



SCOTTISH EXECUTIVE

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6 September 2006

I attach the response of the Enterprise, Transport and Lifelong Learning Department of the Scottish Executive to the Audit Committee's 4th Report 2006: "The 2004/05 Audit of Inverness College".

Most of the findings and recommendations contained in the report are wholly or partly directed at the Scottish Further and Higher Education Funding Council (SFC) and Inverness College. This response has therefore been prepared in consultation with SFC and Inverness College.

The Executive, SFC and Inverness College accept the recommendations and conclusions of the Committee. The response to the individual recommendations and conclusions of the Report is given in the Annex.

There are a number of issues which will be taken forward under the auspices of the current Review of Scotland's Colleges. I will report further to the Committee once the Review has concluded.

PHILIP RYCROFT

**AUDIT COMMITTEE 4TH REPORT 2006
THE 2004/05 AUDIT OF INVERNESS COLLEGE**

SCOTTISH EXECUTIVE RESPONSE

Introduction

The Executive, Scottish Funding Council (SFC) and Inverness College accept all the recommendations and conclusions of the Committee. With regard to a number of these, it is now clear from the experience of events that the timing and rate of escalation of intervention by the Funding Council might have been different, leading to effective remedial action sooner. The approach taken at the time was consistent with that known to have led to successful financial recovery in colleges elsewhere.

The SFC welcomes the Committee's recognition that support by the SFC and its Further Education Development Directorate (FEDD) has been instrumental in providing the College with a basis for tackling its key problems. The SFC will continue to recognise the need to intervene at the earliest appropriate opportunity. In doing so, the SFC also recognises the need to ensure that its intervention does not militate against the responsibility of college boards themselves to take ownership of problems.

The board of management and the executive management of Inverness College have acknowledged the range of issues addressed by the Committee and are progressing an action plan to address the recommendations and conclusions within its report, and those of the FEDD report.

Policy and control procedures for the recruitment and deployment of academic staff are now established. The College agrees that the lack of these contributed significantly to poor financial position and forecasting.

Robust financial forecasting has been put in place by the College involving closer scrutiny by the Board. A positive, realistic budget has been set for 2006/07. A staffing efficiency exercise has been undertaken to bring staffing levels in Inverness College closer into line with the sector average. This has been concluded through voluntary severance arrangements and without the need for compulsory redundancies.

Finally, the Committee makes a number of recommendations on issues to which further consideration should be given by the current Review of Scotland's Colleges. This is being arranged.

We have set out overleaf the response to individual conclusions and recommendations.

Scottish Executive
Enterprise, Transport and Lifelong Learning Department
5 September 2006

**AUDIT COMMITTEE 4TH REPORT 2006
THE 2004/05 AUDIT OF INVERNESS COLLEGE**

RESPONSE TO INDIVIDUAL RECOMMENDATIONS AND CONCLUSIONS

PARAGRAPHS 7-15: BACKGROUND

Paragraph 15

The Committee notes and welcomes the improved financial stability across the Further Education sector as a whole.

We welcome and accept this conclusion.

PARAGRAPHS 16-42: FINANCIAL MANAGEMENT

Paragraph 21

The Committee believes that poor management at the College has been a significant factor in the College's poor financial performance in recent years.

We accept this conclusion.

Paragraph 31

The Committee concludes that the College lacked the proper budgeting procedures required to ensure financial stability.

We accept this conclusion.

Paragraphs 38 and 39

The Committee believes that the appropriate financial controls have not been in place in order for the College to manage its finances correctly.

The Committee notes the recent work being carried out by the current Director of Finance and Commercialisation with the assistance of the FEDD team to improve financial systems and control.

We note and accept these conclusions.

PARAGRAPHS 43-48: LACK OF COORDINATION BETWEEN STRATEGIC THINKING AND FINANCIAL PLANNING

Paragraph 47 and 48

The Committee considers that strategic decisions on key issues such as curriculum planning and marketing were not properly linked to financial and management information. It is clear to the Committee that a lack of co-ordination between strategic planning and financial planning has been a major weakness in the management of the College.

