

Investigation of alleged irregularities at Halton College



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Executive summary

Introduction

1 In November 1997 a member of the public sent us copies of letters he had sent to Halton College (the College), the Further Education Funding Council (the Funding Council) and others. The College responded to the issues raised in the correspondence. Subsequently, however, the same individual raised with us more specific allegations of irregularities, concerning the extravagant and irresponsible use of public funds. We drew these to the attention of the Funding Council in February 1998. These “new” allegations were developed further in interviews conducted by Funding Council staff and the National Audit Office with the author of the letters and others. The Funding Council also undertook an initial review of the College’s student record data to check the validity or otherwise of the allegations against information held by the Funding Council. An initial investigative team, comprising Funding Council staff and a representative from the National Audit Office, visited the College in April 1998. The 14 allegations investigated are shown in Figure 1 (overleaf). Following detailed investigations by the Funding Council and its forensic accountants, and by the College, the Funding Council Chief Executive produced a final report on 16 December 1998.

2 The National Audit Office’s examination addresses:

- how the Funding Council investigated the allegations;
- the Funding Council Chief Executive’s conclusions on whether the allegations had been substantiated;
- what action the Funding Council and Halton College are taking as a result;
- the extent to which the weaknesses in control at Halton College may exist at other colleges in the sector.

Figure 1

Allegations received and investigated by the Funding Council

Summary of allegations

1. In 1994-95, the College claimed Funding Council funding for students who lived in Scotland, knowing them to be ineligible.
2. In 1994, the College claimed funding for 1,200-1,300 students on a course entitled 'introduction to further education'. The College counted each participant as "0.4 weighted full-time equivalent", which would now be equivalent to at least 60 hours of study, instruction or assessment supervised by teaching staff. In fact the course lasted only three to four hours.
3. In 1994-95, the College claimed for 8,000 catering students as the higher-funded "loadband 6" students when in fact 1,000 should have been "loadband 1", and 7,000 should have been "loadband 4" students. These students did not receive the necessary learning packages and support.
4. The College and its external auditors relied on returns from franchised providers and failed to check that students involved were registered on the courses.
5. Ineligible Scottish students were registered on franchised courses.
6. The College was increasing the "loadband" of courses year-on-year to meet targets for student numbers and income.
7. The College bought Apple Macintosh computers from a local firm when alternative personal computers were cheaper. A College governor was an education marketing manager of Apple Computers UK Ltd at the time.
8. In conjunction with a large private company, the College has set up private companies in China using public funds, and members of the College's senior management team are on the board of the companies.
9. The College established a multimedia company using public funds. This company has been wound up with losses totalling £500,000.
10. Public funds have been misused during the refurbishment of the Principalship's offices.
11. Public funds have been misused on 'away days' for management/staff/governors of the College at a hotel. The College used a hotel within the group which employs one of the governors.
12. College funds were being misused for overseas trips.
13. Public funds were being misused to purchase presents with the College credit cards.
14. Staff were given the opportunity to shred confidential documents.

Funding Council conclusions

Partly substantiated. Principal's request to delete students from claim not carried out. Halton College has agreed to repay £254,000 in respect of ineligible funding for 1994-95 and subsequent years.

Substantiated. Insufficient evidence to support claim made. Halton College has agreed to repay £146,000.

Partly substantiated. There were only 3,243 catering students, none of whom had been funded at "loadband 6". However there was insufficient evidence to support loadbands claimed. Halton College is reviewing claims made following guidance to the College that such provision should not exceed "loadband 4". The College is also considering whether guidance has been interpreted as an entitlement to claim rather than a ceiling.

Partly substantiated. The College had done some checks but Funding Council considered them to be insufficient. Some incorrect recording of student data, but no impact on level of funding received.

Substantiated. See Allegation 1 above.

Not substantiated, but adequacy of evidence to support changes in funding claims for particular qualifications is being considered by Halton College's external auditors, with a view to the Funding Council recovering any overclaim.

Not substantiated. No impropriety by named governor, nor evidence indicating alternative computers were cheaper. College, however, had incurred significant expenditure without due process and in breach of financial regulations. The College Board had also neglected supervisory duties. College is reviewing procurement practices.

Not substantiated, but Board should have ensured that College prepared business plan and risk analysis.

Not substantiated. Establishment of company properly authorised by the Board. Company has not been wound up, but concerns about level of risk and adequacy of business planning.

Not substantiated. No misuse of public funds, but financial regulations not followed properly. College revising standing orders.

Not substantiated. No evidence of impropriety by named governor, but some concerns about level of expenditure, and absence of controls to ensure value for money.

Partly substantiated. Trips were of benefit to the College but the duration, expense and range of trips out of proportion with benefits derived from them. Prior approval not required from Board. Unacceptable that so many trips involved Principal and Deputy Principal. Some evidence of extravagant expenditure.

Not substantiated, but some evidence of poor procedures and inadequate controls. College has revised financial regulations.

No evidence that this was other than a routine operation.

Source: National Audit Office

Conclusions and recommendations

Conduct of the investigations

3 The Funding Council and the College acted swiftly to ensure that the allegations were effectively investigated. Halton College's governing body ("the Board") offered and gave full co-operation to the Funding Council throughout the investigation. Both bodies employed national accountancy firms to aid in their investigations. The use of independent reviews and the setting-up of a joint working group to investigate and determine the extent of any overclaiming and agree terms for its recovery were useful initiatives, and could be used as a model if other problems of this type arise, or are identified elsewhere in the sector.

Funding claims

4 Investigations of the allegations by the Funding Council and the College indicate that the College might have overclaimed grant over the five academic years, 1993-94 to 1997-98. The College has agreed already to repay £0.4 million and together with its external auditors is currently quantifying the extent of the remaining overclaim. The total overclaim, which the College has agreed in principle to repay, is likely to be £6.4 million. In addition, £0.9 million will be recovered from the College's 1998-99 allocation before the end of the College financial year. This latter sum results from the College Principal's decision during 1997-98 to reclassify some franchised provision as directly-provided courses which attract higher levels of funding.

5 Some £254,000 of the overclaim was in respect of students resident in Scotland who were ineligible for funding. The Funding Council is now incorporating checks for the 1997-98 funding claims to ensure that funding of non-English students in colleges is occurring only where appropriate. A further £207,000 was in respect of courses for which the College had claimed more than it should have done. The Funding Council, as part of its annual validation checks on 1996-97 funding claims, has identified a small number of colleges with significant changes in the proportion of courses provided directly or on a franchised basis and will be seeking explanations where necessary. Similar checks will be undertaken on the 1997-98 final funding claims and follow-up action taken if necessary.

