2017 £'000	2016 £'000
Cash flow from operating activities			
Surplus for the year		1,894	3,283
Adjustment for non cash items			
Amortisation / Depreciation	12,13	9,620	9,749
Investment income	5	(184)	(313)
Interest payable	11	4,369	4,755
Decrease in stock		3	60
Increase in debtors	15	(3,422)	(2,178)
Decrease/(increase) in creditors	16	(10,931)	8,241
Pension costs less contributions payable	26	(145)	(191)
Adjustment for investment or financing activities			
Loss on disposal of assets	13	-	438
Investment income	5	21	21
Interest receivable	5	163	292
Net cash inflow from operating activities		1,388	24,157
Cashflows from investing activities			
Payment to acquire tangible fixed assets	13	(2,756)	(19,757)
Cash added to fixed term deposits	22	(155)	(102)
		(2,911)	(19,859)
Cashflows from financing activities			
Capital element of bank loan repayments		(1,325)	(1,309)
Interest element of bank loan repayments	11	(1,244)	(1,303)
		(2,569)	(2,612)
Increase/(decrease) in cash and cash equivalents during the year		(4,092)	1,686
Cash and Cash equivalents at the start of the year	22	36,238	34,552
Cash and Cash equivalents at the end of the year		32,146	36,238

Principal Accounting Policies

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

Basis of preparation

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

The financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group will continue in operation. The Board is satisfied that the Group has adequate resources to continue in operation for the foreseeable future, as described in more detail on page 12 of these accounts. For this reason, the going concern basis continues to be adopted in the preparation of the financial statements.

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

Consolidation of accounts

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

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

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

Income recognition

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

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

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

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

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

Principal Accounting Policies

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

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

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

Intangible assets

Software costing less than £10,000 per individual item or group of items is written off to the income and expenditure account in the year of acquisition. All other software is capitalised as an intangible asset and amortised at 25% per annum.

Fixed assets

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

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

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

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

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

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

As LSBU is not a research intensive University, all equipment purchased with research grants are assumed to have a life equal to the length of the research project and will be depreciated accordingly. Assets purchased using research funds, including computers and software, costing less than £10,000 per individual item or group of related items are written off in the year of acquisition in line with our normal accounting policy regarding depreciation of fixed assets. All other items are capitalised and depreciated over the remaining life of the research project.

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

At each financial year end the carrying amounts of tangible assets are reviewed to determine whether there is any indication that those assets have suffered a diminution in value. If any such indication exists, the recoverable amount of the asset, which is the higher of its fair value and its value in use, is estimated in order to determine the extent of the impairment loss.

Principal Accounting Policies

Investments

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

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

Stocks

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

Pension costs

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

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

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

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

Employment benefits

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

Taxation status

The University is an exempt charity within the meaning of part 3 of the Charities Act 2011, and as such is a 'charity' within the meaning of Section 467 of the Corporation Tax Act (CTA) 2010. Accordingly the University is potentially exempt from taxation in respect of income or capital gains received within categories covered by Section 478 of the CTA 2010 and Section 256C of the Taxation of Chargeable Gains Act 1992, to the extent that such income or gains are applied to exclusively charitable purposes.

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

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

Deferred tax is provided in full on timing differences which result in an obligation at the balance sheet date to pay more tax, or a right to pay less tax, at a future date, at rates expected to apply when they crystallise based on current rates and law. Timing differences arise from the inclusion of items of income and expenditure in taxation computations in

Principal Accounting Policies

periods different from those in which they are included in financial statements. Deferred tax assets are recognised to the extent they are regarded as more likely than not they will be recovered. Deferred tax assets and liabilities are not discounted.

Agency arrangements

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

Leases

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

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

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

Maintenance

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

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

Reserves

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

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

The pension reserve represents the pension liability in respect of the defined benefit pension schemes (see note 26).

Cash flows and liquid resources

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

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

Financial instruments

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

Principal Accounting Policies

Judgements and estimates

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

The present value of the Local Government Pension Scheme and defined benefit liability depends on a number of factors that are determined on an actuarial basis using a variety of assumptions. The assumptions used in determining the net cost for pensions include the discount rate, salary, pension and price increase and any changes in these assumptions, which are disclosed in note 26, will impact the carrying amount of the pension liability.

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

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

Foreign currency translation

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

Provisions, contingent liabilities and contingent assets

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

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

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

Notes to the accounts
Year ended 31 July 2017

Consolidated and University

	2017		2016	
	£'000		£'000	
1. Tuition fees and education contracts				
Full-time home and EU students		57,173		54,511
Full-time international students		9,250		8,438
Part-time students		12,373		11,347
Other courses		1,916		1,266
Strategic Health Authority education contracts		28,407		27,232
		<u>109,119</u>		<u>102,794</u>

	Consolidated		University	
	2017	2016	2017	2016
	£'000		£'000	
2. Funding body grants				
HEFCE recurrent grant	12,973	13,396	12,973	13,396
HEFCE Non recurrent grants				
Specific grants	487	543	-	-
Pension liabilities	240	201	240	201
Other grants	1,126	1,379	1,126	1,379
Teaching Agency grant	19	165	19	165
	<u>14,845</u>	<u>15,684</u>	<u>14,358</u>	<u>15,141</u>

	Consolidated		University	
	2017	2016	2017	2016
	£'000		£'000	
3. Research grants and contracts				
Research councils	1,667	718	1,444	608
UK based charities	80	249	79	249
European Commission	854	191	854	191
Other grants and contracts	345	814	345	814
Knowledge Transfer Partnerships	143	260	144	260
	<u>3,089</u>	<u>2,232</u>	<u>2,866</u>	<u>2,122</u>

	Consolidated		University	
	2017	2016	2017	2016
	£'000		£'000	
4. Other income				
Residence and catering income	11,716	10,931	11,716	10,931
Other income	5,194	6,029	3,390	4,536
	<u>16,910</u>	<u>16,960</u>	<u>15,106</u>	<u>15,467</u>

	Consolidated		University	
	2017	2016	2017	2016
	£'000		£'000	
5. Investment income				
Interest on short term investments	21	21	21	21
Endowment income and interest receivable	163	292	162	289
	<u>184</u>	<u>313</u>	<u>183</u>	<u>310</u>

Notes to the accounts
Year ended 31 July 2017

	Consolidated and University	
	2017	2016
	£'000	£'000
6. Donations and endowments		
Unrestricted donations	332	195

	Consolidated	
	2017	2016
	No.	No.
7. Staff		
Average staff numbers by major category:		
Academic staff	766	732
Student support staff	117	116
Other support staff	491	492
	<u>1,374</u>	<u>1,340</u>

	Consolidated		University	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Costs:				
Wages and salaries	56,895	55,960	55,701	55,421
Social security costs	6,202	5,284	6,097	5,191
Employers' pension contributions	12,063	10,337	11,973	9,768
	<u>75,160</u>	<u>71,581</u>	<u>73,771</u>	<u>70,380</u>

Staff costs for the year include costs arising from redundancies of £0.6m (2016 credit £(0.49)m arising from over accrual of prior year costs).

Notes to the accounts

Year ended 31 July 2017

8. Remuneration of Board of Governors and higher paid employees

A. Governors

The University's governors do not receive remuneration from the University in their capacity as governors. The salaries and pension contributions below therefore relate entirely to staff governors and to sums received by them in their capacity as employees of the University.

	2017 £'000	2016 £'000
Salaries	406	331
Pension contributions	42	54
	448	385

Governors, who are also all trustees, are paid expenses for attending meetings and duties directly related to their duties as trustees. In 2017 five trustees were paid total expenses of £3,095 (2016: six trustees were paid total expenses of £2,331) for travel and subsistence.

B. Determining pay of senior staff

Senior pay, including the pay of the Vice Chancellor, is overseen, and for designated posts is determined, by a Remuneration Committee, composed of Independent Board Members, and chaired by an experienced Independent Member. The Vice Chancellor is not a Member of this Remuneration Committee.

The Committee, in making its determination, considers remuneration levels in a number of comparable institutions, but also more widely in the Sector; it seeks to ensure, based on good performance, that remuneration in LSBU is competitive and comparable to those comparator Institutions. The Committee also considers as a key input the level of pay increase that has been made to staff generally. The Committee further considers a report on the performance of Senior post holders against individual measurable stretching objectives and may award bonuses of up to 10% for clear achievement of those objectives, but only providing the overall financial performance of the University has been met.

C. Emoluments of the Vice Chancellor

	2017 £'000	2016 £'000
Salary	258	243
Taxable benefits	12	12
Pension Scheme contributions	18	40
Total emoluments and remuneration	288	295

All remuneration was to the current Vice Chancellor, Professor David Phoenix. The Vice Chancellor is the highest paid Governor. Included in taxable benefits is the value of the benefit to the Vice Chancellor of an interest free loan detailed in note 8(E). The Vice Chancellor is a member of the Teachers' Pension Scheme, however ceased contributions in February 2017. The nature of the scheme means it is not possible to ascertain the amount of his accrued pension at the year end.

