

Richard Leonard MSP

Convener of the Public Audit Committee

22 August 2025

Dear Mr Leonard,

Thank you for your letter dated 11 July following the Committee's evidence session on 4 June 2025, regarding Audit Scotland's 2022/23 audit of Forth Valley College. I am pleased to respond on behalf of Francesca Osowska. In addition to answering the specific questions you have asked, I have also included further information about some of the issues raised in the session, which I hope is helpful for the Committee's considerations.

Breach of SFC's Financial Memorandum

College Boards and management teams are responsible for ensuring appropriate and effective systems of financial control at their college. They are also responsible for ensuring compliance with SFC's [Financial Memorandum](#) (FM) which sets out conditions of funding in return for SFC grant funding, and the [Code of Good Governance for Scotland's Colleges](#). Where there is a breach of the FM, colleges are required to notify SFC.

The issues with the procurement process identified by Forth Valley College and auditors represented a breach of the FM, and the College notified SFC of this breach in February 2023. The College's investigation identified financial irregularities and governance weaknesses in relation to the operation of the Fuel Change project, including shortcomings in procurement practice. The College subsequently identified additional issues which were then reported to OSCR and Police Scotland.

As a result of the initial breach of the FM, and the subsequent issues identified, we have engaged closely with the College for assurance that corrective action has been taken and regular updates have been reported to SFC's Finance Committee. As set out in Audit Scotland's report, the College commissioned an internal audit investigation and conducted a lessons learned report to address the weaknesses identified. An action plan was developed and monitored by the College's Audit Committee, and the recommendations have now been implemented. The College will prepare a summary report setting out lessons learned, and this report will be disseminated across the wider college sector in the near future.

In the Committee's evidence session, there was some discussion about the role of SFC's Accountable Officer in relation to the issues identified with the College's local procurement processes. We would like to take the opportunity to reiterate Audit Scotland's clarification that SFC's CEO and Accountable Officer is, as set out in the Scottish Public Finance Manual, responsible for the propriety and regularity of public finances in relation to SFC. The issues identified at Forth Valley College were local to the College, and therefore, the responsibility

of the College Board and management team. SFC's locus in the issue is in relation to the breach of our FM.

College commercial activity and subsidiaries

The College Tripartite Alignment Group, comprising of Scottish Government, Colleges Scotland, and SFC, is supporting work by colleges to consider opportunities to diversify their funding streams, which includes commercial activity. Part of this work will consider any additional risks associated with the growth of commercial income.

SFC recognises that commercial trading subsidiaries can impact on the financial health of colleges as parent organisations; therefore, our financial oversight extends to monitoring their financial impact on colleges' overall finances. This is also reflected in the FM between SFC and colleges which states that the internal audit function must include a review of controls that protect colleges in their dealings with organisations such as subsidiaries. In the case of Fuel Change, while a college subsidiary was created ("Fuel Change Ltd"), it lay dormant and never traded, and the project continued to be managed by the College. The Fuel Change project and associated activity is no longer managed by the College.

I trust this information is helpful and please do let me know if there is anything further that I can assist with.

Yours sincerely,

Tiffany Ritchie
Acting Director of Finance