6 The investigation also found that the College had claimed the maximum possible funding in respect of some courses, but did not have adequate evidence to justify the level of funding claimed. The College has raised this concern with its external auditors. In addition, the joint Halton College/Funding Council Working

Group on student data returns found that some of the training offered by Halton College had attracted significantly higher funding than similar courses at other colleges. The College is reviewing all relevant records where the joint investigation has raised issues to check whether the claims made were justifiable.

7 In 1993-94, in its first year of operation, the Funding Council introduced the requirement for funding claims to be audited by colleges' external auditors. In 1997-98, once comparative data was available, the Funding Council started to monitor the effectiveness of external audit review of funding claims, but this had been hampered by difficulties associated with access rights to auditors' working papers. These difficulties have now been resolved.

8 We recommend that:

- the Funding Council should ensure that it carries out the planned extended programme of reviews of external auditors' work on funding claims for future years;
- the Funding Council should consider different options for the provision of external audit of funding claims, to see whether they might result in improved accuracy of funding claims;
- as far as is practicable, perhaps on a sample basis, the Funding Council should compare the funding levels claimed for similar courses funded on the basis of guided learning hours and provided by comparable colleges and check that college external auditors have satisfied themselves that the claims are supported by adequate evidence.

Financial control over expenditure

9 Review of financial controls over expenditure at Halton College identified some weaknesses. The Funding Council Audit Service's review in January 1996 found weaknesses in the operation of the Audit Committee and inadequacies in internal audit, but the College has since taken action to address them. Our survey indicates a wide variety of practices at colleges and that some colleges may share some of the weaknesses identified at Halton College.

10 We recommend that:

- colleges that do not already have a procurement strategy should ensure that they develop one as soon as possible and that all capital expenditure decisions are taken within the approved strategy. Any departures from it should be subject to the approval of the governing body;
- colleges should ensure that they undertake thorough business planning before deciding whether to proceed with new ventures. The authorisation of the governing body should be obtained for any new venture, and the governing body should be informed at regular intervals of the progress of such ventures;
- colleges should ensure that their financial regulations set out procedures to be followed for authorisation of overseas and United Kingdom travel expenses;
- as soon as guidance planned by the Funding Council becomes available, colleges should take the opportunity of reviewing their arrangements for college companies and joint ventures to ensure that they conform to good practice;
- colleges should take account of the Funding Council's letter of 17 July 1998 which advised them to ensure that, as far as possible, all staff are aware of the need for proper authorisation for travelling and subsistence expenditure and that all such expenditure should be within reasonable limits;
- colleges should ensure that the use of college credit cards is covered in financial regulations and carefully monitored. In particular, financial regulations should specify any circumstances in which college credit cards may be used for personal expenditure, and how such expenditure should be authorised and reported.

Governance and management

11 Although not all the allegations were substantiated, the investigation, together with the reviews undertaken by and for the College, highlighted insufficient oversight by the governors of the management of the College and the activities of the Principal. The Board met regularly and governors received weekly

reports from the Principal. The College adopted a “Whistleblower’s Charter” in November 1998. However, the investigation suggested that the Principal did not always seek the Board’s authority when he should have done. There were a number of weaknesses in control including inadequacies in the financial regulations and standing orders for committees; the procedures of the Audit Committee; and the College’s code of conduct for governors.

12 Our survey of colleges showed that similar weaknesses may exist in other colleges. Some of these issues, including the need for any further guidance on codes of conduct and registers of interest for governors and senior staff are to be addressed by the Good Governance Group, which the Funding Council has established in conjunction with the Welsh Further and Higher Education Funding Council. We note that, following its consultation with colleges throughout 1998 on accountability in further education, the Department for Education and Employment has formulated a range of measures designed to improve the accountability of further education colleges. These include changes in the composition of governing bodies, and arrangements for appointment of the Clerk. The Secretary of State for Education and Employment is likely to make directions to colleges to modify their articles of government with effect from 1 August 1999.

13 We recommend that:

- colleges should periodically review their decision-making processes and ensure that the governing body and committees operate in accordance with relevant standing orders which are regularly reviewed and updated;
- all colleges should ensure that they provide regular written financial reports to governors at no less than termly intervals allowing them to monitor the financial position of the college. More frequent reports should be provided if a college’s financial position is not healthy or begins to deteriorate;
- college governing bodies should ensure that they are meeting existing Funding Council requirements for them to approve financial forecasts and budgets and monitor financial performance as the year progresses, ensuring that it aligns with the college’s strategic plan;
- the Funding Council should draw attention to the guidance it has already issued, and, following the recommendations of the newly-established Good Governance Group, should consider issuing new guidance clarifying

the role of the clerk in providing independent advice to the governing body. Governing bodies should take steps to ensure that the clerk is able to provide the governing body with independent advice;

- all colleges should consider whether they are meeting the recommendations of the Committee on Standards in Public Life with regard to maintaining registers of interest and making them available for public inspection; and,
- if they have not already done so, all colleges should ensure that whistleblowing procedures are established as soon as possible.

Part 1: Introduction

Further education in England

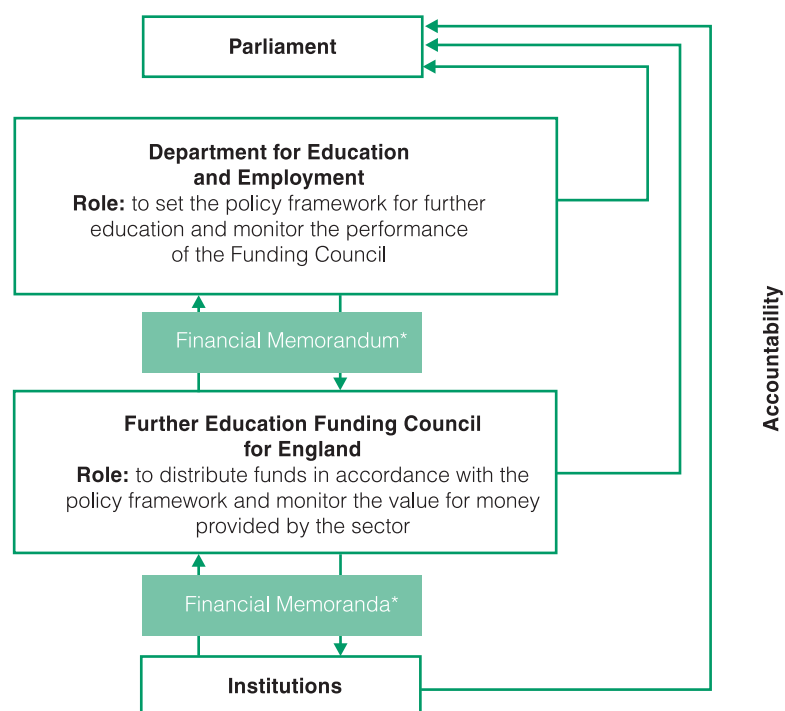
1.1 Colleges in the further education sector provide a wide range of education and training opportunities for over four million students from school age upwards. About 70 per cent of students attend part-time courses. There are currently 435 colleges in the further education sector in England. In 1997-98, they received £3.05 billion grant from the Department for Education and Employment, administered by the Further Education Funding Council for England (the Funding Council).

