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

South Lanarkshire College
Year ending 31 July 2022

Contents

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Mazars LLP
100 Queen Street
Glasgow
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The Audit and Risk Committee
South Lanarkshire College
Campus Way
East Kilbride
Glasgow, G75 0NE

02 June 2023

Dear Members,

Audit Strategy Memorandum – Year ending 31 July 2022

We present our Annual Audit Report for the year ended 31 July 2022. 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 to the Audit Committee on 9 May 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and original other areas of management judgement remain appropriate.

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,

DRHoose
David Hoose (Jun 2, 2023 14:46 GMT+1)

David Hoose
For and on behalf of Mazars LLP

1. 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 2022 and forms the basis for discussion at the Audit and Risk Committee meeting on 19 April 2023.

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. Our audit opinion is included in the draft auditor’s report in Appendix B
Opinion on regularity	We have 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 have 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	We concluded as follows against the financial sustainability and governance and transparency wider scope dimensions: • The College has adequate financial planning arrangements in place, including budgetary control, that help the Board members scrutinise finances. However, given the overall sector financial position, we consider that the College’s ability to remain financially sustainable over the medium to longer term, without significant additional funding or cost cutting is a significant risk; and • The College has recognised (as reported in the prior year) that it has not fully complied with the Code of Good Governance for Scotland’s Colleges at certain points during the year but was fully compliant at the year-end . The College has put in place a ‘rolling’ Governance Action Plan which seeks to strengthen further its approach in this area.

Status of our audit work

We have completed our audit work on the financial statements and wider scope work for the year ended 31 July 2022.

Internal control recommendation and misstatements

We did not identify any significant control weaknesses during our audit and have not raised any internal control recommendations. There were also no internal control recommendations from prior years to provide an update on.

Section four outlines the misstatements noted as part of our audit at the time of issuing this report.

Our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum on 9 May 2022. Since presenting our Audit Strategy Memorandum there has been a change to our audit lead, with David Hoose taking on the role of Audit Partner. There have been no other changes to our audit approach.

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. We have met the College requests for a fully on-site financial statement audit and where possible have attended meetings in person.

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 £375,000 using a benchmark (2%) of total expenditure. Our final assessment of materiality, based on the draft financial statements is £407,000 using the same benchmark.

	Initial Threshold £'000	Final Threshold £'000
Overall materiality	375	407
Performance materiality	300	325
Trivial threshold for errors to be reported to the Audit Committee	11	12

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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, judgements 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 base 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 inherence 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 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.

2. 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 14 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 judgment

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 have been identified since we issued our Audit Strategy Memorandum.

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 operatingeffectively. 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 by performing the following audit work: • Consideration of accounting estimates impacting on amounts included in the financial statements; • Consideration of identified significant transactions outside the normal course of business; and • Review of 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 of controls. We have no matters to report

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 and if clawback conditions apply to the funding. The presumption is able to be rebutted, which we have done for the College's 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 our audit addressed this area of management judgement We addressed this risk by performing the following audit work: • Review of the design and implementation of controls management has in place to ensure income is recognised in the correct period; • Review of cash receipts around year end to ensure they have been recognised in the appropriate year; and • Consideration of 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.

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 we addressed this risk

We addressed this risk by performing the following audit work:

- Review of 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

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.

Valuation of land and buildings	**Description of the area of focus** The College holds land and buildings with a net book value of £50,064,000 as at 31 July 2022. In line with the requirements of the Government Financial Reporting Manual, the College has adopted a formal revaluation policy of an external valuation every three years, with a desktop, interim valuation performed during the three year period. As the external valuation was performed at 31 July 2021, no revaluation was planned in the current year. The College policy meets the requirement 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. The College is required to assess on an annual basis whether there are indicators of impairment to assets at the reporting date. Given the significance of the value of fixed assets held, a misstatement in the valuation could be material to the financial statements.
	How our audit addressed this area of management judgement We have performed a range of substantive procedures including: • Review of management's assessment as to whether the value still reflects the prior year valuation; • Review of the reconciliation between the College's asset register and general ledger; and • Consideration of the College's impairment review process for land and buildings.
	Audit conclusion Satisfactory assurance has been gained in respect of the valuation of land and buildings

Valuation of net pension liabilities	**Description of the risk** 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 our audit addressed this area of management judgement We have performed a range of substantive procedures including: • Consideration of the arrangements put in place, including the controls, for making estimates in relation to pension entries in the financial statements; and • Consideration of 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
	Audit conclusion Satisfactory assurance has been gained in respect of the valuation of net pension liabilities.

