OFFICIAL REPORT
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Public Audit Committee

Wednesday 4 June 2025

Session 6

The Scottish Parliament
Pàrlamaid na h-Alba

Wednesday 4 June 2025

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PUBLIC AUDIT COMMITTEE

18th Meeting 2025, Session 6

CONVENER

*Richard Leonard (Central Scotland) (Lab)

DEPUTY CONVENER

Jamie Greene (West Scotland) (LD)

COMMITTEE MEMBERS

*Colin Beattie (Midlothian North and Musselburgh) (SNP)
*Stuart McMillan (Greenock and Inverclyde) (SNP)
*Graham Simpson (Central Scotland) (Con)

*attended

THE FOLLOWING ALSO PARTICIPATED:

Stephen Boyle (Auditor General for Scotland)
Derek Hoy (Audit Scotland)
Mark MacPherson (Audit Scotland)
Michael Speight (Forvis Mazars)

CLERK TO THE COMMITTEE

Katrina Venters

LOCATION

The Sir Alexander Fleming Room (CR3)

Scottish Parliament

Public Audit Committee

Wednesday 4 June 2025

[The Convener opened the meeting at 09:30]

Decision on Taking Business in Private

The Convener (Richard Leonard): Good morning, and welcome to the 18th meeting in 2025 of the Public Audit Committee. We have apologies from the deputy convener, Jamie Greene.

Under agenda item 1, does the committee agree to take agenda items 3, 4 and 5 in private?

Members *indicated agreement.*

Section 22 Report: "The 2022/23 audit of Forth Valley College"

09:30

The Convener: Agenda item 2 is consideration of "The 2022/23 audit of Forth Valley College", which is a section 22 report. I am pleased to welcome our four witnesses, who join us in the room. We are joined by the Auditor General, Stephen Boyle—good morning; Mark MacPherson, audit director at Audit Scotland; Derek Hoy, senior manager at Audit Scotland; and Michael Speight from Forvis Mazars, who is the auditor who carried out the initial audit work.

We have some questions to put to you on the report, Auditor General, but before we get to those, I invite you to make a short opening statement.

Stephen Boyle (Auditor General for Scotland): Good morning. I am presenting this report on the 2022-23 audit of Forth Valley College under section 22 of the Public Finance and Accountability (Scotland) Act 2000. The appointed auditors for the college issued a qualified opinion on the regularity of transactions within the 2022-23 annual report and accounts. That was in connection with a procurement breach related to a college-run environment-themed project that ran from 2020 to 2023. The report also covers an issue with invoicing arrangements in relation to the same project and highlights several concerns around the governance and management of the project.

The procurement breach stemmed from a failure to follow college procurement processes at the project's inception in 2020, but there were also missed opportunities to address the non-compliance before it was reported to the college's finance committee in November 2022. The college also reported an issue related to invoicing arrangements for the same project to Police Scotland. The police concluded that, although there had been mismanagement of funds, there was insufficient evidence of any criminal activity. Given that conclusion, we have not sought to make any further judgments on that aspect, which is the preserve of the police.

My report also highlights further governance and management concerns about the project, particularly in relation to how it managed its relationship with an external consultant who was brought in to support the project. My report concludes that there were instances where college staff did not follow college processes and where governance and communication around the project should have been stronger.

The college responded to address those issues and has improved the arrangements for managing college-run projects to reduce the risk of similar issues with other projects in future. The college also produced a lessons learned report that set out a series of recommendations on how to improve the management arrangements for college-run projects. The college has now implemented those recommendations, and I urge it to continue monitoring how effective the new arrangements are and how well staff are complying with them.

Although this issue was both serious and specific to Forth Valley College, there is learning to be taken from the report for the wider college sector. In my previous report on Scotland's colleges, I have reported that the sector faces significant financial challenges. In that context, colleges might look at different solutions to continue to deliver against their objectives. That might well include bringing in external support or engaging in commercial or semi-commercial projects. The section 22 report highlights the risk that colleges may face in that regard if appropriate governance and management arrangements are not in place or not followed properly.

Finally—and separate to the issues that are related to the college-run project—my report also draws attention to the effect of the retrospective change in accounting treatment for the college's 2022-23 annual report and accounts. That treatment applies to the expected costs and related funding that are associated with the on-going job evaluation exercise for middle management and support staff, which I know the committee is familiar with.

The four of us on the panel will do our utmost to answer your questions.

The Convener: Thank you, Auditor General. That is a useful introduction to the report and to our question areas. First, I turn to the delay. Your report is a section 22 report for the financial year 2022-23, but you published it in May 2025. Could you elaborate on the complexities that you have referred to? It seems to the committee that there was an inordinate delay in carrying out the audit and signing off the report.

Stephen Boyle: I am happy to do so. I will bring in Michael Speight in a moment to set out the experience of Forvis Mazars during the course of its annual audit, which the committee has been sighted on.

The annual audit concluded in August 2024. When an audit of a public body—a college, in this instance—is concluded, Audit Scotland receives the annual report and accounts with the auditor's annual audit report for consideration. The complexity that I have referred to stems from a range of different factors that required us to conduct numerous fact-checking exercises in the preparation of the section 22 report. As we refer to in the introductory comments, a number of conflicting views have been expressed about the circumstances that the report sets out. Not only did we have to engage with college staff, but former employees and third parties had to provide the relevant clearance for the report. Given that our report refers to the role of people who are distinct from the public body, our processes require us to give them the opportunity to provide clearance. We had to fact check and receive clearance from a range of parties, rather than follow the fairly standard process that we have undertaken for all the other section 22 reports that we have presented to the committee. That resulted in an elongated process—it is the longest clearance process for a section 22 report since I have been in the role. We hope that the complexities of the different views that were shared with us are reflected in the report.

I am happy to elaborate and can bring in colleagues as you wish, convener, but it might be useful for Michael Speight to set out some of Forvis Mazars' experience when completing the audit.

Michael Speight (Forvis Mazars): When a Scottish college has a July year end, the deadline for completing our audit and signing off the financial statements is the end of December of that calendar year. With the exception of the matter that is at hand in the section 22 report, all the other work was complete by that point. The delay in signing off the report, which was eventually done in August of the next year, rather than by the standard December deadline, was due to the fact that we had to ensure that the content of our audit report and our conclusions were correct and appropriate. Rightly, we received challenge from the college, which resulted in delays. However, the financial statements were delayed and signed later than is standard specifically because of procurement in relation to the Fuel Change project.

The Convener: We will return to the point about delays. It is evident from your report that there were issues going back to 2020, with contracts not having been signed off or not existing at all. You have already mentioned that the procurement breach was identified in November 2022. The issues that have been identified are fairly old. Here we are in 2025 and, perhaps not surprisingly, some of the people who were involved in 2020 and 2022 are no longer there. That is problematic, and it is one of the results of having such a delayed process.

Stephen Boyle: I recognise that point to some extent, convener. Throughout the process, there has absolutely been turnover of people who are party to the report, and changes in board chairs and principals along the way.

However, I accept and recognise that, in a typical situation, the report would have been prepared much earlier. This was an extremely unusual set of circumstances. Once we received the annual audit report from Forvis Mazars, the complexity required us to engage with a range of stakeholders with different perspectives and with contrasting views of the same facts. We were then required to pick through that and present what we hope is a fair and balanced section 22 report on the events that are before the committee.