1.2 The Funding Council is a non-departmental public body directly accountable to Parliament. Its main function is to secure sufficient and adequate provision for further education using the funds allocated to it by Parliament. The Funding Council is also required to ensure the proper use of funds distributed to colleges and to promote value for money within the sector. The Funding Council, through its nine regional offices, maintains close contacts with all colleges, monitoring their financial health, as well as providing support and guidance. The Funding Council inspects each college on a four-yearly cycle to assess the quality of their curriculum provision and cross-college functions such as management, governance, quality assurance and support of students and publishes a report on the inspection. Colleges' audit arrangements are reviewed at the same time.

1.3 Under the Further and Higher Education Act 1992, most governing bodies were given for the first time full legal responsibility for their college from 1 April 1993. The sector also includes a small number of governing bodies which historically were already responsible for their colleges. Separate financial memoranda, between the Funding Council and individual colleges, set out how public funds must be used. The legal framework under which colleges must operate is established by each college's instrument and articles, or equivalent documents. The responsibilities of the college governors include being accountable for the financial health and good management of their college and for the proper use of public funds allocated to the governing body. The governing body appoints the principal of the college who is also the accounting officer identified in the financial memorandum between the Funding Council and the college. He or she is accountable for the propriety and regularity of public expenditure within his or her control and for ensuring efficient and effective use of resources (Figure 2). The Accounting Officer may also be called to give evidence to the Committee of Public Accounts.

Responsibility and accountabilities in further education in England

Figure 2



* Financial Memoranda govern the financial relationships between the body making the grant and the recipient. They specify the terms and conditions of funding. They require recipients to have in place sound systems of financial control. Each funding body monitors compliance with the memoranda.

Source: National Audit Office

Halton College

1.4 Halton College is based in Widnes, Cheshire and serves the local communities of Runcorn and Widnes. In the College's most recent (1996-97) annual report, the Principal explains that the College has become one of the largest and most successful general further education colleges. In 1997-98 it enrolled almost 40,000 students and in 1996-97 had a turnover of £21.8 million, realising a surplus of £2.8 million. Figure 3 shows how the College's turnover has increased since incorporation. The Funding Council's 1996-97 performance indicators show that Halton College achieved the highest number of qualifications at certain levels, and that the costs associated with those qualifications were significantly lower than the mean for the further education sector. The College has had a leading national role in the development of work-based training, often, as at Halton College, delivered by "franchised provision" or "off-site collaborative provision".

This element of the College's activities expanded rapidly and in 1997-98 work-based training represented up to 70 per cent of Halton College's funded units.

Halton College - Income from the Further Education Funding Council and other sources

Figure 3

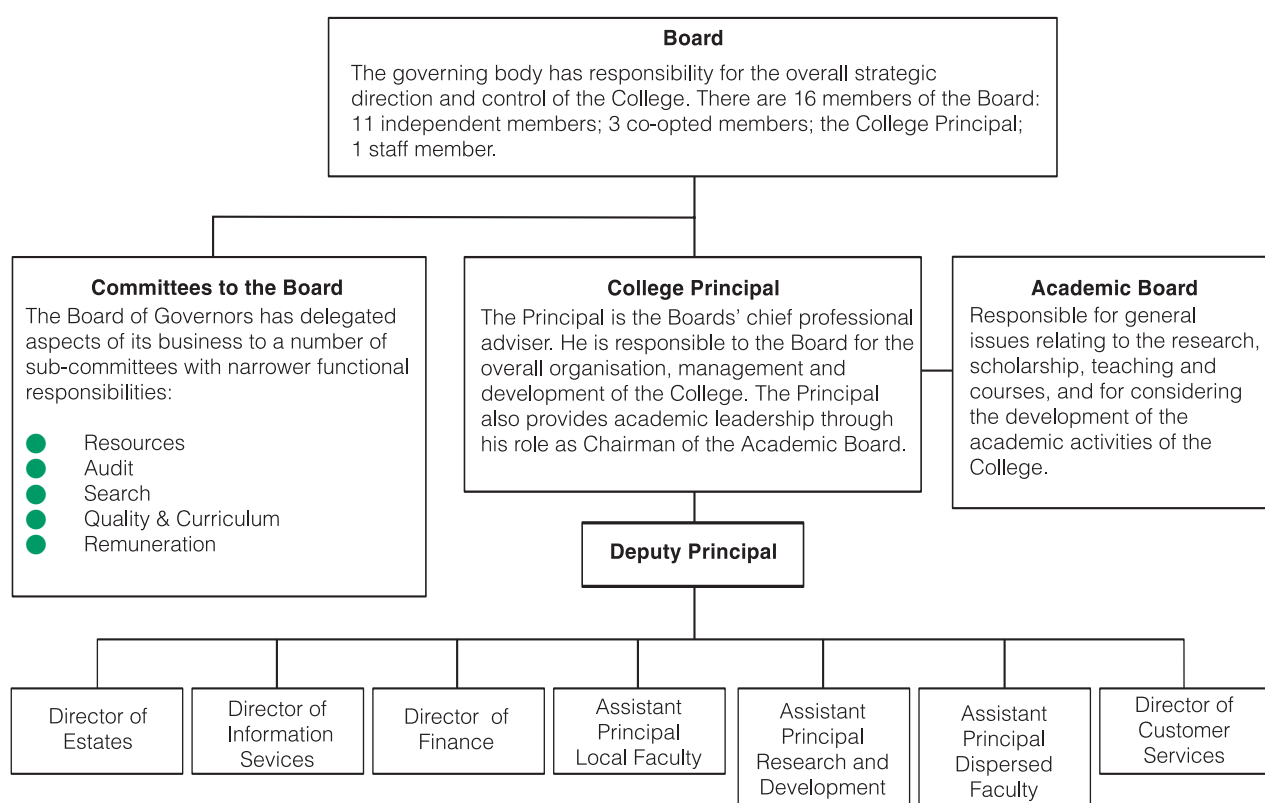
Figure 3 shows that the College's turnover has increased 50 per cent since incorporation. The proportion of its income which Halton College received from the Funding Council has increased from 61 per cent to 82 per cent over the same period.



Source: College's audited
financial statements
1992-1997

- Notes:
1. Other income includes income from other government agencies such as Training and Enterprise Councils, and higher education income and European funds.
 2. 1992-94 was a 16-month period.

1.5 The Principal, Martin Jenkins, and the Deputy Principal, Jenny Dolphin, were appointed in January 1992. Under the College management arrangements, they formed a "Principalship" which operated as an indivisible entity. The College's Governing Body is known as the Board. The composition of the College's Board and the relationship of the Board with its sub-committees and with the management of the College is shown in Figure 4. The College was last inspected by the Funding Council between April and December 1996, and was graded "2" for governance and management ("strengths clearly outweigh weaknesses").

