

Tuesday 21st November 2017 in Conference Room (Staff Room)
5pm

DRAFT MINUTES

PRESENT:

Mr N Sheta, Chair, Foundation Governor
Mr R Vianello, Foundation Governor
Mrs S Spazzini, Foundation Governor (5.12pm)

IN ATTENDANCE:

Mrs S Flannery, Principal (at request of committee)
Mr A Taylor, Strategic Director Financial & Physical Resources (at request of committee)
Mrs M Searle, Head of Finance (at request of committee)
Mr T Lowe, Audit Client Manager, RSM Risk Assurance LLP
Mrs C Biscoe, Partner, Buzzacott LLP for item 15
Mrs E Lewis, Clerk to the Governors

Mr Sheta opened the meeting at 5.08pm. It was quorate throughout.

1. **Opening Prayer:** offered by Mrs Flannery
2. **Apologies:** Mrs Spazzini for late arrival.
3. **Introductions:** not required
4. **Declarations of Interest:** there were none
5. **Committee time with Auditors if required** (Financial Statements Auditors will attend from item 15). It was agreed by the committee and Internal Auditor that this was not required.
6. **Minutes of meetings held on 9th May 2017:** Previously circulated on 22nd May 2017 and reported to the full Board on 11th July 2017 were agreed to be a true and accurate record and were duly signed by Mr Nader
7. **Action Points from previous meeting**
 - 7.1. It was noted that the summary of the effectiveness of the committee questionnaire had been circulated with the draft minutes of the previous meeting.
 - 7.2. Mr Taylor confirmed that Mrs Biscoe (Buzzacott) had responded about the college responsibility for operating IR35 off-payroll working rules in the case of contractors working for the college (item 7 in minutes) and the enquiry had been closed.
8. **Matters Arising, not covered by agenda items:**
 - 8.1. **Regularity Audit Self-Assessment:** The Committee formally noted receipt of the final version of the completed questionnaire as signed by Mr Garvey, Chair of Governors and Mrs Flannery, Accounting Officer as had been submitted to the auditors to inform the regularity audit field work. This version had been approved on 19th September 2017 following consultation with Audit committee members by email.



9. **Internal Audit Service:** Mr T Lowe, Client Manager, RSM referred to the schedule for the Spring term 2018 assignment visit which had been set out in the Internal Audit Strategy / Plan for 2017 – 18 and approved, as a working plan, by the full Governing Body on 11th July 2017. The plan had been included in the papers for the meeting. Mr Lo confirmed that the scope and dates for the reviews had been agreed with the management team. Two days had been retained as a contingency - allocation of these was discussed with the committee.

Mr Taylor advised that the one day introduction to GDPR¹ provided on 26th June 2017 by the IAS had been a useful awareness raising session. It was agreed that further audit time should be invested in GDPR. Mr Lo advised that RSM had scoped a work programme for a four day assignment examining college processes and documents, details of which he would provide.

[Mrs Spazzini joined the meeting]

It was noted that the SFCA² would be issuing documentation and events to support colleges prepare for GDPR coming into force in May 2018.

The committee discussed how the RSM four-day programme for GDPR could be incorporated without increasing the budget for audit work.

It was agreed that Key Financial Controls audit would be deferred to the 2018 – 19 plan, assigning it to a two-year cycle, because all recent audits had been clean with no recommendations made and there had been no system changes. It was also agreed that the two days released as a consequence would be added to the two-day contingency and invested in the GDPR work programme (exact scope to be confirmed) and scheduled to be undertaken late in the spring term, prior to GDPR coming into effect on 25th May 2018. Three days assigned to audit Learner numbers system and bursary would be retained in the plan to take place in mid-January 2018.

ACTION: Mr Lo to provide scope and re-scheduled plan.

Mr Lo presented an updated letter of engagement for 2017 – 2018. He explained this had been issued to update the previous version which still referenced Baker Tilley. The letter was signed on two copies by Mr Sheta. One copy was duly handed to Mr Lo. Revised terms and conditions dated August 2017 had also been issued.

10. **Internal Audit: College Action Report:** There were no outstanding actions and a report was not, therefore, applicable.

11. **Risk Management:**

11.1. The updated risk register (Autumn Term 2017) with policy had been included in the papers for the meeting and was duly received and noted.

