



Annual Audit Report  
to the Board of Management and the  
Auditor General for Scotland

South Lanarkshire College  
Year ending 31 July 2021

# Contents

- 01** Executive summary
- 02** Audit of the financial statements
- 03** Internal control recommendations
- 04** Summary of misstatements
- 05** Wider scope work
  - Financial sustainability
  - Governance and transparency
- 06** Wider scope recommendations
- 07** Our fees

Appendix A – Independence

This document is to be regarded as confidential to South Lanarkshire College, although it may be shared with the Regional Strategic Body, New College Lanarkshire. It has been prepared for the sole use of the Audit and Risk Committee as the appropriate sub-committee charged with governance by the Board of Management. No responsibility is accepted to any other person in respect of the whole or part of its contents. Our written consent must first be obtained before this document, or any part of it, is disclosed to a third party.

The Audit and Risk Committee  
South Lanarkshire College  
Campus Way  
East Kilbride  
Glasgow  
G75 0NE

24 February 2022

Dear Members

**Annual Audit Report – Year ended 31 July 2021**

We are pleased to present our Annual Audit Report for the year ended 31 July 2021. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 10 May 2021. We have reviewed the significant audit risks and other areas of management judgement included in our Audit Strategy Memorandum and during the course of the audit we subsequently identified the following significant risk:

- Governance and Transparency dimension of our Wider Scope work

The identification of a significant risk in the Governance and Transparency dimension of Wider Scope work was set out to Members in our progress report of 16 December 2021.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me.

Yours faithfully

Lucy Nutley

For and on behalf of Mazars LLP

## Executive summary

### Purpose of this report and principal conclusions

This Annual Audit Report sets out the findings from our audit of South Lanarkshire College ('the College') for the year ended 31 July 2021 and forms the basis for discussion at the Audit and Risk Committee meeting on 24 February 2022.

Our responsibilities are defined by the Public Finance and Accountability (Scotland) Act 2000 and the Code of Audit Practice ('the Code') issued by Audit Scotland. Subject to the satisfactory completion of the outstanding work, at the time of issuing this report we have the following conclusions:

Opinion on the financial statements	We have issued an unqualified opinion, without modification, on the financial statements. As outlined in more detail in Section 2, we included an Emphasis of Matter paragraph in our auditor's report with respect to the material valuation uncertainty disclosed in the financial statements regarding the College's land and buildings valuations in the year.
Opinion on regularity	We issued an unqualified regularity opinion, meaning that in our opinion, in all material respects the expenditure and income recognised in the financial statements have been applied for the purposes intended.
Opinion on other requirements	We issued an unqualified opinion on the matters prescribed by the Auditor General for Scotland. Namely that the remuneration and staff report, performance report and governance statement have been properly prepared in accordance with the relevant legislation.
Wider scope work	<p>We concluded as follows against the financial sustainability and governance and transparency wider scope dimensions:</p> <ul style="list-style-type: none"> <li>• The College has adequate financial planning arrangements in place.</li> <li>• The College has recognised that it has not fully complied with the Code of Good Governance for Scotland's Colleges. We are unable to conclude that governance arrangements for the 2020/21 year and to the point of signing our opinion have been satisfactory.</li> </ul>

## Executive summary (continued)

### Misstatements and internal control recommendations

Section 3 sets out the internal control recommendations that we make.

Section 4 outlines the misstatements noted as part of our audit as at the time of issuing this report. If any additional misstatements are noted on completion of the outstanding work, these will be reported to the Audit and Risk Committee in a follow-up letter.

Section 6 outlines the recommendations we have made as part of our Wider Scope work.

### Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 10 May 2021. We have not made any changes to our audit approach for the financial statement audit since we presented our Audit Strategy Memorandum.

We have changed our approach to Wider Scope work, having identified a significant risk that the College was not meeting the requirements of the Governance and Transparency dimension. Further details are in section 5 of this report.

### Adding value through the audit

We recognise that all of our clients want us to provide a positive contribution to meeting their ever-changing business needs. Our aim is to add value to South Lanarkshire College through our external audit work by being constructive and forward looking, by identifying areas of improvement and by recommending and encouraging good practice. In this way we aim to help the College promote improved standards of governance, better management and decision making and more effective use of limited financial resources.

### Materiality

Materiality is an expression of the relative significance or importance of a particular matter in the context of financial statements as a whole. Misstatements in financial statements are considered to be material if they, individually or in aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

We set materiality at the planning stage of the audit at £370,000 using a benchmark of 2% of total expenditure. Our final assessment of materiality based on the final financial statements and qualitative factors is £373,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	370	373
Performance materiality	296	298
Trivial threshold for errors to be reported to the Audit and Risk Committee	11	11

## Executive summary (continued)

The assessment of what is material is a matter of professional judgement and is affected by our perception of the financial information needs of the users of the financial statements. In making our assessment we assume that users:

- have a reasonable knowledge of business, economic activities and accounts;
- have a willingness to study the information in the financial statements with reasonable diligence;
- understand that financial statements are prepared, presented and audited to levels of materiality;
- recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
- will make reasonable economic decisions on the basis of the information in the financial statements.

We consider materiality whilst planning and performing our audit based on quantitative and qualitative factors.

### **Performance Materiality**

Our audit testing is based on a level of performance materiality, which is a percentage of overall materiality, but also dependent on the level of inherent risk assessed on the area being tested. It is lower than overall materiality as it helps to reduce the risk that the total of the uncorrected or undetected misstatements does not exceed materiality for the financial statements as a whole. It is based on between 50 – 80% of overall materiality depending on the inherent risk level assessed. Our initial assessment of performance materiality is based on low inherent risk, meaning that we have applied 80% of overall materiality as performance materiality. This assessment has not changed during the audit process.

### **Misstatements**

We aggregate misstatements identified during the audit that are other than clearly trivial. We set a level of triviality for individual errors identified (a reporting threshold) for reporting to the Audit and Risk Committee that is consistent with the level of triviality that we consider would not need to be accumulated because we expect that the accumulation of such amounts would not have a material effect on the financial statements. This level was set at 3% of materiality.

