Aims of the session

• Overview of the statutory financial statements
• Production and audit process
• Highlights tour of the accounts
• Primary differences to management accounts
• Users of the accounts
• Questions
Overview of the statutory financial statements

What are the financial statements

• A view of the financial performance and position within the year
• Comprising numerical analysis of surplus, net assets, cash flow and reserves
• Supplemented by detailed explanation, commentary on the broader operating environment and assessment of future outlook

• That are:
  - Externally validated
  - Subject to a framework of fixed regulatory requirements
  - Comparable across the sector but understood more widely
Overview of the statutory financial statements

What are the financial statements

• An objective view of financial sustainability

• A means of demonstrating appropriate governance over financial affairs

• A means of sector benchmarking

• A scorecard of progress against overarching strategy

• A marketing document
Overview of the statutory financial statements

Scope

- Incorporates all operating activities across the UCL Group, including:
  - The University (research, core and other)
  - UCL Business (IP commercialisation)
  - UCL Consultants (academic consultancy services)
  - UCL Trading (commercial activity outside of UCL’s charitable purposes)
  - UCL Residences (letting of non-term time accommodation)
  - A range of associate entities in which UCL holds a material interest

- Separate presentation of subsidiary accounts
Production and Audit Process

Regulatory Framework

- **The UK’s Financial Reporting Standard (FRS102):** detailed technical requirements applicable across all types of entity (commercial or charitable)

- **The HE SORP:** Sector specific guidance and interpretation

- **OFS Accounts Direction:** Detailed additional disclosure requirements
  - Senior staff pay
  - Remuneration of ‘Head of Provider’
  - Statement of internal control
Production and Audit Process

Preparation of Year-end Accounts

- **Continuous:** Monthly preparation of management accounts
- **April / May:** Review of new technical requirements
  Preparation of interim P9 position
- **June:** Interim Audit
  Year-end plan & timetable
- **July:** Deep breath
- **August:** Preparation of P12 position and ledger close
- **Sep / Oct:** Production of stat accounts (disclosure notes, OFR, etc.)
  Consolidation
  Year-end audit
- **November:** Committee approval and submission to OFS
Production and Audit Process

External Audit: Approach

- Currently performed by Ernst & Young (EY)
- Primarily substantive approach to testing
- Guided by materiality
  - £29m for the Group in 2017/18
  - Misstatement threshold of £1.45m
- Risk Focussed
  - Revenue recognition
  - Property, plant & equipment
  - Pension obligations
  - Senior officer emoluments
Production and Audit Process

External Audit: Requirements

Evidence to support audit testing

As a general rule, supporting documentation should validate the value of a transaction or journal, the date the transaction was incurred and the nature of the transaction. Where necessary, supporting documentation should provide an understanding of how that figure has been reached. In practice, we would ideally look for evidence that was:

1. Produced by a third party
2. Supported by narrative explanation and/or detailed calculation, where the transaction is internally generated
3. Supported by secondary evidence that can reasonably be tested and validated, where the initial evidence is internally generated

Examples of third party evidence that are considered sufficient for audit purposes are:
- Supplier invoices
- Signed contracts with a supplier/customer
- Bank statements
- Grant award letters

In those cases where income is derived from the level of expenditure (i.e. research grants), we would look to see evidence of that expenditure being incurred (i.e. supplier invoices). For other income, we would generally look for copies of the relevant UCL sales invoices plus bank statements showing receipt.

Examples of supporting documentation that will always lead to follow-up questions are:
- Journals alone with no backing evidence or explanation
- Internally generated calculations without accompanying explanation and support (i.e. explanation for the basis of the calculation and justification of any judgements made)
- Emails from another department asking for an accounting entry
Production and Audit Process

External Audit: Practical application

- Examples from 2017/18 audit

  - Duplicate supplier invoice posting of £4,050. Extrapolated across the debtor population to give rise to a reportable misstatement of £2m

  - £786 error in calculation of payroll accrual. Extrapolated across the population of other payroll costs to give rise to a reportable misstatement of £1.9m

  - £17,404 error in calculation of other operating expenditure. Extrapolated across population of other operating costs to give rise to reportable error of £2.5m

  - Applies equally to transactions that can’t be substantiated
Highlights Tour of the Accounts

Operating and Financial Review
   Progress against strategic goals (pages 3 to 7)

Messaging of surplus
   Reported surplus of £156.4m (10.8% of income) vs underlying surplus of £85.1m (6% of income) (page 8)

- Financial outlook
   OFS, Brexit, financial strategy, USS (pages 9 and 10)

- Senior staff remuneration
   In the context of broader dialogue on value for money (pages 29 and 30)
Primary Differences to Management Accounts

- Aggregate view of research, core and other
- Cost of capital equipment purchases recognised over time
- Internal income and expenditure offset
- Overlay of institutional accounting adjustments (pension obligations, holiday accrual, etc.)
- Consolidation of Group results
Users of the Accounts

Evidence of continuing growth, generation of a sustainable surplus, a strong balance sheet and a clear message of progress against ambitious strategic objectives give:

- **Debt providers** confidence in the strength of UCL’s covenant

- **Research funders** reassurance on the security and stewardship of grants

- **Counterparties** comfort in UCL’s ability to deliver against contractual obligations

- **The Office for Students** oversight of UCL’s financial status and reassurance over its financial probity and good governance
Link to Annual Report July 2018

https://www.ucl.ac.uk/finance/docs/docs-corporate/2018_UCL-annual-report.pdf