The Convener: For the record, what is your understanding of the reasons for the departure of the chair of the board of management or the principal and chief executive, for example? Were those reasons related to issues that are raised in the report?

Stephen Boyle: I will bring in colleagues in a moment to say a bit more. We understand that the former principal's departure was not related to the matters that are before the committee and that a planned retirement took place. It involved a not unreasonable decision to have a handover with the incoming principal, who was an internal appointment.

In respect of the chair, that is perhaps linked to the change of principal. We understand that it was the chair's decision to step down in November 2022. I turn to Mark MacPherson to see whether he wants to add anything, but, similarly, it is our understanding that that was unrelated to the project or to the matters that are before the committee.

Mark MacPherson (Audit Scotland): The reason that was given to us for the chair's departure was that, with an incoming new principal, they would prefer the new chair to be involved in that appointment, so that their working relationship could start from a fresh base, if you like. That is as much as we know.

Stephen Boyle: I absolutely recognise that, in such circumstances, a section 22 report can often be a catalyst for a change of leadership at board or executive level, but, unusually, that is not our understanding of reason for the change of leadership at the college.

The Convener: However, one of the changes in posts is related to the findings of the audit and the issues that are discussed in your report: the departure of the project director—the director of strategic partnerships and regional economy. At one point, she had oversight of the project and then, at another point, she formed a company with the external consultant in which she became a co-shareholder and co-director with that external consultant, while still being an employee of the college. Does that not suggest to you a conflict of interest?

Stephen Boyle: I think that these are unusual circumstances. I will absolutely address your point, but, as I mentioned in my opening remarks, we expect to see colleges undertaking more entrepreneurial activity. That might result in employees becoming directors of subsidiaries or more commercially orientated organisations. Getting that right really matters. It really matters to have the right governance and leadership, and to determine how that will work in a group structure and where control will reside, notwithstanding the importance of financial regulations working properly.

You asked about someone setting up a company with a consultant while being an employee. There are two points: transparency really matters—it has to be done with the employer's understanding; and there must be real clarity around roles, responsibilities and, if circumstances change, timelines.

09:45

On the latter point—Derek Hoy might want to say a bit more about this—we found that how the company was set up was not clear. The one that was under the college's auspices did not actually trade, and a new company was set up, which is still trading. I am mindful of the fact that that aspect is not part of our audit work, but it is indicative of the complexity that is involved and the need for absolute clarity from public employees when they are engaging in commercial activities. I will pause and bring in Derek Hoy to add to that point.

Derek Hoy (Audit Scotland): I do not have too much to add, other than that the college was quite clear with us that it was not made aware of the existence of the new entity that was set up. We are not clear about the reasons why it was set up.

The Convener: Paragraph 30 of the section 22 report makes the point that the external consultant appeared to be "managing the project director". You would expect it to be the other way round and that the project director at the college would manage and direct the consultant. That is quite extraordinary, is it not?

Stephen Boyle: Of course. The dynamic of an external consultant managing a college director is really unusual. As we set out in the report, there is a lack of clarity about the origin of the consultant's appointment, why that company was chosen and not another, why the appointment was not advertised and why the college's financial regulations or procurement policy were not followed.

As the project evolved, we saw indications that the college saw a commercial opportunity—"spin off" is the term that we use in the report—so that the subsidiary, which never traded, would become a stand-alone entity. That it was felt, at one point, that the project would go on its own was perhaps indicative of some of the actions and behaviours. Whatever the dynamic was between the project director and the consultant at that point, it was premature, because the project was still a college entity. All those factors are most unusual, but, as you home in on, that example is only one of many.

The Convener: Before I bring in Graham Simpson, I want to turn to something else. We are not the police; we are the Public Audit Committee, but we can reflect on some of the evidence that was presented to an employment tribunal in an unfair dismissal claim by the former project director, which was convened in June 2024.

In paragraph 29 of your report, you say—you also said it in your opening statement—that it was

"clear there was a mismanagement of funds".

You say that that is why the police chose not to proceed. However, the evidence that was captured in the employment tribunal's extended reasons referred to an internal audit. As it was an audit, it very much has provenance, and it is right for the committee, and you as the Auditor General, to address the points that it raised.

The internal audit, which reported on 31 May 2023, raised two quite striking points, which, in my view, go beyond the mismanagement of funds, because it concluded that there were

"false representations by words, or writing or conduct".

It also said that

"the intention to deceive was established."

The audit said that there was "no financial loss", so there was, technically speaking, no fraud, but an "intention to deceive" and "false representations" are extremely damning conclusions to reach in an internal audit report, are they not?

Stephen Boyle: Indeed they are. Those are very serious matters. I was about to use the phrase that you have just quoted, which is that the internal auditor's opinion was that there was an "intention to deceive".

We can step back to a month prior to that, in April, when there were concerns at Forth Valley College about some invoicing arrangements. Having followed its own anti-fraud and anti-corruption policies, the college referred the matter to the police. The internal auditor undertook the investigation into the intention to deceive by looking at who was raising the invoice and where the money was being paid into. The committee has been sighted on those facts.

Like you, convener, I have read the employment tribunal judgment. Many of the facts reported by the judge in that case are not really in dispute, but the intentions are debated. To go back to my previous response, there was felt to be some ambiguity about the status of the subsidiary and about whether it would be transferred out from the college. The college was clear that invoices were to be raised and that moneys were to be paid into college bank accounts, whereas we see from this example and from the internal audit report that that did not happen and that the moneys were paid into third-party accounts. That was contrary to the college's view and to its understanding of the events.

This is somewhat challenging territory, but I will nonetheless continue by saying that the college then followed its disciplinary process, which resulted in the dismissal from the college of the project director. That dismissal was subject to appeal and then went to an employment tribunal, which dismissed the project director's claim of unfair dismissal.

We are all grateful that no money was lost to public funds in this instance, which may have been the basis for the Police Scotland decision that there was no evidence of criminal activity. However, it is hard not to agree that there was mismanagement of public funds and that the opportunity for potential loss existed. That is a matter of public concern and of concern to me and was the basis of my following through on the report from Forvis Mazars by bringing the matter to the attention of the Public Audit Committee today.

The Convener: I invite Graham Simpson to continue the line of questioning.

Graham Simpson (Central Scotland) (Con): A number of companies are named in the report, including Paradigm Futures Ltd and Fuel Change Futures Ltd. I see from Companies House that Fuel Change Futures Ltd is now called Powering Futures Enterprise Ltd and that it has two directors, one of which is the consultant. The other is the former director of strategic partnerships and regional economy, and it was she who lost her job and went to the employment tribunal.

If you do not mind, convener, I will read from the judgment of the aforementioned tribunal, which was held in June last year. The section that I will read relates to a trawl of the email account of the director of strategic partnerships and regional economy. There is an email dated 8 January 2023 from the consultant to the claimant in the case, titled "FC cashflow" and with an attachment named “true cash flow Jan onwards”. In it, Mr Reid stated:

“the attached is what I think our real cashflow is and I have moved some income to when I think it will arrive. We have not been invoicing due to the issues and I am concerned Paradigm invoicing is either illegal or at best clandestine. However if the college invoice it could extend the project beyond 31st March and I cannot imagine they want a tail”—

that is, T-A-I-L. He goes on to say:

“In a reasonable world we would say paradigm is invoicing and as this will be the modus operandi until FC Ltd is set up properly and trading”.