## Audit of the financial statements

Set out below are the significant findings from our audit. These findings include:

- our audit conclusions regarding significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. On page 16 we have concluded whether the financial statements have been prepared in accordance with the financial reporting framework and commented on any significant accounting policy changes that have been made during the year;
- any further significant matters discussed with management; and
- any significant difficulties we experienced during the audit.

### Significant risks and key areas of management judgement

As part of our planning procedures we considered the risks of material misstatement in the College's financial statements that required special audit consideration. Although our report identified significant risks at the planning stage of the audit in our Audit Strategy Memorandum, our risk assessment is a continuous process and we regularly consider whether new significant risks have arisen and how we intend to respond to these risks. No new risks of material misstatement for the audit of financial statements have been identified since we issued our Audit Strategy Memorandum.

# Audit of the financial statements (continued)

## Management override of controls

### Description of the risk

In all entities, management at various levels within an organisation are 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. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

---

### How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting on amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

---

### Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of management override. We have no matters to report.



## Audit of the financial statements (continued)

### Revenue recognition

#### Description of the risk

There is a presumption under International Standards on Auditing that there is a significant risk of fraud and error in the timing of revenue recognition leading to the material misstatement of revenue overall. This is because revenue is an area of particular focus by users of financial statements and can be subject to judgements as to when grant income should be recognised.

The presumption is able to be rebutted, which we have done for the College's core grant income, as it carries very low inherent risk of fraud or error in its recognition. However, the risk does apply to non-grant income generated by the College.

---

#### How we addressed this risk

We addressed this risk through performing audit work over

- The design and implementation of controls management has in place to ensure income is recognised in the correct period;
- Cash receipts around year end to ensure they have been recognised in the appropriate year; and
- The judgements made by management in determining when grant income is recognised.

---

#### Audit conclusion

Satisfactory assurance has been gained in respect of the presumed risk of revenue recognition. We have no matters to report.

# Audit of the financial statements (continued)

## **Expenditure recognition**

### **Description of the risk**

For public sector organisations, the same risk in relation to fraud and error in respect of the timing of recording of transactions can apply to the recognition of non-payroll related expenditure and contractual obligations.

The pressure to manage expenditure to ensure that budgeted outcomes are achieved increases the risk surrounding fraudulent reporting of expenditure.

---

### **How our audit addressed this risk**

We have undertaken a range of substantive procedures including:

- The design and implementation of controls management has in place;
- Testing of non-payroll expenditure around the year end to ensure transactions are recognised in the appropriate year;
- Testing material year end payables, accruals and provisions; and
- Reviewing judgements about whether the criteria for recognising provisions are satisfied.

---

### **Audit conclusion**

Satisfactory assurance has been gained in respect of the risk of expenditure recognition. We have no matters to report.

# Audit of the financial statements (continued)

## Valuation of Land and Buildings

### Description of area of focus

The College held land and buildings with a net book value of £33m as at 31 July 2020. The valuation as at 31 July 2021 was £50m following revaluation.

The College has adopted a formal revaluation policy of an external valuation every three years with a full valuation due at 31 July 2021.

The College policy meets the requirements of the FE SORP that assets are valued sufficiently regularly so that the carrying value of the asset is not materially different from its fair value.

Given the significance of the value of fixed assets held and the high level of judgement applied in reaching a valuation, we consider this to be a significant risk.

---

### How our audit addressed this area of management judgement

We have performed a range of substantive procedures including:

- Examining the professional qualifications of the valuer;
- Challenging and substantiating the appropriateness of the assumptions used in the valuation;
- Ensuring that valuations and impairments had been completed on the correct basis and that movements were in line with expectation; and
- Assessing whether the report produced by the valuer had been correctly reflected in the financial statements.

---

### Audit conclusion

As a result of the valuation carried out, the financial statements include an unrealised surplus on revaluation of land and buildings of £17m with the college holding land and buildings with a net book value of £50m as at 31 July 2021.

The valuation report covering the College's land and buildings provided by management's external valuer includes a 'material valuation uncertainty' paragraph, due to the Covid-19 pandemic. Consequently, the College has included a disclosure reporting the material valuation uncertainty in the notes to the financial statements. In our view, this matter is fundamental to the understanding of the financial statements and as such we have included an 'Emphasis of Matter' paragraph in respect of this disclosure within our Auditor's Report. This is not a modification of opinion.

# Audit of the financial statements (continued)

## Key Areas of Management Judgement

Key areas of management judgement include accounting estimates which are material but are not considered to give rise to a significant risk of material misstatement. These areas of management judgement represent other areas of audit emphasis.

<b>Valuation of Pension Liabilities</b>	<b>Description of area of focus</b>
	The College makes contributions to two pension schemes – the Scottish Teachers Superannuation Scheme (STSS) and the Strathclyde Pension Fund (SPF). While both are defined benefit schemes, it is not possible to identify the College's share of the underlying assets and liabilities in the STSS and it is therefore accounted for as a defined contribution scheme. The College's share of the SPF's underlying assets and liabilities is identifiable and is recognised in the accounts.

Given the scale of the liability recognised, a misstatement in the reported position could be material to the financial statements.

---

### How we have addressed this area of management judgement

We have addressed the risk by:

- Considering the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements;
- Considering the reasonableness of the actuary's assumptions used in providing the College with information in the financial statements through the use of our internal experts; and
- Confirming that the values included in the actuarial valuation detailing the College's share of the SPF assets and liabilities have been accurately reported in the College's financial statements

---

### Audit conclusion

There have been no significant findings arising from our review of the defined benefit liability valuation and disclosures in the financial statements.

