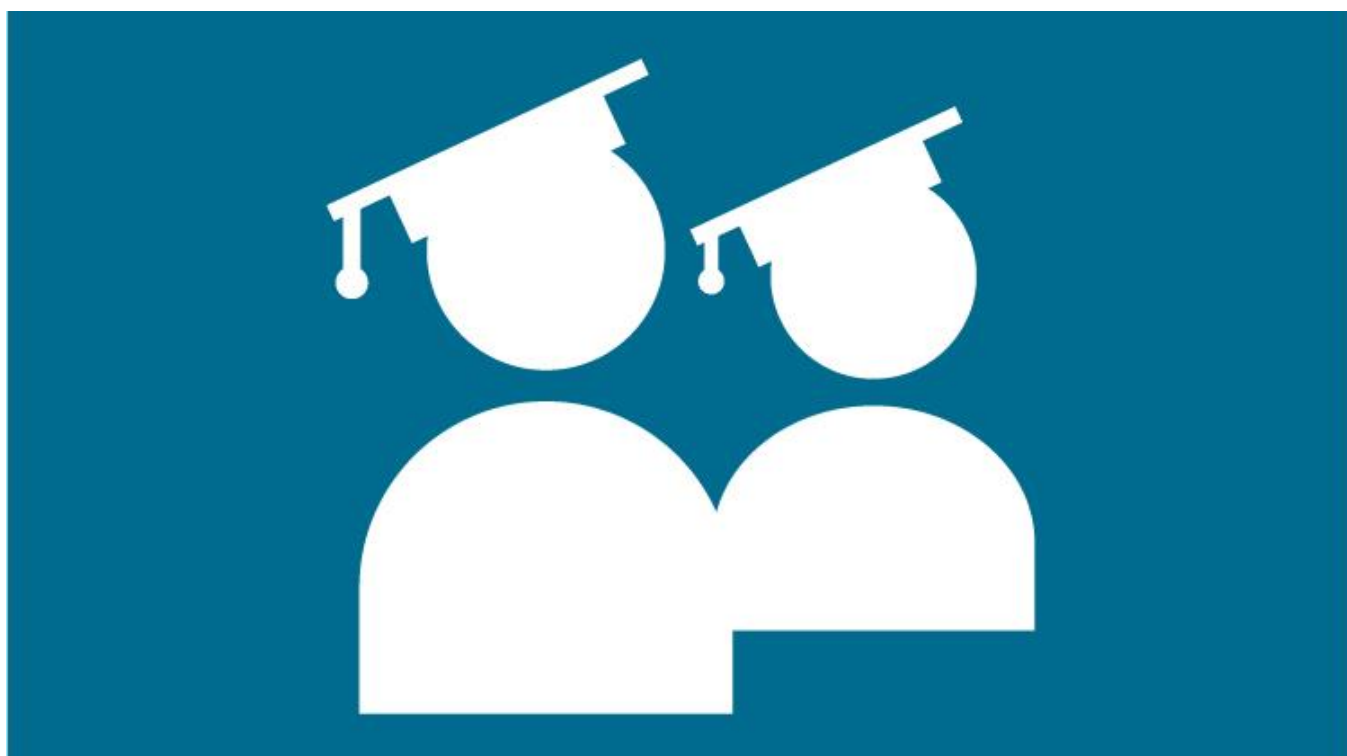


# The 2021/22 audit of South Lanarkshire College



AUDITOR GENERAL 

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

June 2023

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# The 2021/22 audit of South Lanarkshire College

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## Introduction

1. I have received the audited annual report and accounts and the independent auditor's report for South Lanarkshire College (the college) for 2021/22. The auditor issued an unqualified opinion on the college's financial statements for 2021/22. I am submitting these financial statements and the auditor's report under section 22(4) of the Public Finance and Accountability (Scotland) Act 2000, together with this report that I have prepared under section 22(3), to update the Scottish Parliament on governance issues in the college.

2. This report brings the Scottish Parliament's attention to the progress made by the college in addressing governance issues highlighted by the auditor's report on the 2020/21 audit. In April 2022, I reported on these issues through my section 22 report about [The 2020/21 audit of South Lanarkshire College](#).