D. Remuneration of other higher paid staff

Certain employees, excluding the Vice Chancellor, received remuneration (excluding pension contributions) in excess of £100,000 during the year. Seven of these employees accrued benefits under defined benefit pension schemes during the year (2016:7). These employees are grouped as follows:

	2017 No.	2016 No.
£110,000 to £119,999	1	1
£120,000 to £129,999	1	1
£130,000 to £139,000	1	2

Notes to the accounts

Year ended 31 July 2017

£140,000 to £149,999	1	1
£150,000 to £159,999	1	1
£160,000 to £169,999	2	2
£170,000 to £179,999	1	-
	<u>8</u>	<u>8</u>

E. Key management personnel

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

	2017 £'000	2016 £'000
Key management personnel	<u>1,326</u>	<u>1,245</u>

F. Related party disclosures

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

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

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

During the year the LSBU Students' Union received financial support from the University of £855,000 (2016: £855,000) net of services provided by the University. The President of the LSBU Students' Union is a member of the Board of Governors. The balance between the two parties at the year-end was £nil (2016: £nil).

A member of the Board, Hilary McCallion, is a visiting professor at Kings College London. During the year the University paid Kings College London £78,844 in respect of seconded staff.

A member of the Board, Jeremy Cope, is a board member of the Universities and Colleges Employer Association (UCEA). During the year the University paid £15,236 (2016: £5,195) in respect of membership and conference fees.

The Vice Chancellor of the University, Professor David Phoenix and the University are both members of the board of South Bank Academies. There were no transactions between South Bank Academies and the University during the year. During the year South Bank Academies paid the University £nil (2016 £189,017) in reimbursement of actual expenses incurred.

The Vice Chancellor of the University is a member of the board of Universities UK. During the year the University paid Universities UK £33,654 (2016: £28,632) in respect of membership fees and conference attendance. The Vice Chancellor of the University is a visiting professor at Kings College NHS Trust. During the year the University paid £19,479 in respect of seconded staff.

The Vice Chancellor of the University received an interest free loan in October 2013 as part of a relocation package agreed for him. Professor David Phoenix is an employee of the University. The amount of the loan was £350,000 and was solely to purchase a specified property. The loan is repayable on 30 October 2018 (or later as agreed). As of 31 July 2017 the outstanding balance was £350,000. The loan is fully secured by way of legal mortgage on the property in favour of London South Bank University.

Notes to the accounts
Year ended 31 July 2017

	Consolidated		University	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
9. Other operating expenses				
Academic	11,971	8,675	11,971	8,675
Academic support	9,148	7,173	9,148	7,173
Other support	7,292	6,769	7,292	6,769
Premises	15,636	14,627	15,636	14,627
Residence and catering	4,644	4,197	4,644	4,197
Other expenses	4,797	7,381	3,643	6,453
	<u>53,488</u>	<u>48,822</u>	<u>52,334</u>	<u>47,894</u>

Group other operating expenses are stated after charging:

	2017 £'000	2016 £'000
Auditors' remuneration		
<i>External audit</i> Grant Thornton UK LLP*	-	65
<i>External audit</i> – KPMG LLP	63	-
<i>Internal audit</i> ** PricewaterhouseCoopers LLP	93	91
<i>Other services</i> ** Grant Thornton UK LLP	TBC	4
Rentals under operating leases Plant and machinery	217	212
Loss on disposal of fixed assets	-	22
	<u>217</u>	<u>22</u>

* Includes £59,280 attributable to the University (2016: £51,156)

** All attributable to the University

10. Taxation

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

The amount of the asset not recognised is £7,659 (2016: £5,680). The asset would be recovered if suitable taxable profits were to arise in the future against which the asset could be offset.

	Consolidated and University	
	2017 £'000	2016 £'000
11. Interest and other finance costs		
Loans Interest	1,244	1,303
Net charge on pension scheme	3,125	3,452
	<u>4,369</u>	<u>4,755</u>

Notes to the accounts
Year ended 31 July 2017

12. Intangible Assets
Software

	Consolidated and University	
	2017	2016
	£'000	£'000
Opening balance	3,011	229
Additions	-	3,788
Amortisation charge for the year	(1,021)	(1,006)
Closing balance	<u>1,990</u>	<u>3,011</u>

13. Tangible Fixed assets (Consolidated and University)

	Freehold Land	Freehold Buildings	Long Leasehold land and buildings	Fixtures, Fittings and Equipment	Short Leasehold land and buildings	Assets in Course of Construction	Total Fixed Assets Total
Cost or Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000
At 1 August 2016	53,000	164,887	47,210	45,745	44	22,508	333,394
Additions	-	2	-	-	-	2,754	2,756
Disposals	-	-	-	-	-	-	-
Transfers	11,368	137	-	935	-	(12,440)	-
At 31 July 2017	<u>64,368</u>	<u>165,026</u>	<u>47,210</u>	<u>46,680</u>	<u>44</u>	<u>12,822</u>	<u>336,150</u>
Depreciation							
At 1 August 2016	-	(50,203)	(28,058)	(32,372)	(37)	-	(110,670)
Charge for the year	-	(4,411)	(1,281)	(2,907)	-	-	(8,599)
Disposals	-	-	-	-	-	-	-
Transfers	-	-	-	-	-	-	-
At 31 July 2017	<u>-</u>	<u>(54,614)</u>	<u>(29,339)</u>	<u>(35,279)</u>	<u>(37)</u>	<u>-</u>	<u>(119,269)</u>
Net book value							
At 31 July 2017	<u>64,368</u>	<u>110,412</u>	<u>17,871</u>	<u>11,401</u>	<u>7</u>	<u>12,822</u>	<u>216,881</u>
At 31 July 2016	<u>53,000</u>	<u>114,684</u>	<u>19,152</u>	<u>13,373</u>	<u>7</u>	<u>22,508</u>	<u>222,724</u>

Software, previously reported as fixtures, fittings and equipment, are now shown in note 12 as intangible assets.

14. Investments

	Consolidated		University	
	2017	2016	2017	2016
	£000	£000	£000	£000
CVCP Properties plc	<u>38</u>	<u>38</u>	<u>38</u>	<u>38</u>

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

Notes to the accounts

Year ended 31 July 2017

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

South Bank University Enterprises Limited

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

London Knowledge Innovation Centre Limited

SBUEL held 50% of the issued £1 shares of London Knowledge Innovation Centre Limited (LKIC), a company formed to provide serviced office space and other services to start-up companies. The share of the net assets and profit/(loss) of LKIC have not been included in the consolidated accounts as they are immaterial. The profit/(loss) and net assets of LKIC were both £nil for the period ended 31 July 2017 (2016 : £nil). The company dissolved on 12 September 2017.

Other investments

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

15. Debtors: amounts falling due within one year	Consolidated		University	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Trade debtors	13,684	11,425	12,967	11,100
Amounts owed by group undertakings	-	-	664	224
Other debtors	278	190	275	188
Prepayments and accrued income	4,066	2,991	3,879	2,918
Total debtors due within one year	18,028	14,606	17,785	14,430
Debtors: amounts falling due after one year: amounts owed by related parties (note 8)	350	350	350	350
	18,378	14,956	18,135	14,780

16. Creditors: amounts falling due within one year	Consolidated		University	
	2017 £'000	2016 £'000	2017 £'000	2016 £'000
Bank and other loans	1,347	1,325	1,347	1,325
Trade creditors	1,586	1,004	1,586	991
Other creditors	1,934	11,555	1,844	11,495
Social security and other taxation payable	1,481	1,485	1,481	1,466
Accruals and deferred income	28,305	28,949	27,581	28,557
	34,653	44,318	33,839	43,834

17. Creditors: amounts falling due after more than one year	Consolidated and University
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Notes to the accounts
Year ended 31 July 2017

	2017	2016
	£'000	£'000
Bank and other loans	24,262	25,609
Deferred income	23,794	25,038
	<u>48,056</u>	<u>50,647</u>

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

	Consolidated		University	
	2017	2016	2017	2016
	£'000	£'000	£'000	£'000
Government	8,584	8,957	8,178	8,867
Non government	2,717	2,334	2,619	2,292
Capital grants	24,122	25,248	24,122	25,248
	<u>35,423</u>	<u>36,539</u>	<u>34,919</u>	<u>36,407</u>

18. Borrowings

Consolidated and University

Bank loans and finance leases are repayable as follows:

	2017	2016
	£'000	£'000
Due in less than one year (note 16)	1,347	1,325
Due between one and two years	1,367	1,347
Due between two and five years	4,079	4,135
Due after five years	18,816	20,127
Total due after one year (note 17)	<u>24,262</u>	<u>25,609</u>
	<u>25,609</u>	<u>26,934</u>

Details of bank basic loans

Lender	Term	Interest rate	Security	2017	2016
				£'000	£'000
Barclays Bank	25 years to 2032	5.67% fixed	David Bomberg House	4,508	4,819
Barclays Bank	To April 2029	5.25 % fixed	Unsecured	5,000	5,000
Barclays Bank	23.25 years to 2032	5.54% fixed	Unsecured	7,653	7,993
Barclays Bank	23 years to 2032	0.225% over Libor	Unsecured	4,380	4,677
Allied Irish Bank	26.5 years to 2027	6.67% Fixed	Dante Road Halls	3,868	4,245
Salix	Variable	Interest free	Unsecured	200	200
				<u>25,609</u>	<u>26,934</u>

19. Provisions for liabilities (Consolidated and University)

USS pension	LPFA pension	Total
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Notes to the accounts
Year ended 31 July 2017