# Audit of the financial statements (continued)

## Financial Performance

The College is required to report financial performance under the FE/HE SORP, resulting in the reported surplus of £356k in the Statement of Comprehensive Income. However, as a central government body, the College is also required under the Accounts Direction from the Scottish Funding Council (SFC) to report financial performance as an 'adjusted operating position'. We set out these required positions below:

### FE/HE SORP position

	2020/21 £'000	2019/20 £'000
Operating income	18,991	18,045
Staff costs	14,214	13,953
Other operating expenditure	3,250	3,666
Interest and other finance costs	109	84
Depreciation	1,062	1,003
<b>Operating surplus/(deficit)</b>	<b>356</b>	<b>(661)</b>

The above table shows the financial performance of the College for 2020/21 and 2019/20 under the FE/HE SORP.

- The College achieved its financial target in 2020/21 and spending was in line with the plan in both years;
- There were no significant changes to the reported position; and
- The student credit target was exceeded confirming the level of funding in the financial statements.

### Adjusted operating position

The table above sets out the financial position in accordance with the SORP requirements. The table overleaf reflects the 'adjusted operating position' as required by the Accounts Direction set by the SFC. The adjusted operating position removes more volatile accounting entries, such as the valuation of pensions. Full details of the adjustments included are shown in the Performance Report within the Annual Report and Financial Statements.

## Audit of the financial statements (continued)

	2020/21 £'000	2019/20 £'000
<b>Surplus / (deficit) before other gains and (losses)</b>	356	(661)
<b>Add back:</b>		
- Depreciation (net of deferred capital grant release)	262	244
- Non-cash pension adjustment – Net Service Cost	878	650
- Non-cash pension adjustment – Net Interest Cost	103	77
- Non-cash adjustment – Early retirement provision	5	6
<b>SFC Declared adjusted operating surplus</b>	<b>1,604</b>	<b>316</b>

The Accounts Direction issued by the SFC for 2020/21 required Colleges to submit the adjusted operating position calculation with draft accounts to the SFC for review before the accounts are signed off. SFC have confirmed they are satisfied with the Adjusted Operating Position calculation reported to them.

The table above indicates that once the non-cash and other applicable adjustments are made, the College has achieved a surplus in the year.

### Impact of Depreciation Budget

The Statement of Comprehensive Income and Expenditure is prepared under the FE/HE SORP, which does not permit the inclusion of the non-cash budget for depreciation. Colleges may show a deficit equivalent to net depreciation as a result of having to meet Government accounting rules.

## Audit of the financial statements (continued)

	2020/21 £'000	2019/20 £'000
Operating surplus/ (deficit) for the year (FE/HE SORP basis)	356	(661)
Add: Depreciation budget for government funded assets (net of deferred capital grant) for academic year	197	197
Operating Surplus on Central Government accounting basis	553	(464)

The table above shows a surplus, when the impact of the depreciation budget is taken as the only adjusting factor to the financial position. The College is currently considered to be operating sustainably within its funding allocation.

### National Fraud Initiative

The National Fraud Initiative (NFI) is an exercise run by the Cabinet Office in which data for all public sector bodies is compared, in order to identify matches, such as an individual appearing on two separate payrolls, which can indicate fraud. Colleges are required to submit payroll and creditors data for matching purposes nationwide.

Returns were required to be made to the Cabinet Office for NFI in November 2020. South Lanarkshire College was late in submitting their return and received match data late. We note that the College was also late in responding on the NFI software to indicate that the matches identified had been cleared. We will report to Audit Scotland on the College's interaction with the NFI process in early 2022.

### Qualitative aspects of the entity's accounting practices

We have reviewed the College's accounting policies and disclosures and concluded they comply with the requirements of the 2015 Statement of Recommended Practice: Accounting for Further and Higher Education and the Government Financial Reporting Manual 2020/21, appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 27 September 2021 at the start of audit fieldwork. The draft financial statements were of a good quality.

Producing quality supporting working papers is a crucial part of compiling financial statements that are complete and materially accurate. They also support the delivery of an efficient audit. Working papers provided for audit were of a good standard and staff were responsive to our requests during the audit.

A draft annual report was received on 12 January 2022, which was reviewed and commented on by external audit. This was followed by a number of drafts and discussions on the content of the governance statement. A final version was presented for audit and shared with College Committee Chairs and the Regional Strategic Body on 14 February 2022.

# Audit of the financial statements (continued)

## **Significant matters discussed with management**

We were unable to complete our audit in the agreed timescales as we were not provided with a draft annual report which had been approved by the Principal and Chair during our audit fieldwork. A final version of the Annual Report was not formally presented for audit until February 2022. We have had an ongoing dialogue with management and those charged with governance throughout the audit regarding the governance issues arising at the College and their inclusion in the Annual Report and governance statement within.

## **Significant difficulties during the audit**

Despite the undoubted impact of the pandemic on both the preparation and completion of the draft accounts, which were completed for audit in line with agreed timetables, as well as our audit work, during the course of the audit we did not encounter any significant difficulties in the audit of the financial statements, and we have had the full co-operation of management. We would like to express our thanks to management and officers for their co-operation throughout the financial statement audit.

As set out above, we have faced difficulties in our audit of the Annual Report arising from the College's preparation of the Annual Report and governance statement within. Further conclusions around disclosures within the governance statement are set out in section 5 of this report.



## Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statements and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

Our audit work has not identified any significant weaknesses in internal control which we wish to bring to the attention of the Audit and Risk Committee.

## Summary of Misstatements

This section outlines the misstatements identified during the course of the audit, above the trivial threshold for adjustment of £11,000.

### **Adjusted misstatements**

There were no adjusted misstatements identified during the course of the audit.

We have requested a number of changes to the Annual Report during the drafting process.

### **Unadjusted misstatements**

There were no unadjusted misstatements identified during the course of the audit above the trivial threshold of £11,000.

## Wider Scope

### Our approach to Wider Scope work

The Code requires us to conclude and make a judgement on the four dimensions of Wider Scope work. These are:

- financial sustainability;
- financial management;
- governance and transparency; and
- value for money.

In previous years and in the Audit Strategy Memorandum issued for the College in May 2021, the small body exemption allowed in the Code was taken in respect of wider scopework which limited our review to one dimension, financial sustainability, along with a detailed review of the governance statement. We considered that the small body exemption was appropriate on the basis of the small size of the College and our consideration of its risk profile.