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 2021/22 and were appropriately tailored to the College's circumstances.

Draft financial statements were received from the College on 3 October at the start of audit fieldwork. The draft annual report was received during fieldwork on 10 October. The draft financial statements were of good quality. The annual report required a substantial update following initial audit review.

Producing good quality audit 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.

Significant matters discussed with management

We have had ongoing dialogue during the academic year and throughout the audit with the College regarding the College's non-compliance with the Code of Good Governance that happened in late 2021. This dialogue has continued as we have considered the College's response to the issues and their inclusion in the annual report and governance statement within.

We have had dialogue with College Management and Those Charged with Governance around the findings of the independent investigations into the Principal, Chair of the Board, and the Clerk to the Board which were reported in January 2023

Significant difficulties during the audit

We completed our financial statement audit on-site, at the College's request. During the course of the audit of the financial statements we did not encounter any significant difficulties and we have had the full cooperation of management. The draft accounts, working papers and annual report were all provided in line with the agreed timetable.

We would like to express our thanks to management and college staff for their cooperation throughout the audit.

Financial performance

The College is required to report financial performance under the FE/HE SORP, resulting in the reported deficit of £1,204k 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 setout these required positions below

	2021/22 £'000	2020/21 £'000
Operating income	19,134	18,991
Staff costs	(14,725)	(14,098)
Operating expenditure	(5,613)	(4,537)
Operating Surplus/(Deficit) for the year (FE/HE SORP basis)	**(1,204)**	**356**
Add back depreciation (net of deferred capital grant)	530	262
Add back non-cash pension adjustment - net service cost	1,163	878
Add back non-cash pension adjustment - net interest cost	101	103
Add back non-cash pension adjustment - early retirement provision	(12)	5
Adjusted operating surplus	**1,078**	**1,604**

The income recognised by the College in 2021/22 reflects the achievement of its delivery of its Core and ESF ('European Social Fund') credit targets. There was a small shortfall in the college achieving its overall credit target when deferred activity and Foundation Apprenticeships are included.

The College faced increasing costs during the year with increasing baseline staff costs and increased operating expenses with the impact of inflation.

The College also incurred additional costs of a non-recurring nature in 2021/22 relating to the appointment of Acting Principals, an acting governance professional and the cost of independent investigations which total c£450,000.

3. 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.

The matters reported are limited to those deficiencies and other control recommendations that we have identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control, we might have identified more deficiencies to be reported or concluded that some of the reported deficiencies need not in fact have been reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist of improvements that could be made.

We did not identify any significant control weaknesses during our audit and have raised no internal control recommendations.

4. **Summary of Misstatements**

This section outlines misstatements identified during the course of the audit, above the clearly trivial threshold for adjustment of £12k

Adjusted misstatements

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

We have requested a number of changes to the disclosures made in the annual report, which management have made.

Unadjusted misstatements

There were no unadjusted misstatements identified during the course of the audit above the clearly trivial threshold of £12k, yet below our performance materiality of £325k.

5. **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

The Code allows for a ‘small body exemption’ to be applied in situations where the auditor considers this is appropriate, taking into account the size the audited body and its risk profile. This means that the work we do is limited to one dimension, financial sustainability, alongside a detailed review of the governance statement. In prior years, we have applied the ‘small body exemption’ to the College audit. During 2021/22 audit we raised a significant risk in relation to the governance and transparency dimension and as such the small body exemption has not been applied to this dimension.