	£'000	£'000	£'000
Balance at 1 August 2016	1,012	121,500	122,512
Utilised during the year	-	(7,120)	(7,120)
Charged to comprehensive income and expenditure	17	(1,631)	(1,614)
Balance at 31 July 2017	<u>1,029</u>	<u>112,749</u>	<u>113,778</u>

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

20. Restricted reserves	Endowments		Consolidated and University	
	Restricted Permanent £'000	Restricted Expendable £'000	2017 Total £'000	2016 Total £'000
Balance at 1 August	634	120	754	742
Increase in market value of investments	44	8	52	12
Balance at 31 July	<u>678</u>	<u>128</u>	<u>806</u>	<u>754</u>

21. Unrestricted reserves	Consolidated and University	
	2017 £'000	2016 £'000
Revaluation reserve		
Balance at 1 August	27,969	28,693
Transfer to income and expenditure reserves being excess depreciation on revalued assets	(587)	(724)
Balance at 31 July	<u>27,382</u>	<u>27,969</u>

22. Cash and cash equivalents	At 1 Aug 2016 £'000	Cashflows £'000	At 31 July 2017 £'000
	Consolidated		
Investments	16,465	155	16,620
Cash at bank and on deposit	36,238	(4,092)	32,146
Balance at 31 July	<u>52,703</u>	<u>(3,937)</u>	<u>48,766</u>

Investments comprise of funds held in fixed term deposits for periods not exceeding three months at 31 July 2017. Cash and cash equivalents comprise funds held in bank and on deposit not exceeding 3 months.

23. Capital commitments	Consolidated and University	
	2017 £'000	2016 £'000
Commitments contracted at 31 July	4,249	804

24. Lease obligations

Notes to the accounts

Year ended 31 July 2017

At 31 July 2017 the University and the Group were committed to making the following future minimum lease payments in respect of operating leases on land and buildings:

	2017	2016
	£'000	£'000
Expiring within two and five years	17	57
Expiring in over five years	481	491
	<u>497</u>	<u>548</u>

25. Amounts disbursed as agent - Teacher Training Bursaries

	2017	2016
	£'000	£'000
Balance at 1 August	14	(41)
Funding council grant	142	352
Disbursed to students	(153)	(297)
	<u>3</u>	<u>14</u>

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

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

26. Pension arrangements

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

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

A. The Teachers' Pension Scheme

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

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

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

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

The last valuation of the TPS was as of 31 March 2012 and revealed that total liabilities in the scheme (pensions currently in payment and estimated cost of future benefits) amounted to £191.5 billion. The value of the assets

Notes to the accounts

Year ended 31 July 2017

(estimated future contributions together with the proceeds of notional investments) amounted to £176.6 billion, giving a notional past service deficit of £15.0 billion. The assumed real rate of return is 3%, pension increases 2% and long term salary growth 4.75% (2.75% pa in excess of assumed CPI).

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

At 31 July 2017 the University had 1043 active members participating in the scheme. During the year contributions were paid by the University and charged to the Income and Expenditure account at a current rate of 16.48% (2016: 16.48%) of salaries and the University's contribution to the TPS for 2017 was £4,171,742 (2016: £4,021,187).

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

B. The Universities Superannuation Scheme

The university participates in the Universities Superannuation Scheme (the scheme). The scheme is a defined benefit plan and the assets of the scheme are held in a separate trustee-administered fund.

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

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

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

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

	2017	2016
Discount Rate	2.6%	3.6%
Pensionable salary growth	n/a	n/a
Price inflation and pension increases(CPI)	2.4%	2.2%

The main demographic assumption used relates to the mortality assumptions. Mortality in retirement is assumed to be in line with the Continuous Mortality Investigation's (CMI) S1NA tables as follows:

Male members' mortality	98% of S1NA ["light"] YoB tables – No age rating
Female members' mortality	99% of S1NA ["light"] YoB tables – rated down 1 year

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

	2017	2016
Males currently aged 65 (years)	24.4	24.3
Females currently aged 65 (years)	26.6	26.5
Males currently aged 45 (years)	26.5	26.4

Notes to the accounts

Year ended 31 July 2017

Females currently aged 45 (years)	29.0	28.8
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	2017	2016	In
Scheme Assets	£60.0bn	£49.8bn	
Total scheme liabilities	£77.5bn	£58.3bn	
FRS 102 total scheme deficit	£17.5bn	£8.5bn	
FRS 102 total funding level	77%	85%	

addition, because the scheme is in deficit and a funding plan has been agreed, section 28 of FRS102 also requires individual employers to recognise a liability for the contributions payable that arise from the agreement to fund the scheme (to the extent that they relate to the deficit) and the resulting expense in the profit and loss. It also requires disclosure of how any liability recognised has been determined. The University has used a deficit modeller produced by USS to assist with meeting this requirement and the resulting additional charge to expenditure for the year was £17,000.

At 31 July 2017 the University had 58 active members participating in the scheme. The total cost charged to the Statement of Comprehensive Income and Expenditure is £599,508 (2016: £620,418) with tiered employer contribution rates of between 6% and 9% depending on employee earnings.

C. The London Pension Fund

The London Pension Fund Authority (LPFA) provides members with benefits related to pay and service at rates which are defined under the Local Government Pensions Scheme Regulations 2013. To finance these benefits, assets are accumulated in the Fund and held separately from the assets of the University.

A full triennial valuation was carried out by the scheme's actuary Barnett Waddingham as at 31 March 2016 with the valuation results taking into account changes to the scheme from 1 April 2017. The results showed the market value of the Fund's assets attributable to the University as £92.17m. The actuarial value of those assets represented 69% of the value of the benefits that have accrued to the University's pensioners, deferred pensioners and current members based upon past service but allowing for assumed pay increases and pension increases. Employer contribution rates effective from 1 April 2017 are 12.71% of pensionable salaries to cover the cost of future service plus a past service adjustment expressed as a lump sum to clear the deficit over a recovery deficit period of 17 years. During the year ending 1 April 2017 this payment amounted to £1,975,000.

Pension costs under FRS 102

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

	31 July 2017 % per annum	31 July 2016 % per annum
Salary increases	4.2%	3.9%
Pension and price increases	2.7%	2.1%
Discount rate	2.7%	2.5%

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

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

- Members will exchange half of their commutable pension for cash at retirements.
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age

Notes to the accounts

Year ended 31 July 2017

- No members will take up the option under the new LGPS to pay 50% of contributions for 50% of benefits

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

Life expectancy

Post-retirement mortality is based on Club Vita analysis. These base tables are then projected using the CMI 2015 model, allowing for a long term rate of improvement of 1.5% per annum. Based on these assumptions, average future life expectancies at age 65 are summarised below:

	Males Years	Females Years
Current pensioners	21.2	24.2
Future pensioners	23.6	26.5

Fund assets

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

	Fair value as at 31 July 2017 £'000	Fair value as at 31 July 2016 £'000
Equities	82,009	57,655
Target return portfolio	27,749	27,250
Cash	9,273	4,662
Cashflow matching	-	9,793
Infrastructure	6,028	7,917
Commodities	-	599
Property	8,712	4,190
	<hr/>	<hr/>
Total fair value of assets	<u>133,771</u>	<u>112,066</u>

Net pension liability

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

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013 £'000
Fair value of Employer Assets	133,771	112,066	105,534	99,726	96,319
Present value of funded obligations	(234,955)	(221,698)	(182,439)	(164,260)	(146,774)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net underfunding in funded plans	(101,184)	(109,632)	(76,905)	(64,534)	(50,455)
Present value of unfunded obligations	(11,565)	(11,868)	(11,852)	(11,968)	(11,756)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Net Pension Liability	<u>(112,749)</u>	<u>(121,500)</u>	<u>(88,757)</u>	<u>(76,502)</u>	<u>(62,211)</u>

The movement for the year in the net pension liability is shown in note 19.

Notes to the accounts

Year ended 31 July 2017

Analysis of the amount included in staff costs for the year

	2017	2016
	£'000	£'000
Service cost	6,985	5,484
Enhancements to former employees	240	201
	<u>7,225</u>	<u>5,685</u>

Analysis of the amount included in interest payable for the year

	2017	2016
	£'000	£'000
Interest on the defined liability (asset)	2,953	3,270
Administration expenses	146	158
	<u>3,099</u>	<u>3,428</u>

Analysis of the amount recognised in Other Comprehensive Income

	2017	2016
	£'000	£'000
Return on fund assets in excess of interest	14,351	1,473
Other actuarial gains on assets	2,164	-
Change in financial assumptions	(14,972)	(31,077)
Change in demographic assumptions	3,550	-
Experience gains and losses on defined benefit obligation	6,622	85
	<u>11,715</u>	<u>(29,519)</u>

Analysis of movement in the present value of scheme liabilities

	2017	2016
	£'000	£'000
At 1 August	233,566	194,291
Movement in the year:		
Current service cost	6,810	5,014
Interest cost	5,786	7,296
Changes in financial assumptions	14,972	30,839
Change in demographic assumptions	(3,550)	-
Experience loss/(gain) in defined benefit obligation	(6,622)	(85)
Past service costs, including curtailments	175	456
Estimated benefits paid net of transfers in	(5,429)	(4,987)
Contributions by scheme participants	1,548	1,478
Unfunded pension payments	(736)	(736)
	<u>246,520</u>	<u>233,566</u>

Analysis of movement in the fair value of scheme assets

	2017	2016
	£'000	£'000
At 1 August	112,066	105,534
Interest on assets	2,833	4,026
Return on assets less interest	14,351	1,221
Other actuarial gains	2,164	-
Administration expenses	(146)	(158)
Contributions paid	8,668	7,166
Estimated benefits paid plus unfunded net of transfers in	(6,165)	(5,723)
	<u>133,771</u>	<u>112,066</u>

The projected pension expense for the year to 31 July 2018 is £10,998,000.

