Meeting of the Board of Governors

4.00 - 6.00 pm on Thursday, 22 November 2018
in 1B27 - Technopark, SE1 6LN

Agenda

No.	*Item*	*Pages*	*Presenter*
11.	External audit findings	289 - 324	KPMG

Date of next meeting
4.00 pm on Thursday, 14 March 2019

Members: Jerry Cope (Chair), Douglas Denham St Pinnock (Vice-Chair), David Phoenix, Steve Balmont, Shachi Blakemore, Duncan Brown, Julie Chappell, Michael Cutbill, Nelly Kibirige, Hilary McCallion, Mee Ling Ng, Jenny Owen, Jeremy Parr, Tony Roberts and Nazene Smout

Apologies: Pat Bailey, Peter Fidler and Kevin McGrath

In attendance: Michael Broadway, Richard Flatman, James Stevenson and Shân Wareing,

Auditors: Fleur Nieboer and Jack Stapleton

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	CONFIDENTIAL
Paper title:	External Audit Findings
Board/Committee:	Board of Governors
Date of meeting:	22 November 2018
Author(s):	KPMG, external auditors
Sponsor(s):	Richard Flatman, Chief Financial Officer
Purpose:	For Information
Recommendation:	It is recommended that the Board note the attached audit findings from KPMG.

Executive Summary

At its meeting of 8 November 2018, the Audit Committee reviewed the external audit findings for the year ending 31 July 2018 in detail.

The Board is asked to note the main findings and recommendations.

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London South Bank University

Report to the Audit Committee

Audit highlights memorandum and management letter for the year ended 31 July 2018

—

22 November 2018

Contents

Introduction

To the Audit Committee of London South Bank University

We are pleased to have the opportunity to meet with you on 8 November to discuss the results of our audit of the consolidated financial statements of London South Bank University (the ‘University’) and its subsidiary (the ‘Group’), as at and for the year ended 31 July 2018.

We are providing this report in advance of our meeting to enable you to consider our findings and hence enhance the quality of our discussions. This report should be read in conjunction with our audit plan and strategy report, presented on 7 June 2018. We will be pleased to elaborate on the matters covered in this report when we meet.

Our audit is substantially complete. There have been no significant changes to our audit plan and strategy.

Subject to the Board of Governors’ approval, we expect to be in a position to sign our audit opinion on the Group’s financial statements on 22 November 2018, provided that the outstanding matters noted on page 5 of this report are satisfactorily resolved.

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We expect to issue an unmodified Auditor’s Report.

We draw your attention to the important notice on page 4 of this report, which explains:

— The purpose of this report; and

— Limitations on work performed;

— Restrictions on distribution of this report.

Yours sincerely,

Fleur Nieboer

8 November 2018

How we have delivered audit quality

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

Understanding the entity

Quality reviews

Robust challenge

- Understanding the entity – Fleur, Jack and Alex work with a range of audit clients in the higher education sector. We use our knowledge of your operations and the wider sector to adapt our audit approach to focus on key risks.
- We commit to technical excellence and quality service delivery through training, consultation, quality reviews and client feedback.
- We use standard KPMG methodologies and specialists where relevant to review key assumptions, enabling us to provide robust challenge to management.

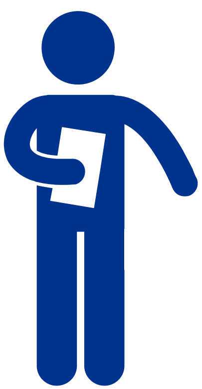
Subsidiaries

This report also covers South Bank University Enterprises Ltd.

Important notice

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

- Circulation of this report is restricted.
- The content of this report is based solely on the procedures necessary for our audit.



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Purpose of this report

This report has been prepared in connection with our audit of the consolidated financial statements of the London South Bank University (the ‘University’) and its subsidiary (the ‘Group’), prepared in accordance with UK Generally Accepted Accounting Practice (including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (FRS 102)) and the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education (FEHE SORP), as at and for the year ended 31 July 2018.

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

This report summarises the key issues identified during our audit but does not repeat matters we have previously communicated to you.

Limitations on work performed

This report is separate from our audit report and does not provide an additional opinion on the University’s financial statements, nor does it add to or extend or alter our duties and responsibilities as auditors reporting to the Board of Governors.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this report.

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

Status of our audit

Our audit is complete pending receipt of the management representation letter and signature of our audit report.