The table overleaf sets out the work performed on these dimensions of wider scope and our adopted approach.

Dimension	Description	Our approach
Financial sustainability	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.	We have considered: • the financial planning system in place for short, medium and long term periods; • the adequacy and accuracy of financial reporting arrangements; • the reasonableness of affordability assumptions made in financial planning; and • the extent to which the financial planning assumptions have been updated and affected by the COVID-19 pandemic.
Governance and transparency	Governance and transparency covers the effectiveness of scrutiny and governance arrangements, leadership and decision making and transparent reporting of financial and performance information. The Governance Statement sets out the internal control arrangements and governance framework in place for the year under review	We have considered: • the effectiveness of the governance framework in place; • the appropriateness of disclosures made in the Governance Statement whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland's Colleges have been met; • the independent investigations that were reported to the Board in January 2023; and • additional information received by Audit Scotland from external 3rd parties.

Financial Sustainability

Dimension

Financial sustainability extends 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

Our conclusion

The College has identified a long-term operational funding gap based on the current forecasting models which incorporate the flat-cash income projections from its central funder, the Scottish Funding Council, for the period up to and including financial year 2026/27. There is a risk that the cost saving measures that would be required to be made by the College would have a detrimental impact on the College's ability to deliver its core credit activity and be unable to achieve financial sustainability through cost saving measures alone.

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Financial sustainability	**Description of the risk** The College had forecast a deficit of £596k in 2021/22. This was due to one-off professional fee costs incurred during the year and a potential that the College would not achieve its core credit target in the year. The College was engaged with the Scottish Funding Council on potential funding mechanisms for funding for the year that may reduce the projected deficit. Despite the College raising concerns due to the impact of Brexit and the pandemic it did meet its credit target. As the College campus further ages, increased capital works are likely to be required, with limited capital funding likely to be made available to the College and across the FE sector in Scotland. The College therefore may require to meet costs to ensure the building is fit for purpose through its own funds. Whilst the College has sufficient reserves to fund the deficit and immediate capital works in the short-term, given sector wide uncertainties related to future funding, the impact of national bargaining and general cost increases being incurred throughout the wider economy, we consider that there is a risk to the

achievement of medium and long term financial sustainability at the College.

How we addressed the risk

We have addressed the risk by considering

- the forecast financial position in the financial forecast return (FFR) submitted to the SFC;
- the financial and resource implications of any capital works required to be undertaken by the College;
- alternative plans considered by the College to ensure a balanced budget is achieved; and
- the financial reporting arrangements in place at the College.

Wider scope conclusion

The College and its Board of Management have a clear view of the financial challenges and long-term risks faced. The College has identified that the current forecast model is not sustainable and continues to seek dialogue with SFC over the sector wide funding model.

Financial planning

This year the College has produced a five-year Financial Forecast Return (FFR) to 2026/27 in line with the current SFC guidance.

	Budget 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2026/27 £'000
Adjusted operating position	14	(1,108)	(1,581)	(2,111)	(2,652)

The FFR was prepared using the assumptions set out by the SFC, this mainly consists of a flat cash income where a fixed amount of grant funding should be assumed for years 2023/24 to 2026/27 with no increase over this period, the impact of national bargaining on staff pay awards to be incorporated and a cost of living pay award to be factored in. Forecasts should then reflect cost savings required to bring income and expenditure into balance.

The FFR was reviewed by the Board in October 2022 and approved for submittance to SFC with supporting narrative to confirm that whilst the Board had endorsed the budget for 2022/23 it considers the period thereafter to be unsustainable based on the flat cash income model and as such the future years budgets are not endorsed by Board at this time.