11.2. Verbal report on key active risks: Mr Taylor introduced the review of the top ten risks and confirmed there had been no revision to the order of ranking the risks. He put the priority of the top three into context of being closely related. He highlighted the under-recruitment of students by 119 (1297 against target of 1416) which would create a funding shortfall of almost £600k for 2018 – 19 (there would be no in-year reconciliation). The impact of this loss and increased severity of the funding

¹ General Data Protection Regulation

² Sixth Form Colleges Association



/ finance risk had been the subject of a meeting of the Chair of Governors, Chair of the Audit Committee and the Chair of F&R on 2nd November 2017. Mr Taylor explained that the student recruitment target for 2018 – 19 would be set at the level of achievement this year and the financial plans adjusted accordingly.

- 11.2.1. **FUNDING:** Mr Taylor confirmed that the funding risk (joint first ranked position) had become more acute. He said there was a nine-month time frame in which to take action to counter the unscheduled reduction in grant funding income arising from the shortfall in student numbers that would hit the financial plans from 2018 - 19. He re-capped the staff downsizing plan that had been in train for 6 – 7 years and which would continue with a further voluntary severance scheme and potentially a compulsory redundancy programme. He advised that structural changes would follow the voluntary severance period.
- 11.2.2. **QUALITY:** remains at joint number one until the Ofsted re-inspection has taken place. The re-inspection has to be before January 2018 (two years from previous inspection) or March 2018 (two years from publication of the report). Mrs Flannery confirmed that the CSQ Committee had scrutinised the data and results which the and how most of the improvements from last year had been held. She advised developments with the curriculum and how the revised timetable was working quite well to underpin learning. Mrs Spazzini commented that staff taking severance could have a negative impact on quality. Mrs Flannery explained that she would retain the right to decline an application for severance. She described some marginal areas where some reduction in teaching numbers might be achieved and explained that managements structures would also be reviewed. There was a desire to hold onto the breadth of curriculum offered at SFX. Mr Vianello enquired which areas of the curriculum had under-recruited and was advised that the creative subjects had been affected, possibly as the result of the eBacc³.
- 11.2.3. **STUDENT RECRUITMENT / COMPETITION:** Ranked third in priority but directly impacting on the joint first place risks. Mrs Flannery reflected on the GLA and Wandsworth demographic predictions which had indicated a drop in numbers of 16 – 19 years in 2018 – 19 but the reality had occurred one year sooner. A bulge in the number of pupils currently working through primary / secondary education was expected to impact on sixth forms in 2020 – 21. The committee appreciated the dip was a national and regional problem. The level of conversion from applications / acceptance to registrations had remained steady. Mr Taylor referred to the internal audit assignment two years ago which had endorsed the applicant journey. The challenge was acknowledged to be how SFX could secure a bigger share of a smaller pool of potential students. Open Day on Saturday 11th November 2017 had been a successful and well-reviewed launch of the recruitment campaign for intake in 2018. A lower number of visitors had enjoyed better access to teaching staff and students. Mrs Flannery explained that competition remained intense although there was now more of a balance between new competitors and provision that was closing. Mr Taylor summarised the inter-relation between the three top risks: quality was a factor in recruitment and that there would be no return to the number of

³ The English Baccalaureate (EBacc) is a school performance measure



students on roll for 2014 – 15 which would be reflected in the financial plans and setting of a budget within which the college could manage and operate.

