Overview
Deloitte External Audit 2017/18

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Audit Team 2018

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Materiality

Our approach to materiality

Basis of our materiality benchmark

• The audit partner has determined materiality as £7.18 million, based on professional judgement, the requirement of auditing standards and the financial measures most relevant to users of the financial statements.

• We have used 1% of forecast full year income as the benchmark for determining materiality. In the prior year we used 0.8% of total income.

• In the main, income is derived from student fees and research grants, which we consider to be the main University key performance indicators.

• We have changed our approach to calculating materiality in the year to bring us more in line with sector practice for public interest Universities.

• The below table shows the materiality applied to other Universities which have listed debt and are therefore classed as public interest entities. Typically materiality was calculated as 1% of total income, with the exception of the University of Liverpool which applied 1.5% to total income.

<table>
<thead>
<tr>
<th>Universities</th>
<th>Total income</th>
<th>% applied</th>
<th>Materiality</th>
</tr>
</thead>
<tbody>
<tr>
<td>University of Cambridge</td>
<td>1,870</td>
<td>1%</td>
<td>18</td>
</tr>
<tr>
<td>Cardiff University</td>
<td>505</td>
<td>1%</td>
<td>5</td>
</tr>
<tr>
<td>University of Liverpool</td>
<td>523</td>
<td>1.5%</td>
<td>8</td>
</tr>
<tr>
<td>University of Manchester</td>
<td>1,008</td>
<td>1%</td>
<td>10</td>
</tr>
</tbody>
</table>

• The key component of the Group is the University only entity. Each subsidiary is also identified as a component for the purposes of the Group opinion.

• We have set component materiality on a similar basis. We have capped component materiality at £7.1m, giving the range £7.1m to £1,000. (2017: £5.1m to £1,000).

Reporting to those charged with governance

• We will report to you all misstatements found in excess of £359,000 (2017: 268,000).

• We will report to you misstatements below this threshold if we consider them to be material by nature.

Our audit report

We will:

• Report group materiality, University only materiality and the range we use for component materiality

• Provide comparative data and explain any changes in materiality compared to prior year

• Explain our basis for using 1% of income as the benchmark.
Significant Audit Risks 2018

Significant risk areas identified where we feel there is a greater risk of a material misstatement occurring which would change the users view of the financial statements.

Income

**One off income**
- Cut off of significant donations/endowments around year end (if none then will drop this)
- Agree back to source documentation to check performance conditions/restrictions

**Deferred research grant income**
- Cut off of income around year end
- Sample test back to grant certificate/payment plan and agree sample of I&E transactions back to evidence
- Review accrued/deferred income back to subsequent cash receipts/expenditure and review of contract terms.

Capital projects

Large capital projects can be complex and involve significant judgement.
- Whether costs incurred in the early stages of a capital project are recoverable;
- The treatment of overheads including own labour costs;
- The treatment of expenditure on existing fixed assets which may be of a maintenance nature; and
- The treatment of costs which relate to a capital project but which are themselves of a revenue nature.

**Approach**
- Understand status of capital projects
- Sample test additions – if replacement check has been accounted for correctly

Pensions

**PAS scheme**
- Ensuring deficit is recorded at appropriate value given new actuarial valuation

**USS**
- Reviewing judgements in calculating USS deficit provision using the BUFDG model
- Current view subject to agreement is assuming decision around future deficit recovery plan is post year end then the accounts would not be adjusted - however we would expect the future impact of the change to be quantified and fully disclosed in the pensions note to the accounts

**Approach**
- Our internal actuaries will review assumptions against sector/market benchmarks
- Review of assumptions year on year & obtain evidence to support appropriateness.

Management override

- Mandated under auditing standards
- Journals testing
- Review of accounting estimates & judgements (e.g. accruals, provisions)
Technical update
Office for Students issues FY18 accounts direction

The OfS issued the Accounts direction for the year ending 31 July 2018 on 19 June 2018. As this continues to be a period of transition from HEFCE to the OfS, there are limited changes to the previous requirements. These are summarised below:

**Reporting deadlines**
The deadline this year is 3 December 2018. However all institutions must publish their signed financial statements to their websites within 2 weeks of signing, and at the latest 4 months after the year end date (30 November 2018).

**Senior Staff remuneration**
This is the area that sees the most significant changes. In the current year these focus on remuneration of the Head of Provider. The Direction warns that further requirements in relation to other highly paid staff will be addressed in 2019.