Further detail on the College's five year forecast is included in the table below:

	Budget 2022/23 £'000	Forecast 2023/24 £'000	Forecast 2024/25 £'000	Forecast 2025/26 £'000	Forecast 2026/27 £'000
Total income	18,837	18,337	18,396	18,466	18,547
Staff costs	(14,381)	(14,798)	(15,257)	(15,715)	(16,185)
Total other expenditure	(4,789)	(5,177)	(5,250)	(5,392)	(5,544)
Operating surplus/(deficit) before other gains and losses	**(333)**	**(1,638)**	**(2,111)**	**(2,641)**	**(3,182)**
Total depreciation net of deferred capital grant release	447	530	530	530	530
Non-Govt capital grants	100	-	-	-	-
Adjusted operating result	**14**	**(1,108)**	**(1,581)**	**(2,111)**	**(2,652)**

The College has identified that under the current forecast model, significant savings will required to be met in order to achieve a balanced budget, however with increasing inflation impacting non-staff costs and the increasing pressure both in the sector and the wider economy for staff awards to keep pace with the growing cost of living the College recognizes that it may not be able to deliver its core credit activity, which would further jeopardise the College's ability achieve financial sustainability.

There is a sector-wide financial risk relating to uncertainties resulting from the continued recovery from the global pandemic, and the impact that has on individuals and whether they choose to attend College. It is highly likely that the College will require to make further cost reductions or require to obtain additional income to achieve financial sustainability going forward.

We recognise that the College has consistently delivered its core credit target securing its funding and managed its costs successfully to achieve a balanced budget. However, significant cost reductions or additional funding will be required in the coming years to achieve financial sustainability, these issues and challenges are considered sector wide. As such, we still consider there to be a risk that the College is not financially sustainable in the medium to long-term if the SFC prediction of flat-cash grant-in-aid settlements crystallises

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.

The Governance Statement sets out the internal control arrangements and governance framework inplace for the year under review.

Our conclusion

South Lanarkshire College has governance arrangements in place that provide appropriate scrutiny of decisions made by the Board of Management.

Identified significant risks to our wider scope work

As part of our planning procedures we considered whether there were significant risks that would impact on any of the four areas of our wider scope work that would require special audit consideration. We set out the identified risk to this area of wider scope and how we addressed the risk below.

Governance and transparency

Description of the risk

The Annual Report and Financial Statements for year ended 31 July 2021 included disclosure by the College that it was not compliant with certain aspects of the Code of Good Governance for a period during 2021/22, before the audit opinion was signed.

The College has taken action to address these issues and have disclosed that they consider themselves as being compliant.

How we addressed the risk

We have addressed the risk by considering

- the effectiveness of the governance framework in place and whether the requirements of the Wider Scope dimension are being met;
- the appropriateness of disclosures made in the Governance Statement, setting out the areas where the College did not comply with the Code in 2021/22 and what corrective steps have been taken and whether the disclosure requirements of the Accounts Direction and the Code of Good Governance for Scotland’s Colleges have been met;
- progress made by the College on recommendations made during the 2020/21 external audit;

- progress made by the College in implementing the Governance Improvement Plan;
- the independent investigations that were reported to the Board in January 2023; and
- additional information received by Audit Scotland from external 3rd parties.

Wider scope conclusion

The College has recognised (as reported in the prior year) that it has not fully complied with the Code of Good Governance for Scotland's Colleges at certain points during the year. Appropriate actions have been taken by the College during 2021/22 to evidence improvements to the Governance framework and demonstrate compliance with the Code of Good Governance by 31 July 2022. The College has put in place a 'rolling' Governance Action Plan which seeks to strengthen further its approach in this area.

Governance arrangements

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..

Some of the key measures taken by the College as part of this include developing closer working relationships between the College and the Regional Strategic Body through crossover attendance of meetings, creation of a standard format of Board Committee Papers to achieve a more strategic focus and a review of the status of all current College policies with updates made where necessary. Policies updated in the year include Anti Bribery policy, the Public Interest Disclosure ("Whistleblowing") policy and the Health & Safety Policy.