Restrictions on distribution

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

Our audit findings

Significant risks

Page 7-10

Accounting judgements related to estimates

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Overall, we are satisfied with the key accounting judgments taken and that, in its discussion of these matters, the section of the annual report describing the work of the Audit Committee appropriately addresses the matters we have communicated to you.

The most significant areas of judgement relate to:

— The determination of appropriate economic lives of fixed assets; and

— The valuation of the Local Government Pension Scheme Assets and Liabilities resulting in a net pension liability for the University.

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Outstanding matters

— There are no outstanding matters other than the receipt of the management representation letter and the signing of the audit report.

Uncorrected audit misstatements

Identified audit adjustments are set out in Appendix 2.

One uncorrected misstatement was identified, this relates to a long term debtor which has been incorrectly classified as short term. This has no impact on the reported result for the year.

Control deficiencies

Identified control deficiencies are set out in Appendix 3. We have identified the following:

— Significant control; 1

— Other control deficiency. 4

A follow up to prior year audit recommendations is included in Appendix 4.

Significant risks – findings at a glance

Significant audit risks		Uncorrected misstatements	Corrected misstatements	Control deficiencies
1	Fixed assets	-	-	-
2	Pension liability – valuation	-	-	-
3	Revenue recognition	-	1	-
4	Management override of controls	-	-	-
Other areas of audit focus				
5	Overall financial position and going concern	-	-	-
6	Use of funds	-	-	-

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We have one corrected misstatement in respect of revenue recognition. This was due to the misclassification of Strategic Health Authority income which had originally been recorded as 'other operating income'. Other corrected and uncorrected misstatements are shown within Appendix 2 of this report. They did not relate to the areas of significant risk or specific audit focus. Similarly, whilst we have not identified any control deficiencies in relation to the significant audit risks or other areas of audit focus we have raised four recommendations, one of which is high priority and relates to a control deficiency on bank reconciliations. These are all detailed within Appendix 3 of this report.

'–' indicates no findings

Significant risks

1 Fixed assets

The risk

At 31 July 2018 the University has £216.9m of fixed assets, £174.8m of which is land and buildings. The University adopted a valuation accounting policy of deemed cost as part of the FRS 102 transition. There are risks around the valuation, depreciation and impairment of the University estate, together with a risk around the treatment of repair and refurbishment costs. The asset valuation and impairment review processes are both estimates and therefore present a higher level of risk to the audit.

The University has a capital plan to refurbish its London Road, Technopark and Perry Library sites and completing the St. George's Quarter development. The plan will take place in three phases, the first of which will result in £80m of capital spend, split across the refurbishment of London Road (£65m) and Project Leap, which is a £15m upgrade and improvement project for transformation of the student journey and implementation of a new student records system.

Our response

To assess the completeness, accuracy, existence and presentation of fixed assets we:

- Vouched the accuracy of any capital additions in the year to supporting documentation;
- Reviewed the controls for fixed asset procurement;
- Reviewed the appropriateness of the useful economic lives for a sample of assets and any impairments identified by the University, and recalculated the depreciation figure as stated in the accounts;
- Reviewed the reconciliation that takes place between the University's fixed asset register and general ledger; and
- Considered the process for capitalising expenditure and reviewed a sample of capitalised assets to assess whether they have been appropriately capitalised (specifically focussing on the St George's Quarter development).

Our findings

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

We concluded that controls for fixed asset procurement had been effectively designed.

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

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

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

Significant risks (cont.)

2 Pension liabilities

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The risk

LSBU participates in three multi-employer defined benefit pension schemes – the Teachers' Pension Scheme (TPS); London Pension Fund Authority (LPFA) scheme; and the Universities Superannuation scheme (USS). The total value of the LPFA pension deficit in 2016/17 was £113.8m.

It is important that the assumptions included within the valuation of the schemes reflect the profile of the University employees, and are based on most recent actuarial valuation. It is also important that assumptions are derived on a consistent basis year to year.

The valuation of the liability relating to the USS is on-going pending finalisation of the new recovery plan, and therefore the basis of the calculation of the liability is subject to change.

Our response

We performed the following procedures:

- Evaluated the competency, objectivity and independence of the LGPS actuaries to confirm their qualifications and the basis for their calculations;
- Reviewed the appropriateness of the key assumptions made by, and validated the methodology used by, the Scheme actuaries with the use of a KPMG Actuary;
- Reviewed the actuarial valuation and considered the disclosure implications in the financial statements; and
- Considered the split of pension fund assets allocated to the University and the impact on the net pension figure.

Our findings

We have included our high level assessment of key judgements on page 15.

The key assumptions used are within KPMG's benchmark range, although we would consider the assumptions to be cautious.