We accept these conclusions.

PARAGRAPHS 49-53: FINANCIAL RECOVERY

Paragraph 53

Given the clear limitations of financial information available to the Board, the Committee has concerns as to whether decisions about potential savings are soundly based and achievable.

We accept this conclusion. A key aspect of the support being provided by the Funding Council, through its FE Development Directorate, is to ensure that financial decisions are based on sound information, and that the College adheres to these decisions.

PARAGRAPHS 54-57: CULTURE AND RELATIONSHIPS WITH STAFF

Paragraph 57

The Board and acting Principal must improve relationships with staff as a priority – both for the good of staff and students and in order to achieve financial recovery.

The Board and Acting Principal of the College accept this conclusion.

PARAGRAPHS 58-87: PERFORMANCE OF THE BOARD

Paragraph 61

The Committee has concerns about both the quality and limited range of information presented to the Board and its committees.

We accept this conclusion.

Paragraph 66

The Committee fully recognises that it is not for the Board to become involved in day to day operational management issues. However, the picture which emerges from the evidence is of a Board which has been too detached from key management and decision making processes.

We accept this conclusion.

Paragraph 72

The Committee considers that the Board has not properly fulfilled its scrutiny function in a number of important respects.

We accept this conclusion.

Paragraph 75

Evidence considered by the Committee suggests that the Board has not met some of the requirements set out in the financial memorandum.

We accept this conclusion, which relates to the new financial memorandum that came into force on 1 January 2006.

Paragraph 77

It is the Committee's view that the Board of Management failed to discharge its duties to exercise financial control or set the strategic direction of the College.

We accept this conclusion.

Paragraph 86

The Committee considers that the College Principal failed to ensure the exercise of the proper financial and management controls necessary to run the College efficiently and effectively.

We accept this conclusion.

PARAGRAPHS 88-89: COLLEGE PRINCIPALS AS ACCOUNTABLE OFFICERS

Paragraph 89

The Committee recommends that the Scottish Funding Council, in consultation with colleges and the Department, publish an explicit statement of the duties of accountable officers. The Committee further recommends that the way in which accountable officers are designated be examined under the ongoing review.

We accept this recommendation. The SFC will shortly propose to colleges and to the Scottish Executive a statement of college Principals' responsibilities, drawing on the existing guidance contained in (a) the Financial Memorandum between the Funding Council and colleges, and (b) the Guide for Board Members produced by the Association of Scotland's Colleges. The Review of Scotland's Colleges will also examine the way in which accountable officers are designated.

PARAGRAPHS 90-94: ACADEMIC PERFORMANCE AND FEDD RECOMMENDATIONS

Paragraph 91

The Committee recognises the achievements of staff and students, despite the financial and management difficulties at the College, and urges the Board and the acting Principal to implement the recommendations contained in the FEDD report as a matter of urgency.

This is accepted by the Board and Acting Principal of the College.

Paragraph 94

In implementing the FEDD report the Board and acting Principal should ensure that all decisions are based on robust information and that the actions taken enable the College to continue to provide high quality services that meet local needs.

This is accepted by the Board and Acting Principal of the College.

PARAGRAPHS 95-97: SCOTTISH FUNDING COUNCIL

COMMENT BY THE FUNDING COUNCIL ON PARAGRAPH 96 (FIRST SENTENCE):

96. *Mr McClure stated “by the time that the accounts for (2003/04) were published – we received them early in 2004 – we began to see a bigger deviation than we had expected and became concerned.(Col 1588)”*

Clarification by the Funding Council: “The Report’s apparent assumption - viz that this part of Mr McClure’s evidence related to the financial year 2003-04 - is inaccurate. Mr McClure was in fact referring to the financial year 2002-03, as the college financial year in fact runs from August-July. We ask the Committee to note that “June 2003” falls within the 2002-03 college financial year, and that it was therefore to 2002-03 that this part of Mr McClure’s evidence referred.”

