

**AUDIT AND RISK COMMITTEE**

**9<sup>th</sup> May 2022 – Ref 31-22**

<b>DATE:</b>	9 <sup>th</sup> May 2022
<b>TITLE OF REPORT:</b>	<b>Audit Scotland Section 22 Report                      Reference 31-22</b>
<b>AUTHOR AND CONTACT DETAILS</b>	Keith McAllister <a href="mailto:keith.mcallister@slc.ac.uk">keith.mcallister@slc.ac.uk</a>
<b>PURPOSE:</b>	To provide the Audit and Risk Committee with a copy of the final version of the Section 22 Report that has been prepared by Audit Scotland on the governance situation at the College as it affects the 2020/21 audited financial statements. This report has also been presented to the Finance and Resources Committee for noting.
<b>KEY DECISIONS / RECOMMENDATIONS</b>	Committee to note the Report in the context of the ongoing governance situation and the potential adverse publicity that this may bring.
<b>RISK</b>	<ul style="list-style-type: none"> <li>• Reputational risk to the College / Region.</li> <li>• Potential impact on the 2021/22 financial statements audit and reporting.</li> </ul>
<b>RELEVANT STRATEGIC AIMS:</b>	<ul style="list-style-type: none"> <li>• Highest quality education and support - providing a high-quality environment for staff and students</li> <li>• Sustainable behaviours – environmentally sustainable behaviours.</li> </ul>
<b>SUMMARY OF REPORT:</b>	<p>The Report has been commissioned by Audit Scotland as a result of the College not being able to state that it complied with the requirements of the Code of Good Governance for Scotland's Colleges. This situation was noted within the College's Financial Statements for the year to 31<sup>st</sup> July 2021 and the Annual Audit Report prepared by the external audit providers, Mazars LLP.</p> <p>It should be noted that the issue of non-compliance actually referred to the time following the 2020/21 financial year. The non-compliance could be deemed "technical" as it referred to issues that arose through (a) a lack of Board of Management members in the August / September period and the postponement of Board and Committee meetings; and (b) an assertion that the delayed appointment of the internal audit function, essentially due to the postponement of an Audit and Risk Committee meeting in August 2021 at which this appointment was to be ratified following a tendering process overseen by the Board.</p> <p>The Committee should note that as the issues occurred after the year end, they will have to be reported in the 2021/22 Financial Statements.</p> <p>The College was given the opportunity to review the accuracy of the facts presented and made no comment. This final version of the report is attached but, at 19<sup>th</sup> April, the College has not been notified whether its representatives will have to appear before any reviewing committee at Audit Scotland or the Scottish Parliament, both of which may be required.</p>

24 March 2022

Liz McIntyre  
Acting Principal  
South Lanarkshire College

Sent by email

Confidential

Dear Ms McIntyre

### **The 2020/21 audit of South Lanarkshire College**

Please find attached a draft copy of our Section 22 report on the 2020/21 audit of South Lanarkshire College. The purpose of the report is to draw the Scottish Parliament's attention to governance issues in the college.

I would be grateful if you could respond to my email by Thursday 31 March to confirm that you are satisfied with the factual accuracy of the report.

The conclusions are limited to the consideration of the college's annual report and accounts and the independent auditor's annual audit report. The report covers events during academic year 2020/21 and to the point of the auditor signing their opinion in March 2022.

We are also sharing a copy of the draft report with the Acting Chair, Paul Hutchinson, and the Chair of the Lanarkshire Board, Ronnie Smith. We would be happy to receive a collated set of comments or separate responses from each of you.

The principles underpinning our factual accuracy checking process include giving named or identifiable persons who are not in post a fair opportunity to comment on the accuracy of any findings relating to them and / or the public body that they are associated with. We will therefore also be sending a copy of the draft report to Aileen McKechnie and Andy Kerr today, to check for factual accuracy.

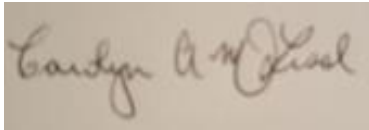
As the report refers to the Scottish Funding Council (SFC), specifically the governance review that it commissioned, we will invite the SFC to comment on the factual accuracy of these references. We are also sharing a copy of the draft report, for information and in confidence, with the SFC sponsor division in the Scottish Government.