There were no issues identified.

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

Significant risks (cont.)

3 Revenue recognition[a]

The risk

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

Tuition fee and education contract income

There is a risk of fraud and error associated with the recognition of tuition fee and education contract income, which represents approximately three quarters of total income. In particular, this includes income and cash recognition for flexible provision (for example on-line/distance learning courses), and courses that run across the year end.

Our response

We considered the extent to which the University's finance/student records/planning functions are integrated to ensure complete and timely data and information in areas such as:

- Drop-out, fee and bursary information; and
- The position with SLC balances

We reviewed the completeness of fee income through reconciliations with the student record system and confirmed the appropriateness of bursary/scholarship and fee waiver recognition through review of relevant schemes and policies.

We also reviewed the income recognition for programmes crossing the year end and any other flexible provision, as well as considering the income recognition and debtor recoverability for overseas contract income.

Our findings

- We used data and analytics to recalculate the level of tuition fee charged to students, and found that the balance was materially accurate. Further information on the results of this testing is included on the following slide.
- We found that health contracts had been appropriately accounted for and split across the year end.
- We found that research grant income has been appropriately recognised.
- We performed cut-off testing for specific items from the July and August 2018 bank statements and identified no cut-off issues.

Note: (a) Significant risk that professional standards require us to assess in all cases

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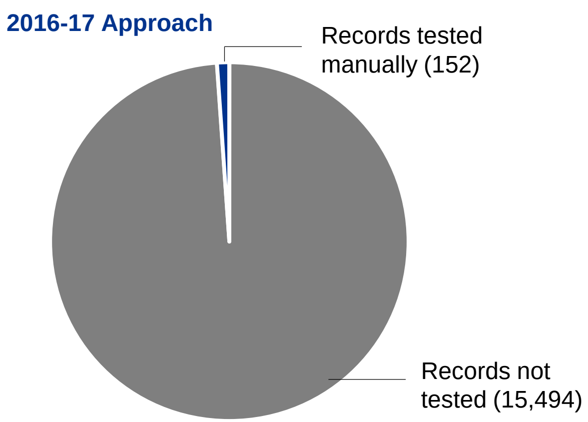
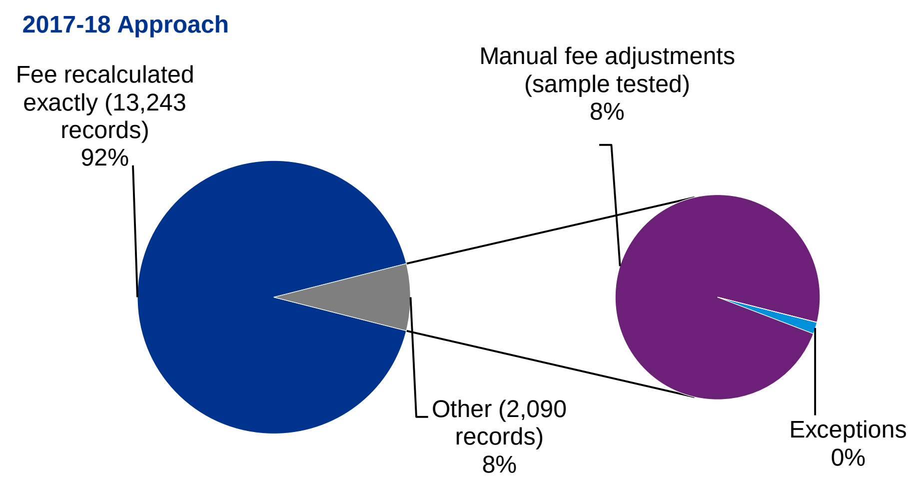
Significant risks (cont.)

3 Revenue recognition (cont.)[(a)]

In response to requirements from our regulator we have taken a different approach to auditing the University's tuition fee revenue balance in 2017-18 through the use of data and analytics. This enables us to analyse the population of tuition fees raised through the University's student record system QLS.





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This revised approach gives us a far greater level of assurance than we could obtain through sampling, increasing the percentage of records tested from 1% to 86%. We have been able to recalculate all of these transactions on a line by line basis and found that each charge had been appropriately calculated, meaning we can provide assurance that the tuition fee balance is materially accurately stated.

It also tells us that:

- 8% of students require manual intervention to ensure that they are charged the correct fee. We will be able to monitor the level of manual intervention going forwards to assess the relative efficiency of the process year on year;
- We have found some examples of data quality improvements that could be made (e.g. 24 fees not matching between the QLS student record system and the QLX fee invoicing system) which do not have a material effect on the financial statements but have been passed to management for further investigation.