Given concerns surrounding potential issues in governance arising during the 2020/21 financial year and beyond, we no longer consider the small body exemption to be appropriate and during the audit raised a significant risk under the governance and transparency dimension of Wider Scope work. This was reported to Members through a Progress Report to the Board meeting on 16 December 2021.

We set out below the details of our Wider Scope work:

## Wider scope (continued)

Dimension	Description	Our approach
<b>Financial sustainability</b>	Extending our work on the going concern assumption in the financial statements looking forward two to five years from the reporting date, reviewing, and assessing the college's arrangements for financial planning and affordable and sustainable service delivery	<p>We have considered:</p> <ul style="list-style-type: none"> <li>• the financial planning system in place for short, medium and long term periods</li> <li>• the adequacy and accuracy of financial reporting arrangements</li> <li>• the reasonableness of affordability assumptions made in financial planning</li> <li>• the extent to which the financial planning assumptions have been updated and affected by the Covid-19 pandemic.</li> </ul>
<b>Governance and Transparency</b>	Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision making, and transparent reporting of financial and performance information. This should be set out in the College's Governance Statement	<p>We have considered:</p> <ul style="list-style-type: none"> <li>• the effectiveness of the governance framework and whether arrangements are appropriate and operating effectively</li> <li>• the appropriateness and completeness of disclosures made in the Governance Statement</li> <li>• whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met</li> </ul>

## Wider scope

### Financial sustainability (continued)

#### Financial sustainability

##### Dimension

Financial sustainability extends the going concern assumption from the financial statements, looking forward two to five years, reviewing and assessing arrangements for financial planning and affordable and sustainable service delivery in this timescale.

##### Our conclusion

South Lanarkshire College has adequate financial planning arrangements in place.

##### Financial Planning

The College prepares a budget and forecast which forms the basis of the Financial Forecast Return (FFR) required to be submitted to the SFC annually. In the current year, given the level of uncertainties relating to financial planning, the SFC has requested only a three-year FFR.

At the stage the FFR was required to be submitted to SFC, there was no Board available to formally approve the budget and forecast and associated FFR. In order to meet SFC reporting deadline requirements the FFR was therefore submitted subject to Board review. This was highlighted to SFC when submitted. Board arrangements at this time are detailed and considered further at Wider Scope - governance and transparency.

A summary of the College's three-year forecast is included in the table below:

	Budget 2021/22 £'000	Forecast 2022/23 £'000	Forecast 2023/24 £'000
Total Income	18,920	18,421	18,824
Staff costs	13,966	14,065	14,346
Total other expenditure	4,933	4,352	4,434
<b>Operating surplus/(deficit) before other gains and losses</b>	<b>21</b>	<b>4</b>	<b>44</b>

The plan was based on

- The College meeting its core activity credit for each year being budgeted
- SFC assumptions of increased income of 3.6% for 2022/23 and further 2% in 2023/24
- Increased staff costs in line with some increased activity and staff award increase assumptions

## Wider scope

### Financial sustainability (continued)

The College has historically and consistently produced an operating surplus each year, other than in 2019/20, when a deficit was recorded, primarily as a result of the Covid-19 pandemic which was common across the College sector. The College have demonstrated a strong basis of financial management, it is reasonable to assume that this will continue going forward.

The College continues to show healthy cash reserves which are predicted to be £2m by the end of 2024. The year-end cash balance was higher than usual at £3.4m due to various timing differences. The main reason for the high value was due to backlog maintenance funding not fully expensed in 2020/21 due to contractor delays, student support underspend due to be clawed back in 2021/22 and HE discretionary funds relating to 2021/22 received during 2020/21. We understand that the large cash balance held at 31 July 2021 has been significantly reduced in the first months of 2021/22 as expected.

## Wider scope

### **Governance and transparency**

#### **Dimension**

Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information.

#### **Our conclusion**

The College has recognised that it has not fully complied with the Code of Good Governance for Scotland's Colleges. We are unable to conclude that governance arrangements for the 2020/21 year and to the point of signing our opinion have been satisfactory.

#### **Identified significant risks to our wider scope work**

During the audit process, we identified that there was a risk that the College was not meeting the requirements of the Governance and Transparency dimension in Wider Scope. We set out the identified risk to this area of wider scope work and how we addressed the risk.

## Wider scope

### **Governance and Transparency**

#### **Description of the risk**

There was a substantial change in Board membership in the period from 1 August 2020 to the date of writing. The Board consisted of 17 Members on 4 November, of which only 7 Members have been in post since the start of the 2020/21 academic year. This has been caused by a mixture of end of tenure and resignations by Members. While a fresh perspective will undoubtedly be given by new Board members, there is a risk of loss of institutional knowledge on the Board given the level of change.

For a short period in October 2021, Board membership fell below the required level set by the Post-16 Education (Scotland) Act. As a result of the change in Board membership and sickness absence of the Interim Clerk to the Board, no Board meetings took place between July and November 2021. Two sub-committees of the Board (Audit & Risk and HR) did not meet in this period either. With such changes and delays in meetings there is a risk that important decisions are not made in a timely manner.

Two significant external reviews have taken place at the College. The first, following receipt of whistleblowing allegations raised of bullying, harassment and potential financial irregularities was commissioned by the College and undertaken by Azets, the College's Internal Auditors. The second review, relating to College governance, was commissioned by the Scottish Funding Council.

At an extraordinary meeting of the Board on 30 November 2021, a motion was discussed and agreed that the Chair of the Board would voluntarily step aside, while the Principal and the Interim Clerk to the Board were suspended for a period of four weeks to allow independent investigations into complaints and grievances against them, while they are not in post. This will continue on a rolling four-week basis until such investigations are concluded upon, reviewed by the Board and further action, if appropriate, agreed. Interim appointments for each post have subsequently been made.