Notes to the accounts
Year ended 31 July 2017

D. London South Bank University Defined Contribution Scheme

The University provides a defined contribution pension scheme through Friends Life for employees of London South Bank University Enterprises Limited (SBUEL). At 31 July 2017 the University had 20 members participating in the scheme. The University's contribution to the Friends Life scheme for 2017 was £77,257 (2016: £78,822) and employers contribution rates ranged from 6%-9%. Pension contributions payable at 31 July 2017 were £7,672 (2016: £6,538).

27. Post Balance Sheet Events

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

Draft for Audit Committee

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	CONFIDENTIAL
Paper title:	Draft Audit Committee Annual Report to the Board and Accountable Officer
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	James Stevenson, University Secretary and Clerk to the Board of Governors
Board sponsor:	Steve Balmont, Chair of the Audit Committee
Recommendation:	To approve the draft report from the Audit Committee to the Board of Governors.

Introduction

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

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

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

Executive Summary

During the year to 31 July 2017, the Audit Committee was chaired by Steve Balmont and met four times.

Matters completed by the Committee during the year include:

- review and clearance of the University's annual report and accounts for 2016/17 (paragraph 9);

- appointment of KPMG as external auditors, to replace Grant Thornton on expiry of contract;
- approval of the plan for PwC's internal audit review work for the year (paragraph 13);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 13);
- four meetings with PwC, three meetings with Grant Thornton UK LLP and one meeting with KPMG UK LLP in the absence of all University staff;
- consideration of the annual internal audit report (paragraph 15);
- regular review of the corporate risk framework (paragraph 19);
- approval of a statement of internal control (paragraph 31).

Draft Opinions

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

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

Recommendations

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

The committee is asked to approve the annual report.

Annual Report of the Audit Committee to the Board of Governors and the Accountable Officer 2016/17

Executive summary

During the year to 31 July 2017, the Audit Committee was chaired by Steve Balmont and met four times.

Matters completed by the Committee during the year include:

- review and clearance of the University's annual report and accounts for 2016/17 (paragraph 9); [to be confirmed]
- appointment of KPMG as external auditors, to replace Grant Thornton on expiry of contract;
- approval of the plan for PwC's internal audit review work for the year (paragraph 13);
- at each meeting, detailed consideration of PwC's internal audit reports (paragraph 13);
- four meetings with PwC, three meetings with Grant Thornton UK LLP and one meeting with KPMG UK LLP in the absence of all University staff;
- consideration of the annual internal audit report (paragraph 15);
- regular review of the corporate risk framework (paragraph 19);
- approval of a statement of internal control (paragraph 31).

Introduction

1. This report covers the financial and academic year from 1 August 2016 to 31 July 2017 and includes any significant issues up to the date of the signing this report and consideration of the financial statements for the year.
2. No member of the Audit Committee has, or has had during the year, a direct role in the management of the University. All members of the Committee are asked to declare any interests in any item of business on the agenda at each meeting.
3. During 2016/17, the Audit Committee was chaired Steve Balmont, an independent governor. Other members of the Committee during the year were: Mee Ling Ng, Shachi Blakemore and Roy Waight (independent co-opted member). Duncan Brown was appointed to the committee on 1 August 2017. The Audit Committee considers it has individuals with an appropriate mix of skills and experience to allow it to discharge its duties effectively.
4. All members of the Committee are independent of management. James Stevenson, University Secretary & Clerk to the Board, served as secretary to the Committee throughout the year.
5. The Committee held four business meetings during the financial year to 31 July 2017. The Vice Chancellor, Chief Financial Officer and other members of the Executive were present. The internal auditors and the external auditors were present at all four meetings. For the financial & academic year 2017/18 the Committee will also hold four business meetings (October, November, February, June.)
6. The Committee's terms of reference are reviewed annually in the autumn. The Committee has an agreed forward business plan which is used to plan its agendas during the year and is reviewed at each meeting.

External Audit

7. Grant Thornton UK LLP served as the University's external auditors, until the expiry of its contract on 31 March 2017. Following a tender process, KPMG UK LLP were appointed as the University's external auditors from 31 March 2017.
8. At its meeting of 8 June 2017, the Committee approved the external audit plan for the financial year 2016/17.

9. [At its meeting of 9 November 2017, the Committee considered and recommended to the Board for approval the draft financial statements for the year ended 31 July 2017. The Committee considered in detail an audit opinion from KPMG UK LLP. The Committee considered and recommended to the Board for approval the letter of representation from the Board of Governors to KPMG UK LLP. – to be confirmed]
10. Performance indicators have been agreed against which the performance of the external auditors is measured. [At its meeting of 9 November 2017, the Committee received a report on performance against indicators. The external auditors met all of the agreed performance indicators. – to be confirmed]
11. [On 9 November, the Committee met KPMG UK LLP in the absence of any University employees to discuss the year end audit and other matters.]
12. Non-audit work provided by KPMG for LSBU Group for the year ended 31 July 2017 is as follows:
 - Provision of initial advice in relation to funding options for the LSBU estate [£ tbc]
 - Tax computation services [£tbc]

Internal Audit

13. The University's Internal Auditors for the year were PricewaterhouseCoopers (PwC). PwC worked to an internal audit plan of 127 days approved by the Committee at its meeting of 9 June 2016. 128 days of work were delivered. The Committee has received progress reports from PwC against the plan at every meeting.
14. During the year 11 internal audits were undertaken (2016: 9.) The Continuous Audit programme of key financial systems and student data was undertaken throughout the year.
15. The internal auditor's annual report for 2016/17 (dated September 2017) provided a positive assurance statement. The internal audit annual report found:

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

16. "Our [PwC's] view on London South Bank University's operational control environment and governance arrangements is underpinned by the audit reviews that we have performed during the year. There has been one high risk rated report, two medium risk rated reports and two low risk rated reports prepared during the financial year. The findings from these reports are not considered significant in aggregate to the system of internal control. None of the individual assignments completed in 2016/17 have an overall classification of critical risk."
17. The Committee met PwC prior to each meeting, in the absence of any of the University's employees.
18. Following a tender process in 2014/5, PwC was re-appointed as internal auditors from 1 August 2015. The contract is for three years with the possibility of a further two 12 month extensions, subject to performance.

Risk management, control and governance

19. The Committee reviewed the corporate risk register at each meeting. In addition, the committee annually reviews risk strategy and risk appetite and makes recommendations to the Board of Governors. The University's corporate risk framework is aligned to the Corporate Strategy.
20. During the year PwC undertook an internal audit on risk management controls which concluded the control environment is effective and there is a low risk to the University.
21. At its meeting on 3 October 2017, the committee reviewed the effectiveness of internal controls and approved the full compliance statement for inclusion in the annual report and accounts.

Economy, Efficiency and Effectiveness

22. PwC considers value for money as part of its work on LSBU's systems of internal control. Its assessment is that LSBU's value for money processes are in accordance with good practice.

Management and Quality Assurance of Data submitted to HESA and HEFCE

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

24. Following two reports on the continuous auditing of student data controls during the year 2016/17, the Internal Auditors “have not identified any significant exceptions regarding student data controls, but we [PwC] have seen an increase in exceptions over the course of the year”.

HEFCE’s Assessment of Institutional Risk

25. In a letter dated 8 February 2017, the committee received HEFCE’s assessment of the University’s institutional risk by the Annual Provider Review (APR) Group. “The APR Group “identified no concerns on financial sustainability, good management and governance matters”. The final conclusion was that LSBU was “not at higher risk” at this time. HEFCE has given the same opinion each year since 2007.

HEFCE Assurance Review

26. On 26 January 2017, HEFCE undertook its five yearly assurance review of the University covering how the University exercises accountability for the public funds it receives. HEFCE’s conclusion was that they are “able to place reliance on the accountability information”.

Public Interest Disclosure

27. Under the “speak up” policy the University Secretary reported on speak up activity at every meeting of the Audit Committee. The Chair of the Audit Committee acts as the independent point of contact for anyone wishing to raise a speak up matter outside line management, and reviews the conclusion of any subsequent investigation.

28. Four Speak Up matters were reported during the year.

- The first alleged age discrimination, as part of a restructure: following an investigation by management, the conclusion was that “there is no evidence of direct or indirect age discrimination arising from the change proposal process”.
- The second related to unfair management practice in relation to Halls of Residence: following investigation, no evidence was found of unfair practice.
- The third was an allegation of unfairness in a university process: following investigation, no evidence was found of deliberate malpractice.

- The fourth was an external matter to be reported to the relevant professional body and, if necessary, the police.

Another Speak Up matter, related to terms of employment in the wholly-owned subsidiary, was raised after the year end and reported to the Audit Committee meeting of 3 October 2017. This remains under review.

Anti-Fraud

29. Under LSBU's anti-fraud policy the Chief Financial Officer reported on any fraud matter at every business meeting. During the year 2016/17 no irregularities were reported. After the year end, a suspected fraud was identified in payroll and reported to the Audit Committee meeting of 9 November 2017.