Significant risks (cont.)

4 Management override of controls[a]

The risk

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

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

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

Our response

Our audit methodology incorporates the risk of management override as a default significant risk.

In line with our methodology, we tested the design & implementation of controls over journal entries and post closing adjustments.

We analysed all journals through the year using data and analytics and focus our testing on those with a higher risk, such as journals impacting revenue recognition.

We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates.

We reviewed the appropriateness of the accounting for significant transactions that are outside the University's normal course of business, or are otherwise unusual.

Our findings

We identified improvements to be made to the University's process for approving journals. Further details are outlined in Appendix Four.

We found all higher risk journals tested to have been appropriately posted and supported by evidence.

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

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

Note: (a) Significant risk that professional standards require us to assess in all cases

Other areas of focus

5 Overall financial position and going concern

The area of focus

The University's budget for 2017-18 indicated that the University was forecasting a surplus of £1.5 million for the year-ending 31 July 2018.

Despite shortfalls in full time undergraduate student recruitment against target, management are still forecast to achieve their budgeted surplus due to increases in overseas student recruitment and reductions in staff costs.

Notwithstanding these variances, the University continues to maintain healthy cash reserves and continues to monitor their working capital requirements based on their development and organisational needs.

Our response

- We reviewed the University's overall financial position at the year-end as part of our review of the financial statements. Specifically, we considered the University's final outturn compared to the month 6 forecast position, with particular reference to income recognition, the continued impact of the new fees and funding regime, and the performance of the University's commercial activities.
- We reviewed management's going concern assessment.
- We reviewed the financial forecasts and student recruitment information for 2018/19.

Our findings

We have reviewed management's going concern assessment and found it to appropriately conclude that the University is a going concern, considering 2018-19 budgets, student recruitment and KPIs

We have reviewed the University's financial forecasts and student recruitment for 2018-19 and found that it is on target at October 2018.

We have no issues to report in respect of the above.

Other areas of focus (cont.)

6 Use of funds

The area of focus

As in previous years, we are required to issue an opinion on the University's use of HEFCE and other funds in line with the Memorandum of Assurance and Accountability and audit code of practice.

Our response

Our audit of use of funds is conducted in accordance with Practice Note 10 (revised): Audit of financial statements of public sector entities in the United Kingdom, issued by the Auditing Practices Board. Our approach to completing the audit of the use of funds is to obtain a sufficient understanding of the framework under which the University operates, and to test compliance. In particular, this means gaining assurance that income and expenditure transactions are in accordance with appropriate authorities, including those of HEFCE and the Office for Students, and that the accounting presentation and disclosure conforms to applicable statutory and other requirements.

We have developed a regularity programme to ensure compliance with HEFCE and OfS requirements and, in addition, our testing of controls and substantive items of expenditure ascertains whether, in all material respects, funds have been used for the purposes given (including donations and all sources of grant funding).

Our findings

We have completed our use of funds audit programme to confirm compliance with the requirements of the HEFCE Memorandum of Assurance and Accountability and the Office for Students and Research England terms and conditions of funding.

Through our testing of controls and substantive items of expenditure, we have tested whether, in all material respects, funds have been used for the purposes given (including all sources of grant funding).

We have no issues to report in respect of the above.

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Subsidiaries - South Bank University Enterprises Ltd.

Subsidiaries

For the year ended 31 July 2018, we have undertaken a statutory audit of the subsidiary company South Bank University Enterprises Ltd.

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

Planned response

Significant risks

Significant risks identified relate to revenue recognition and management override of controls.

The following procedures were undertaken to address the risks identified:

Revenue recognition

- Performed substantive testing over the revenue balance, vouching income to underlying records; and
- Reviewed the doubtful debt provision and assessed whether it had been appropriately calculated.

Management override of controls

- We reviewed the design and implementation of controls over journals entries; and
- We reviewed a sample of high risk journals and agreed the postings to underlying supporting information.

Our findings

We have carried out an audit on South Bank Enterprises Ltd. pursuant to International Auditing Standards and issue an opinion in accordance with the Companies Act 2006.

Our audit of this company remains ongoing. The following are the principal matters currently outstanding:

- Testing of revenue and cost of sales;
- Review of disclosures;
- Tax calculation.