In consideration of the above, we identified that there was a significant risk that the College was not meeting the Governance and Transparency dimension requirements of the Code of Audit Practice and the requirements of the Code of Good Governance for Scotland's Colleges and therefore would be unable to demonstrate that they had an effective governance framework.

---



## Wider scope

---

### **How we addressed the risk**

We have performed a detailed review of the drafts of the Annual Report and governance statement, challenging and considering the appropriateness of disclosures made by the College in the document. We have strongly encouraged an open and transparent disclosure regarding areas where the College cannot demonstrate it has complied with the Code of Good Governance for Scotland's Colleges.

As set out in detail in the following pages, we have considered the findings of the Azets Investigation Report and its impact on our financial statement and Wider Scope work. We have also considered the adequacy of the corresponding action plan, which has been approved by the Audit and Risk Committee. We have considered the findings of the SFC governance review report and the adequacy of the corresponding action plan constituted by the College, insofar as it is possible to do so given the level of redaction in the report. We will continue to monitor progress on these actions in the individual action plans and the Governance Improvement Plan throughout the 2021/22 audit.

There are ongoing investigations into complaints and grievances against the Chair, Principal and Interim Clerk to the Board. There are no interim findings from these investigations. Therefore, we have been unable to consider the findings and conclusions from these investigations as part of our work on the Governance and Transparency dimension. The findings of the investigations, when concluded, will be considered as part of our 2021/22 Wider Scope work.

---

### **Wider scope conclusion**

In the period under review, the College has not been able to demonstrate full compliance with the Code of Good Governance for Scotland's Colleges, but has now disclosed this fully in their governance statement. We are unable to conclude that the requirements of the Governance and Transparency dimension set out in the Code of Audit Practice have been met.

# Wider scope

## Board membership

At 31 July 2021, the Board consisted of 14 members, 7 female (including the Principal) and 7 male. As at 4 November 2021, following appointment of new members, the Board consisted of 17 members, 9 female (including the Principal) and 8 male. The Board continues to maintain a gender balance that meets with the objective of the Gender Representation on Public Boards (Scotland) Bill which was introduced by the Scottish Parliament in June 2017 with an implementation date of 2022.

During the academic year 2020/21 and to date, there have been substantial changes in Board membership. The original membership at 1 August 2020 consisted of seventeen members, with only ten of these same individuals still being in post at 31 July 2021, when the Board had fourteen members. Subsequent to year end a member left the Board on 7 September 2021 and the tenure of two members ended on 30 September 2021 resulting in the Board consisting of a total of eleven members at that time. The Post-16 Education (Scotland) Act 2013 requires that the Board consists of no fewer than 13 members. The College did not meet the required number of Board members until 4 November, when six new members were approved, taking the total membership to 17.

During this period, membership of the Audit and Risk Committee also fell below minimum levels set out in the College requirements, that the Committee should have three members and a quorate of two members. This was due to the resignation of a member during the year and the resignation of the Chair of the Committee on 7 September 2021, leaving one member remaining. The Audit and Risk Committee membership met requirements following the 4 November Board meeting.

Although a recruitment exercise by the College had taken place in advance of September 2021, as a result of the change in Board membership and sickness absence of the Interim Clerk to the Board, no Board meetings took place between July 2021 and November 2021. Consequently, the new members could not be ratified by the College Board. The Board of New College Lanarkshire, as the Regional Strategic Body for the College, approved the new members at a meeting on 4 October 2021, subject to the approval of the College Board. The South Lanarkshire College Board did not meet until 4 November 2021, meaning there was a period of five months where there was no formal Board consideration/oversight of the activities/decisions of the College, due to there being no meetings and the Board not meeting the minimum legal requirements. This is not compliant with the requirements of the Code of Good Governance for Scotland's Colleges, which has been recognised in the College governance statement.

The Code of Good Governance for Scotland's Colleges sets out that Board member induction and Committee inductions should take place as soon as possible following appointment. While all new Board members were given copies of the Governance Manual on joining formally on 4 November 2021, there was no formal induction until 1 February 2022. We understand this decision was taken to enable a face-to-face induction, which was not possible any earlier due to Covid restrictions.

The new Board members approved in November 2021 were all recruited at the same time and therefore have the same tenure applied. Therefore, without change to the tenure of some of the Board members, the College will face similar issues at the end of tenure, with approximately half the Board members leaving at the same time. We have raised a recommendation that the College Board considers adjusting the tenure of some Board members to allow for a level of continuity when change is required.

## Wider scope

### Board and Committee meetings

The committees comprise of and are chaired by Board members. The Principal is a member of the key committees with the exception of the Audit and Risk Committee, to which they are invited to as an attendee. In addition, the Chair of the Board is also not permitted to be a member of the Audit and Risk Committee. Appropriate College officers attend committees and present reports as required.

A cycle of Board and committee meetings was in place throughout the financial year, with committees meeting in advance of the Board and formal reports submitted to the Board on the discussion points and decisions made at committee meetings. In prior years, the Board meeting cycle was timed in order that timely updates on SLC Board and committee decisions could be reported to the RSB Board. However, during 2020/21, timings of SLC meetings were moved, which meant that reporting to the RSB did not always follow a set pattern.

The table below sets out the timings of the Board and Committee meetings for SLC during the 2020/21 year and the corresponding meeting dates of the NCL Board, as RSB.

Audit and Risk Committee	Curriculum, Quality and Development Committee	Finance and Resources Committee	Human Resources Committee	SLC Board	RSB Board
24 August 2020	1 September 2020	31 August 2020	26 August 2020	15 September 2020	5 October 2020
				11 November 2020 *	9 November 2020 *
2 November 2020	3 November 2020	2 November 2020	11 November 2020	1 December 2020	14 December 2020
18 February 2021	8 February 2021	1 February 2021	18 February 2021	16 March 2021	22 March 2021
10 May 2021	4 May 2021	26 April 2021	13 May 2021	8 June 2021	14 June 2021
1 July 2021 **					
6 September 2021	30 August 2021	23 August 2021	9 September 2021	5 October 2021 4 November 2021	4 October 2021
				30 November 2021	
17 November 2021	23 November 2021	18 November 2021	15 November 2021	16 December 2021	13 December 2021

\* - Special Board meeting convened to discuss the SFC report on regional dissolution

\*\* - Special Audit and Risk Committee convened to discuss the Azets Investigation Report. External Audit and Internal Audit were not invited to this meeting.