We intend to send the final report to the Scottish Government with a view to it being laid in Parliament on Thursday 21 April. The report will be published on the Audit Scotland website on the same day. I will send the new Acting Principal of the college an embargoed copy in advance of publication.

I anticipate that the Auditor General will present the report to the Scottish Parliament's Public Audit Committee in due course.

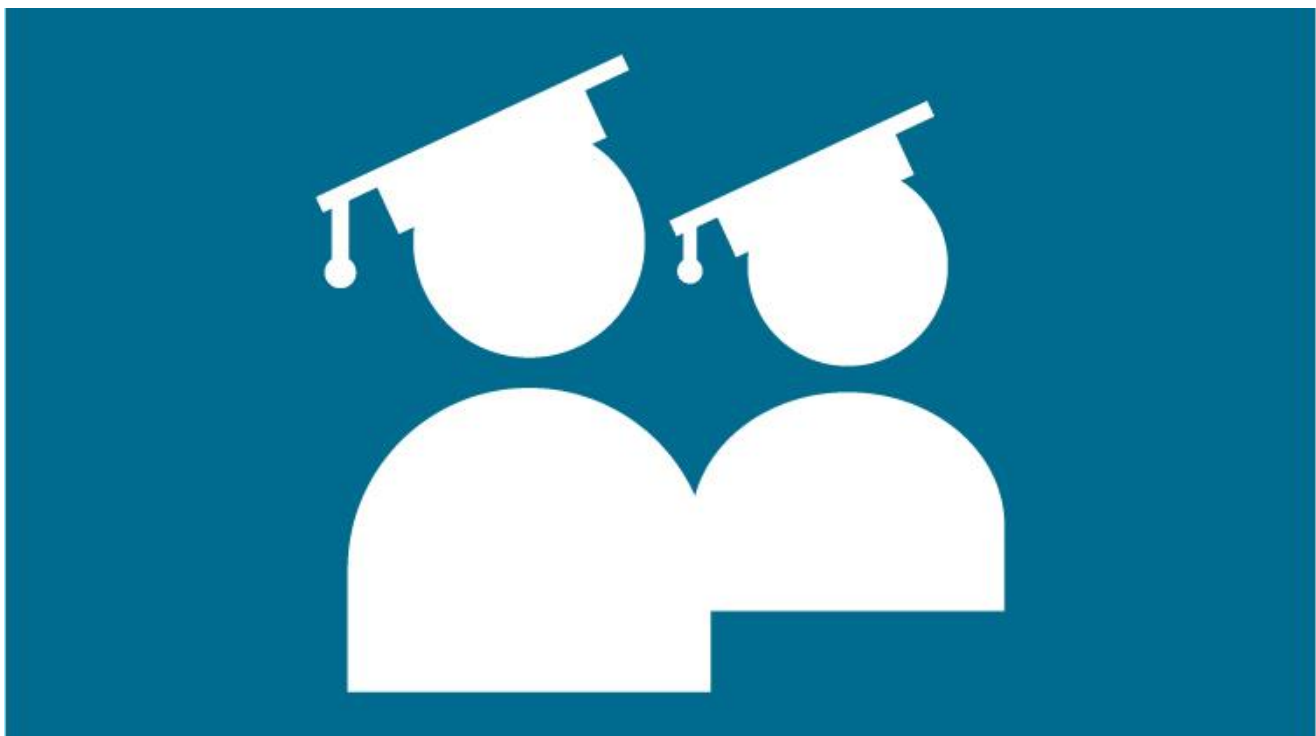
You can find further information on Section 22 reports here: [Statutory reporting: Section 22 reports \(audit-scotland.gov.uk\)](https://www.audit-scotland.gov.uk). Please get in touch if you require any further information at this stage, or if you would find it helpful to discuss your comments or the Section 22 reporting process.