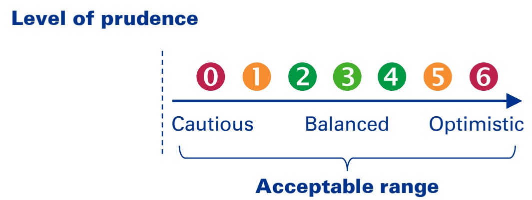
There were no material unadjusted audit differences.

There was one material difference which has been adjusted for, relating to consultancy fees in respect of Lambeth College. Further information is contained in Appendix Two.

A separate report will be presented to the Company's Board of Directors providing detailed results of our audit.

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:



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Subjective areas	2017/18	2016/17	Commentary
Pension provision	2	2	The pension deficit within the funded LGPS has decreased over the year by £13m. Our actuarial team has reviewed the assumptions that make up this calculation, and have noted that both the discount rate and the pension increase rate are cautious compared to the KPMG central assumptions. Projected salary increases are in line with our expectation and indicate a balanced position. The life expectancies used to calculate the provision are also cautious based on the central KPMG benchmarked values. Further information is included in Appendix Five.
Other provisions	3	3	The University calculates the provision based on an estimated position at year-end. The methodology for the calculation has not changed since the prior year, and this is therefore considered a balanced estimate.
Fixed assets (valuations/asset lives)	3	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. Since last year an exercise has been undertaken to cleanse the fixed asset register of assets with a nil net book value. The useful economic lives used are consistent with the wider sector, and we therefore consider this assumption to be balanced.

Other matters

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. There are no matters to bring to your attention in this regard.

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 Audit Committee meeting on 9 November 2018. 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: (i) The overall scope of their work as set out in their strategic and annual plan; (ii) The detailed work they have carried out in the areas identified within the annual plan.

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Other information

We read all the financial and non-financial information in the Annual Accounts 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 read, but not yet completed our final review of, the University's draft annual report.

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 read the draft corporate governance statement and have no matters to report in this respect.

Public benefit statement

The University has included a statement that the University's Trustees have had due regard to the Charity Commission's public benefit guidance and have included, in a separate public benefit section of the financial statements, information about how they have delivered their charitable purposes for the public benefit.

We are not required to provide an opinion on the University's public benefit statement. We have not yet reviewed the public benefit statement for inclusion in the financial statements.

Appendices

Contents

Appendix 1: Required communications

Type	Response
Our draft management representation letter	We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 July 2018.
Adjusted audit differences	Adjusted differences are listed in Appendix 2.
Unadjusted audit differences	There was one unadjusted audit difference (with a nil impact on surplus). See Appendix 2.
Related parties	There were no significant matters that arose during the audit in connection with the entity's related parties.
Other matters warranting attention by the Audit Committee	There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.
Control deficiencies	We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified by the audit. See Appendix 3.
Actual or suspected fraud, non compliance with laws or regulations or illegal acts	No actual or suspected fraud involving group or component management, employees with significant roles in group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit.

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Type	Response
Significant difficulties	No significant difficulties were encountered during the audit.
Modifications to auditor's report	None.
Disagreements with management or scope limitations	The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.
Other information	No material inconsistencies were identified related to other information in the annual report, Strategic and Directors' reports. The Strategic report is fair, balanced and comprehensive, and complies with the law.
Breaches of independence	No matters to report. The engagement team have complied with relevant ethical requirements regarding independence.
Accounting practices	Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate.
Significant matters discussed or subject to correspondence with management	The were no significant matters arising from the audit.

Appendix 2: Audit misstatements

We are required by ISA (UK) 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 the Audit Committee. 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. These are presented on the next page.

	Income and expenditure account		**Balance sheet**	
Uncorrected audit differences (£000)	Debit	Credit	Debit	Credit
Dr Long Term Debtors			£350k	
Cr Short Term Debtors				£350k
Overall net effect	£0	£0	£350k	£350k

Appendix 2: Audit misstatements (cont.)

The tables below sets out the **corrected** audit differences identified for the year ended 31 July 2018.

London South Bank University	Statement of comprehensive income and expenditure account		Balance sheet	
Corrected audit differences (£000)	Debit	Credit	Debit	Credit
HSBC Euro Account £751k of funds held with HSBC were not in the bank account at 31 July 2018 and are to be returned to the University.			£751k Trade and Other Receivables	£751k Cash and cash equivalents
Other Operating Income £239k had been incorrectly classified as Strategic Health Authority contracts.	£239k Tuition fees and education contracts	£239k Other income		
Nathu Puri Institute Deferred Income The full deferred income balance relating to the Nathu Puri Institute had been recorded as long term deferred income.			£353k Long Term Deferred Income	£353k Short Term Deferred Income
SBUEL Consultancy Costs £219k of consultancy costs relating to Lambeth college were processed through SBUEL and not recharged to the University. This adjustment cancels out on consolidation in the group accounts.	£219k Other operating expenses			£219k Intercompany creditors
Total	£458k	£239k	£1,104k	£1,323k
Overall net SOCIE effect	£219k	£0	£0	£219k

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Appendix 2: Audit misstatements (cont.)