Those dates in red in the table above show scheduled meetings that were cancelled and did not take place. The Audit and Risk Committee scheduled for 6 September 2021 was cancelled at only several hours' notice.

## Wider scope

Those dates in blue in the table above relate to meetings that took place as scheduled, however at the point of writing no formal minutes of the meeting have been made available to External Audit or to Board members. Whilst minutes of meetings would be expected to be presented for approval by Committee/Board members at the next cycle of meetings, we would expect formal draft minutes to be available and provided to External Audit on request, even if they have not yet been approved by the Committee/Board. We do not consider this to be a limitation of scope on our audit but instead reflects the challenge the College has faced in meeting the requirements of the Governance and Transparency dimension of Wider Scope and specifically the Code of Good Governance for Scotland's Colleges during this period. Consideration should be taken by the College as to how the decisions made at a number of meetings have been documented and how it can evidence that these decisions were made in line with the College's governance framework. We have raised an associated recommendation for the College as part of our Wider Scope recommendations in section 6.

We have raised a further recommendation that the College Board reviews the timetable of meetings in conjunction with the RSB Board to ensure that an appropriate cycle of meetings is re-established at the College, taking into account the reporting cycle of the RSB and allowing for effective and timely reporting to the RSB.

### Internal Audit

An effective internal audit service is an important element of any organisation's governance arrangements. Internal audit provide the College with independent assurance on internal control and corporate governance processes. The internal audit function at the College during 2020/21 was provided by Azets Audit Services. Internal audit have attended Audit and Risk Committees throughout the year and have produced reports to support the overall Head of Internal Audit Opinion.

During the year, Azets were approached to perform an additional review, beyond the agreement of the internal audit plan. This was performed by the forensic team at Azets – see details below. As this work was not part of the internal audit plan, it has not been considered by the Head of Internal Audit in their overall conclusion for the 2020/21 year.

The College ran a procurement exercise during the 2020/21 year as the contract for Azets expired on 31 July 2021. A new provider, Henderson Loggie LLP, was duly sourced and due to be approved by the Audit and Risk Committee on 6 September 2021. This meeting was cancelled at very short notice (several hours). The appointment of internal audit was therefore not approved until the Board meeting held on 4 November 2021. As a consequence of this, the College did not have an approved, operational internal audit function for three months of the 2021/22 academic year.

An Audit and Risk Committee was held on 17 November which the new internal audit provider attended. There have been no Audit and Risk Committee meetings since 17 November 2021 that would allow for the 2021/22 Internal Audit plan to be discussed and approved by those charged with governance. We understand that internal audit's initial risk assessments have now taken place and that an Internal Audit plan will be presented to the Audit and Risk Committee by the end of March 2022, four months before the end of the academic year. Internal Audit acts as a preventative and detective control, if no work is being performed in the early stages of the year, the College does not have full assurance that expected controls in finance and across the College are operating as intended, which could expose them to losses. In addition, as no internal audit activity has taken

## Wider scope

place at the College during the 2021/22 year to date, this could impact on the availability of information for the Head of Internal Audit opinion as at 31 July 2022. The level of engagement with Internal Audit to date is insufficient to comply with the requirements of the Code of Good Governance for Scotland's Colleges, which has been recognised in the College governance statement.

### External reviews

The Azets Investigation Report was commissioned by the College, following whistleblowing allegations raised alleging bullying, harassment and potential financial irregularities. This was initially raised by the College with Azets, their internal auditors and the review was performed by the forensic accounting team of Azets. The resulting report has been reviewed and discussed by the Audit and Risk Committee, at a meeting to which external audit and the core internal audit team were not invited. The report highlighted a number of recommendations for improvements in processes and controls but did not identify significant weaknesses in controls nor did it confirm fraud and/or theft.

Key findings from the report are as follows:

- Policies and Procedures – whistleblowing procedures were not widely known and there was no code of conduct in place at the College;
- Policies and Procedures – a lack of awareness of confidentiality requirements when handling sensitive information, which could lead to potential data breaches;
- Procurement – lack of accountability when procurement rules were not followed (obtaining quotes for example); and
- Timetabling – there are no consistent timetabling protocols across the College

An action plan has been set up by the finance team that records all recommendations made in the Azets Investigation Report. This will be used to record progress made on the recommendations, which will be monitored by the Audit and Risk Committee until the points are cleared.

In June 2021, the Colleges Development Network (CDN) published a planned external effectiveness review of the Board. This was part of a national review of all Colleges to meet the Code of Good Governance for Scotland's Colleges requirement that there is an externally facilitated evaluation of Board effectiveness at least every three years. The report is available on the College website. The CDN report made a number of recommendations including the establishment of high-level dashboard KPI reporting, Board diversity, Committee membership and the introduction of a Board work plan. The recommendations have been captured in an action plan and achievement is being monitored by the Board.

Subsequent to the Azets Investigation Report and the CDN external effectiveness review of the Board, in June 2021, the SFC commissioned a review of governance at the College, after being alerted to potential governance issues and strained relationships. The report was finalised in August 2021. Readership of the report has been limited and controlled by the SFC, with SLC Board members receiving a heavily redacted copy in October 2021. The SLC management team did not receive a copy until December 2021. We understand that the same level of redactions were applied to the reports that were shared with Board members and the management team. The Engagement Lead for the audit has been provided with a redacted copy of the SFC report and at the SFC's request, this has been shared no further.

## Wider scope

An action plan has been developed for the recommendations arising from the SFC governance review, which was approved by the Board in December 2021. Going forward, the action plan will be monitored by the Audit and Risk Committee and the Board. We have no assurance that the action plan covers all recommendations made, due to the level of redactions in the report.