Yours sincerely

A rectangular image showing a handwritten signature in dark ink on a light-colored background. The signature is cursive and appears to read 'Carolyn McLeod'.

Carolyn McLeod  
Audit Director

# The 2020/21 audit of South Lanarkshire College



AUDITOR GENERAL 

Prepared for the Public Audit Committee by the Auditor General for Scotland  
Made under section 22 of the Public Finance and Accountability (Scotland) Act 2000

April 2022

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# The 2020/21 audit of South Lanarkshire College

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## Introduction

- 1.** I have received the audited annual report and accounts and the independent auditor's report for South Lanarkshire College for 2020/21. I am submitting these financial statements and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3) of the Act.
- 2.** The auditor issued an unqualified opinion on the college's financial statements for 2020/21. I have prepared this report to draw the Scottish Parliament's attention to governance issues in the college.
- 3.** My conclusions are limited to the consideration of the college's annual report and accounts and the auditor's annual audit report. This report focuses on events during the first half of the 2021/22 academic year (from 1 August 2021) and covers the period to the point of the auditor signing their opinion on 24 March 2022.

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## Key messages

- The independent auditor was unable to conclude that governance arrangements in South Lanarkshire College were satisfactory during 2020/21 and to the point of signing their opinion on 24 March 2022.
- In July 2021, the Scottish Funding Council commissioned an external review into governance at the college. The review was finalised in August and the Scottish Funding Council shared a redacted copy of the report with the college's principal and chair. Other board members received a redacted copy of the report in October, but the board did not consider it formally until December 2021.
- In November 2021, the board agreed to commission two independent investigations into complaints and grievances against the chair of the board and the principal and interim clerk to the board. The board agreed to suspend the principal and interim clerk to the board while these investigations were ongoing. The chair of the board voluntarily stepped aside from his role for the same period.
- The governance statement in the college's annual report and accounts highlights four areas where the college did not fully comply with the Code of Good Governance for Scotland's Colleges at the start of

academic year 2021/22. This relates to the operation of the board and audit and risk committee, transparency of board and committee papers, board member induction, and engagement with internal audit.

- The college has developed a governance improvement plan, which is intended to reflect the findings and recommendations from external reviews during the year. The college board and the regional strategic body (the Lanarkshire Board) have approved the plan and are monitoring progress, along with the independent auditor.
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## Background

**4.** South Lanarkshire College is an independent legal body with charitable status as defined by the Further and Higher Education (Scotland) Act 1992. The primary source of income is Scottish Government funding, provided through grants from the Scottish Funding Council (SFC) via the regional strategic body.

**5.** South Lanarkshire College is one of two colleges within the Lanarkshire region and is assigned to the board of New College Lanarkshire (known as the Lanarkshire Board), which is the regional strategic body. The Lanarkshire Board was established by the Lanarkshire Colleges Order 2014 and came into being on 1 October 2014. It has responsibility for ensuring that there is consistency of provision across the region and that both colleges provide high-quality further and higher education.

**6.** South Lanarkshire College is governed by its own board, which is responsible for determining the overall strategy of the college, the proper use of public funds, the quality of provision, and appointing the principal and other senior staff. As well as sitting on the South Lanarkshire College board (the board), the principal and chair of South Lanarkshire College are also members of the Lanarkshire Board. Two staff representatives from South Lanarkshire College also sit on the Lanarkshire Board.

**7.** The college's expenditure during 2020/21 totalled £18.6 million, 76 per cent of which was staff costs. Its adjusted operating position at the end of the year was a surplus of £1.6 million.

## Governance issues

**8.** The auditor has been unable to conclude that governance arrangements in South Lanarkshire College were satisfactory for the 2020/21 year and to the point of signing their opinion on 24 March 2022. The governance statement in the college's annual report and accounts recognises that the college has not fully complied with the standards set out in the Code of Good Governance for Scotland's Colleges ([paragraph 19](#)).

**9.** [Appendix 1](#) includes a timeline of key events relating to the governance issues highlighted by the independent auditor in their annual audit report.

