

SFC's Expectations of Good Governance



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Summary: This report is designed to enhance good governance in colleges and universities. The publication sets out what we have learned about sector and institutional governance from analysis of governance effectiveness review reports and Professor Gillies' report into the University of Dundee. The report provides clarity about SFC's expectations of sector governance and how SFC will monitor governance.

FAO: Principals, Chairs, Finance Directors and Board Secretaries of Scotland's colleges and universities and the general public

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Context

1. In June 2024, the Scottish Funding Council (SFC) published its [Outcomes Framework and Assurance Model](#) (OFAM) as the framework that replaced the Outcome Agreements and brought together all of the monitoring and engagement that SFC undertakes in relation to institutional outcomes and performance. One of the core principles that guides the Outcomes Framework, and the Assurance Model that underpins it, is that colleges and universities have flexibility in demonstrating how they deliver the outcomes – this reflects that no two institutions are exactly the same – and that their context can be taken into consideration in understanding how each has delivered the outcomes. SFC is considering how it enhances its institutional scrutiny and the proposals in this document form part of that – this may include an enhanced approach to monitoring financial viability and sustainability, revised Financial Memoranda and updated OFAM guidance.
2. The OFAM includes an explicit expectation about how colleges and universities operate under the Good Governance outcome, which states:

Governing Bodies demonstrate good governance and accountability, including ownership of institutions' performance, compliance with SFC's requirements, proactive risk management, value for money, leadership and integrity in decision making and the way they conduct their business, and having regard to the principles of Fair Work and fair access.

3. In the published OFAM, we set out that the method of monitoring delivery of the Good Governance outcome would continue to include the following:
 - Internal and external audit reports.
 - Corporate Governance Statements within Annual Reports and Accounts (in the narrative part of the audited financial statements).
 - Annual Reports and Accounts meeting the relevant Financial Memorandum and sector code of good governance.
 - Governance effectiveness reviews (GERs).
4. Therefore, in considering the Good Governance outcome, SFC expects that colleges and universities will follow the relevant sector code, each of which adopts a 'comply or explain' principle. This affords individual institutions flexibility in determining compliance that is appropriate for their circumstances. The codes of good governance are owned by the sectors, rather than by SFC. As part of the terms and conditions of funding, SFC requires institutions to comply with the relevant sector code, but SFC also sets out any additional requirements in the Financial Memoranda with institutions. Colleges follow the [Code of Good Governance for Scotland's Colleges](#). Universities follow the [Scottish Code of Good Higher Education Governance](#).

5. To understand the assurance available over the current state of institutional governance, SFC commissioned a review of the most recently available GER report for each college, university and regional strategic body. This was to enable a baseline understanding of external assurance over governance in the institutions that SFC funds. There are two important aspects to note at the outset of this work:
 - The review was of the GER reports and what they tell us about governance in the institutions that we fund, and not a direct review of governance itself. Therefore, a report or GER approach that may need improvement is not the same as governance at the institution needing improvement.
 - SFC provided feedback to colleges following report submissions in 2017-18 and the College Development Network (CDN) undertook an [analysis of college GER reports](#) in 2021. The period covered by the current review included the Covid-19 pandemic years where many institutions and bodies, including the SFC, had to rapidly reprioritise activity and business as usual to manage extraordinary circumstances.
6. The purpose of this paper is to set out what we have learned about sector and institutional governance from this analysis of the GER reports as well as from Professor Gillies' report of the root causes of the issues that arose at the University of Dundee ('the Gillies Report'). It is also to set out SFC's expectations of sector governance because of these pieces of work and how we will monitor delivery of the Good Governance outcome of the OFAM going forward.
7. In setting out these expectations, SFC is cognisant that colleges and universities:
 - Operate under different statutory frameworks in relation to Good Governance – overall, there are strong elements of compatibility between the frameworks for the two sectors, however there are also some key differences.
 - Have dual regulation and legal obligations as charities. SFC's expectations, as set out in this paper, are compatible with expectations on institutions as charities and the approach to monitoring will strengthen the assurance over governance for key stakeholders, including the Office of the Scottish Charity Regulator (OSCR).
8. We are grateful to On Board Training and Consultancy (On Board) and to Professor Gillies and her investigation team for their work, on which we are drawing heavily in this paper.