In recognition of the recommendations for improvements arising from the Azets Investigation Report, the SFC governance review and the Colleges Development Network external effectiveness review, the RSB requested that a Governance Improvement Plan was developed and approved by the SLC Board. This plan should take into account all recommendations arising from the aforementioned reviews. It will be monitored by the SLC Board and the RSB Board going forward. We will assess the College's monitoring and progress against this action plan during our 2021/22 Wider Scope work on Governance and Transparency.

### **Independent investigations**

At an extraordinary Board meeting on 30 November 2021, led by the Vice-Chair, a motion was discussed and agreed that the Principal and Interim Clerk to the Board would be suspended for a period of four weeks to allow independent investigations into complaints and grievances against them, while they are not in post. The Chair of the Board voluntarily stepped aside from his role for the same time period, whilst a separate independent investigation is conducted on the same basis. The suspensions are expected to continue on a rolling four-week basis until such investigations are concluded upon, reviewed by the Board and further action, if appropriate, agreed.

The Vice-Chair of the Board was approved as the Acting Chair of the Board at the 30 November meeting. A Board meeting on 16 December 2021 approved the appointment of Liz McIntyre as Acting Principal. A further Interim Clerk to the Board was appointed during January 2022, to cover the absence of the original Interim Clerk to the Board.

There have been a number of other changes to the Committee structure at the College, including the appointment of an Acting Vice-Chair and a new Chair of the Audit and Risk Committee. We note that the Audit and Risk Committee contains no continuity, which had been provided by the Vice-Chair but who was required to step down from this committee when approved as Acting Chair, and that all further members are new to the Board.

At the point of writing, the independent investigations have not been finalised and all three remain absent from their posts. It has been agreed with the Acting Chair and Acting Principal that they are willing and able to sign the Annual Report and Accounts.

### **Governance arrangements**

Our work in this area has considered the overall governance arrangements in place at the College, reviewed the financial and performance reporting to the Board, and reviewed the minutes of committees to inform our assessment of the appropriateness of the governance structure. We have also reviewed the external reviews and subsequent action plans that have been produced by the College. We have also attended Audit and Risk Committee meetings and Board meetings during the year.

# Wider scope

## **Governance Statement**

As part of our audit, we have read the governance statement included in the annual report. The governance statement sets out the corporate governance framework in place throughout the reporting year, the internal controls in operation, the work of internal audit and the overall efficiency and effectiveness of the governance framework.

The governance statement confirms that the College has not fully complied with the 2016 Code of Good Governance for Scotland's Colleges and clearly sets out where they have not complied. Initial drafts of the governance statement indicated that the College had complied with the Code, which was challenged by external audit and now appropriately reflects that full compliance was not achieved.

We are required to read and provide an opinion on the governance statement. In our opinion, the information contained within is consistent with the financial statements. Following updates to the draft governance statement, we consider that it has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and further directions made by the Scottish Funding Council.

## **Compliance with the Code of Good Governance for Scotland's Colleges**

The Accounts Direction issued by the Scottish Funding Council requires that Colleges in their governance statement confirm compliance with the Code of Good Governance for Scotland's Colleges. Where compliance cannot be evidenced, an explanation should be included in the governance statement. The College has identified four areas of the Code where they cannot evidence compliance for the 2020/21 year and to the point of signing the annual report and accounts. Non-compliance is possible, but is not evidenced for another area of the Code, as set out below.

## Wider scope

Code Area	Code Requirement	Reason for non-compliance
C3	The Board must ensure it fulfils its statutory duties.	<ul style="list-style-type: none"> <li>• Board membership fell below the required level (under the Post-16 Education (Scotland) Act 2013) between 1 October and 4 November as a consequence of the October Board meeting being cancelled, which would have approved new members.</li> <li>• Audit and Risk Committee membership fell below the required level between 7 September and 4 November.</li> <li>• The Audit and Risk Committee and HR Committee did not meet for regular business between May and November 2021.</li> </ul>
C8	The Board delegate responsibilities to committees for the effective conduct of Board business. As a minimum the committees required are Audit.	
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.	<ul style="list-style-type: none"> <li>• There has been a delay to the inclusion of Board and Committee agenda and papers being added to the website. The latest papers on the website date to July 2021.</li> <li>• There has been a delay in the formalising and approval of Board and Committee minutes from November 2021 due to the absence of the Interim Board Secretary.</li> </ul>
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.	
C14	The Audit Committee must have particular engagement with internal and external audit.	<ul style="list-style-type: none"> <li>• There was no appointed internal audit function between 1 August and 4 November 2021.</li> <li>• There has been limited interaction with Internal Audit since their appointment, to the extent that an audit plan for 2021/22 year has not yet been approved by the Audit and Risk Committee. This is expected to be presented to the Audit and Risk Committee by 31 March 2022.</li> </ul>



## Wider scope

Code Area	Code Requirement	Reason for non-compliance
D19	The Chair must ensure that new Board members receive a formal induction on joining the Board.	We understand that the Chair of the Board did speak to all prospective Board members in advance of their joining the Board on 4 November 2021. While members were given governance documents to review, there was no formal induction held until 1 February 2022. This was due to the Board's desire to have a face to face induction which was impeded by Covid restrictions.
D1	The Chair is responsible for the leadership of the Board and ensuring its effectiveness in all aspects of the role.....The Chair must engage with the Principal and the Board Secretary in a manner which is both constructive and effective.	We cannot conclude on whether the requirements and expectations set in the Code of the Chair and Principal have been met. Our judgement on whether they have been met will be informed by the results of the ongoing independent investigations.
D10	The Principal, as a Board member, shares responsibility for good governance with the Chair and all other members of the Board, supported by the Board Secretary. The Principal also enables good governance through supporting effective communication and interaction between the body and the rest of the college including staff and students.	