## SFC governance review

**10.** Following discussions with the principal and the Lanarkshire Board about potential governance issues and strained relationships in South Lanarkshire College, the SFC commissioned a review of governance at the start of July 2021.

**11.** The review was completed at the end of August 2021, but circulation of the final report has been limited by the SFC. The report was redacted by the SFC to protect personal information and has been shared in strictest confidence with a small number of people. The SFC shared a redacted copy of the report with the principal and chair once it was finalised in August. Other board members and the senior management team received a redacted copy of the report in October and December 2021 respectively.

**12.** The redacted SFC report was formally considered by the board in December 2021 and it approved an action plan to take forward the recommendations. However, the independent auditor notes in their annual audit report that they “have no assurance that the action plan covers all the recommendations made, due to the level of redactions in the [SFC] report.” Progress will be monitored by the audit and risk committee and the board.

**13.** The recommendations in the redacted SFC report have been included in South Lanarkshire College’s governance improvement plan ([paragraph 22](#)).

## Appointment of acting principal and acting chair

**14.** In part prompted by the SFC-commissioned review of governance, an extraordinary board meeting was held on 30 November 2021. The meeting was led by the vice chair, to discuss specific complaints. The board agreed to commission two independent investigations into complaints and grievances against the chair of the board and the principal and interim clerk to the board.

**15.** At the same meeting, the board discussed and agreed a motion to suspend the principal and the interim clerk to the board, for the duration of the independent investigations. The chair of the board voluntarily stepped aside from his role, while the investigations are ongoing. This will continue on a rolling four-week basis until the investigations have concluded and the findings have been reviewed by the board and any necessary action agreed.

**16.** At the point of finalising this report, the independent investigations had not concluded. I am therefore unable to comment on the conclusions.

**17.** At the meeting on 30 November 2021, the board agreed that the vice chair should take on the responsibilities of acting chair. This was approved by the Lanarkshire Board and college board at their meetings in December. The appointment of an acting principal was approved by the board on 16 December 2021, for the period to 31 March 2022. At an extraordinary board meeting on 1 February 2022, the board approved the appointment of a new interim clerk to the board with effect from 5 January 2022.

**18.** At its meeting on 10 March 2022, the board approved the appointment of a new acting principal from 1 April 2022 on an open-ended basis. This ensures

that the role of principal will continue to be filled until the independent investigations are complete.

## Non-compliance with the Code of Good Governance

**19.** All colleges that receive funding from the SFC, either directly or through a regional strategic body, must comply with the [Code of Good Governance for Scotland's Colleges](#) (the Code). The Code sets standards of good governance practice for all college boards across five areas - leadership and strategy, quality of the student experience, accountability, effectiveness, and relationships and collaboration.

**20.** The governance statement in the college's annual report and accounts recognises that the college did not fully comply with the Code at the start of academic year 2021/22. It notes that the college has taken action to address these issues and considers it was fully compliant with the Code as of 10 March 2022. The areas of non-compliance reported on by the college and independent auditor relate to four areas of the Code:

- Operation of the board and the audit and risk committee – membership of the board and audit and risk committee fell below the required number for one and two months respectively. The audit and risk committee did not meet for regular business for six months from May 2021 and the board did not meet for five months from June 2021.
- Transparency of board and committee papers - papers for board and committee meetings held after June 2021 were not publicly available on the college's website at the point the auditor signed their opinion on 24 March 2022.
- Board member induction – new board members had been appointed for three months before they received a formal face-to-face induction, which was not possible any earlier due to Covid-19 restrictions.
- Engagement with internal audit – the college did not have an approved, operational internal audit function for three months from August 2021.

**21.** [Appendix 2](#) provides more details on these areas of non-compliance, which were a consequence of the governance issues outlined above. The cancellation of planned meetings in September and October 2021 impacted the operation of the board and the audit and risk committee, and the appointment of the internal audit function. This also impacted on the college's ability to meet its requirement to report on committee meetings to the Lanarkshire Board, in October 2021. The cancellation of these meetings and the suspension of the interim clerk to the board delayed the approval and publication of board and committee papers.