Paragraph 97

“Given the College’s financial history and the Scottish Funding Council’s opinion that the College was suffering from significant failures in the systems, processes, and management of its overall finances, the Committee considers that the Scottish Funding Council should have requested monthly financial reports much earlier.”

This is accepted.

PARAGRAPHS 98-109: FURTHER EDUCATION DEVELOPMENT DIRECTORATE (FEDD)

COMMENT BY THE FUNDING COUNCIL ON PARAGRAPH 98:

98. The establishment of the FEDD was one of the actions taken as a result of the Executive's 2003 review.

Clarification by the Funding Council: "The establishment of the FEDD in fact predated the Review of Governance and Accountability which reported in 2003. In consultation with the Scottish Executive and others, the Funding Council created FEDD in 2002 to help colleges develop and improve their financial stability, quality of provision and governance and management."

Paragraph 99

"The Committee strongly supports the work of the Further Education Development Directorate."

We welcome the Committee's support of the work of FEDD.

Paragraph 100

"The Committee considers that the Funding Council should have done more to ensure that the initial offer of FEDD support made in 2004 was taken up."

This is accepted.

Paragraph 101

"The Committee recommends that when a firm offer of FEDD assistance is made to a College, this should be confirmed in writing simultaneously to the Principal and the Chair of the Board."

We agree with this recommendation.

Paragraph 103

"The Committee considers that the FEDD should have engaged with Inverness College much earlier."

This is accepted.

Paragraph 109

The Committee recommends that the Funding Council review and take steps to clarify;

- *the processes for involving the FEDD, ensuring early engagement with colleges who are in financial difficulty;*
- *the role of the FEDD in differing contexts;*
- *its method of reporting;*
- *and the status of its involvement and reports.”*

This recommendation is accepted.

Paragraph 114

The Committee recommends that the Accountability and Governance Working Group review whether any further statutory or non-statutory interventions may be required to assist colleges in severe difficulty.

We accept this recommendation In doing so, however, we should point out that it is not strictly correct to say, as the Report does at paragraph 111, that the sole remaining power of intervention is the power of Ministers to remove members of the Board. There are several other, albeit less direct, means of intervention. These, along with the power to remove the Board, are exercisable by Order of the Parliament. They include the ability to close or merge colleges; to make regulations prescribing requirements with which Boards must comply; or to require the publication of certain information. Ministers also have certain powers in relation to the funding of colleges where there has been mismanagement.

PARAGRAPH 115-122: BOARD MEMBERS: APPOINTMENTS AND TRAINING

Paragraph 117

There is a continuing need to ensure that Board members have the right mix of skills and experience and this issue should be considered under the current Executive review.

We accept this recommendation. The SFC recognises the key role of the Chair of the board and has now formalised its process for meeting with new Chairs and Principals following their appointment.

Paragraph 121

Given the evidence heard in the course of this inquiry into Inverness College, the Committee believes that current training programmes are not working effectively for all colleges across the sector.

We accept this conclusion. We will continue to examine how all colleges can benefit fully from current and future training programmes.

Paragraph 122

The Committee recommends that the current Executive review includes an examination of the national training programme to ensure that it adopts consistent national standards and records, while meeting local needs. The Committee also recommends that central records of training undertaken by each Board member should be maintained locally and submitted yearly to the Scottish Funding Council.

We accept these recommendations. The Review of Scotland's Colleges will examine the effectiveness of the current national training programme and College Boards will be asked to maintain a record of training completed by each Board member. The SFC, the ASC and the Department will examine the most appropriate format for the annual submission by Colleges to the Funding Council of details and assurances relating to individual board member training.

Scottish Executive
Enterprise, Transport and Lifelong Learning Department
5 September 2006