Analysis of Governance Effectiveness Review Reports

9. In March 2025, SFC commissioned On Board to conduct a desk-based analysis of the most recent GERs and governance statements within the audited financial statements in the Further and Higher Education Sectors in Scotland (this included the GER reports of the Glasgow and Lanarkshire Regional Strategic Bodies that were in place during this period). On Board undertook this review and reported to SFC its key findings for each

sector and provided assurance to SFC, to the extent possible, about the quality of governance and, in particular, financial oversight in operation across the sectors.

10. The approach adopted by On Board, following guidance from SFC, was desk-based only with no follow-up or interviews with the institutions or those responsible for the GERs (reviewers). The conclusions and recommendations in the sector level reports made available to SFC are therefore based solely on review of the GER reports by On Board.
11. In their analysis of the GER reports, On Board identified areas of strength as well as areas for improvement and gives SFC a baseline and template for future reviews. On Board also made recommendations for the SFC that are included as Annex A (for the university sector) and Annex B (for the college sector).
12. The analysis of university GER reports highlighted a number of strengths that were noted in the reports. These included governing body member skills and experience and the quality of governing body and committee papers. About half of GER reports highlighted a culture of respect, openness and inclusion and constructive relationships as a strength, although many other reports commented favourably, but less directly, on these areas which led On Board to conclude that this strength is more widespread.
13. The analysis of college sector GER reports highlighted a number of strengths that were noted in the reports. These included the skills and experience of the Chair and governing body members, constructive challenge and an open culture, and students being at the centre of board decisions.
14. Reinforcing the principle that good governance is good governance regardless of sector, there were several developmental findings in common between college and university GER reports. These were as follows.
15. **Some institutions are long overdue an external governance effectiveness review.** We note that some external GERs were understandably delayed during the Covid-19 pandemic and we expect institutions to undertake these reviews as soon as possible to ensure that they address this area of non-compliance with the governance code. We also expect that future GERs are undertaken on schedule¹. In setting this expectation, we recognise that institutions may have continued to undertake annual internal reviews of governance effectiveness, but this was out of scope of On Board's work. Although the governance codes for each sector adopt a 'comply or explain' approach, regular externally facilitated GERs are essential to provide assurance to the governing bodies, SFC, Scottish Government and other stakeholders that governance is adequate (designed appropriately) and effective (operating as designed) to ensure safeguarding of public funding and security of student interests. Such externally facilitated GERs provider

¹ Under the sector codes, externally facilitated governance effectiveness reviews must be undertaken at least every five years for higher education institutions and every three-five years for colleges.

greater assurance over governance effectiveness than internal reviews due to their independence from executive management as well as from governing bodies themselves.