Figure 4**Governance and management at Halton College**

Source: Halton College

Allegations concerning Halton College

1.6 On 24 November 1997 and 5 December 1997, a member of the public sent us copies of letters he had sent to Halton College, the Funding Council and others. His initial concern was the size of the salaries of the Principal and other staff, and the College had responded. Subsequently he raised with us rumours of extravagant and irresponsible use of public funds, fraud and corruption and allegations relating to the conduct of the Principal and Deputy Principal. We drew the Funding Council's attention to these matters in February 1998. The "new" allegations were developed in March 1998 in interviews conducted by Funding Council staff and the National Audit Office with the author of the letters and others. A number of the initial issues, and some of the "new" allegations, were unfounded and were therefore not investigated. The remaining allegations are summarised in Figure 1 on page 2. In March 1998, the Funding Council also undertook a preliminary review of the College's student record data to check the validity or otherwise of the allegations against information held by the Funding Council. In

April 1998, an initial investigative team, comprising Funding Council staff and a representative from the National Audit Office, visited the College to establish whether there was sufficient basis in fact to the 14 allegations.

Objectives of National Audit Office investigation and report

1.7 Our objectives were:

- to determine how the Funding Council investigated the allegations;
- to determine whether the Funding Council Chief Executive's conclusions on the allegations had been substantiated;
- to determine what action the Funding Council and Halton College were taking as a result; and,
- to investigate the extent to which the weaknesses in control at Halton College might exist at other colleges in the sector.

Scope and methodology

1.8 In reaching conclusions on the Funding Council's investigation of the allegations and the action being taken by the Funding Council and the College, we reviewed:

- the draft and final reports by the Funding Council's forensic accountants, Robson Rhodes;
- a summary by the Funding Council Chief Executive of the emerging conclusions as at 21 May 1998;
- a summary of the Funding Council Chief Executive's provisional conclusions as at 29 July 1998;
- reports produced by three internal Review Groups established by the College, together with associated reports prepared by the College's consultants, KPMG, a firm of chartered accountants;
- the Funding Council Chief Executive's draft report as at 5 November 1998;

- the Funding Council Chief Executive's report to the College produced on 16 December 1998; and
- evidence supplied to the Funding Council and us by Dibb Lupton Alsop, solicitors acting for the Principal and Deputy Principal, in August and November 1998.

1.9 In considering whether any weaknesses in control identified at Halton College were characteristic of practices in the sector as a whole, we issued a questionnaire to 117 colleges in August 1998, to which some 113 responded. Where relevant, we compared our findings against those of a survey conducted by the Department for Education and Employment across the sector as part of a broader review of accountability in the further education sector in March 1998. We also had regard to the Funding Council's conclusions relating to the audit and inspection of colleges, including the reviews of all further education colleges' internal and external audit. In addition, we took account of our previous work on governance issues and relevant recommendations made by the Committee of Public Accounts, as well as recommendations made by the Committee on Standards in Public Life. The methodology for our study, together with a summary of the results of the survey is included at Appendix 1. Brief notes on audit arrangements at further education colleges are contained in Appendix 2. A summary of other National Audit Office reports on governance issues in the further and higher education sectors is at Appendix 3; Appendix 4 contains details of recent relevant reports and the recommendations of the Committee of Public Accounts. Appendix 5 is a copy of Halton College's action plan and a chronology of events is at Appendix 6.

Structure of this report

1.10 Part 2 covers the Funding Council's approach to investigating the allegations. The extent to which the allegations are substantiated, any weaknesses in control and the action being taken is covered in the remaining parts, together with the findings of our questionnaire which tested whether weaknesses at Halton College exist at other colleges in the sector. Parts 3, 4 and 5 respectively cover the implications of our findings for funding claims; financial controls over expenditure; and governance and management.

Part 2: The investigation of the allegations

2.1 This part of the report describes how the Funding Council investigated the allegations, the action taken and planned by the College.

The Funding Council's main investigation and reviews undertaken by the College

The Funding Council and the College acted swiftly to ensure the allegations were effectively investigated. They appointed a respected firm of forensic accountants to do the work. The Funding Council also requested the College to carry out detailed internal reviews. The College appointed its own consultants and agreed their terms of reference with the Funding Council. These reviews have been useful to the College governors.

2.2 Within three weeks of the joint visit to the College with the National Audit Office in April 1998 (paragraph 1.6), the Funding Council appointed its legal advisers, Beachcroft Stanleys, to oversee the main investigation; Beachcroft Stanleys commissioned forensic accountants (Robson Rhodes) to investigate the allegations. Robson Rhodes, who were appointed after a competitive tendering exercise, were required to produce an interim report by mid-May setting out whether or not the allegations were substantiated. Robson Rhodes spent a fortnight at the College reviewing documentary evidence and holding discussions with College staff and a number of members of the Board. Subsequent visits were made to complete the investigation. Robson Rhodes were not required to undertake a full audit of the College. Staff and members of the Board co-operated fully with the investigation.

2.3 The interim report highlighted to the Funding Council Chief Executive that further work was necessary to determine whether some of the allegations were substantiated, but it enabled him to write to the College with his summary of emerging conclusions, which included concerns that the Principal had failed to discharge satisfactorily his responsibilities as Accounting Officer. At this stage however, the Principal and Deputy Principal, although requested to do so, had not made themselves available for interview by Robson Rhodes.

2.4 In his emerging conclusions of 21 May, the Chief Executive considered that the investigation raised fundamental questions about the governance and management control at the College and the conduct of the Accounting Officer. The Chief Executive raised these concerns with the Board at a meeting on 22 May 1998. The Board decided to suspend the Principal and Deputy Principal until the final

outcome of the investigation became known, and appointed an Acting Principal with effect from 25 May 1998. The College forwarded weekly reports, which monitored progress on the investigation, to the Funding Council.

2.5 The Board had decided on 22 April 1998 to appoint its own independent consultants to undertake a separate investigation. The Board's concerns were to satisfy itself as to the validity of the investigations, and also to ensure that all questions of financial probity (including any outside the ambit of the allegations) and any other matters which might or ought to give the governors cause for concern, were thoroughly examined. At the Funding Council's request, this work was postponed as it was considered inappropriate for two investigations to be undertaken simultaneously. Consultants were not appointed until June 1998 (paragraph 2.7).

2.6 The Funding Council Chief Executive, in his interim report of 21 May 1998, also concluded that some allegations would not be pursued further. In particular, there was no evidence to support allegations linking two of the governors to any malpractice at the College. Nevertheless, there were aspects of the College's activities which the Chief Executive expected to see improved. Therefore, at his meeting with the College governors on 22 May, the Chief Executive requested the College to set up three internal Review Groups to examine:

- a) systems of financial control with particular regard to the Principal's power to incur expenditure;
- b) systems of authorising funding claims made to the Funding Council; and,
- c) the effectiveness of governance and management.