3. My conclusions in this report are based primarily on consideration of the college's annual report and accounts for 2021/22 and the auditor's annual audit report for that year. My report focuses on the period up to the auditor signing their opinion on 19 April 2023.

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## Key messages

- In my section 22 report last year, I noted that South Lanarkshire College recognised it did not fully comply with the Code of Good Governance for Scotland's Colleges for a period during the academic year 2021/22 (1 August 2021 to 31 July 2022). However, it took appropriate action during the year to improve its governance and demonstrated compliance with the Code by the year-end, on 31 July 2022.
- In their annual audit report on the college for 2021/22, the independent auditor found that the college had fully implemented two of the five recommendations in the auditor's annual audit report on 2020/21 and mostly implemented a further two. The auditor concluded that the college has governance arrangements which provide appropriate scrutiny of decisions made by its board.
- In October 2021, the Lanarkshire Regional Strategic Body asked the college to develop a plan to support the restoration of good governance in the college. The college developed a governance improvement plan. The auditor has reported that, as at 31 July 2022, the implementation of this plan was generally well progressed. The college has introduced a rolling

governance review programme which seeks to strengthen further its approach in this area. The college's board, the Lanarkshire Regional Strategic Body, and the auditor are monitoring progress.

- The college's annual report and accounts for 2021/22 reports that:
    - investigations into governance matters, commissioned by the college's board, started in January 2022 and concluded in January 2023. The principal and the interim clerk to the board were suspended from 30 November 2021 and for the duration of the investigations
    - on 16 January 2023, the board considered the investigations' reports, and agreed to terminate the employment of the principal and the interim clerk to the board
    - the tenure of the chair, who had stepped aside from his duties for the duration of the investigations, ended in May 2022.
  - In December 2021, the vice chair of the college's board took on the role of chairing board meetings on an ongoing basis. A new substantive principal took up post on 3 April 2023, following an external recruitment exercise.
  - The complex nature of the college's governance issues led to a long period of uncertainty and resulted in it spending around £800,000 of public money on investigations and associated costs. This significant expenditure came at a time when the college, like many in Scotland, is facing risks to its financial sustainability.
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## Background

**4.** The college is one of two in the Lanarkshire region, the other being New College Lanarkshire.

**5.** South Lanarkshire College is an independent body with charitable status, as defined by the Further and Higher Education (Scotland) Act 1992. Its primary source of income is the Scottish Government, which finances the Scottish Funding Council (SFC). The SFC distributes grant funding to the Lanarkshire Regional Strategic Body – widely known as the Lanarkshire Board – which is also the board of New College Lanarkshire. In turn, the Lanarkshire Board distributes funding to South Lanarkshire College. The Lanarkshire Board is also responsible for ensuring consistency of provision across the region and that both colleges provide high-quality further and higher education.

**6.** The college is governed by its own Board of Management (the board), which is responsible for determining the college's overall strategy, the proper use of public funds, the quality of provision, and the appointment of the principal and other senior staff. As well as sitting on the college's own board, the college's principal and its board's chair are members of the Lanarkshire Board. Two staff representatives from the college also sit on the Lanarkshire Board, along with a student member.

**7.** The college's expenditure in 2021/22 totalled £20.3 million (2020/21: £18.6 million), of which staff costs accounted for 72 per cent (2020/21: 76 per cent). Its adjusted operating position at 31 July 2022 was a surplus of £1.08 million (2020/21: £1.60 million).<sup>1</sup>

## Compliance with the Code of Good Governance

**8.** Good governance arrangements in colleges are central to ensuring effective strategic leadership; oversight of services for students and staff; and the proper use of public funds. All colleges that receive public funding from the SFC, either directly or through a regional strategic body, must comply with the Code of Good Governance for Scotland's Colleges (the Code).

**9.** As I reported in April 2022, the independent auditor was unable to conclude that the college's governance arrangements were satisfactory during 2020/21 and to the point of signing their audit opinion on 24 March 2022. The college recognised that it did not fully comply with the Code at the start of academic year 2021/22 in four areas relating to:

- operation of the board and the audit and risk committee
- transparency of board and committee papers
- board member induction
- engagement with internal audit.