16. The GER reports often focus on development and do not always have a strong element of assurance. In addition, GER reports are not consistent in providing assurance about the adequacy and effectiveness of governance of institutions – it is important to note that this is a comment on the reports and not a comment on the governance arrangements at institutions themselves. Although we understand and welcome the desire for boards to develop and improve, part of the purpose of externally facilitated GERs is to provide assurance, as noted above. An exclusive focus in GER reports on areas for development does not provide assurance as to whether current arrangements are adequate and effective. Without assurance over existing arrangements, it is unclear whether the recommended developments are intended to enhance and improve already effective arrangements or to make arrangements adequate and effective. The assurance element is vitally important and therefore GERs should be designed to provide both assurance and development opportunities for governing bodies. In this context, we note that neither of the sector governance codes includes an explicit reference to development as being a key purpose of GERs, although the college code states that the GER and an accompanying Board Development Plan should be sent to the SFC and published.
17. Institutions have not always shared the reports with SFC in a timely way and, SFC has not always or consistently (a) chased provision or publication of the reports or (b) reviewed those that we have received. The sector code's requirement for colleges, as public bodies, to share the GER reports with SFC is and has always been clear; the sector code's requirement for universities to share reports is more focused on reporting publicly on the results of effectiveness reviews and associated actions. There has been no explicit requirement in the past for universities to share their GER reports with the SFC. As noted above, SFC's activities and priorities were also impacted by the Covid-19 pandemic and this was an activity that was deprioritised at that time. SFC is addressing this moving forward with colleges and universities being required under the OFAM to undertake the reviews on a frequency in line with the appropriate sector governance code and to submit the reports to SFC in a timely way. SFC will review GER reports on submission and will chase for submission where these are outstanding.
18. There is a need for greater clarity around what assurances are needed or desired and this would provide benefit to SFC and to Governing Bodies – our guidance will support the sectors in understanding our expectations in this space. SFC expects that GER reports provide assurance over compliance with the relevant sector governance code in practice and that the governance arrangements in place at institutions are both adequate (i.e., designed appropriately) and effective (i.e., operating as intended). This includes effective scrutiny stemming from the culture of the governing body and committees being one that is curious, challenging and holds the executive to account. It also includes appropriate governance oversight of the institution's strategy, internal

control and risk management framework and financial viability and sustainability. GER reports should be clear about the evidence on which assurances are based.

19. The **GER process should support the requirement on governing bodies to comply or explain compliance with the relevant sector governance code in their Annual Governance Statement** in the narrative part of the audited financial statements. The analysis noted that there were occasional inconsistencies between the level of compliance indicated in the GER report and what is stated in the financial statements for the period of the review (e.g., the financial statements stating full compliance with the relevant sector governance code and the recent GER showing non-compliance). There is also a lesson for external auditors here in sense-checking the narrative part of the financial statements and considering what evidence they draw on to do so. Checking against the most recent GER report and action plan would enhance the assurance over the statements made by institutions in their financial statements.
20. **No standard approach to GERs is used within each sector and guidance on what is expected to be covered would be helpful**, particularly in terms of the evidence base for the review. Although it is for governing bodies to secure an external reviewer for the GERs, there can be significant variation in the approach adopted by reviewers and so in the assurance that the review itself can provide. Although SFC does not believe that it would be helpful for us to mandate an approach to GERs, we would encourage reviewers to consider the approach that they need to take to provide assurance, including over governance aspects such as the oversight of financial sustainability, with triangulation of evidence. On Board suggests that the approach should include document review, observation of governing body and committee meetings, a survey or questionnaire (that can be benchmarked), interviews and a workshop to gather governing body members' views.
21. There is a **need for improved induction and for training and development for governing body members** (including students). It is insufficient to recruit appropriate governing body members, although that is a necessary first step. It is important that there is an induction programme that ensures governing body members are aware of their role and responsibilities as both board members and trustees and of the context of their institution. It is also important that there is continuing training and development for governing body members and that they avail themselves of these opportunities.
22. Few GER reports commented on the **quality of financial oversight by the governing body** and, where there was comment, this was relatively superficial. Many GERs did not mention finance or financial oversight at all in the report. Although not a primary focus of GERs or a primary source of assurance about financial oversight, the governing body and committee's role here is crucial and lack of appropriate challenge and oversight can lead to financial issues not being identified or addressed in a timely way. This can have significant adverse consequences for the institution.
23. In addition to the common findings above, On Board identified findings specific to

college or university sectors that were more closely related to governance in the institutions and we recommend that governing bodies consider these and whether and how they might apply in their institution. We note that Outcome Managers will engage with institutions in relation to On Board's key findings about them as individual institutions in the coming OFAM meetings.