2.7 The Groups, each consisting of three Board members supported by one or two members of the College senior management team, were established during the first week of June and the terms of reference agreed with the Funding Council. After competitive tendering, the College appointed KPMG on 12 June 1998, to assist each of the Review Groups. The main findings of the Review Groups are summarised in Figure 5 overleaf. The findings on additional work the College requested from its consultants, on student records and on capital and development expenditure, are shown in Figure 6 overleaf. The College, together with its consultants, compiled an action plan in August 1998 (see Appendix 5, updated as at February 1999).

Findings of the College's Internal Review Groups

Figure 5

The **Governance and Management Review Group** concluded that there was significant good practice, reflecting the "strengths clearly outweigh weaknesses" marking awarded by the Funding Council's inspection team in May 1997. But improvements were necessary to reflect good practice. These were incorporated within the College's action plan (Appendix 5), and many of the improvements have already taken place.

The **Finance and Audit Review Group** identified gaps in the financial regulations including procedures for preparation and amendment of financial information, for detecting and investigating fraud or other irregularities, and authorisation of expenditure and expenses. Action points already implemented include revision of the financial regulations and standing orders and new procedures introduced for authorisation of expenses.

The **Management Information and Student Records Review Group** reviewed the current processes and procedures for meeting the requirements of the Funding Council for preparation and submission of accurate and timely returns for funding claims. The examination focused on 1996-97 and 1997-98. The Group concluded that there were no significant weaknesses in the College's systems or procedures and were concerned that many of the issues forthcoming from the Robson Rhodes enquiry related to returns which have already been signed off by the College's external auditors, Deloitte and Touche. The Group concluded that three of the allegations had not been substantiated but that there were a number of issues relating to the College's interpretation of the funding methodology particularly with regard to franchised provision.

Source: National Audit Office

Findings of the additional work by the College's consultants on student records

Figure 6

Student Records

KPMG examined external audit management letters and student numbers audit opinions issued since 1994-95 and internal audit reports for student records and information systems up to July 1997, to identify any weaknesses identified by the auditors. KPMG also conducted detailed testing of a sample of qualifications to confirm how the College had classified the provision as either direct or franchised; the form of contract used; how guided learning hours were determined; the evidence to support delivery of those hours and the procedure to identify appropriate loadbands. They considered that continual updating of the guidance had caused the College problems with both interpretation of the guidance and keeping up to date with most recent requirements. But they also identified potential over-claiming because too much provision had been classified as direct in both 1996-97 and 1997-98, and because of the inadequacy of evidence supporting the level of guided learning hours for which the College had claimed for some franchised training.

The College had drawn the Funding Council's attention to the significant reduction in the amount of training classified as being provided on franchised basis in 1997-98, and that this might have an impact on funding for 1998-99. KPMG incorporated a review of the changes, including the reasons for them and what role the Board played in authorising them. KPMG found that the definitions applied by the College for direct and franchised provision resulted in too much provision being classified as direct in both 1996-97 and 1997-98. On a sample of 25 qualifications, they concluded one was direct provision compared to the College's assessment of 13 out of 25. They recommended the College, in conjunction with the Funding Council, should reconsider the definition of franchised provision to be applied.

Capital and Development Expenditure

KPMG analysed the reporting and decision making processes between the Principal and the Board for the approval of capital expenditure and development projects. The examination concentrated on the procurement of computer hardware and software and in particular the purchase of computers through Apple Computers UK; business opportunities in China; and the establishment of a multi-media company by the College. The Group concluded that the financial regulations should be reviewed by the Board to ensure that they provide the required level of control and robustness for the future.

Source: National Audit Office

2.8 The Funding Council's forensic accountants, Robson Rhodes, completed their work in July 1998. On 29 July 1998 the Funding Council sent to the College, the Principal and the Deputy Principal: a copy of Robson Rhodes' draft report; the results of the Funding Council's internal investigation of the College's individualised student record returns and funding claims; and the Funding Council Chief Executive's provisional conclusions based on evidence available at the time. The Chief Executive asked for comments on any factual inaccuracies by 11 September 1998. The Funding Council reviewed the extensive comments received from the College and the Principalship, together with the detailed reports of the College's three internal Review Groups and the reports of the College's consultants. The comments received from the College and the Principalship identified a number of factual inaccuracies in the Robson Rhodes report (which had not previously been sent to the College for confirmation of factual detail). The College's comments, however, largely supported the Funding Council Chief Executive's own provisional conclusions.

2.9 The Funding Council Chief Executive produced a draft report to the College on 5 November 1998, inviting a formal response on whether the Governing Body agreed with some or all of the conclusions and proposed actions. The report was copied to the Principalship. The Chief Executive produced his final report to the College on 16 December 1998. His report was copied to the National Audit Office, the Department for Education and Employment and the Principalship.

Joint investigation of student data

2.10 The Funding Council's preliminary review of the student records and funding claims (paragraph 1.6) showed sufficient basis in fact for a number of the allegations. The Funding Council concluded that it would be worthwhile working with the College to investigate these issues further. The College's Board accepted readily the Funding Council's proposal in July 1998 to establish a joint Working Group, to consider the results of the College's own investigation into funding claims, the reasonableness or otherwise of claims made, and sought to quantify and agree procedures for recovery of overclaims.

Part 3: Funding claims

3.1 The Funding Council's investigation of the six allegations relating to funding, together with the work of the College's Review Groups and the joint Funding Council/College Working Group, resulted in identification of significant overclaims amounting to £6.4 million, representing almost ten per cent of the College's total funding claims for the 1993-94 to 1998-99 academic years. This part addresses the findings on the individual allegations and then considers the more general questions of how the Funding Council seeks to ensure that expenditure as reflected in college funding claims is in accordance with statutory provision and what action the Funding Council is taking to ensure that overclaiming for the same reasons is not occurring at other colleges.

Findings about the allegations

The College's overclaim of £6.4 million consists of: claims for students who were not eligible for funding (£0.254 million for 1993-94 to 1996-97); courses which attracted less funding than that claimed (£0.207 million in 1993-94, of which £0.146 million is to be repaid); and funding for some franchised provision for which the College had incorrectly claimed maximum funding rather than the amounts to which it was entitled. In addition, £0.9 million in respect of franchised provision incorrectly classified in 1997-98 as direct provision, resulted in an incorrect funding allocation for 1998-99. This will be recovered from the College's 1998-99 final allocation.

Allegation 1

In 1994-95, the College claimed Funding Council funding for students who lived in Scotland, knowing them to be ineligible.

Allegation 5

Ineligible Scottish students were registered on franchised courses.