The key requirements are:

- Within the staff costs note, a table showing the number of staff with basic pay in excess of £100k in the year, split into bands of £5k (Staff leaving or joining part way through a year only need to be disclosed if their actual remuneration is greater than this – not their annual salary).
- Slightly increased disclosure requirements around the make-up of pay of the head of provider (ten categories now to be included).
- A justification for the total remuneration package for the head of the provider. The justification must include reference to the context in which the provider operates, and be linked to the value and performance delivered by the head of the provider. It should contain an explanation of the process adopted for judging their performance.
- The relationship between the head of provider’s remuneration and that for all other employees, expressed as a pay multiple. All other employees includes academic and non-academic staff. The pay multiple must be expressed as the head of the provider’s remuneration divided by the median pay at the provider (on a full-time equivalent basis). This should be calculated across all staff pay, not just the academic staff. Note that two ratios are to be presented – the basic pay multiple, and the total remuneration multiple.
- Should there be a change to the Head of Provider in the year, this information is required for both the post-holders. Should further fees (e.g. for consultancy) be paid to a departing head of provider, these should also be included.
- There have been some changes to the disclosure requirements in relation to loss of office, but these continue to primarily mirror the Companies Act.

**Exempt Charity Disclosures**
The document confirms the change of approach compared with the HEFCE regime. The OfS clarifies that HEIs that are exempt charities must disclose this fact, and then that the financial statements must be prepared in line with the OfS requirements. No disclosures that are not required by Charity Law are required in the financial statements. This would appear to mean that the previous disclosures of “Section 28” connected charities are not required.

**Statement of Internal Control**
As in previous years providers are required to include such a statement. The key change in the guidance relates to the fact that the statement of internal control must set out any significant internal control weaknesses or failures that have arisen during the financial year or after the year end but before the financial statements are signed. Where appropriate, information about actions taken or proposed to deal with significant internal control weakness or failure should be set out. Additionally, there is required to be a statement of corporate governance. This can be combined with the statement of internal control.

**Deloitte view and next steps**
The University will need to ensure that it has the relevant data available in its systems, and considers how to gain assurance over this data which will be subject to increased public and regulatory scrutiny.
Technical update

Student numbers

UCAS deadline 15th January

Issues raised

• UCAS reported that following the 15 January application deadline, the overall number of applications was 0.9% lower than in the previous year.

• However the total number of 18 year olds applying has risen slightly as a percentage of the available population. The chart below (Data from the Office for National Statistics) shows the ongoing decline in the number of 18 year olds in the UK population. This will not recover to the series average (in this case the 2016 level) until around the 2024 intake. The 2019 and 2020 populations of 18 year olds are both anticipated to be lower than the current year.

• EU and other international applications rose significantly in percentage terms, but as these form less than 20% of the total applications, this effect is unlikely to be significant.

Deloitte view and next steps

• Many Universities have medium term financial plans predicated on increasing student numbers.

• These plans often support key capital programmes.

• Audit and Risk Committees should ensure that a robust challenge is made to plans based on increased student recruitment, owing to these key demographic challenges.
Technical update
Benchmarking and other data

Student residences
• The provision of appropriate student accommodation is a hot topic within the sector at the current time. HESA has recently released data on where full-time students reside during term-time.

Students' term time residence

Source: HESA Student data 2016/17; https://www.hesa.ac.uk/data-and-analysis/students/where-study
• This shows that in percentage terms there has been slight movement away from “own residence” – ie an owned or longer-term rental property – towards private-sector or provider maintained property year on year.
• Universities looking at future provision will need to consider further the balance of the styles provided, and indeed how the emphasis is changing towards higher quality accommodation to match the student experience.
Technical update
Benchmarking and other data

Original domicile of students
• Another recently published data set by HESA is a set of tables showing the origination point of students (i.e., their original domicile) divided up by the region that the HEI resides in. These data are freely available on the HESA website for analysis and manipulation. The chart below shows the top 15 domiciles for students from Yorkshire and the Humber.

Source: HESA Student data 2016/17; https://www.hesa.ac.uk/data-and-analysis/students/where-study
• Management should consider where recruitment areas are focused, and whether they wish to concentrate further on areas with known student flows, or to expand into areas which are not currently targeted by local universities.
Technical update
Benchmarking and other data

Degree class awarded
- The HESA data also include data on the degree class awarded in 2016/17 arranged by institution. In an increasingly competitive market, this data is also of interest to students also. The graph below shows the classes of degrees awarded by the University of Leeds compared with the national average for last year.

Source: HESA Student data 2016/17, Table 16 - HE qualifiers by HE provider and level of qualification obtained 2016/17