The report from the tribunal later says that

“an internal auditor report”,

which we have mentioned previously,

“was produced dated 31 May 2023. The report found that the email”,

to which I have just referred,

“represented ‘false representations by words, or writing or conduct’, and that there has been an ‘intention to deceive’”—

that is what the convener quoted—

“by not disclosing all of the income relating to Fuel Change activity”.

The judgment says:

“The report went on to conclude that ‘because the amounts due to the College have not been lost the false representation and deception’”—

strong words—

“‘in withholding details of income due to the College has not been successful in gaining benefit or advantage, in that Fuel Change will not benefit as long as these amounts due are paid over to the College. Therefore a fraud is not present at this time because no financial loss has crystallized to date’.”

Well, what if there had been a loss? You have already alluded to that, Auditor General. Has the college had a lucky escape here?

Stephen Boyle: The conditions that created the risk that moneys could have been lost were present, Mr. Simpson; we are of course grateful that that did not happen. Having gone through its processes, the college was not satisfied that its financial regulations were properly followed.

As I mentioned in my opening remarks, we have seen a lack of clarity around governance and management arrangements for this project dating back a number of years, which, as I have mentioned, created the conditions in which moneys could have been lost. Although we are clearly grateful that they were not, the ambiguity in the control environment was such that processes were either not designed as they should have been or not operating as they needed to.

Graham Simpson: How much money could have been lost?

Stephen Boyle: I would probably be speculating, which I am not sure is hugely helpful. The internal auditor’s report refers to the fact that three separate grant income transactions totalling £76,000 were paid into the consultant’s bank account rather than going through the college.

Graham Simpson: So, £76,000—that is not an insignificant sum.

In one of the main points of your report, you highlight a “procurement breach” and

“failure by the college to obtain approval to appoint a supplier without competition.”

From whom should that approval have been sought?

Stephen Boyle: I will bring colleagues in at this point. Derek Hoy or Mike Speight might want to start off by talking about the specifics of the flow of funding and who would approve what at different levels. Derek, do you want to go first?

Derek Hoy: Yes, I am happy to take that, Auditor General.

The college’s procurement policy and procedures at the time stated that spend of up to £1,000 was at the discretion of the budget holder—I believe that, in this instance, the project director would have been the one to decide whether to obtain quotations. Once you get past that stage, there are various stages at which you are required to obtain quotations. That was not done for this project.

When the initial new supplier form—which was part of the processes for the college in setting up a new supplier—was completed, it said that the spend for that was to be a one-off payment of £1,000. Obviously, that ended up not being the case, as the initial invoice was for more than £3,000. Unfortunately, however, I am not clear about the reason why that was on the form.

There is a lot of uncertainty around why that process was not followed. At that point, a contract should have been put in place, and it was not. Approval should also have been sought from the head of financial services. If there were a justifiable reason not to seek quotations and to appoint a specific supplier, that approval should have come from the head of financial services, but it was not sought either.

10:00

Graham Simpson: The head of finance should have been approached and asked to approve the appointment, but they were not. How did it go through, then?

Derek Hoy: That is a very good question. The budget holder—the project director, in this instance—had the authority to approve spend up to £25,000. Once the new supplier form had been submitted and the supplier was on the system as a college supplier, when further invoices came in and further payments were made—I appreciate that this is confusing, Mr Simpson—it was not picked up at that point.

The point that we are making is that that should not have happened. Further payments should have been picked up, but they went through, because of the nature of the process at that point and the fact that initial approval was not sought. That definitely should not have happened; it was a weakness of the process at the time. To an extent, it was also a failure to follow the process.

Stephen Boyle: I will briefly come back in on those points.

Some of this goes back to 2020—that is, to the origins of the project. From what we have been able to ascertain, multiple employees of the college at the time knew that the project had been created and the supplier appointed, but that the necessary contracts and approvals were not in place. Those employees were those in the procurement department, the director of finance, the former principal and the vice principal for finance and corporate affairs, along with the project director and other people in finance and procurement.

Therefore, there was a range of people in management positions who could have taken the opportunity to say, “Actually, we need to follow our processes. This has to be tighter and go through proper management approval and governance arrangements.” However, that did not happen. There were a couple of other instances in the periods that followed where opportunities were available to strengthen governance and transparency but were not taken within the college.

Graham Simpson: So, we have a project director who is an employee of the college and has been able to sign off payments to the company of which she is the director—stop me if I am getting any of this wrong, by the way. That seems to me a situation that is entirely wrong. Would you agree with that?

Stephen Boyle: Yes. As a clarification regarding the directorship arrangements, I would say that, in this example, there are a number of companies with similar names that might have directors in post. Would it be helpful if we clarified the group structure?

Graham Simpson: Yes, please.

Stephen Boyle: Derek, would you be able to do that?

Derek Hoy: Yes. At that point, the payments would have been made to a company called Paradigm Futures Ltd, which is the consultant’s company, but the project director was not a director of that company or involved with it in any way. Fuel Change Ltd was the college subsidiary that was created, and then Fuel Change Futures Ltd was a separate entity that was created by the consultant and the project director, and which subsequently became Powering Futures Enterprise Ltd.

Graham Simpson: Right. Okay.

The Convener: That was in April 2023, I think.

Derek Hoy: Do you mean the change of name to Powering Futures Enterprise Ltd?

The Convener: I think that the creation of a private company in which the project director became a director and shareholder dates to April 2023.

Stephen Boyle: I am fairly certain that you are right, convener. I think that that is set out in Companies House. If that is not the case, we can confirm.

Graham Simpson: I think that that is correct, convener.

The Convener: I am sorry—it was February 2023.

Graham Simpson: Okay. None of this should have happened, so are there questions to be asked of the Scottish Funding Council? It does not seem to have had its eye on the ball. If it had, this would possibly not have happened in the first place. Are there lessons for other colleges to learn to prevent this kind of thing from happening in the future?

Stephen Boyle: There are two parts to your question, and I will take them in reverse order.

Yes, I think that there are lessons for other colleges here. As I have mentioned, Mr Simpson, I know that the committee is very interested in the important role that Scotland’s colleges play. The challenges that many of them are experiencing with their finances mean that they will need to tailor their offer to support the requirements of their local community, the local economy and so on, and that will result in more entrepreneurial activities. In doing that work, they will have to get it right and make sure that the right structures, governance and so forth are in place. There are lessons to be learned across the sector where that is appropriate.

We have not reached an opinion on whether the Scottish Funding Council ought to have been more sighted on and more involved in the project than it was. It is difficult to take a definitive position on that. I do not think that we have any particular insight into the extent to which the Scottish Funding Council was aware, or otherwise, of the matter, until the college board reported to it formally. In June 2023, the college board decided to make the formal disclosure to Police Scotland that we have talked about, and it also made appropriate disclosures to the Scottish Funding Council and the Office of the Scottish Charity Regulator.