3.2 The Funding Council funds provision delivered in England to students who are United Kingdom or European Union nationals resident in England. Students resident in Scotland and Wales are generally ineligible for funding, but the Funding Council will fund them in colleges close to Scotland and Wales which have traditionally enrolled such students, provided that the college does not seek to increase the number of such students. However, the investigations concluded that, for 1994-95, Halton College had claimed for 81 Scottish students undertaking franchised training in social and life skills, and for a number of other students

living outside England. The Principal claimed that, as soon as it was clear from the Funding Council's guidance (issued in March 1995) that they were ineligible, he had given instructions to delete them from the funding claim. He said that he had made enquiries to ensure that this had been done and had had no reason to suppose that it had not. But the Funding Council was not satisfied that the Principal had asked for, or obtained, specific assurance that appropriate action had been taken.

3.3 The joint Funding Council/Halton College Working Group (paragraph 2.10) found similar errors for 1995-96 and 1996-97. The College has agreed to repay just under £254,000 for these overclaims.

Allegation 2

In 1994, the College claimed funding for 1,200-1,300 students on a course entitled 'introduction to further education'. The College counted each student as "0.4 weighted full-time equivalent", which would now be equivalent to at least 60 hours of study, instruction or assessment supervised by teaching staff. In fact the course lasted only three to four hours.

3.4 The Funding Council found that the level of activity on this course was too low to support the claims made for 1993-94. The Funding Council identified an overpayment of just under £207,000. In practice, however, because of funding rules in 1993-94, only three per cent of the main allocation can be recovered. The new further education sector had been established from 1 April 1993, and the Funding Council had agreed to provide colleges with some assurance of stability of funding, including an agreement that no more than three per cent of the main allocation would be recovered in the event of a shortfall. The Board has agreed to repay the full sum due under those arrangements, which is just over £146,000.

Allegation 3

The College claimed for 8,000 catering students as the higher-funded "loadband 6" students when in fact 1,000 should have been "loadband 1", and 7,000 should have been "loadband 4" students. These students did not receive the necessary learning packages and support.

3.5 For the majority of training provision, the Funding Council's annual guidance sets out under individually listed qualifications the level of funding that can be claimed. But for some provision, especially vocational qualifications provided by employers on a franchised basis, the type of training, how it is delivered and the hours involved varies considerably. In these cases, the Funding Council makes funding available on the basis of the number of "guided learning hours" a college allocates to the course. Training providers are required by the college to specify the number of guided learning hours for each course and must be

able to provide evidence if required to do so by the Funding Council. Qualifications funded in this way are now classified into seven loadbands, depending upon the number of guided learning hours provided. Loadband 0 is the lowest and 6 the highest. Loadband 0 did not exist at the time of the allegation. It was created subsequently by dividing load band 1 into two, to give a closer relation between funding and guided learning hours for short qualifications.

3.6 This allegation was only partially substantiated. There were only 3,234 catering students, not 8,000, and none had been assessed as loadband 6. All had been assessed at loadbands 1-4. Halton College's funding claim had been subject to external audit and no concerns had been raised. The Funding Council, however, concluded that the College had not devoted enough resources to some of the courses these students were taking to justify the higher loadbands; and it had not undertaken the necessary checks to ensure that its claim was justifiable. The Funding Council asked the College and its external auditors to review claims made and consider whether the Funding Council's guidance has been misinterpreted. The concern was that the College had been claiming the maximum possible entitlement rather than amounts it could justify.

Allegation 4

The College and its external auditors relied on returns from franchised providers and failed to check that students involved were registered on the courses concerned at the courses' census dates.

3.7 The allegation related to hotel/cleaning students undertaking courses run by their employers under franchise arrangements. Employers were responsible for informing the College of students' start date, expected and actual end dates. Employers returned termly "census statements" which the College then checked. Halton College verified the existence of students by asking employers' training officers to certify returns at each census date. College staff also carried out some checks during routine visits to employers. The Funding Council concluded that incorrect recording of data had not affected funding claims but that the College should have carried out independent checks to ensure that claims accurately reflected the numbers of students actively participating in courses.

Allegation 6

The College was increasing the "loadband" of courses year-on-year to meet targets for student numbers and income.

3.8 The Funding Council's analysis of loadbands for courses during 1994-95 to 1996-97 showed no evidence to suggest that the College had been systematically increasing the hours of courses in order to claim higher funding.

Classification of courses as franchised or direct provision

3.9 In June 1998 Halton College drew to the attention of the Funding Council the Principal's decision in February 1998 to reclassify a number of courses being undertaken in 1997-98 from franchised to direct provision, which affected the provisional funding allocation for 1998-99. In Halton College's case, this had the effect of increasing the rate of funding for those courses. The Principal believed the reclassification (which concerned courses involving independent training providers) to be in line with Funding Council guidance. He intended checking his definitions with the College's external auditors and legal advisers. The Funding Council confirmed that the reclassification was inconsistent with its guidance and considers that the Principal should have checked his understanding of the definitions before undertaking the reclassification. The College's consultants, KPMG, investigated the reclassification in detail in the course of their work supporting the Review Group on funding claims (paragraph 2.7). In September 1998, KPMG concluded that the reclassification decision had been based on a misinterpretation of the guidance. They considered only one out of 25 courses they sampled to be direct provision, rather than the 13 claimed by the College. Moreover, they concluded that too many courses had been classified as direct provision in 1996-97. This however had no funding implications. Further to meetings with the Funding Council, the College is reviewing the basis for its classification of courses for 1997-98. The incorrect classification for 1998-99 resulted in an incorrect provisional allocation assessment for that year and £0.9 million will be recovered from the College's 1998-99 final allocation.

Overclaiming in respect of some franchised provision

3.10 In response to concerns about the loadbands claimed for some provision (allegations 2, 3 and 6), the Funding Council's investigation of Halton College's student record data (paragraph 1.6) analysed the guided learning hours claimed for all vocational and some other courses offered by the College with the same courses delivered by other colleges in 1994-95 and subsequent years. It found that the College had claimed significantly higher median total guided learning hours for some courses. In addition, there had been significant changes in the number of hours recorded over the years for some courses and the Funding Council had concerns about whether the College had evidence to support the level of guided learning hours. KPMG's work for the College on student data (paragraph 2.7) raised the same concerns. Following further investigation by the joint Funding Council/Halton College Working Group (paragraph 2.10), the Funding Council wrote to the College in October 1998 asking it to raise these matters with the external auditors before the final 1996-97 funding claim was submitted in December 1998. This work is currently being undertaken by the external auditors.

The Funding Council's procedures for ensuring that funding claims are in accordance with statutory authorities

External audit of colleges' funding claims is a potentially very effective control, but reviews carried out by the Funding Council in 1997-98 of a sample of external auditors' working files on the 1995-96 final funding claim audits highlighted some problems with the quality of audit performed. The Funding Council's validation checks are being extended for 1997-98 to include credibility checks to identify students not resident in England. The Funding Council is also undertaking separate checks to ensure that overclaims for the same reasons as at Halton College have not or are not occurring at other colleges.