At 31 July 2022 the implementation of the Governance Improvement Plan was generally well progressed. The only areas not fully addressed at that date were the recruitment of a substantive Independent Clerk (which could not be completed until the independent investigations were completed), plans around working with the Student Association to address the challenges faced by students and the alignment of the timetabling of the College and RSB's meetings

At 31 July 2022 the Board of Management consisted of 15 serving members with 7 males and 8 females. We are advised that the College anticipates there will be some forthcoming changes to the composition of the Board and are actively seeking to recruit new Board members

Financial papers submitted to committees are relevant and timely. Each paper has a summary setting out the purpose of the paper and the action required by the members. Minutes are understandable and contain detail of discussions and rationale for decision making.

The key committees' membership comprises of and are chaired by Board members. Appropriate College officers attend committees and present reports as required.

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 were not in post. The Chair of the Board voluntarily stepped aside from his role for the same time period, whilst a separate independent investigation was conducted on the same basis. The suspensions continued on a rolling four-week basis until the investigations were concluded.

The Vice-Chair of the Board was approved as Acting Chair at the 30 November meeting.

A Board meeting on 16 December 2021 approved the appointment of Liz McIntyre as Acting Principal. A subsequent Board meeting on 10 March 2022 approved the appointment of Alan Sherry as Acting Principal from 1 April 2022 following the end of term of Liz McIntyre's appointment.

A further Interim Clerk to the Board was appointed during January 2022, to cover the absence of the original Interim Clerk to the Board.

Following the conclusions of the independent investigations in January 2023, an extraordinary Board meeting on 16 January 2023 was held to discuss and consider the resulting reports. A motion was discussed and the Board agreed to terminate the employment of the Principal and Interim Clerk.

The term of the Chair of the Board and term as Board Member ended whilst the investigations were ongoing.. The Acting Chair of the Board became the Chairing member thereafter.

The College announced the recruitment of a new permanent Principal on 30 March 2023.

We have taken into consideration the findings of the independent investigations (without reperforming any aspects of the investigations themselves) when considering if the College's disclosures in its Governance Statement are appropriate.

The total costs of the independent investigations, legal advice and employment costs of interim staff at the date of issue of this report total approximately £800,000. This includes the c£450,000 incurred in the year ended 31 July 2022 as set out on page 15.

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 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.

As was reported in our Annual audit report in 2020/21, the College identified four areas of the Code where they could not evidence compliance that related to the year 2021/22. As this was identified prior to the completion of the 2020/21 Annual Report and Financial Statements, they were disclosed the College's Governance Statement at that time As a result of these findings the Auditor General produced a Section 22 report about the College. This report was considered by the Scottish Parliament's Public Audit Committee.

This disclosure is repeated by the College in their 2021/22 Governance Statement in so far as it relates to this year with confirmation that all necessary steps have subsequently been taken to ensure compliance.

The governance statement confirms the College's compliance with the 2016 Code of Good Governance for Scotland's Colleges as at 31 July 2022. The College has put in place a 'rolling' Governance Action Plan which seeks to strengthen further its approach in this area The Action Plan will include the implementation of the New Governance Code, the appointment of trade union members to the Board, as well as consideration of the College's strategic priorities which will include the economic challenges facing the sector and partnership working

The College's Governance Statement sets out that the College has considered the findings of the independent investigations

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

In our opinion the College is fully compliant with the Code of Good Governance at 31 July 2022.

Progress on previous recommendations

Five recommendations were made in our Annual Audit Report in 2020/21. We have followed up on the College's progress against these as part of our 2021/22 audit These have been set out in the table below

Recommendation	Progress evidenced
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.	The Governance improvement plan is considered to have been generally implemented in the year with close monitoring by the Board of Management. We consider this recommendation is mostly implemented.
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.	The internal audit plan was subsequently produced by internal audit and approved by the Audit and Risk Committee on 9 May 2022 (and subsequently the Board) with the planned work for 2021/22 undertaken in the year. We consider this recommendation is fully implemented.
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.	Improvements in collaboration between SLC Board and the Regional Strategic Board has been made through crossover attendance at committee meetings Timetabling of meetings has been revisited in order to address this

	issue but there remains scope for further improvement. We consider this recommendation is mostly implemented.
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.	Minutes, papers and updated Board member biographies have subsequently been updated on the College website by 31 July 2022. We consider this recommendation is fully implemented.
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.	The College anticipates there will be some forthcoming changes to the composition of the Board and are actively seeking to recruit new Board members. This will go some way to addressing this recommendation. We consider this recommendation to be not yet implemented.