As for what predated that, I fear that it is perhaps a matter for the Scottish Funding Council to say whether it would have had more opportunity to report it or whether it felt that that was beyond its role of supporting funding arrangements, given that it was more akin to commercially orientated activity.

Graham Simpson: You have mentioned that you have had to speak to a number of people to get approval for your section 22 report. Was the Scottish Funding Council involved in that? I assume that you have spoken to the council about it.

Stephen Boyle: I will bring in Mark MacPherson in a second, but I should make it clear that we do not ask for approval for our reports. We go through fact checking—

Graham Simpson: It is for accuracy.

Stephen Boyle: Indeed. We check for clearance and accuracy rather than approval. Mark MacPherson can say more about that.

Mark MacPherson: Ultimately, the report focuses on two distinct, though related, issues about the same project. The procurement issue is a localised one to do with the responsibility of the college. I would not necessarily expect the Scottish Funding Council to be sighted on every procurement and every procurement breach. However, as the Auditor General has already stated, once the college became aware of the procurement breach, it brought it to the Funding Council's attention.

As for the invoicing, none of the funds that we are talking about in relation to the issues that were raised with the invoicing came from the Scottish Funding Council. They came from other sources, so the Scottish Funding Council might not have been sighted on that, either.

As the Auditor General made clear in his opening remarks, there are wider lessons for the sector and, potentially, for stakeholders in the sector, including the Scottish Funding Council.

Graham Simpson: As you have said, colleges might increasingly go down the route of setting up such bodies, so rules or strong guidance need to be in place. I would have thought—and you can comment on this—that the Scottish Funding Council should be heavily involved in that.

Stephen Boyle: I absolutely agree. The Scottish Funding Council has a clear interest in supporting the effectiveness and financial sustainability of Scotland's colleges. If this is a natural progression, which seems to be the case, and colleges do undertake more commercially orientated activities, the Funding Council, the colleges themselves and Colleges Scotland will want to be satisfied that they are doing so in a way that allows them to manage risk safely. I agree that the Funding Council has a stake in how colleges evolve their offer to support their local communities.

The Convener: I turn to Colin Beattie, who has some questions to put to you.

Colin Beattie (Midlothian North and Musselburgh) (SNP): I have a general question to start with. Other than arm's-length foundations, do colleges have a history of creating and owning companies? Universities do, but I had not heard that colleges were into that in any significant way.

Stephen Boyle: Mark MacPherson probably has a longer history with Scotland's colleges than I do, but I do not think that it is terribly unusual. It reflects the fact that public bodies are able to do certain things within the confines of their organisation, consistent with their establishment and their articles of association. There are tax implications to undertaking commercial activity in a public body—of course, the committee has recently taken evidence on public bodies—and undertaking commercial activities inside a public body may be equally problematic. It makes sense, with the right structure, for a public body to undertake commercial activity and, with the right advice, to do so in a commercial setting, ensuring that the control and regulations are all set appropriately.

Colin Beattie: Does the SFC manage that? How far does it monitor such activities?

Stephen Boyle: I will bring in Mark MacPherson in a moment. Accountability is twofold. First, it is the responsibility of the board of management of the college, assuming that there is clarity around ownership, roles and responsibilities. Ultimately, the chief executive of the SFC is the accountable officer for the flow of funds across Scotland's colleges, so they have an interest. That does not necessarily expand into a daily insight, or even an insight in the course of a year, into the projects and commercial activities in Scotland's colleges. I am sure that Mark will want to elaborate on that.

Mark MacPherson: It is reasonable to expect that colleges will have a degree of autonomy in determining how best they achieve the objectives that they have agreed with the Scottish Government, via the Scottish Funding Council. I would not necessarily expect the SFC to have a clear handle on everything that goes on throughout the sector. As the Auditor General said, commercial activities are not unique to that college. I hope that the nature of this issue is unique to the sector, but the intention to engage in commercial activity is not unusual. Over the past few years, colleges have had to think differently, given that, as we know from the 2014 changes to their status, they are now public bodies. We are back to the core point, which is that, whatever arrangements colleges seek to set up to deliver any commercial activity, they need to be very careful that they manage those in alignment with public body expectations.

Colin Beattie: I accept the need for colleges to have a degree of autonomy to run their business, but is there any oversight of the subsidiaries by the SFC?

Stephen Boyle: I would probably have to refer the committee to the SFC about whether that features as part of its regulatory scrutiny and oversight arrangements. We know that the SFC takes a keen interest in how the sector is performing. It will scrutinise annual reports and accounts, delivery, funding, outcome agreements and so forth. I suspect that colleges would say that there is no shortage of oversight of their activities by the SFC. It is probably best for the SFC to address the point about whether that drills down into the performance of individual subsidiaries.

Colin Beattie: If these are separate subsidiaries, appointing their own auditors and all the rest of it, to what extent does Audit Scotland have an overview of what is going on under the surface?

Stephen Boyle: I will turn to Mike Speight. As an auditor appointed by me, Mike is auditing some of Scotland's colleges, so he can say a bit more about how that operates in a group setting. You have not asked about this directly, but I will refer to the Fuel Change project, which was set up as a subsidiary of Forth Valley College. The college was the sole shareholder of Fuel Change Ltd, which gave it complete ownership and control. Even though the subsidiary did not necessarily trade, there is no lack of clarity about its ownership and control. Mike might want to say more about that point or, more generally, about group audit activities.

10:15

Michael Speight: In respect of Forth Valley College, because the subsidiary was dormant, there was no requirement for us—or for that matter any other auditor—to sign an audit opinion on its financial statements. The Forth Valley College financial statements are for the college itself, rather than being the consolidated financial statements.

We have another college that we audit on behalf of Audit Scotland that has an active subsidiary that has operations and financial transactions taking place within it. In that scenario, as well as the appointed external auditor for the college, we are the appointed external auditor for the subsidiary. With the Auditor General's blessing, our audit opinion in the college accounts covers the college itself and the group. The difference with Forth Valley College is that, because the subsidiary was dormant, there was no requirement for us to do any audit work over it.

Colin Beattie: I am concerned that colleges could have subsidiaries operating outside of proper monitoring of what are ultimately the public funds that go into setting them up and operating them. Are colleges moving down the same route as universities in creating companies and subsidiaries that they can build up and then spin off in exchange for cash? Is that where they are going?

Stephen Boyle: That will be the case for some subsidiaries. I will probably speak in general terms rather than specifics, but if colleagues want to add any specifics that are helpful to the committee's understanding, that would be welcome, too.

I think that we will see more entrepreneurial activity and more focus on undertaking activities that benefit or are aligned to colleges' wider objectives but that, for good reason, cannot be undertaken by a college directly. For example, in the case of Forth Valley College, there were multiple funders for the origins of the Fuel Change project, which perhaps relates to some of the tax implications. As we mention in the section 22 report, part of the motivation was that the subsidiary could be spun off and could generate a return for the college, either as a one-off or through whatever future arrangements would materialise.

Clearly, that did not happen in that example, but it led me to one of the conclusions of the report that is applicable to the wider sector, which is that it really matters that colleges get this right and are satisfied that the governance, management, control and tax arrangements are all proper and solid for the commercial activities that they undertake. There is a degree of inevitability that more colleges will feel that such activities form part of their wider activities and offer and can address the requirements of the communities that they serve and of staff and pupils as well as the financial circumstances that some of Scotland's colleges face.