3.11 Funding claims to the Funding Council from colleges are based, with relatively minor additions and adjustments, on colleges' records of the numbers and types of students and what courses students are taking. Verification of funding is, largely, therefore, a matter of validating student records. The Funding Council seeks assurance about the accuracy of student data and the associated funding claims through three main channels (although it may instigate additional checks in special cases):

- external audits of the funding claims (supported by guidance from the Funding Council);
- review by the external auditors of the control systems colleges have in place to support the storage, control and input of student data; and,
- the Funding Council's validation checks on college student data.

3.12 The Funding Council issues guidance annually on the audit of funding claims. The guidance has become more detailed over the years, partially because of the increasing complexity of the funding. In addition, in 1993, the Funding Council set up a working party which generally meets twice a year with external auditors and college representatives to discuss the guidance and its interpretation. In addition, the Funding Council holds annual seminars to offer further guidance for external auditors on the audit of the final funding unit claims.

External audits of the funding claims

3.13 Since 1993-94, following an audit which KPMG undertook for the Funding Council of a sample of colleges' 1992-93 student records, the Funding Council has required colleges' external auditors to do additional checks on student record data.

For 1993-94 and subsequent funding claims, the auditors have been required to report to the Funding Council on whether returns have been properly compiled in accordance with the relevant guidance.

Results of the audits

3.14 The external auditors produced qualified reports for more than ten per cent of final funding claims for 1995-96 and 1996-97. (Halton College has never received a qualified report for its final funding claims.) The reasons for qualifications were various but included inaccurate recording of student withdrawals in the records (6 colleges) and insufficient controls over franchised provision (9 colleges). The Funding Council follows up such qualifications and unless there is acceptable evidence, funding claims may be reduced accordingly.

Quality of audits

3.15 In 1997-98 the Funding Council carried out reviews of external auditors' working papers on 1995-96 final funding unit claims at 26 colleges. The findings raised concerns about the standard of audit in 11 of the 26 cases examined. The main concerns were: work programmes not updated to reflect current Funding Council guidance; insufficient testing of matters specifically identified in the Funding Council's guidance; assessment of management controls over student records inadequately documented; inadequate use of analytical review to identify areas of risk; and insufficiently detailed coverage of collaborative provision.

3.16 The Funding Council Audit Service planned to carry out a substantial programme of reviews in 1997-98 of the quality of external audits of student records. They envisaged carrying out 55 new reviews and ten reviews following up the results of the previous year's exercise. However, a number of audit firms declined to allow the Audit Service access to their working papers relating to the audit of student number returns as they were unsure of the use the Funding Council would make of them. The external auditors' letters of engagement with their respective colleges did not provide the Funding Council with sufficiently unambiguous access rights to force this issue. The Funding Council therefore negotiated a compromise: the firms granted the Funding Council access to their working papers; and the Funding Council issued "hold harmless" letters setting out conditions of access. The Funding Council has now modified the wording of the standard letter of engagement so that in future years its access rights will not be open to contest.

3.17 This dispute with the firms meant that the Audit Service's 1997-98 planned reviews were seriously delayed, although visits to smaller firms (which have allowed access to papers) got underway in August 1998. The programme of visits has not therefore arrived at a sufficiently mature stage for clear results to emerge. A further programme of visits is planned for 1998-99.

Late reports

3.18 Some final funding unit claims audit reports are received very late. Reports are due to the Funding Council in the February following the end of the academic year, but, for example, only 91 per cent of 1996-97 had been returned by September 1998 (some eight months after the due date), and 43 per cent of the colleges we surveyed told us that the 1996-97 funding claims and audit reports had been completed and returned late. The Funding Council follows up all late reports. Where returns are late, this is taken as a clear indication of possible difficulties at a college, and these are followed up by the relevant regional office of the Funding Council. For 1999-2000, the Funding Council has made clear that it may not confirm final allocations where final funding claims are not available.

External audit of internal control systems

3.19 Colleges are responsible for ensuring they have adequate controls over storage, control and input of data. Since 1994, the Funding Council has required external auditors to comment, in their annual management letters, on the control systems within colleges relating to student records and funding claims. In their management letters on the 1995-96 audits, external auditors identified concerns about the student records (for example, poor controls or poor supporting documentation) at a third of all colleges.

Validation of the Individualised Student Records

3.20 The Individualised Student Record is the return which the Funding Council has required colleges to submit since 1994-95. It shows comprehensive details about all the students at the college concerned and the courses they are following. Since 1994-95, the Funding Council has validated all such data prior to finalising any funding claims. This validation consists of comparing the interim and final returns for each academic year and investigating the reasons for discrepancies, and then running a series of validation checks and comparisons with key performance indicators. Since 1994, the Funding Council has made available to colleges the validation software which performs some 300 or so logical checks to ensure the internal consistency of data. With effect from 1998-99, colleges will be required to use it before submitting their claims to the Funding Council.

Checks to ensure overclaims are not, and have not been, occurring at other colleges

3.21 This section addresses the additional checks the Funding Council has carried out since the start of investigations at Halton College to ensure that overclaims are not occurring for similar reasons at other colleges.

Students living in Scotland and Wales

3.22 Validation checks for the 1996-97 funding claim and earlier years did not include identification of students not resident in England. The Funding Council has introduced a credibility check for the 1997-98 funding claims to ensure that students resident in either Scotland or Wales are only funded in colleges close to Scotland and Wales which have traditionally enrolled such students and that the number of such students does not increase over time. In the meantime, the Funding Council has identified all colleges receiving 1996-97 funding for 100 or more Scottish-resident and Welsh-resident students. It is satisfied that most of the 20 or so such colleges are situated close to the English borders, and could reasonably be receiving funding. The Funding Council is carrying out further checks on the remaining colleges, and will check whether or not any have been claiming for ineligible students. The Funding Council will seek recovery of any overclaims identified.

Courses funded on basis of loadbands

3.23 As explained in paragraph 3.10, the Funding Council's work on Halton College's student records found that the College's guided learning hours for a sample of courses was considerably higher than the median for all other colleges running similar courses. The Funding Council explained to us that due to the large number of courses funded in this way it would be a huge task to analyse the guided learning hours for comparable qualifications across all colleges offering them. The Funding Council has reduced the proportion of qualifications funded through the loadbands each year from 40 per cent in 1995-96 to less than 20 per cent in 1998-99. This is despite the growth (from 12,000 to 17,000 over the same period) in the number of qualifications offered by the colleges and eligible to be funded.