Audit Committee effectiveness assessment

30. The Audit Committee undertook an effectiveness review in May 2017 and received a report on the findings at its meeting on 8 June 2017. The recommendations from the report have been implemented.

Opinion of the Audit Committee

Risk Management, Control and Governance

[Draft - to be confirmed by the committee:

31. The Committee's opinion on the institution's risk management, control and governance is that these arrangements are adequate and effective.]

32. This opinion is based on:

- the Internal Audit annual report for 2016/17 which gave the opinion that "we believe London South Bank University has adequate and effective arrangements to address the risks that management's objectives are not achieved over risk management, control and governance"; and
- the Executive's detailed review of internal controls. This review was considered by the Audit Committee on 3 October 2017.

Economy, Efficiency and Effectiveness

[Draft - to be confirmed by the committee:

33. The Committee's opinion on the arrangements for the economy, efficiency and effectiveness of the University is that they are adequate and effective.]
34. This opinion is based on the Internal Audit annual report, 2016/17 which gave the opinion that "[PwC's] work indicates that LSBU has processes in place to ensure value for money which are in accordance with good practice". This is demonstrated through use of purchasing consortiums, adherence to financial controls, and an internal value of money working group.

Management and quality assurance of data submitted to HESA and HEFCE

[Draft - to be confirmed by the committee:

35. The Committee's opinion on the management and quality assurance of data submitted to HESA and HEFCE is that the University has adequate assurance.]
36. Both financial and student data are monitored regularly through management controls and independently tested through the internal audit continuous audit programme. No significant findings have been reported.

[This annual report was approved by the Audit Committee on 9 November 2017. – to be confirmed]

Signed
Steve Balmont
Chairman of the Audit Committee

[To be signed at the Board meeting of 23 November 2017]

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	CONFIDENTIAL
Paper title:	Annual Provider Review (APR)
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Janet Bohrer, Director, Academic Quality Development
Executive/Operations sponsor:	Professor Shan Wareing Chair of QSC
Purpose:	To provide assurance to Audit Committee regarding LSBU academic quality and standards, and to provide Board of Governors assurance before submitting the HEFCE Return in December 2017
Recommendation:	Audit Committee is requested to recommend the report to the Board of Governors for approval.

Executive Summary

Under the Annual Provider Review (APR), the Board of Governors is required by HEFCE to sign a statement by the 1st December each year to confirm they are assured that LSBU is maintaining its responsibility for improving student academic experience and student outcomes; and in addition, because LSBU holds degree awarding powers, that academic standards are set and maintained appropriately.

At its meeting on 1 November 2017, Academic Board reviewed the quality assurance report to HEFCE, which is part of the university's APR submission. The Academic Board has confirmed that the appropriate internal quality assurance processes have been completed and that standards are appropriate. The Academic Board recommends the APR to the Audit Committee.

Provided is a summary report and evidence for the annual reporting of our academic quality and standards at LSBU of our higher education provision. The key evidence includes:

- An overview of the quality and standards processes undertaken in 2016-17;
- Assurances for 2016-17
- The action plan created by Teaching Quality Enhancement from last year's APR process (updated with progress);
- Teaching Quality Enhancement local Road map and implementation plan for 2017-18.
- Mapping of LSBU processes to the European Standards and Guidelines and cross referenced to the UK Quality Code Expectations.

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Quality and Standards: 2016-17

Overview

The Board of Governors is asked by HEFCE to sign a statement by the 1st December each year to confirm that they are assured that LSBU is maintaining its responsibility for improving student academic experience and student outcomes; and in addition because LSBU holds degree awarding powers, that academic standards are set and maintained appropriately. This contributes to the Annual Provider Review process (APR) developed as part of the revised quality assurance operating model (2016).

APR provides a holistic judgement about a provider using the APR dashboard which comprises:

- student and provider metrics;
- provider governance and management assurances;
- quality information;
- all underpinned by institutional intelligence.

The APR process is being refined to include information about apprenticeships. The Board of Governors was extensively briefed about the process last year but the HEFCE presentation attached recaps how the APR process works.

If a provider is successful with the APR process they are recorded on the HEFCE register of higher education providers and are eligible to apply to for TEF.

The use of APR and TEF metrics are designed to ensure a consistent approach. During 2016-17 LSBU submitted a provider submission and achieved a TEF silver award. The provider submission details the evidence of the outcomes achieved through LSBU approaches to quality and standards over and above the APR baseline.

Assurances for 2016-17

LSBU quality assurance processes are mapped to relevant external benchmarks. In providing assurance for 2015-16 a mapping of LSBU processes to the Expectations of the UK Quality Code was completed.

In response to the mapping exercise an action plan was provided to the Board of Governors and is attached to this report with a final column that summarises the work completed.

During 2016-17 a mapping to the European Standards and Guidelines (ESG) - which is expected to replace the UK Quality Code as the relevant external benchmark - was completed and is attached. This allowed for triangulation between these ESG standards and the UK Quality Code Expectations. The Teaching Quality Enhancement (TQE) implementation plan, designed to meet the LSBU Roadmap, targets the items requiring action from this year's mapping. Therefore no additional action plan is being provided for

2017-18 as the ongoing assurance work is encapsulated in the implementation plan and the work of assuring quality and standards embedded into the reporting structures of the university. The TQE implementation plan is attached.

In summary work in continuing the assurance of quality and standards at LSBU for 2017-18 includes:

- auditing and revising courses specification which will allow for the Educational Framework to be fully embedded and will better align LSBU to Competition and Markets Authority guidance
- a focus on developing innovative assessment strategies across LSBU with the aim to make assessment more appropriate both to the validated learning outcomes and our student population.
- Developing greater understanding of the LSBU metrics. We have requested to be included in the TEF subject level pilot and will be aiming to improve student outcomes in order to achieve silver or gold in the next TEF exercise.

Annex A: Annual Quality Assessment Assurance Statements

As a governor and on behalf of the governing body, I confirm that for the 2016-17 academic year and up to the date of signing the return:

- The governing body has received and discussed a report and accompanying action plan relating to the continuous improvement of the student academic experience and student outcomes. This included evidence from the provider's own periodic review processes, which fully involve students and include embedded external peer or professional review.
- The methodologies used as a basis to improve the student academic experience and student outcomes are, to the best of our knowledge, robust and appropriate.

For providers with degree awarding powers:

- The standards of awards for which we are responsible have been appropriately set and maintained.

For providers without degree awarding powers:

- The standards of awards for which we are responsible have been appropriately maintained.

Signed by the accountable officer as a governor on behalf of all of the governors:

Signed:

Print name:

Date:

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Action planning for quality assurance and enhancement at LSBU:2016-17

		Action to be taken	Target date	Action by	Success indicators	Reported to	Progress to be reported for 2017 report
1	Alignment of each LSBU School's quality assurance with university processes for plans for future growth	<ul style="list-style-type: none"> Discussion in Schools about quality processes as completed at the local level and aligned with plans for future growth. 	March 2017	<ul style="list-style-type: none"> PVC E&SE and Director of AQE with the relevant AQE staff members, School Dean and DESE 	<ul style="list-style-type: none"> Seven meetings held and reports written 	SASC QSC	<ul style="list-style-type: none"> Completed meetings and provided ground work for new approval process meetings held later in the year
2	Annual review of course specifications	<ul style="list-style-type: none"> Centralised database of courses specifications Audit to check for changes since validation 	July 2017	<ul style="list-style-type: none"> Deputy Director of AQE 	<ul style="list-style-type: none"> Database created Audit completed and reported to individual Schools if any recommendations made 	SASC QSC	<ul style="list-style-type: none"> Started and will be ongoing during 2017-18
3	Audit of assessment practices used across the universities. This is a topic for an academic audit	<ul style="list-style-type: none"> Review amount of assessment methods and means reviewed for consistency and inclusivity AP(E)L /RPL reviewed for consistency across the university 	July 2017	<ul style="list-style-type: none"> AQE staff with relevant School based staff 	<ul style="list-style-type: none"> Recommendations made to School to align to consistent practices across the university 	QSC	<ul style="list-style-type: none"> APEL meetings held report being discussed and edited. Full assessment audit and review working with CRIT and the HEA planned for 2017-18 (documented in the TQE implementation plan)
4	Academic Misconduct	<ul style="list-style-type: none"> Review the Academic 	July 2017	<ul style="list-style-type: none"> Gov-legal and Student Admin 	<ul style="list-style-type: none"> Work on a revised procedure 	QSC	<ul style="list-style-type: none"> Procedure published about

		<p>Misconduct Procedure</p> <ul style="list-style-type: none"> • Make Procedure available separately on the web page 		teams	published on the web		to be published on web before academic year 2017-18 commences
5	Institutional Examiner Role	<ul style="list-style-type: none"> • Recruitment and development of new role 	Dec 2016	<ul style="list-style-type: none"> • PVC E&SE 	<ul style="list-style-type: none"> • Institutional Examiner appointed 	QSC	<ul style="list-style-type: none"> • Annual report made by Institutional Examiner from external Examiners reports two visits made in 2016-17 . report from July 2017 to go to next QSC/Academic Board