**10.** The college repeated its disclosure of non-compliance with the Code in its annual report and accounts for 2021/22. It noted that these issues had all been addressed by 31 July 2022. The auditor is satisfied that the college was fully compliant with the Code by 31 July 2022 and that its governance arrangements now provide for appropriate scrutiny of board decisions. Actions taken by the college to comply with the Code are set out below ([paragraphs 13 to 20](#)).

**11.** In light of the above four areas of non-compliance with the Code, the auditor made five recommendations in their 2020/21 annual audit report. The college accepted all these recommendations and progress in implementing them is set out in the [appendix](#). The recommendations covered:

- board and committee meeting timetabling
- board and committee paperwork
- board member tenure

<sup>1</sup> Under the [SFC's Accounts Direction for colleges on 2021/22](#) (December 2022), the college is required to report its financial performance as an 'adjusted operating position' (AOP). The AOP is intended to reflect the underlying operating performance after allowing for material one-off or distorting items.

- internal audit engagement
- monitoring progress on reviews' recommendations.

**12.** The auditor has judged that two recommendations have been fully implemented and two have been mostly implemented. One has not been implemented although the college has plans to address this.

### **Operation of the board and the audit and risk committee**

**13.** As I reported in April 2022, membership of the college's board and of its audit and risk committee fell below the required number for one and two months respectively during 2021/22, due to the timing of various board members' departures and the approval of new members. The audit and risk committee did not meet for regular business for six months from May 2021 and the board did not meet for five months from June 2021. The board and audit and risk committee met in November 2021 with full membership, following the appointment of six new non-executive board members.

**14.** The auditor recommended that the college should reduce or extend the tenure of some members to provide for improved continuity of membership at the end of individuals' tenure. The college is seeking to recruit new board members and will consider staggering their terms when it appoints them.

### **Transparency of board and committee papers**

**15.** In April 2022, I reported that papers for the college's board and committee meetings held after June 2021 were not publicly available on the college's website at the point the auditor signed their opinion on 24 March 2022. The auditor recommended that minutes, papers and updated board member biographies should be updated on the website as soon as possible.

**16.** The auditor reports that the college was compliant with this aspect of the Code by 31 July 2022, and that minutes are understandable and contain detail of discussions and the rationale for decision-making.

### **Board member induction**

**17.** The auditor reported in their 2020/21 annual audit report that all new board members were given copies of the college's governance manual to review, when they joined the board on 4 November 2021. However, they did not receive a formal face-to-face induction until 1 February 2022, as this was not possible due to Covid-19 restrictions.

**18.** In February 2022, all board members attended an expanded induction session, which included presentations by senior staff on financial management, and curriculum and quality development. Senior staff attended a board strategy meeting in March 2022 and participated in workshops in partnership with board members. Further events were agreed by the board for 2022/23.

### **Engagement with internal audit**

**19.** In their annual audit report on 2021/22, the auditor found that the college did not have an approved, operational internal audit function for three months from August 2021.

**20.** Following a competitive tender process initiated in April 2021, Henderson Loggie LLP were appointed as internal auditors for four years from 4 November 2021. Delays in their appointment meant that the final internal audit plan for 2021/22 was not approved by the audit and risk committee until 9 May 2022. However, planned internal audit work for 2021/22 was undertaken in the year. The college's annual report and accounts for 2021/22 notes internal audit considered that the college has adequate and effective arrangements for risk management, control and governance.

## **Progress with the governance improvement plan**

**21.** In October 2021, the Lanarkshire Board asked the college to develop a plan to support the restoration of good governance. The college developed a governance improvement plan, which was intended to reflect the findings and recommendations of external reviews. These included a review by the College Development Network into the effectiveness of the college's board in June 2021; and a review of the college's governance commissioned by the SFC in summer 2021.

**22.** Progress against the plan was reported to the college's audit and risk committee, its board, and to the Lanarkshire Board. Key measures taken by the college as part of this plan include:

- developing closer working relationships between the college and the Lanarkshire Board, through crossover-attendance at their meetings
- creating a standard format of board and committee papers
- reviewing, and where necessary updating, all current college policies.

