



Scottish Funding Council

Promoting further and higher education

Our ref: 242921960

Comhairle Maoineachaidh na h-Alba

A' brosnachadh foghlam adhartach agus àrd-ìre

16 February 2015

Paul Martin MSP
Convener
Public Audit Committee
c/- Room T 3.60
The Scottish Parliament
Edinburgh EH99 1SP

Dear Mr Martin

Auditor General for Scotland (AGS) section 22 report: 'The 2012/13 audit of North Glasgow College: governance and financial stewardship'

Thank you for your letter of 19 January seeking further clarification on the Council's role in relation to severance payments made by colleges. My response is set out below.

SFC action if its guidance is not followed and in response to poor internal or external audit reports

Having introduced the Scottish Public Finance Manual's (SPFM's) requirements for incorporated colleges, we now have a much-strengthened set of control arrangements for severance-related (and other) financial decisions taken by incorporated colleges. In summary, these require colleges to consult with us in advance of any decisions being made. We believe these new arrangements are a significant improvement.

In addition, in the event that the SFC becomes aware, through an audit report or another source, that a board has failed to comply with guidance (the SPFM) there are a number of actions the Council can take. Firstly, we would ask the Board to provide the facts, including confirmation that guidance has not been followed, and if so what is their explanation for such action. Secondly, and depending on the response to the first point, we can use our statutory power to address the Board to set out its responsibility for ensuring compliance with guidance. Thirdly, we can consider applying a clawback of

funding from a college. To date, the Council has not applied any clawback in relation to severance payments, not least of all because of the eventual impact of such an action on students.

SFC's actions in relation to the 2012-13 audit and Section 22 report

In relation to all the audits of incorporated college 2012-13 accounts, we drew to the attention of Audit Scotland the need for all the external auditors to review the handling of severance-related decisions. Audit Scotland then liaised with all the external auditors to that effect, following which the North Glasgow external audit report was produced.

We have supported Glasgow Kelvin College in the investigations it has undertaken into the key issues identified in the audit and Section 22 report and endorse the actions that the new college has taken in relation to its policies and procedures.

More generally and as noted below, the new SPFM arrangements provide a significant improvement in the oversight of such arrangements.

Role of SFC staff, especially those who attended Merger Partnership Boards, in proactively ensuring Boards are following all relevant SFC guidance

SFC attended merger partnership boards to assist with the planning and preparation for merger. In the case of the Glasgow Kelvin merger, SFC attended almost all of the merger partnership board meetings. The role of SFC at these meetings was provide advice and to encourage colleges to use good practice in the merger process. The partnership board (which had representation from each of the three college boards) did not substitute for the individual college boards in respect of ensuring compliance with detailed aspects of SFC guidance.

More generally, during the programme of mergers there were several instances when we became aware of severance-related plans which we believed would have been inappropriate, and we were able to use our influence to have these changed.

SFC's promotion of new templates and guidance to support the SPFM to Colleges and SFC's future evaluation of compliance

The Council will issue the new guidance by the end of February 2015. This guidance will highlight the issues raised in the AGS Section 22 report on North Glasgow and all other relevant points from the 2012/13 auditors' reports.

In support of the guidance, and to help ensure its visibility and understanding, the Council will provide briefing sessions to colleges and ensure that responsibility for overseeing severance schemes are clearly highlighted in board member induction and training materials. SFC will also highlight to colleges that their own audit committees should seek to receive an early update on progress being made to implement any auditor

recommendations on severance, and be satisfied that work is underway to address such weaknesses as part of their annual reports to their boards.

In terms of monitoring, the Council will maintain an open dialogue with colleges through the outcome agreement managers and governance and financial monitoring team. We will also ensure severance is a regular item on the agenda when we meet (normally every 4-6 weeks) the colleges' Finance Directors Steering Group. In addition, we will provide specific guidance to the external auditors on what we expect from their audit work, including ensuring the Council is informed immediately in the event of a situation of possible non-compliance.

Severance terms for non-incorporated colleges

Recognising that non-incorporated colleges are not subject to the requirements of the SPFM, the Council has strengthened its Financial Memorandum (FM) with this group of colleges. The revised FM essentially mirrors the principles of good governance and practice which are set out in the SPFM. The Council will monitor compliance by non-incorporated colleges in the same way as set out above.

I hope the above provides sufficient clarification on the Council's role. The condition placed on colleges to comply with the terms of the SPFM now provides an unambiguous requirement on colleges to seek approval from the SFC before any new severance schemes are implemented. This clarification and strengthening of the Council's role is welcomed.

Yours sincerely

Laurence Howells
Chief Executive