6.	Embed the student voice in quality assurance processes	<ul style="list-style-type: none"> • Work with the Student Union to review the student participation in quality assurance in particular to review the Student Charter 	July 2017	<ul style="list-style-type: none"> • AQE working with SU 	<ul style="list-style-type: none"> • Work on revising the LSBU student Charter 	Student Experience Committee	<ul style="list-style-type: none"> • Ongoing
7.	Annual monitoring	<ul style="list-style-type: none"> • To make the results from the annual monitoring more timely for making appropriate changes to courses and to make the process less burdensome 	July 2017	<ul style="list-style-type: none"> • PPAT working with AQE and DESEs 	<ul style="list-style-type: none"> • the CMR forms will be semi auto populated 	SASC	<ul style="list-style-type: none"> • Overarching reports to QSC available by Oct 2017 (ref to work led by HL and RD)

8.	Monitoring and reviewing existing partnerships	<ul style="list-style-type: none"> Revising and developing the review mechanism for partnerships 	Jan 2017 and ongoing	<ul style="list-style-type: none"> Academic Director for collaborative partnerships 	<ul style="list-style-type: none"> robust reviewing and reporting from larger partnerships MOCs reviewed and updated annually 	QSC	Database produced and checked through each School Standards Committee July 2017. Database held by International Office Collaborations team
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4: Strategic Actions			PSG: Teaching Quality and Enhancement					
Ref	Action	Measure or Milestone	Timescale	Expected impact	Risk aspects	Corporate Goal	School / PSG link	What support is required?
TQE 1	Design and validate PGCert TLHE for delivery in 2018/19	Validation of course	Jun-18	Increased number of teaching qualifications and HEA Fellowship for early career teaching staff leading to enhanced educational practice	Appropriate School hosting arrangement for course	Teaching and Learning	People & Organisation	Embedding of PGCert into recruitment, appointment and probation mechanisms
TQE 2	Launch CPD programme (CRITICAL Conversations, DEL Webinars and LSBU Open Practice forums) with targeted consultancy and provision for UG and PG course directors	CPD programme published, with Termly CRITICAL conversation & Course Director events, 2 open forums per term, and regular webinars. Engagement report, average event attendance of 25.	01/10/2017 July 18	Development of a course director professional learning community as basis for institutional change model	Recruitment of CRIT staff to facilitate programme of events	Student Experience	Schools	Recognition and allocation of time for course director engagement with community
TQE 3	Renew HEA accreditation for Achieve recognition scheme, and LSBU fellowship audit with a focus on capacity building at the Associate Fellowship and Fellowship levels.	HEA Accreditation awarded. Audit completed. 55% of relevant staff holding or working towards fellowship recognition.	Jan. Jan. July	Increased proportion of staff with HEA fellowship in HEA reporting	Recruitment of CRIT staff to lead and administer Achieve	Teaching and Learning	Health and Social Care	Collaboration with HSC to deliver on university HEA accreditation
TQE 4	Deliver "Making Assessment Work" Assessment Audit and Enhancement Programme	Academic Audit of assessment completed and linked to enhancement activity	Jun-18	Explicit mapping of assessment strategy including inclusive assessment, graduate attributes and DEL in courses	Recruitment of CRIT staff to support this area	Employability		
TQE 5	Deliver year 1 of DEL strategy project plan	Key objectives of year 1 DEL strategy achieved, including DEL baseline & 2 associated courses, staff skills audit and development materials, & lecture capture progress and technological roadmap.	Jul-18	Increased uptake of digital solutions in pedagogic design and delivery	Resourcing and timing for ICT enhancement	Teaching and Learning	Estates and Academic Environment	ICT support to deliver on infrastructure needs
TQE 6	Standardise course specification for all existing and future courses	New course specifications completed for internal audit	Mar-18	Enhanced CMA compliance and reporting	CMA non-compliance	Employability	Schools	Support from Schools for updates on all course specifications
TQE 7	Review and implement new course approval process	Proposal presented to QSC	Dec-17	Streamlined process to improve focus on pedagogic and quality of course provision	keeping pace with changing external requirements	Teaching and Learning		
TQE 8	Initiate a model of external evaluation	Proposal presented to QSC	Jul-18	Assurance to Board of Governors & Committees relating to duties around Quality matters		Teaching and Learning		

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LSBU Quality and Enhancement: August 2017

ESG Mapping: This grid shows the Standards and Guidelines for Quality Assurance in the European Higher Education Area (ESG) mapped to how LSBU meets each of the Standards in part 1 and relates to UK assurances through a mapping to the UK Quality Code for Higher Education.

ESG Standard	How LSBU comply	Mapped to UK Quality Code Expectations as provided by QAA at workshop July 2017*	Notes and comments for action in academic year 2017-18
<p>1.1 Policy for quality assurance</p> <p>Standard: Institutions should have a policy for quality assurance that is made public and forms part of their strategic management. Internal stakeholders should develop and implement this policy through appropriate structures and processes, while involving external stakeholders.</p>	<p>LSBU has a policy about how its quality assurance processes operate and are implemented. This is documented through the academic quality enhancement manual which is made publically available on the web site at:</p> <p>http://www.lsbu.ac.uk/_data/assets/pdf_file/0015/103425/academic-quality-enhancement-manual.pdf</p> <p>*see 1.4 and 1.10 below</p> <p>At a staff workshop this year LSBU provision was considered in relationship to the multiple purposes of higher education as in recommendation 6 Council of Europe’s Committee of Ministers (2007) and detailed in the ESG (2015) see evidence photographs</p>	<p>Expectation A 2.1: In order to secure their academic standards, degree-awarding bodies establish transparent and comprehensive academic frameworks and regulations to govern how they award academic credit and qualifications.</p> <p>Expectation B10: Degree-awarding bodies take ultimate responsibility for academic standards and the quality of learning opportunities, irrespective of where these are delivered or who provides them. Arrangements for delivering learning opportunities with organisations other than the degree-awarding body are implemented securely and managed effectively.</p>	<p>Potentially this is an area we could consider making a more overt statement about how our courses are assured especially given our growing collaborative provision (checked through MOC spreadsheet) and include apprenticeship provision (especially for example with regard to the partnership required in providing maths and English provision at level two). Could explain how this relates to other regulators such as Ofsted requirements in conjunction to HEFCE assurances for level 4 and 5 awards or to PSRB requirements (ref to PSRB spread sheet).</p> <p>The Governance structure monitoring our Quality Assurance and reporting through the university we make might be made more</p>

			transparent with a clear statement on the website available from the Academic Regulations web page.
<p>1.2 Design and approval of programmes</p> <p>Standard: Institutions should have processes for the design and approval of their programmes. The programmes should be designed so that they meet the objectives set for them, including the intended learning outcomes. The qualification resulting from a programme should be clearly specified and communicated, and refer to the correct level of the national qualifications framework for higher education and, consequently, to the Framework for Qualifications of the European Higher Education Area.</p>	<p>At LSBU alignment to Framework to Higher Education Qualifications (FHEQ) and subject benchmark statements is required for all new course approvals.</p> <p>LSBU uses an approval process which assigns risk to the type of validation event required but peers from across the university and external expertise are all utilised in approving a course for recruitment.</p> <p>Though the external examiner system we can report on standards and level of awards of courses that have been approved to run in comparison to other UK higher education providers.</p> <p>The processes are documented in the academic quality enhancement manual http://www.lsbu.ac.uk/_data/assets/pdf_file/0015/103425/academic-quality-enhancement-manual.pdf</p> <p>The process for research degrees is slightly different and the LSBU research degrees code of practice</p>	<p>Expectation A1: UK and European Reference Points for Academic Standards</p> <p>A 3.1: Degree-awarding bodies establish and consistently implement processes for the approval of taught programmes and research degrees that ensure that academic standards are set at a level which meets the UK threshold standard for the qualification and are in accordance with their own academic frameworks and regulations.</p> <p>A 3.2: Degree-awarding bodies ensure that credit and qualifications are awarded only where: a) the achievement of relevant learning outcomes (module learning outcomes in the case of credit and programme outcomes in the case of qualifications) has been demonstrated through assessment b) both the UK threshold standards and the academic standards of the relevant</p>	<p>At a staff workshop this year LSBU validation process were compared to other higher education providers in terms of 'what we do well' and 'what we could improve' see evidence photographs.</p> <p>As a result the approval to develop stage of the approval processes was made a more strategic exercise with a meeting between key Executive members with the senior management team of each School and a schedule for all validation activity for 2017-18 agreed. See AB paper xxx (still to write but attached in draft form)</p> <p>In addition the TQE group will be looking to support staff in helping to enhance their writing of excellent learning outcomes during the academic year 2017-18 through a series of workshops (ref to TQE implementation plan)</p>