- 11.2.4. HR: STAFF RECRUITMENT & RETENTION; EMPLOYER RELATIONS: Mr Taylor confirmed that the ranking was unchanged. Risks in this area were related to managing staff morale in the climate of the downsizing / voluntary severance programme and pay constraints.
- 11.2.5. REPUTATION: It was noted that two externally contracted security guards had been on duty since half term monitoring the entry and exit of students. Mrs Spazzini asked whether one specific occurrence had prompted the appointment but was assured that it had not. The intention is to retain an educational environment in and minimise disturbances.
It was acknowledged that the introduction of GDPR had the potential to affect the reputation of the college.
- 11.2.6. CATHOLIC ETHOS: Noted that the declared Catholic population of students had fallen to 30% and recruitment from partner schools was down. Interviews to appoint a new chaplain were scheduled for later in the week, to fill the post which had been vacant since September.
- 11.2.7. NON-CORE ACTIVITY: The profit returned by the Trading Subsidiary in 2016 – 17 was noted to be £31,562. Activity was static. The apprenticeship programme had paused active recruitment until educational direction and financial viability are clarified.
- 11.2.8. HEALTH & SAFETY: Mr Taylor referenced the recent audit and follow up. He noted that the annual review of the policy would be undertaken by the F&R Committee at its meeting later in the evening and advised a new lock down policy was being drafted.
- 11.2.9. MIS / IT: Mr Taylor commented that this area was currently reasonably static and stable. He informed the committee that the college insurance cover would be let for re-tendering in the spring term. Cyber insurance and governors' liability would be included in the bid.
Mr Taylor suggested that IT would be included in internal audit cycle in due course.
- 11.2.10. ESTATES & PLANT: Mr Taylor reported that work had started on the care home site and outlined the ongoing right to light settlement negotiations between the Diocese and the Developers. Mr Garvey, Chair of Governors had attended some meetings. It was expected that all proceeds from a settlement award would be passed on to the college. An architect had drawn up plans for a new art block. The current phase of demolition work was noted to be currently noisy and disruptive.

Mr Taylor concluded the report with the observation, accepted by the committee, that one of the major risks had been realised (shortfall in student recruitment) but because of the inherent link to funding and finance the ranking had been retained in the same order.

Mr Taylor referred to the FMCE⁴ self-assessment process which had identified as

⁴ Financial Management Control Evaluation



an area for improvement, in the light of the shortfall in student numbers, a re-assessment of the risk register and risk management processes.

12. **Board Assurance Framework:** The framework reviewed in Summer 2017, approved by the Governing Body was confirmed to provide adequate assurance in conjunction with the IAS assignments for end of year financial statements 2016 – 17.

Mr Taylor reminded the committee that to receive an overall annual opinion from the IAS certain areas had to be included: risk, governance; key financial controls; learner numbers plus two to three other risk based areas. To deliver this, the annual audit assignment strategy would be a 20 day plan.

13. **Audit Committee Annual Report to Governors for 2016 – 17:** The draft report had been included in the papers for the meeting and was reviewed and discussed. Audit committee members considered whether the report reflected all the activities that the committee had or should have been carrying out including the audit plans and levels of assurance in place without an annual opinion from the IAS.

The draft was agreed for signing by Mr Sheta and submission to the full Governing Body on 14th December 2017 prior to the presentation of the annual report and accounts. The signed report would be filed with the ESFA after that meeting. The report was taken as a satisfactory review of the effectiveness of the committee.

ACTION: Clerk to prepare final version for signing and inclusion in papers for the meeting of the full Governing Body.

14. **Any other business:** There was none

This part of the meeting concluded at 5.50pm.

Members of the Finance & Resources Committee (F&RC) joined the meeting at 6.15pm along with Mrs Catherine Biscoe, Partner, Buzzacott LLP (Financial Statements Auditors).

Mr Sheta remained in the Chair.

15. **End of Year Financial Reports:** Introductions were made including Mrs Biscoe and Mr Lo.

15.1. **FMCE:** The completed (non-mandatory) self-evaluation for 2016 – 17 had been included in the papers and was introduced by Mr Taylor. He confirmed the value of completing the questionnaire each year as a self-assessment on key systems. Mr Taylor explained the grading summary on page 2 which rated each area as “Good” and the area of “Internal Control System” as “Outstanding” supported by details in the body of the document.

Three areas of improvement had been identified from the process set out on pages 3 and 4. These were explained and accepted:

- * Governors membership of committees and attendance at meetings.
- * Management oversight of financial planning mechanisms of all curriculum and non-curriculum initiatives
- * Under recruitment of students and process of managing risk

It was acknowledged that the gradings correspond to the financial health rating of “Good”.

Governors affirmed the value of the self-evaluation and directed that completion of



the FMCE should continue even though it was no longer mandatory.

FMCE 2016 – 17 accepted.

15.2. **Financial Statements for year ended 31st July 2017:** Presented by Mrs C Biscoe, Partner, Buzzacott, Financial Statements Auditors:

15.2.1. **Report & Financial Statements (Consolidated Accounts) for year ended 31st July 2017:** Draft report had been included in the papers for the meeting. Mrs Biscoe took the committees through the report page by page.