Mike, if you want to add anything, please do so.

Michael Speight: I will make a general observation. We know that, generally in the college sector, colleges are good at having controls and processes over their normal core activities. As the Auditor General says, as colleges are looking to do entrepreneurial work, perhaps with greater frequency or in different styles, ensuring that the controls and processes are in place in advance of those things happening is key for colleges to manage their risk appropriately.

Colin Beattie: I recall an Auditor General—I cannot remember whether it was you or your predecessor—saying that the Auditor General has no locus in auditing ALFs that are college spin-offs. I worry that something could be festering out there, out of public sight, that could impact on a college.

Stephen Boyle: I would need to check the *Official Report* to find out whether it was me or my predecessor who identified that point, but it is true that there is a risk of contagion or lack of oversight within one part of the group that then feeds through to the public body.

The board of management and the executives have a real responsibility to ensure that they are managing risk and reporting transparently, and there is also an audit dynamic. Mike Speight might want to say something about some of the audit approaches. There are new auditing standards on group audits that I hope will give additional reassurance to the public, users of accounts and the Parliament that the risks are being managed appropriately. I will pass back to Mike.

Michael Speight: As I understand it, there are two scenarios in respect of ALFs. Under one, the college would appoint sufficient trustees so that, in effect, it controls the ALF, in which case it would be classified as the equivalent to a subsidiary and would be included in consolidated financial statements. In the other scenario, the college does not appoint the majority of trustees, in which case it would not exercise control over the ALF, which would therefore be excluded from any consolidated financial statements. As I understand it, the situation with Forth Valley College is that the majority of the ALF's trustees were not appointed by the college and, therefore, it sat outside any group accounts that would otherwise exist and effectively acted independently from a financial reporting and auditing perspective.

Colin Beattie: Other than the immediate relationship between the college and that particular vehicle, would you not have a locus to look into the health or otherwise of the subsidiary, assuming that the majority of the directors are not from the college?

Michael Speight: In the scenario in which the majority of the directors are not from the college, we would not be required to undertake audit work for the ALF, and it would not be part of our engagement work to sign off an audit report on it. As I understand it, if an ALF required an audit, that would be undertaken separately. From the perspective of the Forth Valley College audit, the only scenario in which we would have looked at anything to do with the ALF would have been if, for example, it had committed to provide grants to the college and we needed to understand that it was possible for it to pay those grants. In that instance, I do not believe that that was the case.

Colin Beattie: If the subsidiary was audited separately, would Audit Scotland have sight of the audit reports? Would you scrutinise them in the interests of looking at the health of the group?

Stephen Boyle: As Mike suggests, that would depend on the extent to which the entity was consolidated into the college's group accounts, which would in turn depend on where the line was drawn regarding who controlled the entity and whether there was a minority stake, a controlling arrangement, or otherwise. An audit would be based on those boundaries. More fundamentally, responsibility rests with the college's board of management, which must be satisfied that any arrangements that are undertaken in joint ventures, associate entities, or subsidiaries are being controlled and managed properly.

Colin Beattie: Clearly, that does not always happen.

Stephen Boyle: No, indeed. It does not always happen in a range of organisations, both in the public and private sectors, but those instances are typically limited. Appropriate responsibilities are set out in the Scottish public finance manual, codes of governance, the Companies Act 2006, and so forth, for directors to properly follow processes. As ever, an audit offers reasonable assurance of the results that are contained in the annual report and accounts but, most fundamentally, the responsibility for getting the finances, financial transactions and internal control environment right rests with the board of management.

Colin Beattie: To be clear on that point, am I correct that Audit Scotland would not look at the audit reports on any company that has a majority of non-college related directors?

Stephen Boyle: If there are matters in an audit or a set of accounts of a subsidiary that are of clear relevance to the college's board, an auditor would absolutely look at them. They would want to be satisfied about the totality of the arrangements. As I mentioned, there are auditing standards that auditors who are appointed by me will follow in relation to group accounts. Those standards will make sure that the auditor is sighted on the totality of the risk.

As Mike mentioned, the appointed auditor of the public body will also engage directly with the auditors of subsidiaries, when they are in place, to make sure that there is a proper flow of communication and an understanding of the relevant risks. In this case, the company was dormant, so there could not be such engagement with regard to the specific circumstances that are before the committee today.

Colin Beattie: Talking of which, I had better get back on track with this particular issue. In key message 2, on page 3 of your report, you talk about the college failing

"to draw up and agree contracts for expenditure totalling over £900,000".

How many contracts does that refer to?

Stephen Boyle: My apologies, Mr Beattie, did you ask how many contracts?

Colin Beattie: Yes; they are mentioned in the plural.

Stephen Boyle: Yes, indeed. I will pass the question to Derek Hoy to be absolutely precise, if we can, about the number of contracts. A range of different entities were involved in addition to the work of and engagement with the consultant.

Derek Hoy: I understand that there were three different suppliers for which procurement procedures were not followed, meaning that there was no contract in place. Only one of those suppliers, Paradigm Futures, went beyond the £50,000 threshold that would require the college to include the procurement in its annual procurement report.

Colin Beattie: Okay. The report also states:

"College staff were aware of the absence of a contract and appropriate approvals from the early stages of the project in 2020".

Other than the fact that the non-compliant expenditure was not timeously reported to the college's finance committee, were proper procedures followed?

Stephen Boyle: I do not think that we can give you that assurance. As we set out, there was

"a failure by the college to obtain approval to appoint a supplier without competition."

Again, that is contrary to the financial regulations, the procurement policy and the procedures that were in place.

Bridging into some of the governance issues that you have alluded to, members of staff in the college, including senior officials, were aware that those circumstances and a lack of sufficient transparency in the annual procurement report had been allowed to continue for nearly three years. Staff were aware that there was non-compliant procurement spend but, for some reason, that did not feature in the annual procurement report, which would have brought it to the attention of the college's finance committee.

There were undoubtedly missed opportunities regarding the origins of the appointment and the facts that the opportunity for public contracts had not been advertised, that a sole supplier approval process had not been undertaken and that that was not closed off with a transparent disclosure to the college's finance committee. There are multiple examples of opportunities that were not taken to be transparent and follow proper policies and procedures.

Colin Beattie: Given what you have said, and given that your report confirms that the college acknowledges that the transactions "should have been reported" and that they were not, did the college give any reason why the absence of a contract had not been reported?

Stephen Boyle: I will bring Mark MacPherson in to say a bit more about that. It goes back to my very first response to the convener: this is part of the reason for the elongated timescales in the report. There is a lack of clarity and conflicting views on the status of the project and the roles and responsibilities. With some frustration on our part, Mr Beattie, we do not really have a clear understanding of why what we feel to be fairly standard processes were not followed with regard to compliance with policies, rules and regulations.

Colin Beattie: Before Mark MacPherson comes in, can I also ask whether anything in college minutes or records indicates that the matter was even considered?