**23.** The auditor has reported that, at 31 July 2022, the implementation of the college's governance improvement plan was generally well progressed and that the only areas not fully addressed were:

- recruiting a substantive clerk to the college's board – which could not be completed until the independent investigations described below had been completed
- aligning the timetabling of meetings of the college's board and the Lanarkshire Board
- addressing challenges faced by students, through working with the Student Association.

**24.** The college has since replaced its governance improvement plan with a rolling governance review programme, with the stated aim of ensuring the highest standards of governance. This approach has been agreed with the Lanarkshire Board. The programme includes actions relating to:

- the application of the updated Code of Good Governance for Scotland's Colleges that was introduced in September 2022
- the appointment of trade union members to the board

- consideration of the college's strategic priorities.

25. The college's board, the Lanarkshire Board and the independent auditor are monitoring progress.

## Independent investigations

26. On 30 November 2021, the college's board agreed to commission two independent investigations into complaints and grievances against the chair of the board, and the principal and the interim clerk to the board; and to suspend the principal and interim clerk while the investigations were ongoing ([Exhibit 1](#)). The chair voluntarily stepped aside from his role while the investigations were conducted. Temporary arrangements were made to fill these three posts.

### Exhibit 1

#### Timeline of key events relating to the independent investigations

Date	Event
30 November 2021	<p><b>Extraordinary college board meeting</b> – board agrees to:</p> <ul style="list-style-type: none"> <li>• commission two independent investigations into complaints and grievances against the chair of the board, and the principal and interim clerk to the board</li> <li>• suspend the principal and interim clerk to the board while the independent investigations are conducted</li> <li>• accept the offer of the chair of the board to voluntarily step aside from his role while the independent investigations are conducted</li> <li>• the vice chair of the board taking on the role of chairing meetings.</li> </ul>
13 December 2021	<p><b>Lanarkshire Board</b> – approval of the vice chair of the college's board taking on the role of chairing its meetings.</p>
16 December 2021	<p><b>College board meeting</b> – board approves:</p> <ul style="list-style-type: none"> <li>• the vice chair of the college's board taking on the role of chairing its meetings</li> <li>• appointment of an acting principal for the period to 31 March 2022.</li> </ul>
1 February 2022	<p><b>Extraordinary college board meeting</b> – board approves the appointment of a new acting clerk to the board with effect from 5 January 2022.</p>
10 March 2022	<p><b>College board meeting</b> – board approves the open-ended appointment of a subsequent acting principal from 1 April 2022, following the end of the previous acting principal's term of appointment.</p>

May 2022	The tenure of the chair, who had stepped aside from his duties for the duration of the independent investigations, ends.
16 January 2023	<p><b>Extraordinary college board meeting</b> – board considers the reports of the two independent investigations and decides to:</p> <ul style="list-style-type: none"> <li>• terminate the employment of the suspended principal and suspended interim clerk</li> <li>• ratify the ongoing chairing of the college’s board meetings, by the previous vice chair.</li> </ul>
31 March 2023	The acting principal stepped down from their role, as planned.
3 April 2023	Following an external recruitment exercise, the depute principal was promoted to substantive principal and took up post with effect from 3 April 2023.

**27.** An extraordinary college board meeting on 16 January 2023 considered the reports of the two investigations. The board decided to terminate the employment of the college’s substantive principal and the interim clerk. The term of the substantive chair of the board had already ended in May 2022.

**28.** Following an external recruitment campaign, the college promoted its depute principal to the substantive post of principal with effect from 3 April 2023. At the point of the auditor signing their opinion on 19 April 2023, the acting clerk to the board remained in post until a permanent appointment could be made. The auditor considered the implications of the investigations for the college’s compliance with the Code.

## Costs incurred by South Lanarkshire College

**29.** The college took steps to investigate complaints against senior leaders, which led to a long period of uncertainty around governance and leadership. The college had spent approximately £800,000 of public money on the investigations and associated costs, such as employing temporary staff, by 19 April 2023. Of the £800,000, £450,000 was incurred during 2021/22.