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 is provided by Henderson Loggie.

Internal audit have attended Audit Committees throughout the year and have produced 4 reports to support the Annual Internal Audit Opinion. The opinion given by internal audit was that the College has adequate and effective arrangements for risk management, control and governance.

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.

6. 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 and Risk Committee on [   ]. Having completed our work for the 2021/22 financial year, we can confirm that our fees are as follows:

Area of work	Proposed fee 2021/22 £	Final fee 2021/22 £
Auditor remuneration	13,870	13,870
Pooled costs	770	770
Contribution to Audit Scotland costs	690	690
Additional auditor remuneration	4,670	TBC
Total Fee	**20,000**	**TBC**

We confirm that these fees are in line with the scale fee set by Audit Scotland. We also confirm that we have not undertaken any non-audit services for the College in the year.

Appendix A

Draft Management Representation Letter

Dear Sirs

LETTER OF REPRESENTATION

We confirm to the best of our knowledge and belief the following representations given to you in connection with your audit of the College's accounts for the period ended 31 July 2022.

We acknowledge as members of the Board of Management our responsibility for ensuring:

a. the financial statements are free of material misstatements including omissions;
b. that the financial statements give a true and fair view of the state of affairs of the College as at 31 July 2022;
c. all the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the College have been properly reflected and recorded in the accounting records;
d. all other records and related information, including minutes of all management meetings, have been made available to you;
e. the accounting policies used are detailed in the financial statements and are consistent with those adopted in the previous financial statements and are in accordance with the Accounts Direction issued by the Scottish Funding Council (SFC) under the terms of the Further and Higher Education (Scotland) Act 1992; and
f. compliance with the terms and conditions of the Financial Memorandum issued to the Board of Management by the SFC.

Henderson Loggie acted as Internal Auditors to the College during the year. All reports issued to the College and our responses to them have been made available to you.

We acknowledge our responsibility for the design and implementation of internal control systems to prevent and detect fraud. We have disclosed to you the results of our risk assessment that the financial statements may be misstated as a result of fraud. There have been no irregularities (or allegations of irregularities) involving management, employees who have a significant role in internal control or others that could have a material effect on the financial statements.

The College has no liabilities or contingent liabilities other than those disclosed in the accounts.

All claims in connection with litigation that have been, or are expected to be, received have been properly accrued for in the financial statements.

There have been no events since the balance sheet date that require disclosure or which would materially affect the amounts in the accounts, other than those already disclosed or included in the accounts. Should further material events occur, which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, we will advise you accordingly.

The College has had at no time during the year any arrangement, transaction or agreement to provide credit facilities (including loans, quasi-loans or credit transactions) for the Board of Management nor to guarantee or provide security for such matters.

We confirm that we have disclosed to you all related party transactions relevant to the College and that we are not aware of any further related party matters that require disclosure in order to comply with the requirements of charities legislation, the Statement of Recommended Practice for Further and Higher Education accounts or accounting standards.

The College has not contracted for any capital expenditure other than as disclosed in the accounts.

The College has satisfactory title to all assets and there are no liens or encumbrances on the College's assets, except for those that are disclosed in the financial statements.

We are not aware of any irregularities, including fraud, involving existing management or employees of the College, nor are we aware of any breaches or possible breaches of statute, regulations, contracts, agreements or College's Constitution and Articles of Government which might result in the College suffering significant penalties or other loss. No allegations of such irregularities, including fraud, or such breaches have come to our attention.

We confirm that we are not aware of any possible or actual instance of non-compliance with those laws and regulations which provide a legal framework within which the College conducts its business.

We confirm that, in our opinion, the College is a going concern on the grounds that current and future sources of funding or support will be more than adequate for the College’s needs. We have considered a period of twelve months from the date of approval of the financial statements. We believe that no further disclosures relating to the College’s ability to continue as a going concern need to be made in the financial statements.