10:30

Mark MacPherson: I think that the college knew that a contract was not in place. A lot hinged on the creation of the subsidiary. There was an expectation that that would transfer everything, so there would be no need for a new, separate contract. However, as we say in the report, the subsidiary was delayed on a number of occasions. There were a number of points at which there were opportunities to put a contract in place, even if it were for only an interim period until the subsidiary became live. As we know, the subsidiary never became live, so there was a long gap without the necessary contract being in place.

Colin Beattie: From what you have said, the college has not really given an adequate reason why, given the knowledge that it had, it did not do anything.

Stephen Boyle: Yes. That is our assessment. We have not received a clear, comprehensive or satisfactory explanation as to why, from the outset of the project, full college processes were not followed.

Colin Beattie: The report says that the

“review of the procurement in relation to the Fuel Change project ... identified spend of £677,597 (excluding VAT) across three suppliers that were appointed without a procurement process being followed, and resulting in breaches of the Financial Memorandum.”

Will you explain what the financial memorandum is, its role in governing college spending and how it interacts with procurement and governance frameworks?

Stephen Boyle: I will bring in Derek Hoy to say a bit more, and if Mike Speight wants to say anything, he is welcome to do so, too.

The context of this is the work that the vice-principal for finance and corporate affairs undertook in November 2022. As we have reported, the three suppliers were in place without a procurement process having been followed, and there was an associated breach of the financial memorandum. That is clearly a significant matter.

Against that backdrop, although no funds were lost to public bodies, it is an example of public funds being spent without proper processes being gone through. That is a degree or two less significant in terms of magnitude, but there is no satisfaction for the Public Audit Committee that public money was spent appropriately, even if there is general comfort that the money was spent according to the original intention.

Derek Hoy might want to say a bit more about the financial memorandum.

Derek Hoy: The college had its financial regulations in place, which determined how college staff should deal with issues of expenditure. Everything that was going on in and around the Fuel Change project should have adhered to the financial regulations that were in place, the procurement policies and procedures, the need to have a contract in place, the need to obtain single-source supplier approval et cetera. That is the framework within which the project operated and by which it should have abided. As the Auditor General said, we are unclear about the reasons why that was not followed.

Colin Beattie: I presume that the college was aware that it was breaching the financial memorandum. Did that not ring any alarm bells? The amounts of money and the transactions are not insignificant. Why did audit not pick that up previously, given the length of time that had passed?

Stephen Boyle: I will address both those points. Were there any concerns? Yes—in September 2021, the vice-principal for finance and corporate affairs raised concerns with the principal of the college over some of the management of the project.

We understand that two months later the principal and the vice-principal had meetings with the consultant to discuss some of the governance issues with the project, including fundamentals about how it was being structured—whether it was a subsidiary or whether it should be spun off at that point. There was also discussion about the employment status of the project director.

Colin Beattie: Were those meetings minuted?

Stephen Boyle: Maybe my colleagues can answer on the detail, but some of it is reported in the employment tribunal judgment. I will pause for a second now to confirm that.

Derek Hoy: The meeting in November 2021 to which the Auditor General referred was minuted. An email minute was circulated to those who had been in attendance.

Colin Beattie: Do we have sight of that?

Derek Hoy: I do not think that you will have sight of it, but we have it on file.

Colin Beattie: It might be useful for the committee to see it.

Stephen Boyle: We can certainly follow up to share appropriate information with the committee.

Going back to the totality of your question, Mr Beattie, I think that it speaks to the extent to which issues with the project were known about but not adequately followed through to a clear position, including when the issues were about governance. That is interwoven with the ownership and status of the project.

Here is an interesting example. We talked about the discussions that took place in November 2021 on whether the project should remain a Forth Valley College project. In September 2022, the consultant and project director engaged with the college’s principal on a proposal to transfer the project to them, and it is reported that that former principal agreed to that approach. It was then proposed that £2 of shares would be transferred in terms of ownership of the project. However, the project transfer never took place, because there was an assumption that the Finance and Public Administration Committee would receive it as a request, but that did not happen. I would describe that as a swirl of ambiguity around decision making and ownership.

We found out through our clearance processes that a discussion would take place, but parties left the meeting with a different understanding of what had transpired. There was a lack of clarity and transparency about how the project was being run and what its future intentions were.

Your other question was about audit and the timing of the reporting. Forvis Mazars, through the first year of its appointment—Mike Speight can say more about this—identified through discussion or reporting by the college that there had been concerns about internal audit. Latterly, the board of management also reported that to the company, and that resulted, as I have mentioned, in a qualification of the college's annual reporting accounts in 2022-23 in relation to regularity of expenditure.

We also know that the previous auditor, as all auditors do, sought representations from management. Management is required to inform its auditors of matters of which the auditors need to be made aware and of circumstances that would cause the auditors to consider their reporting and their opinion. However, the auditor did not receive that information—it has advised us that it was not made aware of the circumstances that are before the committee this morning. You are right that this goes back a number of years.

I am satisfied that Forvis Mazars identified the issue, reported it and brought it before the committee today. I will bring in Michael Speight to say more about the events leading up to the regularity qualification.

Michael Speight: It is probably unfair for me to pass comment as to what happened before our appointment because that is not something that we are fully privy to the information on.

In respect of the information that the college provided to us, we were appointed, and the first audit committee that I attended with Forth Valley College was the May 2023 meeting. There was open and transparent discussion of the situation at that meeting. From my perspective, the college has been transparent about the situation with us, and it has provided us with information as required.

It has provided appropriate challenge to the conclusions that we initially drew, which is absolutely right and proper from its perspective, but at no point have I felt that we have not been given the information that we have required to draw our conclusions. When we have asked questions, they have been answered.

I cannot pass comment as to what happened in the past. Perhaps the only thing that I can say is that I am sure that an auditor who was aware of the situation would have included some comment in the annual audit report. Certainly, in that scenario, we would have included some comment. I cannot tell you what our conclusion would have been in terms of audit opinion overall, but there would have been some mention of the situation.

Colin Beattie: I will move on to my final question, which relates to the non-compliant spend. Everybody was aware that no contracts were in place. Who authorised the expenditure, and who should have agreed and put in place those contracts?

Derek Hoy: The expenditure was approved by the project director up to the point of their authority, which was £25,000. It was signed off by the project director and authorised by the principal. After expenditure went over the £25,000, the principal was signing off on the expenditure.

Colin Beattie: Were they, in fact, signing off in the full knowledge that no contract was in place?

Derek Hoy: I am not entirely sure of exactly when the principal became aware that there was not a contract in place, but it is safe to say that he did become aware of it at some stage when he was approving the expenditure.

Stephen Boyle: Just to be absolutely clear, are we referring to the former principal?

Derek Hoy: Yes, the former principal.

Colin Beattie: Okay. I will leave it at that.

The Convener: Colin, thank you very much indeed. I invite Stuart McMillan to put some questions to you, starting off on governance and then about whether things have changed.

Stuart McMillan (Greenock and Inverclyde) (SNP): Before I ask those questions, I want to go back to the line of questioning from Colin Beattie and Graham Simpson. Bearing in mind that various lockdowns took place between 2020 and May 2023, was Covid ever brought up during your audit work and engagement with the college? It did not come up in the report, and it has not come up so far in this evidence session.