	<p>can be found online at http://www.lsbu.ac.uk/_data/assets/pdf_file/0007/84355/research-degree-code-of-practice.pdf</p> <p>The governance structure is that the School Academic Standards Committees report to university committees as appropriate and a representative of the Quality and Standards Committee sits on the Research Committee and vice versa both Committees report to the Academic Board that has ultimate responsibility for all the awards LSBU makes see 1.4 below.</p>	<p>degree-awarding body have been satisfied.</p> <p>A 3.3: Degree-awarding bodies ensure that processes for the monitoring and review of programmes are implemented which explicitly address whether the UK threshold academic standards are achieved and whether the academic standards required by the individual degree-awarding body are being maintained.</p> <p>A 3.4: In order to be transparent and publicly accountable, degree-awarding bodies use external and independent expertise at key stages of setting and maintaining academic standards to advise on whether: a) UK threshold academic standards are set, delivered and achieved b) the academic standards of the degree-awarding body are appropriately set and maintained.</p> <p>B1: Higher education providers, in discharging their responsibilities for setting and maintaining academic standards and assuring and enhancing the</p>	
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		quality of learning opportunities, operate effective processes for the design, development and approval of programmes.	
<p>1.3 Student-centred learning, teaching and assessment</p> <p>Standard: Institutions should ensure that the programmes are delivered in a way that encourages students to take an active role in creating the learning process, and that the assessment of students reflects this approach.</p>	<p>Courses design is supported by CRIT and checked through the validation events and then subsequently through annual monitoring, periodic reviews and academic audits as required.</p> <p>LSBU Student Services include: Disability & Dyslexia Support; Student Advice, Careers Service, Library and learning resources and includes the learner analytics work and the support for learning team.</p> <p>External examiners report on university standards and student achievement in relation to those standards, this information is used in annual monitoring. Details about the LSBU external examiner system can be found in the in the Assessment and Examination Procedure available on the web http://www.lsbu.ac.uk/about-us/policies-regulations-procedures#collapseTwo</p> <p>Complaints and Appeal can be made using the LSBU procedures available on the web site at</p>	<p>A 3.4: In order to be transparent and publicly accountable, degree-awarding bodies use external and independent expertise at key stages of setting and maintaining academic standards to advise on whether: a) UK threshold academic standards are set, delivered and achieved b) the academic standards of the degree-awarding body are appropriately set and maintained.</p> <p>B3: Higher education providers, working with their staff, students and other stakeholders, articulate and systematically review and enhance the provision of learning opportunities and teaching practices, so that every student is enabled to develop as an independent learner, study their chosen subject(s) in depth and enhance their capacity for analytical, critical and creative thinking.</p> <p>B4: Higher education providers have in place, monitor and</p>	<p>TQE will conducted with input from HEA an assessment audit during 2017-18 (ref to TQE implementation plan)</p>

	<p>http://www.lsbu.ac.uk/about-us/policies-regulations-procedures#collapseTwo At the end of the internal appeal or complaints process, a 'Completion of Procedures' letter is issued to the student which gives them the right to appeal to the OIA.</p> <p>The student voice is embedded through Course Boards; feedback surveys e.g. National Student Survey (NSS), Module Evaluation Questionnaires (MEQs), and student participation in Academic Board, QSC, Board of Governors and other committees and sub-committees</p>	<p>evaluate arrangements and resources which enable students to develop their academic, personal and professional potential.</p> <p>B5: Higher education providers take deliberate steps to engage all students, individually and collectively, as partners in the assurance and enhancement of their educational experience.</p> <p>B6: Higher education providers operate equitable, valid and reliable processes of assessment, including for the recognition of prior learning, which enable every student to demonstrate the extent to which they have achieved the intended learning outcomes for the credit or qualification being sought.</p> <p>B7: Higher education providers make scrupulous use of external examiners.</p> <p>B9: Higher education providers have procedures for handling academic appeals and student complaints about the quality of learning opportunities; these procedures are fair, accessible and timely, and enable enhancement.</p>	
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<p>1.4 Student admission, progression, recognition and certification</p> <p>Standard: Institutions should consistently apply pre-defined and published regulations covering all phases of the student “life cycle”, e.g. student admission, progression, recognition and certification.</p>	<p>LSBU has an ongoing commitment to revising Academic Regulations and Procedures to make sure they are fit for purpose. These are made public on the web site http://www.lsbu.ac.uk/about-us/policies-regulations-procedures</p> <p>QSC can make in year changes to procedures in the best interest of students and if it is made clear they are being added as amendments to existing procedures</p> <p>The LSBU research degrees code of practice can be found online at http://www.lsbu.ac.uk/_data/asset/s/pdf_file/0007/84355/research-degree-code-of-practice.pdf</p>	<p>A 2.2: Degree-awarding bodies maintain a definitive record of each programme and qualification that they approve (and of subsequent changes to it) which constitutes the reference point for delivery and assessment of the programme, its monitoring and review, and for the provision of records of study to students and alumni.</p> <p>B2: Recruitment, selection and admission policies and procedures adhere to the principles of fair admission. They are transparent, reliable, valid, inclusive and underpinned by appropriate organisational structures and processes. They support higher education providers in the selection of students who are able to complete their programme.</p> <p>B6: Higher education providers operate equitable, valid and reliable processes of assessment, including for the recognition of prior learning, which enable every student to demonstrate the extent to which they have achieved the intended learning outcomes for the credit or qualification being sought.</p> <p>Expectation part C: Information about higher</p>	<p>LSBU retained its Plain English Crystal Mark for its Academic Regulations for 2017-18</p>
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		education provision – Higher education providers produce information for their intended audiences about the learning opportunities they offer that is fit for purpose, accessible and trustworthy.	
<p>1.5 Teaching staff</p> <p>Standard: Institutions should assure themselves of the competence of their teachers. They should apply fair and transparent processes for the recruitment and development of the staff.</p>	<p>Course design by course teams is further supported through Centre for Research Informed Teaching (CRIT) and checked through validation events, (including using external specialists) with course teams meeting subsequent conditions before a new course is signed off for students to be allowed to enrol. This is checked through being annually monitored and periodically reviewed.</p>	<p>B3: Higher education providers, working with their staff, students and other stakeholders, articulate and systematically review and enhance the provision of learning opportunities and teaching practices, so that every student is enabled to develop as an independent learner, study their chosen subject(s) in depth and enhance their capacity for analytical, critical and creative thinking.</p>	<p>At a staff workshop the Standards of the ESG were discussed through the use of a gallery walk exercise see evidence photographs. This standard about teaching was explored in depth. Including about the PGCert (ref to the TQE implementation plan)</p> <p>The Achieve programme will be used at LSBU again during 2017-18</p>
<p>1.6 Learning resources and student support</p> <p>Standard: Institutions should have appropriate funding for learning and teaching activities and ensure that adequate and readily accessible learning resources and student support are provided.</p>	<p>Make reference to the APR assurances provided to HEFCE about financial sustainability</p> <p>Individual modules are reviewed every year and this is used for course monitoring reports which feed into School action plans for making continuous improvement.</p> <p>School Academic Standard Committees (SASC) and Quality and Standards Committee (QSC)</p>	<p>B3: Higher education providers, working with their staff, students and other stakeholders, articulate and systematically review and enhance the provision of learning opportunities and teaching practices, so that every student is enabled to develop as an independent learner, study their chosen subject(s) in depth and enhance their capacity for analytical, critical and creative</p>	

		<p>thinking. B4: Higher education providers have in place, monitor and evaluate arrangements and resources which enable students to develop their academic, personal and professional potential.</p>	
<p>1.7 Information Management</p> <p>Standard: Institutions should ensure that they collect, analyse and use relevant information for the effective management of their programmes and other activities.</p>	<p>Include a reference to MIKE and use of university KPI as monitored by Academic Board</p> <p>External advisers are used in validation events and external examiners report on academic standards annually</p> <p>External examiner reports are used in annual monitoring reports and actions resulting from external examiner comments are discussed at SASCs</p>	<p>A 3.3: Degree-awarding bodies ensure that processes for the monitoring and review of programmes are implemented which explicitly address whether the UK threshold academic standards are achieved and whether the academic standards required by the individual degree-awarding body are being maintained.</p> <p>B8: Higher education providers, in discharging their responsibilities for setting and maintaining academic standards and assuring and enhancing the quality of learning opportunities, operate effective, regular and systematic processes for monitoring and for review of programmes.</p>	

<p>1.8 Public information</p> <p>Standard: Institutions should publish information about their activities, including programmes, which is clear, accurate, objective, up-to date and readily accessible.</p>	<p>The definitive information made available to students and the recording any local protocols of differences from the Academic Regulations, for example because of professional body requirements, are made in the Course Specification</p>	<p>Expectation part C: Information about higher education provision – Higher education providers produce information for their intended audiences about the learning opportunities they offer that is fit for purpose, accessible and trustworthy.</p>	<p>The LSBU Gov-legal team started and exercise about mapping the template currently used for our courses specs to CMA requirements. A new template has been piloted with an academic member of staff and will be revised and developed for use during 2017-16. An audit of course specs is currently under way and will pave the way for a new process of periodic review from next year.</p>
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1.9 On-going monitoring and periodic review of programmes

Standard:

Institutions should monitor and periodically review their programmes to ensure that they achieve the objectives set for them and respond to the needs of students and society. These reviews should lead to continuous improvement of the programme. Any action planned or taken as a result should be communicated to all those concerned.

Development and embedding the Educational Framework through course design supported by CRIT, checked through validation events. There is annual monitoring of courses, which are also periodically reviewed; external examiners report on university standards and student achievement in relation to those standards.

Through the specific LSBU Admissions and Enrolment Procedure, Enrolment Declaration and a Complaints and Appeals Procedure for admissions decisions.

<http://www.lsbu.ac.uk/about-us/policies-regulations-procedures#collapseTwo>

A 3.3: Degree-awarding bodies ensure that processes for the monitoring and review of programmes are implemented which explicitly address whether the UK threshold academic standards are achieved and whether the academic standards required by the individual degree-awarding body are being maintained.