From the Report of the Board of Governors, Mrs Biscoe highlighted the key financial results reported on page 5. The College had incurred an operating deficit in the year of £520,000 (£217,000 in 2015/16). It was noted in the accounts that the deficit was £168,000 prior to the application of the FRS 102 Pension Adjustment and a £44,744 lump sum payment.

Investment in the wholly owned subsidiary company, SFX Corporate Services Ltd was noted on page 6 which reported generation of an overall surplus of £31,562 which had been transferred back to the College under deed of covenant (gift aided).

Mrs Biscoe confirmed an operating cash outflow of £27,000. The liquidity position showed the College was in the position of being able to pay back the current loan arrangements.

The Going Concern paragraph on page 20 within the Statement of Corporate Governance and Internal Control section was explained by Mrs Biscoe and reviewed in the context of future challenges. Governors continue to adopt the going concern basis for the foreseeable future explicitly for a minimum of 12 months from 14th December 2017 in preparing the financial statements. The statement of Regularity and Compliance confirmed there had been no instances of impropriety and regularity

Mrs Biscoe referred to the auditor reports commencing on page 23 noting the opinion was stated clearly at the beginning and confirmed a “clean” audit report. Specific reference to the matter of a “going concern” was noted from the bottom of page 23.

The Assurance Report on Regularity was set out on pages 26 – 27. Mrs Biscoe explained that this confirmed that nothing had come to the attention of the auditors which required report to the ESFA.

It was noted that the Trading Subsidiary SFX Corporate Services Ltd accounts had been received and signed on behalf of the Board of Directors on 9th November 2017.

15.2.2. **Post - Audit management report for 16 – 17 including Regularity:** The report (including SFX Corporate Services Ltd) had been included in the papers for the meeting. Mrs Biscoe explained the key points of the report and confirmed clean opinions for each audit. Thanks were extended to Mrs Searle and Mrs Long for the smooth running of the audits.

Mrs Searle challenged an entry under Key Audit Risks and Outcomes which stated on page 9 that the College has breached one of its bank loan covenants for the year ended 31 July 2017. Mrs Searle contested that the covenant had



been breached on the basis that the bank had not been enforcing the clause referred to by only reviewing annual accounts and not monthly / quarterly. It was accepted that the breach would be likely due to the debt service cover falling below the agreed ratio. Mrs Biscoe agreed a change of wording to read "There is a risk that the College could breach one of its bank loan covenants for the year ended 31 July 2017".

Mrs Biscoe highlighted an adjustment made to the figures presented for audit, explained in Appendix 1 of the report as the journal to release deferred Free School Meals income which had been spent in the year. She confirmed that no unadjusted misstatements had been carried forward.

Mrs Biscoe reviewed the appendices to the report. Mr Vianello discussed with Mr Taylor and Mrs Biscoe where SFX was out of line with sector benchmarks in *Appendix 3: Comparison of financial ratios*.

It was unanimously agreed that the Report & Financial Statements (Consolidated Accounts) for year ended 31st July 2017 should be recommended to the Governing Body for approval and signing on 14th December 2017 and, following subsequent counter-signing by the auditors, submitted to the ESFA to meet the deadline of 31st December 2017.

15.2.3. **Letter of Representation:** The template was noted to a standard model with adapted to include paragraph 12 referring to the loan covenant. It was noted that the letter would be transcribed onto SFX headed paper for approval and signing at the meeting of the full Governing Body on 14th December 2017.

15.2.4. **Letter of Engagement:** Mrs Biscoe presented an updated letter of engagement which had been revised, without change to the terms, to include paragraphs on regularity assurance and references to ESFA formerly EFA. The letter was agreed and signed on two copies by Mr Sheta and counter-signed by Mrs Biscoe. One copy was duly handed to Mrs Biscoe.

The meeting ended at 6.44pm.

Distribution:

Mr N Sheta	Mr R Vianello	Mrs S Spazzini
Mr T Lo RSM		Mrs C Biscoe Buzzacott
Mrs M Searle	Mrs S Flannery	Mr A Taylor
	Clerk	