Stephen Boyle: I will turn to Derek Hoy and Mike Speight to address that, because you are right that we did not cite the Covid-19 pandemic or different ways of working as a contributory factor.

I may come back in in a second, but I will bring colleagues in first.

Derek Hoy: In the audit interviews that we carried out, a number of the individuals involved mentioned that the circumstances at that time were different from the way that the college had been used to working. They did not go into great detail about exactly how that affected the situation or what direct impact it had, but it was certainly mentioned that the college was working under difficult circumstances at the time, as everybody was.

Michael Speight: The only thing that I would add is that the vast majority of our focus was on the 2022-23 financial year, at which point Covid was something that we had learned to live with. I can think of no scenario in which anybody at the college said that that was a contributory factor to the scenario as it happened.

10:45

Stephen Boyle: I am not sure how much weight to give to the pandemic. You can see that we have not put particular emphasis on the pandemic as a justification for the circumstances that are before the committee.

All public bodies were quite quickly dealing with different ways of working, so I do not see that as sufficient mitigation for the events that the committee is discussing. We all had to adjust quickly and that was not an appropriate reason for not having adequate procurement, governance or management arrangements in place.

Stuart McMillan: I am certainly not using that as any type of mitigating factor, but 2020 was a huge shock for everyone and affected how we went about our normal business and, when I was reading the report, I considered whether that was part of any attempt not to follow due process.

Stephen Boyle: We are clear that the financial regulations and the policies were not followed. Derek Hoy might correct me, but I do not think we have seen any evidence that policies were amended to allow for a change of authorisation, reporting or governance arrangements. Instead, the policies that were in place were not followed, as we set out in our report.

Stuart McMillan: That is helpful.

I turn to governance. Paragraph 30 of your report seems to demonstrate that there was poor communication and that some individuals failed to carry out the roles that were expected of them. Given that two years have elapsed since the issue came to light, are you assured that steps have been taken to ensure that such a situation will not arise again?

Stephen Boyle: I think that we are, and I hope that that is an important assurance for the committee. The detail of the circumstances that are before you has been reflected in a lessons learned report, and the actions that are associated with those lessons have been implemented. I can bring in Derek Hoy and Mike Speight if they want to share the detail of that.

You are right that time has moved on and that some of the issues that are before the committee ought to have been addressed. I reassure the committee that, as ever, I will continue to keep a careful eye on the circumstances by looking at the audits from Forvis Mazars and will report as necessary on any progress—or otherwise—that is being made. Given the timescales, we felt that it was appropriate to update the committee today on some of the lessons learned and the implementation of actions.

Does Derek Hoy want to say more?

Derek Hoy: We saw a definite link between the recommendations that came from the lessons learned report and the issues that occurred in relation to the Fuel Change project, so we think that the recommendations are relevant. There are several things in there. One of the most important recommendations is the requirement that senior management team members must now have oversight of major projects, because that key element was, perhaps, missing from the Fuel Change project.

All 12 recommendations that were made in the lessons learned report have now been actioned, so we are content that progress has been made. It is for the college to monitor the effectiveness of those arrangements and to ensure that they are having the effect that is hoped for. It is also for the college to monitor staff compliance with the arrangements. It is one thing to have arrangements in place but, as we have seen, issues can occur if processes are not followed.

There is another thing to say about the recommendations of the lessons learned report. We agree that the recommendations reflect the issues that occurred with the project, but it is worth mentioning that the lessons learned report was an internal college document. The circumstances surrounding the departure of some of those involved meant that not everyone who was involved in the project had the opportunity to feed into that report, so it may lack a degree of objectivity and input from everyone who was involved in the project. The college would say that achieving that would have been difficult in the circumstances, but that means that the report lacks a degree of objectivity.

We are assured that we can see a clear link between the issues that occurred and the recommendations that have been made. We are pleased that progress has been made and that those recommendations have been actioned.

Stuart McMillan: In December 2024, the board of management agreed that the dual role held by the vice-principal of finance and corporate affairs as secretary to the board of management should continue, despite the board acknowledging that the arrangement does not comply with the "Code of Good Governance for Scotland's Colleges". Do you know why the board of management took that decision?

Stephen Boyle: I will ask colleagues to say a bit more about the board's rationale. We draw attention to that in our report because it does not comply with the code of good governance. There is the risk of a conflict between the role of the vice-principal and that of the secretary to the board.

It is welcome that the board is keeping that arrangement under review, but we would perhaps want more comfort about the circumstances in which a conflict of interest would be identified and how the board would deal with that, notwithstanding the fact that there is a deputy secretary in place who could exercise the secretary's function in such a case.

We know that such an arrangement is not unique to Forth Valley College. It is perhaps an area for the Scottish Funding Council, which oversees the code, to consider. The SFC needs to decide whether it is content that there is ambiguity in the code that allows for such circumstances—or, to use a stronger term, such non-compliance—to exist.

From my perspective, given some of the events and governance challenges that have taken place at Forth Valley College, there is perhaps even more reason to need to be absolutely satisfied that the arrangement is right. It may be for the Scottish Funding Council to be satisfied that both sets of circumstances can exist. We feel that it is appropriate to highlight that this is an area of non-compliance by the college. Derek Hoy can say a bit more about the board's thinking.

Derek Hoy: I do not recall any specific rationale being included in the minutes of the board meeting when the issue was considered again last year, although I would need to return to the minutes to be absolutely sure of that.

The college sees the position of deputy secretary to the board as a potential mitigation of the risk of a conflict of interest. That is obviously for it to decide. I am not sure whether the Auditor General would take absolute assurance from that, but that was one of the mitigations that the college offered up to explain the decision to continue with the dual role. I do not recall whether any rationale was in the minutes of the board meeting; nothing springs to mind.

Stuart McMillan: That is certainly something that would be worth while to look at if you could send that to the committee—thank you.

Paragraphs 32 to 37 of your report cover the complex issues that relate to the qualified opinion on the college's accounts. Can you provide further detail on the key stakeholders that the college reported those issues to?

Stephen Boyle: I am happy to start. As a precursor, we note that there was poor communication between the different stakeholders who were involved throughout the process. There was ambiguity about what was actually discussed and decided in different meetings, and there were deficiencies in relation to communication to college committees and in relation to governance around procurement, reporting, internal control and management arrangements.

In paragraph 36—Derek Hoy might want to speak about the specifics—we say that the totality of the lessons learned and the recommendations generally reflect the issues that are set out in today's report, together with the important role of the committees and the board of management. It would be welcome if Derek Hoy set out some of the timetable for that.

Derek Hoy: On reporting to key stakeholders, once the procurement breach became apparent and had been reported through the college's finance committee and board, the college informed the Scottish Funding Council, as it was required to do. The Funding Council was made aware as and when was required.

On the issues that came out of the internal auditor's report, the college informed the Funding Council and the Office of the Scottish Charity Regulator. As you know, it also reported the matter to Police Scotland.

Stephen Boyle: There was clearly a reaction in the college to the circumstances. In April 2024, the college was satisfied that there were concerns that fell under its anti-fraud and anti-corruption policy. It reported the matter to its internal auditors, the Funding Council, the charity regulator and the police. There was definitely an energy behind some of its reporting, and there was clarity at that stage. There was further consistency of reporting of the issues thereafter. That allows us to take greater comfort that the matters that predated the issue are understood and that, together with the lessons learned report, they are being actioned.