- For colleges, areas for improvement that were identified in GER reports related to monitoring progress on strategy delivery (including KPIs and strategic reporting), the effectiveness of risk management and its contribution as a strategic enabler to improving College performance, and tracking delivery of implementing previous recommendations.
- For universities, areas for improvement that were identified in GER reports related to more focus on strategic matters, the structure and strategic fit of committees, equality and diversity, and coverage of financial reporting and financial management.

Sector findings of Gillies Report

24. The Gillies Report was primarily focused on the issues that arose at the University of Dundee, but noted that the well-established SFC Financial Memorandum ('FM') with Higher Education Institutions and the Scottish Code of Good Higher Education Governance in Scotland ('Scottish Code') are fit for purpose.
25. Although the Gillies Report noted that the root causes were largely unique to the University of Dundee, the report included a short section that set out the lessons for the sector more broadly. This included a number of lessons for executive teams related to financial management and reporting, including consideration of student recruitment, and decision making.
26. In summary, the lessons for sector governance emphasise the following:
 - Effective governance relies not only on systems and processes, there is critical importance of a culture that values questioning and critical appraisal at all levels, without fear, and encourages curiosity and engagement to uncover risks and issues worthy of debate.
 - The importance of a values-led university culture that prioritises transparency and accountability and that supports evidence-based decision-making, integrity, and openness to challenge.
 - The need for regular updates on sensitive matters, clear communication, and unbiased minutes that reflect challenges and decision-making processes.
 - The importance of the Audit Committees maintaining independence and objectivity, avoiding overlap with other committees to prevent bias.

- Papers being provided sufficiently in advance of meetings to ensure informed decision-making.
27. There are also two specific lessons around roles that we wish to highlight in this paper.
- The report notes that the dual role of the University Secretary as Chief Operating Officer is a potential conflict of interest, requiring careful management to ensure primary responsibility to the Chair of Court. This is not a common arrangement in the Scottish university sector, but instances outside of the University of Dundee do occur. SFC recognises that institutions are autonomous and that staffing matters are not for the SFC. Therefore, we encourage institutions to consider carefully whether this arrangement is appropriate and how best to secure the University Secretary's independence where a dual role is in place.
 - Overlapping attendance, whether or not formal memberships, between Finance Committee and Audit Committee, which can undermine the crucial independence of the Audit Committee. Although the sector codes of governance do not explicitly prohibit this, the spirit of the codes and SFC's view is that impact on the independence of the Audit Committee is detrimental to its oversight and assurance function. We therefore encourage the relevant bodies that own the sector codes of governance to consider carefully whether this should continue to be permitted in future iterations of the codes.
28. While the lessons from the Gillies Report are primarily focused on universities, some of these are also applicable to colleges – good governance is good governance after all. We encourage all governing bodies and executive teams to review these lessons and consider whether and how these may be applicable to their own institution.

Implications for Outcomes Framework and Assurance Model

29. SFC has, over and since the Covid-19 pandemic, had an approach to sectors governance that placed significant reliance on the colleges and universities complying with the relevant sector codes. This has been due to reprioritisation of activities during this period. Having introduced the new OFAM and considered the evidence from On Board's analysis of GER reports, SFC has determined that it would be helpful to set out the monitoring activity that will be undertaken to gain ongoing assurance that governance in colleges and universities is adequate and effective. As previously and to maintain institutions' autonomy:
- Colleges must comply with the principles of good governance as defined in the [Code of Good Governance for Scotland's Colleges](#). The code sets out expectations, roles and responsibilities, including the requirement to undertake an annual internal Board evaluation and an externally facilitated effectiveness review every three to five years.

- Universities must comply with the principles of good governance as defined in the [Scottish Code of Good Higher Education Governance](#). The Code sets out the requirement to undertake an annual internal Governing Body evaluation and an externally facilitated evaluation at least every five years.

30. However, SFC will undertake closer monitoring in this area, including:

- Requiring institutions to submit the reports from the externally facilitated GERs to SFC to provide assurance that:
 - GERs are undertaken regularly in line with sector governance codes.
 - the institution is complying with the relevant sector governance code.
 - the GERs consider and provide judgements about the adequacy (design) and effectiveness (operation) of the governance arrangements at the institution, with a focus on assurance and not just on development.