South Bank University Enterprises Ltd

	Statement of comprehensive income and expenditure account		Balance sheet	
Corrected audit differences (£000)	Debit	Credit	Debit	Credit
2018-19 NNDR Rates expenditure Invoices paid during 2017-18 relating to 2018-19 NNDR rates had not been appropriately pro-rated and recognised as a prepayment. This is below our triviality level for the group accounts.		£75k Cost of sales	£75k Prepayments	
SBUEL/LSBU Consultancy Costs £219k of consultancy costs relating to Lambeth College were processed through SBUEL and not recharged to the University. This adjustment cancels out on consolidation in the group accounts.		£219k Other operating expenses	£219k Intercompany debtors	
SBUEL/LSBU Consultancy Costs – Tax Charge During 2016-17 there were a number of consultancy costs for which no decision was made to recharge to the University. There is a resulting tax charge for these invoices which has been processed in 2017-18.	£25k Tax expense			£25k Payables
Total	£25k	£294k	£294k	£25k
Overall net SOCIE effect		£269k		

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 and SBUEL, including in respect of senior staff remuneration, related parties and the audit fee.

Appendix 3: Audit recommendations

Our objective is to use our knowledge of the London South Bank University and its subsidiaries gained during our routine audit work to make useful comments and suggestions for you to consider. However, you will appreciate that our routine audit work is designed to enable us to form an audit opinion on the financial statements of the Group and it should not be relied upon to disclose all irregularities that may exist nor to disclose errors that are not material in relation to those financial statements.

- This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or in part, without our prior written consent.
- Our report is designed to include useful recommendations that may help improve performance and avoid weaknesses that could lead to material loss or misstatement. However, it is your obligation to take the actions needed to remedy those weaknesses and should you fail to do so we shall not be held responsible if loss or misstatement occurs as a result.

We have identified below each of the observations arising from our work where further action is required. Each of our recommendations has been graded:

- **High** – Recommendations which are fundamental to the system of internal control or have a potential material effect on the financial statements and should be addressed immediately by management;
- **Medium** – Recommendations which will significantly enhance internal controls and should be addressed promptly by management;
- **Low** – Recommendations which will improve performance but are not vital for internal control performance.

Appendix 4: Audit recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
1	1	**Bank reconciliations** In September 2017 HSBC closed a Euro account held with HSBC containing €843k (£751k) due to inactivity on the account. Due to an error on HSBC's behalf these funds were not transferred back into LSBU's principal account. The amount was held within the same ledger code and bank reconciliations were performed with the brought forward balance on the old account, therefore the missing amount was not identified, and this was not picked up during review. This was therefore not followed up until the time of our fieldwork in October 2018. **Recommendation** We recommend that when accounts are closed, remaining funds are held as reconciling items on the bank statement or journaled into the expected ledger account to ensure they are followed up on a regular basis where they are not received.	**Agreed** In July 2018 when we discovered that this had happened, we decided to transfer the balance to our Natwest account and it was this instruction that HSBC did not action. **Responsible Officer**: Loretta Audu / Rebecca Warren **Due date**: 31 October 2018
2	2	**Controls over journal entries** Management have made improvements to journals controls by introducing automated approval workflow for all G6 journals in the last year. As the user is required to select the type of journal, if the journal type G6 is not selected the automated approval workflow is not triggered. Management have introduced a review of non-G6 journals on a monthly basis, however we did not see evidence that this had operated throughout the period. **Recommendation** We recommend that the review of non-G6 journals on a monthly basis is reintroduced. This should be reviewed by the Financial Controller to provide assurance that the control has operated effectively.	**Agreed** The process of reviewing journals that have not gone through an automated authorization process has been in place since November 2017 but this review has not always been formally documented and was not always carried out by the Financial Controller. Going forward a formal review will be carried out as part of the month end process. **Responsible officer**: Natalie Ferer **Due date**: 31 October 2018