## Conclusions

**30.** In their annual audit report on 2021/22, the auditor reported that the college’s adjusted operating position at 31 July 2022 was a third worse than at the end of the previous year: £1.08 million for 2021/22 compared to £1.60 million for 2020/21 ([paragraph 7](#)). Its expenditure of £800,000 due to its governance issues came at a time when the college, like many in Scotland, is facing risks to its financial sustainability.

**31.** However, I am pleased to note that the college was fully compliant with the Code of Good Governance for Scotland’s Colleges by 31 July 2022. It is encouraging to see that the college is making progress against the auditor’s recommendations from the 2020/21 audit, and that it is committed to making further improvements through its rolling governance review programme.



**32.** As part of their annual audit work, the auditor will continue to review governance arrangements in the college, including:

- monitoring the college's progress against outstanding recommendations by the auditor
- monitoring the implementation of the college's rolling governance review programme.

**33.** I will continue to monitor the progress made by the college in this area, with a view to further public reporting in the future should that be required.

# Appendix

## South Lanarkshire College's progress on recommendations from the 2020/21 audit

The auditor considers that the college has made progress on four of the five recommendations.

- High priority = 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 recommendations should be taken into consideration by management immediately.
- Medium priority = There is a need to strengthen arrangements or enhance business efficiency. The recommendation should be actioned in the near future.

Audit recommendation, 2020/21	Priority	College's progress, 2021/22
<p><b>Internal audit engagement</b></p> <p>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'.</p> <p>There was no internal audit function in place for the first three months of 2021/22.</p> <p>Following a delayed appointment, there were delays in initial meetings at the college taking place, to the extent that internal audit was unable to produce an internal audit plan for 2021/22 at the February 2022 meeting.</p>	High	<p><b>Fully implemented</b></p> <ul style="list-style-type: none"> <li>• The college appointed Henderson Loggie LLP as its internal audit function for four years from 4 November 2021.</li> <li>• The internal audit plan for 2021/22 was approved by the audit and risk committee on 9 May 2022 (and subsequently the board) with planned work for 2021/22 undertaken in the year.</li> </ul>
<p><b>Board and committee paperwork</b></p> <p>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.</p> <p>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.</p> <p>As a consequence, there are no minutes on the college's website beyond June 2021.</p>	High	<p><b>Fully implemented</b></p> <ul style="list-style-type: none"> <li>• Minutes, papers and updated board member biographies had been updated on the college's website by 31 July 2022. Minutes are understandable and contain detail of discussions and the rationale for decision-making.</li> </ul>

Audit recommendation, 2020/21	Priority	College's progress, 2021/22
<p>Minutes, papers and updated board member biographies should be updated on the website as soon as possible.</p>		
<p><b>Board and committee meeting timetabling</b></p> <p>There were no board meetings for five months, between the meetings on 8 June and 4 November 2021. The audit and risk committee did not meet for regular business for six months, between May and November 2021.</p> <p>The reporting timetable of the board and its committees should be timed so that there is a timely and efficient report to the Lanarkshire Board following meetings.</p>	High	<p><b>Mostly implemented</b></p> <ul style="list-style-type: none"> <li>Improvements in collaboration between the college's board and the Lanarkshire Board have been made through cross-over attendance at both boards' committee meetings.</li> <li>Timetabling of meetings has been revisited but there remains scope for further improvement.</li> </ul>
<p><b>Monitoring progress on reviews' recommendations</b></p> <p>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.</p> <p>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.</p>	High	<p><b>Mostly implemented</b></p> <ul style="list-style-type: none"> <li>The auditor considers the governance improvement plan has been generally implemented in 2021/22, with close monitoring by the board of management.</li> </ul>
<p><b>Board member tenure</b></p> <p>The college appointed six new board members in November 2021. All members were appointed with the same tenure of four years.</p> <p>The college should take action 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.</p>	Medium	<p><b>Not yet implemented</b></p> <ul style="list-style-type: none"> <li>The auditor reports that the college anticipates some forthcoming changes to the board's composition.</li> <li>The college is actively seeking to recruit new members and will consider the tenure of new board members when it appoints them.</li> </ul>

# The 2021/22 audit of South Lanarkshire College

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