Where an institution has not undertaken a recent externally facilitated GER in line with the sector governance code timings, we strongly recommend that this is rectified as soon as possible.

- Requiring institutions to submit to SFC regular updates on the implementation of recommendations of the GERs – to manage the burden associated with this, these should be the updates provided to the institution’s Court / Board of Management and therefore will require minimal additional work for institutions.
- Where SFC’s monitoring identifies risks or issues around weak governance, this will be addressed through the OFAM’s institutional engagement and intervention strategy, including issues being discussed with institutions and the development and monitoring of actions plans, where appropriate.
- Requiring non-compliance with the relevant sector governance code to be reported to the SFC, with the report to include details of the non-compliance, how it has arisen and how it will be rectified in future if the institution does intend to rectify the non-compliance. Not all non-compliance with the Code will be considered a breach of the Financial Memorandum or the OFAM, as the governance codes themselves operate on a comply or explain basis and include aspects that institutions **must** comply with and other aspects that they **should** comply with. The materiality of the non-compliance to good governance in an institution will also be a consideration.
- Consideration of breaches of Financial Memorandum (FM) that are required to be reported to the SFC – these may include issues such as failure to observe statutory regulations or obligations, mismanagement of funding, financial irregularity, fraud,

systems failures, breakdown of management or governance relations, etc. SFC is considering publication of further guidance about events that are notifiable by institution. The institution must refer itself to SFC if a breach of the FM has occurred.

- Consideration of the opinions in internal and external audit reports that are already submitted to the SFC by institutions insofar as these are relevant to governance effectiveness – this will include whether there have been internal control failures, qualifications or matters emphasised in the overall audit opinions, and the materiality and scale of any audit recommendations (including whether these are being addressed in a timely way).
 - Requirement that institutions have clear and appropriate whistleblowing policies that are readily accessible to staff and students and clear communication to alert staff to these. The policies should clearly state that if the matters staff members wish to report involve the person they would normally report to under the policy, who they should contact instead (e.g., the Chair of the institution's Audit Committee or SFC directly if no possible alternative internal reporting lines remain).
 - Scrutiny of institutional strategies, which SFC will undertake for a variety of purposes, including any implications for governance. These aspects might include the alignment between the institution's goals and its mission and vision, challenges in decision-making processes, consistency of information provided (such as in financial forecasts) with the institution's strategic plan, the quality of risk management within the strategic plan, stakeholder engagement, and the inclusion of appropriate performance metrics that align with the institution's goals.
31. Other activities that SFC plans to undertake in future to strengthen governance in the sectors include:
- The process set out in the [Higher Education Governance \(Scotland\) Act 2016](#) requires an election by governing body members, staff and students of the Chair. However, it is vital to ensure that those put forward for election have the requisite and appropriate experience and skills to undertake the role and responsibilities of the Chair. Therefore, SFC will work with the Committee of Scottish Chairs and Universities Scotland to support the development of guidance about the process for recruiting Chairs of Court. This process will be compliant with the 2016 Act's statutory requirements but will also include steps to assess the applicants such that all candidates for the election are suitable.
 - Working with relevant sector bodies (such as Advance HE and CDN) to provide training for new governing body members and continuing governing body members at the start of new terms as a refresher. Although training is already provided for governing body members, we plan to supplement this with SFC-presented training

about our expectations of members and the role and responsibilities of governing bodies, the accountable officer and executive teams. SFC recognises that governing body members are unpaid volunteers, but they are also charity trustees of the institution and have personal liabilities in this regard. Undertaking suitable and appropriately frequent training is important in both ensuring that institutions have good oversight and that governing body members are supported in undertaking their work as trustees. SFC will also work with Universities Scotland and Colleges Scotland to agree a way forward to ensure that all governing body members undertake this training, including whether this should be made mandatory under the FM or whether this would be better placed within the sector governance codes.