## Action taken by the college

**22.** In October 2021, the Lanarkshire Board asked the college to develop a plan to support the restoration of good governance in the college. The college has developed a governance improvement plan, which is intended to reflect the findings and recommendations from the SFC-commissioned review and other relevant external reviews. The college board and the Lanarkshire Board have



approved the plan and are monitoring progress, along with the independent auditor.

**23.** The auditor has made four high priority recommendations and one medium priority recommendation relating to governance arrangements. The college has accepted the recommendations and is progressing them.

**24.** Actions to identify and respond to the governance issues set out above have incurred additional costs for the college. For example, the provision of legal advice to the board; the appointment of external advisors to undertake the two independent investigations; and the appointment of an acting principal and new interim clerk to the board. The total cost will be reported in the 2021/22 annual audit of the college.

## Conclusions

**25.** Colleges play a vital role in helping people learn new skills and fulfil their potential. They also make significant contributions in supporting social and economic development in their region and more widely. Good governance arrangements in colleges are central to effective strategic leadership, oversight of the services provided to students and staff, and ensuring the proper use of public funds.

**26.** I am therefore concerned to note the governance issues at South Lanarkshire College, disclosed in the college's annual report and accounts and highlighted by the independent auditor in their annual audit report. These governance issues present a risk to effective scrutiny and public accountability for the delivery of high-quality learning and outcomes for students.

**27.** The governance improvement plan developed by the college is an important step in addressing the concerns raised by the auditor and responding to the findings and recommendations of relevant governance reviews and investigations.

**28.** It is essential that both the board and senior management team take ownership of the governance improvement plan and work together, and with the Lanarkshire Board and the SFC, to ensure it is delivered. The college board and audit and risk committee must provide appropriate scrutiny and support to ensure stakeholders are assured of progress and the necessary improvements set out in the plan are achieved.

**29.** The auditor will continue to review governance arrangements and monitor implementation of the governance improvement plan as part of their audit responsibilities. I will continue to monitor the progress made by the college in this area, with a view to further public reporting in the future.

# Appendix 1

## Timeline of key events

Date	Event
Start July 2021	Scottish Funding Council (SFC) commissions an external review of governance in the college.
31 July 2021	Contract of internal audit provider expires.
24 August 2021	<b>Board strategy session cancelled</b>
End August 2021	SFC-commissioned review of governance is finalised and a redacted copy of the report shared with the principal and chair.
6 September 2021	<b>Audit and risk committee meeting cancelled</b>
7 September 2021	Chair of audit and risk committee resigns, and committee membership falls below minimum number required by college.
9 September 2021	<b>HR committee meeting cancelled</b>
30 September 2021	Tenure of four board members ends and board membership falls below minimum number required by statute.
5 October 2021	<b>Board meeting cancelled</b>
October 2021	All board members receive redacted copy of SFC report on review of governance.
4 November 2021	<b>Board meeting</b> – board agrees to: <ul style="list-style-type: none"> <li>• approve eight new board members (six non-executive members and two staff members)</li> <li>• approve the new internal audit provider.</li> </ul>
17 November 2021	<b>Audit and risk committee meeting</b> – first meeting attended by new internal audit provider, and outgoing internal audit provider presents final reports for 2020/21 year.
30 November 2021	<b>Extraordinary board meeting</b> - board agrees to: <ul style="list-style-type: none"> <li>• commission two independent investigations into complaints and grievances against the chair of the board / the principal and interim clerk to the board</li> <li>• suspend the principal and interim clerk to the board while the independent investigations are conducted</li> </ul>