B8: Higher education providers, in discharging their responsibilities for setting and maintaining academic standards and assuring and enhancing the quality of learning opportunities, operate effective, regular and systematic processes for monitoring and for review of programmes.

Annual monitoring from next year will be semi-automated (ref to Harry and Richard Duke). As a result and as above the courses spec audit the process of periodic review will be reviewed next year.

The process of academic audit will continue (collaborative provision completed, AP(E)L is underway and next year a n assessment audit will contribute to a wider piece of work about assessment hopefully supported by the HEA (ref to TQE implementation plan)

<p>1.10 Cyclical external quality assurance Standard: Institutions should undergo external quality assurance in line with the ESG on a cyclical basis</p>	<p>From last year the Board of Governors had to assure HEFCE about the quality of the universities higher education and these assurances along with the metrics collated by the HEFCE contributed to the annual provider review. In providing assurance to the Board of Governors a mapping of LSBU processes to the UK Quality Code Expectations was completed and is published as an appendix in the academic quality enhancement manual (see 1.1 above) and published at: http://www.lsbu.ac.uk/_data/assets/pdf_file/0015/103425/academic-quality-enhancement-manual.pdf The results of the APR are logged on the Higher Education Provider register and LSBU can be found at http://www.hefce.ac.uk/reg/register/search/Provider/10004078 During 2016-17 LSBU also participated in the national Teaching Excellence Framework exercise and were award silver. This is also recorded on the web link above</p> <p>*evidence attached letter with TEF outcomes</p>	<p>See operating model at www.hefce.ac.uk/reg/QualityAssessment/about/</p>	
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*How LSBU complies with the UK Quality Code can be found in appendix A

http://www.lsbu.ac.uk/_data/assets/pdf_file/0015/103425/academic-quality-enhancement-manual.pdf

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	CONFIDENTIAL
Paper title:	External Audit Performance
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To consider the performance of KPMG during their audit for the year ending 31 July 2017
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	The Committee is requested to note the report

Key Performance Indicators (KPIs)

This is the first year that KPMG have performed the external audit for the University and the attached KPIs were agreed with KPMG and approved by Audit Committee in June 2017.

These indicators will be presented to the Audit Committee on an Annual Basis following completion of the annual audit process. The KPIs have been segmented into four key Balanced Scorecard areas; Delivery, People, Processes and Quality of Service, reporting target and actual performance.

The agreed KPIs are listed below with a summary of performance against them for the 2016/17 financial year end audit.

Key Performance Indicators

The following indicators will be presented to the Audit Committee on an Annual Basis. The KPIs have been segmented into four key Balanced Scorecard areas; Delivery, People, Processes and Quality of Service, reporting target and actual performance.

Indicator	Target	2017 performance	Narrative
1. Quality Assurance			
Compliance with mandatory audit standards and professional standards prescribed by the main accountancy bodies.	100%	100%	The audit has been conducted in line with KPMG Audit Methodology which has been developed in line with International Standards on Auditing.
Use of the most effective techniques in audit work.	100%	100%	CAATs used to select high risk journals for sample testing.
Use of latest techniques in audit work (statistical and sampling).	100%	100%	Monetary Unit Sampling used on each balance related to a significant risk.
Use of data and analytic routines when auditing account balances.	50%	50%	Data and analytics routines to select high risk journals for testing to respond to the risk of management override of controls. KPMG will propose to management that a 'dry run' be completed once the audit cycle is complete, to develop a data analysis approach for subsequent years.
Updates on significant financial reporting developments provided to management as and when they occur.	100%	100%	Technical update issued June 2017 including Pulse Survey, Audit committee agendas, Apprenticeship Levy, Gender Pay Gap reporting, IR35 and

			HEFCE reporting.
2. Achievement of Audit-Day Targets			
Audit-day targets for individual audit assignments will not be exceeded without the express approval of the Chief Financial Officer.	100%	TBC	Expected target to be met
3. Reporting Arrangements			
Clarity of style, avoidance of jargon and concise explanation of the issue are required in all audit reports.	100%	TBC	Reporting of audit plan met the KPI receiving positive feedback from Audit Committee. Awaiting audit report.
Quality of audit reports – the information provided should be relevant, practical and timely.	100%	TBC	Awaiting audit report
Proper consultation/liaison with the University's managers should take place in the preparation and follow up of all audit reports			
- Proportion of audit reports agreed in advance with management prior to issue	100%	TBC	Awaiting audit report
- Audit plan issued annually by 31 May	100%	100%	Final plan sent to LSBU on 26 th May and approved by Audit Committee in June
- Audit opinion and Use of Resources conclusion issued by statutory deadline.	100%	TBC	Awaiting audit opinion
Significant issues communicated immediately to the Chief financial Officer and less significant issues communicated immediately to the Financial Controller.	100%	100%	No significant issues. Less significant issues have been communicated to the Financial Controller including matters associated with audit testing and audit adjustments
4. Recommendations			
The extent to which the audit report recommendations are accepted by the University as relevant and realistic to put in place.	100%	TBC	Awaiting audit report
The extent to which recommendations are successfully implemented by the University.	100%	86%	Recommendations in the previous year were raised by the previous external audit provider. KPMG have followed up on the

			implementation of these recommendations through their testing. Six out of seven recommendations raised by the previous provider have been implemented by management. One recommendation (relating to journals) is still outstanding, due to limitations with the system. Management are working to implement automated journals approval.
The extent to which audit staff follow-up the implementation of the above recommendations.	95%	100%	The audit team have followed up the implementation on all seven recommendations raised by the previous external audit provider. KPMG will track the progress of recommendations raised by KPMG going forwards.
Client satisfaction surveys 'good' or better – issued annually.	100%	Not yet due	This survey will be released in February 2018, at the end of the audit cycle.
Number of benchmarking reports issued each year.	1	1	KPMG will shared the results of our HEFCE forecast benchmarking with management in June 2017. We will also present the results of our budget holder survey to the Audit Committee in November 2017.
5. Staffing			
All staff assigned to the tasks deemed necessary for the provision of the services have been selected with due regard being paid to their qualifications, experience and technical ability.	100%	100%	All staff utilised on the audit were drawn from the KPMG Public Sector and Healthcare Audit Team.
Appropriate staff are made available for the purpose of discussions and	100%	100%	At the planning stage in before

meetings with University staff relevant to the work carried out.			the interim and final audit visit appropriate staff attended meetings with the Audit Partner, Manager and Assistant Manager attending
Utilisation of specialist staff where appropriate to demonstrate the value of organisational resource.	100%	100%	KPMG Actuarial specialists were used to assess the assumptions made by Barnett Waddingham in respect of the University's pension liabilities
Commitment to training and development of audit staff.			
- Percentage of staff with relevant CCAB qualifications in Core team.	100%	100%	The Engagement Partner, Manager and Assistant Manager are all members of the ICAEW.
Completion of relevant training by all members of the external audit team.	100%	100%	All members of the audit team are compliant with KPMG's mandatory training requirements.
Proportion of team holding or working towards CCAB qualifications.	100%	100%	All members of the audit team either hold or are working towards a CCAB qualification.
Continuity of team: Turnover rate of staff.	5%	0%	Although there was a change in manager between the date of our proposal and the start of the audit cycle, the team has remained consistent throughout the audit.
6. Supervision			
All audit work is properly controlled, monitored and reviewed by audit management.	100%	100%	All audit work has been supervised by the Engagement Partner, Manager and Assistant

			Manager.
7. Audit Protocol			
Proper conduct of audit assignments. All audit work is properly controlled, monitored and reviewed by audit management (Partner and Senior Manager).	100%	100%	The Engagement Partner has reviewed all work relating to significant accounts, and the Audit Manager has reviewed all working papers.
Regular communications and effective interaction with University managers. Audit team to undertake quarterly updates with key stakeholders.	100%	100%	During the interim and final audit the team regularly communicated with Financial controller regarding progress We have had regular meetings with the Chief Financial Officer, and the Engagement Partner has met with the Chair of the Audit Committee.
Professionalism demonstrated on audit assignments.	100%	100%	
Audit planning and clearance meetings scheduled in advance and in line with committee and other key dates.	100%	100%	
Year end audit and associated work completed in line with agreed timetables and committee papers submitted at least 10 working days before the date of the meeting.	100%	TBC	Papers due 26 th October
8. Response times			
All general enquiries and requests for assistance shall receive a response within two working days	100%	100%	Request to review pension report and indicative assumptions responded to on same day. No other requests made

	CONFIDENTIAL
Paper title:	Review of non-audit services
Board/Committee	Audit Committee
Date of meeting:	9 November 2017
Author:	Natalie Ferer, Financial Controller
Executive/Operations sponsor:	Richard Flatman, Chief Financial Officer
Purpose:	To review KPMGs non audit services for the year ending 31 July 2017
Which aspect of the Strategy/Corporate Delivery Plan will this help to deliver?	Statutory financial reporting
Recommendation:	The Committee is requested to note this report.

Executive Summary

The University has engaged KPMG to conduct the audit for the year ending 31 July 2017. During the year the following additional services were provided by KPMG:

- Provision of initial advice in relation to funding options for the LSBU estate [£ tbc]
- Tax computation services [£ tbc]

Recommendation

The Committee are asked to note this report.

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