Appendix 4: Audit recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
3	2	**Capturing data to calculate pay multiples** This year the Office for Students introduced new requirements for calculating pay multiples. This should include substantive and temporary staff. Due to the way the data for temporary staff is captured by the University, it is difficult to accurately calculate the pay multiple including temporary staff as time worked cannot be easily matched to invoices. The OfS have permitted institutions to calculate the ratio omitting this data for this year, but could require this for 2018-19. **Recommendation** We recommend that management review how they collate data relating to the time worked by temporary staff, and ensure that this can be cross referenced to invoices received to enable the University to perform this calculation in future years if required.	**Agreed** Agreed, we will review how to collate data on temporary agency staff in order to perform this calculation in the future **Responsible Officer**: Natalie Ferer and Ed Spacey **Due date**: 31 January 2019.
4	2	**Intercompany recharges** During 2017-18 it was identified that for some transactions which had previously been processed through SBUEL it would have been more appropriate to recharge them to the University. This resulted in an adjustment during the 2017-18 audit and a further corporation tax charge relating to 2016-17. **Recommendation** We recommend that management undertake regular reviews of the transactions which have been processed through SBUEL to confirm that they have been appropriately posted and do not represent LSBU activity which should be recharged to the University.	**Agreed** The key members of the Financial Accounting team now fully understand that invoices (or parts of invoices) relating to the acquisition of Lambeth College do not relate to SBUEL. We will continue to pay the invoices for the particular consultant through SBUEL because they relate partially to SBUEL, but will apportion them quarterly (as part of the preparation of the VAT return, for which the invoices will also need to be apportioned) and recharge the Lambeth element to the University. More widely, the Financial Accounting team, and other Finance staff where appropriate, will look out for consultancy transactions that may not relate to SBUEL, because consultancy can be a particularly sensitive area when it comes to classification of expenditure. **Responsible Officer:** Rebecca Warren, Head of Financial Accounting **Due date:** Ongoing, linked to quarterly VAT cycle

Appendix 4: Audit recommendations

No.	Risk	Issue and recommendation	Management response/responsible officer/due date
5	3	**Maintenance of employment contracts** In our review of payroll HR were unable to find one employment contract. This related to a member of staff that has since left the University, and we were able to verify the existence of this member of staff through enquiry with the individual's line manager. The remaining 62 samples were held on file and no issued were noted with these samples. **Recommendation** We understand that management can record in Midland iTrent whether a contract is held on file for a particular member of staff. We recommend management perform a one-off exercise/check to identify members of staff that do not have a contract in the system/file, and follows up with the respective areas of the University to assess whether contracts are held locally within the School.	**Agreed** A wider one off exercise will take place **Responsible Officer**: Dave Lee **Due date**: 28 February 2019.

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Appendix 4: Update on prior year audit recommendations

No.	Risk	Issue and recommendation	Update as at October 2018
1	2	**Journals authorisation** 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. **Recommendation** 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.	**Superseded** We have identified that a new automated journals authorisation procedure has been implemented for manual journal type G6 which requires G6 journals to be appropriately reviewed before posting. A further review is needed to identify journals not classified as G6 to ensure that they have been correctly classified. We have raised an updated recommendation as part of our current year report.
2	2	**Attaching supporting documentation to journals** 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. **Recommendation** 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.	**Implemented** During our audit we noted a significant improvement in the quality and availability of journals documentation attached to Agresso.

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Appendix 4: Update on prior year audit recommendations

No.	Risk	Issue and recommendation	Update as at October 2018
3	2	**Cleansing of the Fixed Asset Register** 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. **Recommendation** 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.	**Implemented** The University has reviewed their fixed assets during the year and have written off £944k as disposals of nil NBV assets. Our existence testing over a number of samples for 2017-18 did not identify any instances where the University were unable to provide evidence of their existence or current use.

Our assessment is based on our audit and on discussion with management, and is not a substitute for a full scope assessment by management of the progress made.

Appendix 5: Pensions

Local Government Pension Scheme

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

Defined benefit liability

The pension decreased over recent years as the table shows.

Liability	31 July 2018 (£'000)	31 July 2017 (£'000)
	LPFA	LPFA
Present value of funded liabilities	232,750	234,955
Fair value of plan assets	(143,869)	(133,771)
Net underfunding in funded plans	88,881[(a)]	101,184[(a)]
Present value of unfunded obligations	10,884	11,565
Net Pension Liability	**99,765**	**112,749**

Note: (a) Excluding unfunded obligations totalling £670k in 2017-18 (£736k in 2016-17)
Source: Draft finance statements.