- Enhance SFC's routine engagement with auditors to include internal auditors in addition to ongoing engagement with external auditors – this will bring additional sector intelligence and enhance the assurance available to SFC.
 - Consider with external auditors how they can ensure that they identify and surface issues of governance and financial control – this will not require any additional audit work to be undertaken but is focused on external auditors raising these matters through their usual reporting mechanisms.
32. We recognise that SFC may be notified of issues concerning governance through complaints, allegations or media reporting. However, we would always encourage institutions to speak with their [Outcome Manager](#) if it identifies issues with governance, as with any other matter. The upcoming revised OFAM guidance will contain further detail on how SFC will monitor and engage with institutions across all outcomes, including Good Governance.
33. We will review our approach to good governance annually to ensure it remains fit for purpose.

Dr Jacqui Brasted

Director of Access, Learning and Outcomes

Annex A: Recommendations re: University GER reports

Annex A sets out the recommendations for SFC from On Board from its review of the university sector GER reports.

1. The Funding Council should remove any current ambiguity and make it a clear requirement that all Universities must send their GER reports to the Funding Council and publish them online.
2. The Funding Council should tighten up its monitoring of the GER process to (1) ensure that GERs are commissioned, undertaken and submitted in line with the deadlines set out in the Code and that (2) what is submitted is the actual GER report and not a summary/cover report, a PowerPoint presentation on the findings, feedback from Governing Body or a Committee on the GER report's recommendations, a self-evaluation etc.
3. GER reports should be accompanied by a rolling action plan to track the implementation of recommendations from previous GERs (whether external or self-evaluation). The testing of this should be a clear component of the GER process.
4. The Funding Council should provide greater clarity to Universities on what assurances are needed or desired. This would enhance the process (both internal evaluations and externally facilitated evaluations) and provide benefit not just to the Funding Council but also to Governing Bodies. Such an approach would support the requirement on Governing Bodies to comply or explain compliance with the Code in their Annual Governance Statement and the Funding Council's new Assurance Model. This clarity may form part of a new Guidance Note which sets out best practice in undertaking externally facilitated effectiveness reviews. This would serve as a 'standard' and bring the University sector into line with the College sector.
5. Going forward, the Funding Council should review each GER for evidence of strengths and weaknesses in governance (including cases of non-compliance with the Code) and take appropriate follow-up action to address any issues raised. The current process of reviewing GERs within the Funding Council needs to be strengthened.
6. Universities should be asked to benchmark their current GER practices against the findings in this report.

Annex B: Recommendations re: College GER reports

Annex B sets out the recommendations for SFC from On Board from its review of the college sector GER reports.

1. Colleges should be asked to benchmark their current GER practices against the findings in this report.
2. Revisions to the CDN Guidance Note should be considered to take account of the observations in this report and the accompanying report on individual Colleges. Revisions to the Guidance Note should set out clear expectations around the importance of evidence.
3. Instructions to Reviewers should include the requirement to follow the CDN Guidance Note in full or equivalent best practice.
4. Consideration should be given to mandating that externally facilitated GERs are required every three years. GERs which are currently overdue should be prioritised.
5. The Scottish Funding Council should clarify that GERs should be approached as both a developmental tool for College Boards and as a means of providing assurance to Boards and the funding bodies. In doing so, the Scottish Funding Council should specify its assurance requirements, including in relation to compliance with the Code of Good Governance.
6. Assessing the quality of financial oversight exercised by the Board and Finance Committee should be a clear component of the GER process, and revised guidance should highlight this requirement.
7. Where this is not already in place, Colleges should develop a process to assess, monitor and report compliance with the Code of Good Governance. The testing of this process should be a clear component of the GER process.
8. GER reports should be accompanied by a rolling action plan to track the implementation of recommendations from previous GERs (whether external or self-evaluation). The testing of this should be a clear component of the GER process.