## Transparency

Transparency means that service users and the public have access to understandable information about how the College is making decisions and using its resources. There is a commitment to transparency, with the minutes and papers of the Board of Management and key committees being available on the website until July 2021. There are no recent Board papers on the website. We do note that the page detailing members of the Board has been taken down as it was out of date for many weeks and has now been replaced with a holding page. We have raised a recommendation regarding the update of the website for Board and Committee meeting minutes and papers to ensure transparency going forward.

## Wider scope recommendations

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our wider scope work and that we consider to be of sufficient importance to merit being reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Priority ranking	Description	Number of issues
<b>1 (high)</b>	In our view, there is potential for financial loss, damage to reputation or loss of information. This may have implications for the achievement of business strategic objectives. The recommendation should be taken into consideration by management immediately.	4
<b>2 (medium)</b>	In our view, there is a need to strengthen arrangements or enhance business efficiency. The recommendations should be actioned in the near future.	1
<b>3 (low)</b>	In our view, arrangements should be strengthened in these additional areas when practicable.	nil

## **Monitoring of recommendations – Level 1**

In order to ensure that recommendations made by a series of external reviews during 2021, are progressed appropriately, the College must ensure that it embeds and sustains the action plans that have been put in place, including the Governance Improvement Plan. In particular, it needs to ensure that robust monitoring and reporting processes are in place and maintained, and that challenge, scrutiny and escalation arrangements are in place to drive the improvements required to the College governance framework, as recommended by the reviews.

---

### **Potential effects**

Without robust monitoring and reporting processes being put in place and monitored going forward, there is a risk that improvements are not implemented and maintained.

---

### **Management Response**

Recommendations will be monitored at each meeting of the Audit and Risk Committee, with reports from the Committee being considered at the following Board of Management meeting

---

## **Internal Audit engagement - Level 1**

The Code of Good Governance for Scotland's Colleges requires that the Audit and Risk Committee must have "particular engagement with internal and external audit". As set out in section 5 of this report, there was no internal audit function in place for the first three months of 2021/22. Following a delayed appointment, there have been delays in initial meetings at the College taking place, to the extent that internal audit are unable to produce an internal audit plan for the 2021/22 year at the February 2022 meeting.

---

### **Potential effects**

Any further delays to the internal audit planning and execution stage, could impact on the ability of the Head of Internal Audit to provide an opinion on the 2021/22 year.

With internal audit not being fully operational for a portion of the year, there is a risk that controls are not operating as intended and are undetected, potentially exposing the College to loss.

---

### **Management Response**

Meetings between College management and Board members have taken place during February and March and an Internal Audit Plan is due to be presented to the members of the Audit and Risk Committee for their consideration by 31 March 2022. The College has already had very positive discussions with the internal audit providers to ensure that work is done to ensure that they are in a position to provide an opinion on 2021/22.

---

---

## **Board and Committee meeting timetable – Level 1**

The College Principal is accountable to the SLC Board, but also to the Regional Strategic Board. The accountability is maintained and monitored through attendance at RSB meetings and through the distribution of SLC Board and Committee minutes. The reporting timetable of the Board and its Committees should be timed so that there is a timely and efficient report to the RSB Board following meetings.

---

### **Potential effects**

With unsynchronised timetables, there is a risk that matters are not reported to the RSB in a timely and efficient manner. To enhance and maintain regional governance, timetables should be brought into line with each other.

---

### **Management Response**

Discussions have already taken place between the College and representatives of the RSB to establish an appropriate reporting structure and this will incorporate meeting dates and relevant reports from SLC Committees and the Board. This will be formulated into a plan for the year ahead.

---

## **Board and Committee minutes - Level 1**

The Code of Good Governance for Scotland's Colleges requires that Board/committee agendas are promptly produced, disseminated and published online to ensure decision making processes are transparent, properly informed, rigorous and timely.

As set out in section 5 of this report, there are a number of Board and Committee meeting minutes where formal notes of the meeting have not yet been recorded and approved by the appropriate committee or Board. As a consequence, there are no minutes on the website beyond June 2021. Minutes, papers and updated Board member biographies should be updated on the website as soon as possible.

---

### **Potential effects**

The College could be perceived to be not providing information to the public to demonstrate its decision-making processes. It is also not in compliance with the Code of Good Governance.

---

### **Management Response**

The College website now contains all minutes which have been approved via the appropriate Committees and the Board. The February / March cycle of Committee and Board meetings approved all outstanding minutes and, as at 30th March, the situation is up to date. Board members have been requested to provide biographies and these will be uploaded by 15th April 2022.

---

---

## **Board member tenure - Level 2**

The College appointed six new Board members in November 2021. All members were appointed with the same tenure of four years. We recommend that action is taken to reduce or extend the tenure of some of these Board members, to allow for a level of continuity in Board membership at the end of these tenures.

---

### **Potential effects**

The appointment of six new members at one time on a Board of 17 members is significant and does represent opportunity, but also risks the loss of institutional knowledge. Action should be taken to minimise this risk.

---

### **Management Response**

The Acting Clerk to the Board is mapping out the tenure details of all current Board members with a view to ensuring that there is a staggering of end dates. This will form part of a Board strategy session.

---

## Our fee

### Fees for work as the College's appointed auditor

We reported our proposed fees for the delivery of our work in our Audit Strategy Memorandum, presented to the Audit Committee in May 2021. Having completed our work for the 2020/21 financial year and reflecting the additional work we have had to perform surrounding the significant risk on the Governance and Transparency dimension of Wider Scope, there will be an additional fee. Additional fees will be calculated using set rates from Audit Scotland. We are in the process of agreeing this with Audit Scotland and the College.

Area of work	Proposed fee 2020/21	Final fee 2020/21
Auditor remuneration	£13,580	£13,580
Additional auditor remuneration	-	TBC
Pooled costs	£880	£880
Contribution to Audit Scotland costs	£570	£570
<b>Total Fee</b>	<b>£15,030</b>	<b>£XX</b>

We confirm that we have not undertaken any non-audit services for the College in the year.

## Appendix C

### **Independence**

#### **Independence**

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.