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Assumptions

We have set out the findings from our review of the assumptions used by the actuary on page 28. The scope of this report is restricted to a review of the assumptions adopted for determining the value of the pensions obligations under FRS102 only. In our view the overall set of assumptions proposed by the Employer can be considered to be cautious relative to our central rates for a typical UK scheme with a duration of 20 years but within our normally acceptable range.

We have not identified any assumptions that are outside our expected ranges. The pension liability is fairly stated.

Appendix 5: Pensions - Local government pension scheme

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Overall assessment of assumptions for FRS 102

Fund: **London Pension Fund Authority**	The overall set of assumptions proposed by the Employer can be considered to be cautious relative to our central rates for a typical UK scheme with a duration of 20 years but within our normally acceptable range.	Overall assessment: 2
Fund Actuary: **Barnett Waddingham**		**Cautious**

Assumption	University	KPMG central	Commentary	Assessment vs. KPMG central
Discount rate	2.65%	2.72%	The Employer's proposed assumption is considered to be cautious but within our normally acceptable range.	2
Pension increase rate	2.35%	2.16%	The Employer's proposed assumption is considered to be cautious but within our normally acceptable range.	2
Salary increases	CPI plus 1.50%	CPI plus 0% to 2.0%	We would typically expect salary increases to fall in the range of CPI plus 0% to 2%. Salary increase assumptions have been derived consistently with the approach taken at the most recent LGPS valuation.	3
Life expectancy at retirement				2
Males currently aged 45/65	23.7/21.3	23.3/21.9	The life expectancies are consistent with those used in the most recent LGPS valuation and can be considered acceptable.	
Females currently aged 45/65	26.6/24.3	25.4/23.8		

Level of prudence

0 1 2 3 4 5 6

Cautious Balanced Optimistic

Acceptable range

Appendix 6: Auditor independence

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

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

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

- General procedures to safeguard independence and objectivity;
- [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.

Appendix 6: Auditor independence (cont.)

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

Summary of fees

We have considered the fees charged by us to the University and its affiliates for professional services provided by us during the reporting period. Total fees charged by us for the period ended 31 July 2018 can be analysed as shown. The ratio of non-audit fees to audit fees for the year was 0.32:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

	Current year (£)	Prior year (£)
London South Bank University	£50,635	£49,400
Subsidiaries	£2,815	£2,750
Total audit services	£53,450	£52,150
Corporation Tax Compliance	£5,491	£3,500
Other non-audit fees	£11,659	N/A
Total audit and non-audit services	**£70,690**	**£55,650**

Independence and objectivity considerations relating to other matters

We set out below our consideration of other matters which, in our professional judgement, have a bearing on our independence and objectivity. There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

Other relationships – Number 20

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

Steve Balmont (Independent Governor)

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

Confirmation of audit independence

We confirm that as of the date of this letter, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Partner and audit staff is not impaired. This report is intended solely for the information of the Governing Body and should not be used for any other purposes.

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

Yours faithfully

KPMG LLP

Appendix 7: KPMG's audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

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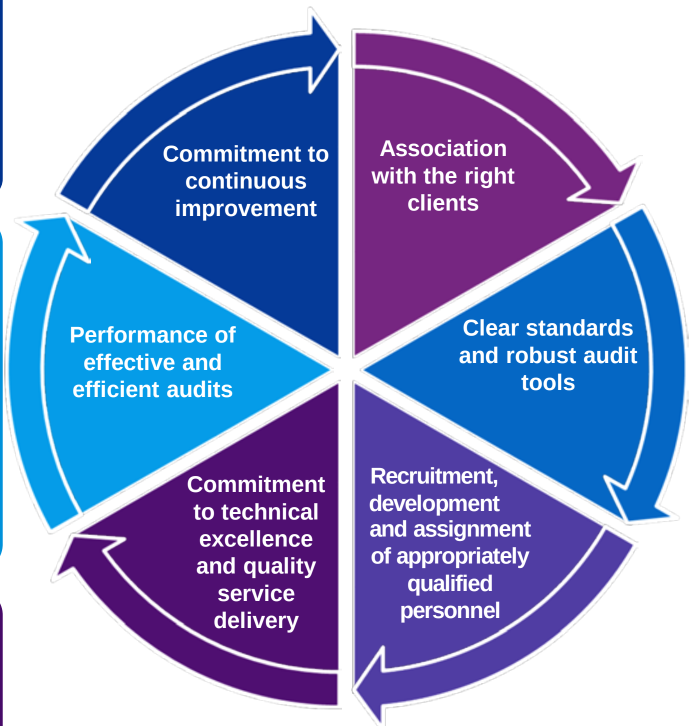
- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

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

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



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

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

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

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