Stuart McMillan: Can you provide further detail on the three recommendations from the lessons learned report that are being implemented on an on-going basis? What progress is being made?

Derek Hoy: I do not have the specific details to hand, but I can forward that information to the committee after the meeting.

Stuart McMillan: That is helpful—thank you.

Paragraph 39 of the report states:

> "The annual audit report 2022/23 concluded that, with the exception of the issues related to the project, Forth Valley College has effective arrangements in place for financial planning, governance and performance management."

That sounds a wee bit contradictory—it certainly contradicts what we have heard this morning. How can the arrangements that were in place at the time have been effective if they enabled the situation that has arisen?

Stephen Boyle: Mike Speight can give his opinion after I say a couple of introductory things. When it comes to a regularity opinion, a qualification is a very significant matter. I emphasise that such circumstances, when one of Scotland's public bodies receives a qualification of any kind, are rare. A regularity qualification means that proper laws and procedures have not been followed in spending, typically from the Scottish budget—money has not been spent in accordance with procedures. That entails reporting publicly to the Parliament when the accounts are laid to say that the moneys were not spent in accordance with the proper procurement procedures, and that is a hugely significant matter. Today's report builds on that and highlights specific points about governance, control and management that relate to the project.

Under the code of audit practice, the appointed auditors are required to consider governance and management more widely, including financial management and financial sustainability issues, in undertaking their audit on an annual basis. Those two things can co-exist. As we have seen through the annual audit report from Forvis Mazars, more assurance has been offered on the totality of the arrangements at the college, as has been set out. I am happy to bring in Mike Speight on his firm's rationale for that.

Michael Speight: At the risk of oversimplification, if we take what Forth Valley College does as core education, with the Fuel Change project separate, we are in effect saying that we have not identified anything in the college's core workings that creates cause for concern, except when there is overlap of those areas.

In respect of the Fuel Change project, significant issues were highlighted that resulted in the qualification. The 2023 financial statements and annual audit report also mention the code of good governance in relation to the vice-principal for finance and corporate affairs having had a conflicting position.

With the exception of those issues, we did not identify anything that was a cause for concern. To boil this down—this is an oversimplification—having the two areas of the college's activities perhaps explains some of the root cause.

11:00

Graham Simpson: I want to clear something up, if I can. Paradigm Futures, which has one director, was given work that was not advertised and for which there was no competition. Has anyone explained why the work went to Paradigm Futures rather than someone else?

Stephen Boyle: Derek Hoy can answer after I respond. We understand that, when Paradigm Futures was appointed, the project director's view was that a one-off piece of consultancy work would be undertaken. However, as that evolved, no contract was issued and no single-source supplier approval was sought. It was the project director's responsibility to have gone through that initial process. Will Derek Hoy confirm that?

Derek Hoy: Yes. One of the areas that we struggled to get a solid answer on was exactly how Paradigm Futures came to be appointed and why no single-source supplier approval was in place. As the Auditor General mentioned at the start, we have had conflicting and contradictory evidence from various sources on that. We are not really clear exactly how that came about. There was an absence of any formal procedures, so there is no contract in place and no service specification that details, for example, what the consultant was appointed to do, for how much money, by when and so on. None of that was in place.

It was really difficult to know the exact basis on which the consultant was appointed. That is as far as we can go on that. It is one of the uncertain areas in the report.

Graham Simpson: It is quite key, is it not? Paradigm Futures is basically one person. Was there any evidence that that individual—we have not named anyone today and I will not—knew people at the college before the job was awarded?

Derek Hoy: He previously knew the former chair and principal and had met the project director at an event not too long before the project came into being.

Graham Simpson: What event was that?

Derek Hoy: I cannot recall off the top of my head. I think that the project director was presenting at the event, but I do not know its exact nature.

Graham Simpson: So the individual knew the former chair. Do you know what the nature of that relationship was?

Derek Hoy: No—I do not.

Graham Simpson: They just knew each other.

Derek Hoy: I know that they knew each other beforehand, but I cannot confirm the nature of that relationship.

Stephen Boyle: There is an unsatisfactory lack of evidence to the audit trail for understanding the origins of the relationships and the public expenditure. Public officials regularly meet people from organisations that wish to contract with them. We have procurement policies, financial regulations and reporting to committees to safeguard public expenditure and individuals.

It is clear from all the circumstances that policies were not followed and that there was not proper governance or opportunities for intervention. As we have talked about, many people in the college knew of things that had not been reported or policies that were not being followed properly, but that was not reported on a timely basis. Our report says that, from our perspective, policy has not been followed properly, communication has been poor and governance and management opportunities have not been taken.

Graham Simpson: You said that you struggled to get straight answers—or clear answers. Was "Why did you appoint that individual?" one of the questions that you asked?

Derek Hoy: Yes—we asked how the appointment came about. As I said, a lot of the evidence was inconclusive and contradictory. We tried to stick to what was in writing, which was very little. In the absence of anything specific, we would not care to form a solid judgment.

The Convener: There are big questions about transparency, and why there are so many big questions about it is what underlies the committee's concern.

At the end of the report, you take us into the terrain of accounts directions from the Scottish Funding Council on something that the committee has previously taken evidence on—the job evaluation process for non-teaching grades, although I think that you mentioned middle management as well as other jobs in the college sector. The committee's question is why that is included in the report.

Stephen Boyle: We wanted to be transparent with the committee about the totality of the relevant circumstances. As has been mentioned, Forvis Mazars concluded its audit in August 2023 and, because of the timescale and the subsequent change of accounting treatment, this set of accounts, in effect, contains a material misstatement. I acknowledge that it is a fairly technical point, but we want to be transparent with the committee that the 2023-24 accounts will have a prior year adjustment to allow for the change of accounting treatment, which the Scottish Government's accounts direction requests. As you said, there is a fair amount of detail on page 12 of our report, which sets out the origins of the change and what that means in accounting treatment, but we referred to that because we felt that it was relevant to the circumstances of the college's annual report and accounts.

The Convener: The job evaluation exercise has not yet been concluded so, although I recognise what you say about the technical issues around accounting and how the accounts of Forth Valley College—and of individual colleges across the sector, I presume—are produced, we are still waiting for the outcome of the exercise and what that means in financial terms, albeit that I think that the Scottish Government has given an undertaking that it will fund any additional costs that arise from the process.

Stephen Boyle: You are correct on both those points, convener. The process is on-going, but the reason for the change in accounting treatment was about responsibility for funding that process moving from the Scottish Funding Council to the Scottish Government. We looked to set out in a transparent way what that means for individual colleges as part of an on-going process.

The Convener: Thank you very much indeed. You have undertaken to supply further information for the committee's due consideration, so we look forward to receiving what you are able to release to us—that will be helpful. The committee will need to consider our next steps. There are some unanswered questions that even you have not been able to answer, so we will need to consider how best we can address them. For the time being, Auditor General, I thank you for leading the evidence giving this morning. I also thank Mark MacPherson, Derek Hoy and Michael Speight for their contributions.

11:09

Meeting continued in private until 11:49.

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