Date	Event
	<ul style="list-style-type: none"> <li>• accept the offer of the chair of the board to voluntarily step aside from his role while the independent investigations are conducted</li> <li>• the vice chair of the board taking on the role of acting chair.</li> </ul>
December 2021	Senior management team receive redacted copy of SFC report on review of governance.
13 December 2021	The Lanarkshire Board approves the vice chair of South Lanarkshire College Board as the acting chair.
16 December 2021	<p><b>Board meeting</b> – board approves:</p> <ul style="list-style-type: none"> <li>• temporary appointment of the vice chair of the board to acting chair</li> <li>• appointment of acting principal to 31 March 2022</li> <li>• action plan to progress recommendations in SFC report on review of governance.</li> </ul>
1 February 2022	Formal face-to-face induction of new board members.
1 February 2022	<p><b>Extraordinary board meeting</b> - board receives an update on:</p> <ul style="list-style-type: none"> <li>• progress with the independent investigations</li> <li>• progress with the governance improvement plan.</li> </ul> <p>Board approves the appointment of new interim clerk to the board with effect from 5 January 2022.</p>
10 March 2022	<p><b>Board meeting</b> – board approves:</p> <ul style="list-style-type: none"> <li>• appointment of new acting principal from 1 April 2022</li> <li>• governance improvement plan.</li> </ul>

# Appendix 2

## Non-compliance with Code of Good Governance for Scotland's Colleges

Code of Good Governance requirement	Evidence of non-compliance
<p><b>Operation of the board and audit committee</b></p> <p>(C3) The board must ensure it fulfils its statutory duties and other obligations on it.</p> <p>(C8) The board may delegate responsibilities to committees for the effective conduct of board business. As a minimum the committees required are audit, remuneration, finance and nominations / appointments.</p> <p>(C13) The audit committee must support the board and the principal by reviewing the comprehensiveness, reliability and integrity of assurances including the body's governance, risk management and internal control framework.</p>	<p>The Post-16 Education (Scotland) Act 2013 requires that the board consists of no fewer than 13 members. The board fell below this level for a short period between 1 October and 4 November 2021, following the end of the tenure of four board members.</p> <p>Although the college had undertaken a recruitment exercise for new board members, the cancellation of the board meeting planned for 5 October meant that the new members could not be approved. Eight new members were approved when the board met on 4 November 2021.</p> <p>There were no board meetings for five months, between the meetings on 8 June and 4 November 2021.</p> <p>Membership of the audit and risk committee fell below the college's minimum number for two months, between 7 September and 4 November, following the resignation of the committee chair.</p> <p>The audit and risk committee did not meet for regular business for six months, between May and November 2021.</p>
<p><b>Transparency of board and committee papers</b></p> <p>(C7) The board must ensure that its decision-making processes are transparent, properly informed, rigorous and timely... This includes the prompt production, dissemination and online publication of board / committee agendas, minutes and papers to the public.</p> <p>(C10) The board must ensure that discussions and decisions of every committee are accurately recorded and reported to the board, no later than the next meeting of the board.</p>	<p>Papers for board and committee meetings held after June 2021 were not publicly available on the college's website at the point the auditor signed their opinion on 24 March 2022.</p> <p>There was no one in the role of clerk to the board between 1 December 2021 and 5 January 2022. As a result of this, and the cancellation of meetings in September and October, there was a delay in finalising and approving the minutes of board and committee meetings.</p>

Code of Good Governance requirement	Evidence of non-compliance
<p><b>Board member induction</b></p> <p>(D19) The chair must ensure that new board members receive a formal induction on joining the board, tailored in accordance with their individual and collective needs.</p>	<p>All new board members were given copies of the college's governance manual to review when they joined the board on 4 November 2021. However, they did not receive a formal induction until 1 February 2022. This was due to the board's request for a face-to-face induction, which was not possible any earlier due to Covid-19 restrictions.</p>
<p><b>Engagement with internal audit</b></p> <p>(C14) The audit committee must have particular engagement with internal and external audit.</p>	<p>The contract of the internal audit provider expired on 31 July 2021. A new provider was due to be approved by the audit and risk committee on 6 September 2021, but the meeting was cancelled. The appointment of internal audit was approved by the board on 4 November 2021. The college therefore did not have an approved, operational internal audit function for the first three months of the 2021/22 academic year.</p> <p>The new internal audit provider attended the first audit and risk committee of 2021/22 on 17 November 2021. The internal audit provider has had limited engagement with the committee since being appointed and the internal audit plan for 2021/22 was not expected to be considered by the committee until the end of March 2022, four months before the end of the academic year.</p>

# The 2020/21 audit of South Lanarkshire College

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