We confirm that we have carried out an assessment of the potential impact of the Covid-19 pandemic on the College, including the impact of mitigation measures and uncertainties, and that the disclosure in the Performance Report fairly reflects that assessment.

We confirm that no unadjusted misstatements have been brought to our attention.

We confirm that the above representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, of supporting documentation) sufficient to satisfy ourselves that we can properly make each of the above representations to you.

Yours faithfully

………………………………………….. Chair of Board

…………………………………………….. Principal

Appendix B

Draft Audit Report

Independent auditor's report to the Board of Management of South Lanarkshire College, the Auditor General for Scotland and the Scottish Parliament

Reporting on the audit of the financial statements

Opinion on financial statements

We have audited the financial statements in the annual report and accounts of South Lanarkshire College for the year ended 31 July 2022 under the Further and Higher Education (Scotland) Act 1992 and section 44(1)(c) of the Charities and Trustee Investment (Scotland) Act 2005. The financial statements comprise the Statement of Comprehensive Income, Statement of Changes in Reserves, Balance Sheet, and Statement of Cash Flows and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council of the state of the college's affairs as at 31 July 2022 and of its deficit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council, the Charities and Trustee Investment (Scotland) Act 2005, and regulation 14 of The Charities Accounts (Scotland) Regulations 2006 (as amended).

Basis for opinion

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Auditor General for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Auditor General on 31 May 2016. The period of total uninterrupted appointment is six years. We are independent of the college in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the college. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern basis of accounting

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the college's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue. These conclusions are not intended to, nor do they, provide assurance on the college's current or future financial sustainability. However, we report on the college's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

We report in our Annual Audit Report, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

Responsibilities of the Board of Management for the financial statements

As explained more fully in the Statement of the Board of Management's Responsibilities, the Board of Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Board of Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Management is responsible for assessing the college's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the college's operations.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the college is complying with that framework;
- identifying which laws and regulations are significant in the context of the college;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the college's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Reporting on regularity of expenditure and income

Opinion on regularity

In our opinion in all material respects the expenditure and income in the financial statements were incurred or applied in accordance with any applicable enactments and guidance issued by the Scottish Ministers.

Responsibilities for regularity

The Board of Management is responsible for ensuring the regularity of expenditure and income. In addition to our responsibilities in respect of irregularities explained in the audit of the financial statements section of our report, we are responsible for expressing an opinion on the regularity of expenditure and income in accordance with the Public Finance and Accountability (Scotland) Act 2000.

Reporting on other requirements

Opinion prescribed by the Auditor General for Scotland on the audited part of the Remuneration and Staff Report

We have audited the parts of the Remuneration and Staff Report described as audited. In our opinion, the audited part of the Remuneration and Staff Report has been properly prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Other information

The Board of Management is responsible for other information in the annual report and accounts. The other information comprises the Performance Report and the Accountability Report excluding the audited part of the Remuneration and Staff Report.

Our responsibility is to read all the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon except on the Performance Report and Governance Statement to the extent explicitly stated in the following opinions prescribed by the Auditor General for Scotland.

Opinions prescribed by the Auditor General for Scotland on the Performance Report and Governance Statement

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Performance Report for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council; and
- the information given in the Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Further and Higher

Education (Scotland) Act 1992 and directions made thereunder by the Scottish Funding Council.

Matters on which we are required to report by exception

We are required by the Auditor General for Scotland to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration and Staff Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to our responsibilities for the annual report and accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in our Annual Audit Report.

Use of our report

This report is made solely to the parties to whom it is addressed in accordance with the Public Finance and Accountability (Scotland) Act 2000 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

David Hoose, for and on behalf of Mazars LLP

100 Queen Street
Glasgow
G1 3DN

Date

David Hoose is eligible to act as an auditor in terms of section 21 of the Public Finance and Accountability (Scotland) Act 2000.

Appendix C

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.