Classification of courses as direct or franchised provision

3.24 The Funding Council has checked whether any other colleges with franchised provision have reclassified a significant number of their courses from franchised to direct provision in 1996-97 and 1997-98. Only about six colleges appear to have done so and now that the Funding Council has detailed student

record data for the whole of 1997-98, it is undertaking follow-up checks with the colleges to establish whether reclassification was valid. In addition, the Funding Council is focussing on colleges with similar growth characteristics to Halton College, that is with rapid growth of provision largely attributable to franchised provision, where much of this provision is for out of local catchment area. The funding returns of any such colleges that have not recently been inspected or reviewed in special studies will be subject to a detailed review. If any significant concerns arise the Funding Council will consider requiring colleges to set up joint reviews with the Funding Council along the lines of that undertaken at Halton College.

Part 4: Financial controls over expenditure

4.1 This part of the report covers the allegations relating to the misuse of public funds on the purchase of computer equipment, establishment of College companies, refurbishment of the Principalship's offices, "awaydays", overseas trips, and use of College credit cards. It then considers the results of our survey on certain aspects of financial control including procurement strategies, overseas travel, and use of college credit cards.

Findings about the allegations

Some of the allegations were unsubstantiated, but the investigations highlighted significant weaknesses in financial control over procurement and over expenditure on "awaydays" and foreign visits. Our survey showed that some of these weaknesses exist at other colleges in the sector.

Allegation 7

The College bought Apple Macintosh computers from a local firm when alternative personal computers were cheaper. A College governor was an education marketing manager of Apple Computers UK Ltd at the time.

4.2 The purchase of Apple Macintosh computers occurred about nine months after the governor concerned had left Apple Macintosh Computers. This part of the allegation is therefore unsubstantiated. The Funding Council concluded that the purchase of 135 Apple Macintosh computers for £178,000 had probably been the cheaper buy. The average price of the Apple Macintosh computers was £1,300. Suitable personal computers could have cost £1,400 each at the time, although a lower unit price might have been achieved for such a large order.

4.3 However, there had been serious deficiencies in the College's procurement of the computers. There had been no specification or competitive tendering exercise. Neither was there a technical appraisal of whether the College's needs would be best met by Apple Macintosh computers or alternative personal computers. In addition, the purchase had not been approved by the Board (as the College's regulations require for purchases over £100,000).

4.4 In the light of these findings, Robson Rhodes examined a sample of four other major computer purchases by the College, varying in value from £220,000 over three years to £1.195 million (Figure 7). The Funding Council concluded that the College had spent large amounts on computer equipment without the proper approval of the Board. The College had not followed appropriate procedures to demonstrate need, value for money, probity and propriety; and the Board had failed to supervise the acquisitions. Evaluation procedures and decisions on which tender to accept had not always been fully documented, and in one case, there was no record of the justification for choosing other than the lowest tender.

Figure 7

| Contract | Purchase | Rental | Purchase | Rental | Rental |
|---|----------------|----------------------------|------------------|-------------------------------|-----------------------------|
| <i>Date</i> | 17.09.96 | 17.10.97 | 16.07.97 | 12.07.96 | 2.08.96 |
| <i>Equipment</i> | 135 Apple Macs | 102 Apple Macs | Apple Computers | Power Hub | Various |
| <i>Value (excl. VAT)</i> | £ 177,765 | £220,350 (over 3 years) | £ 123,893 | £ 1,194,907 (over 5 years) | £ 465,371 (over 4 years) |
| Technical appraisal prepared | X | X | Not known | Not known | Not known |
| Specification prepared | X | X | Not known | ✓ | ✓ ⁽⁴⁾ |
| Board approval obtained for expenditure over £100,000 | X | X | X | ✓ ⁽²⁾ | X |
| Tendering carried out | X | X | ✓ ⁽¹⁾ | ✓ ⁽³⁾ | X |

- Notes: 1. Tenders sought from only 2 out of 8 firms interested in tendering.
2. Approval only given in respect of £800,000. No approval given in respect of extra £400,000 committed by Principal during post-tender negotiation.
3. No reason recorded for accepting the higher rather than the lower tender.
4. Specification "developed in haste".

Source: National Audit Office, based on Robson Rhodes report

4.5 The Funding Council also found that in July 1996, shortly after the agreement for rental of the Power Hub system was signed, and while both the Head of Management Information Systems and the Head of Finance were on annual leave, the Principal negotiated another contract with the same company. During that period, he also accepted the company's hospitality at the British Open

Golf Championship in Lytham St Annes. The Funding Council concluded that by accepting hospitality in these circumstances, the Principal's conduct fell short of the standards expected of an Accounting Officer.

Allegation 8

In conjunction with a large private company, the College has set up private companies in China using public funds, and members of the College's senior management team were on the board of companies.

4.6 The investigations found no evidence that the College had set up any private companies in China. However, the College – with the knowledge of the Board - had entered into two contracts aimed at recruiting more Chinese students. One was a three-year contract to set up an agent's office in Guanzhou in June 1997: it committed the College to an investment of £30,000 in the first year with a fee payable to the College of £3,500 each year for each student recruited. The other was a one-year contract to set up an agency in Beijing: it committed the College to pay £1,000 advertising costs and 10 per cent of the first year's fee for any student recruited. Total expenditure to date (excluding tuition costs) has been £275,000 (including set-up costs) and gross income from the 78 students amounted to £374,375. Costs for subsequent years will fall by over £100,000, but income is expected to increase as the College is still recruiting additional overseas students. Although this venture did not involve any funds from the Funding Council, the Funding Council was concerned that this level of costs had been incurred without any evidence of a sound business plan or rationale for the recruitment of Chinese students.

Allegation 9

The College established a multi-media company using public funds. This company was subsequently wound up with losses totalling £500,000.

4.7 The College Board had authorised an investment of £500,000 in Media Vault Ltd, a multi-media company set up in September 1997. The company produces CD-ROMs, corporate videos and other multi-media products for both external clients and the College itself. It started trading in November 1997 and absorbed a number of staff, and multi-media activities, from the College. The directors include the Principal and Deputy Principal, but there are no other College governors on the board. The business plan forecast losses of £220,000 for the first year. Actual losses have been £236,000, but the company has not been wound up. The Funding Council was concerned about the level of risk associated with this investment and emphasised the need in such cases for a sound business plan which analyses risk and ensures a return on the funds invested.

Allegation 10

Public funds have been misused during the refurbishment of the Principalship's offices.

4.8 The Principalship's offices were refurbished as part of a larger refurbishment project including the College's reception area, general offices and the office of the Clerk to the Governors. The work included provision of toilets, a shower room and a kitchen. The total cost was just over £260,000. The Funding Council considered that the work was within the College's normal operational remit and did not constitute a misuse of public funds.

Allegation 11

Public funds have been misused on 'awaydays' for management/governors/staff of the College at a hotel. The College used a hotel within the group which employs one of the governors.

4.9 The Funding Council acknowledged that the use of 'awaydays' by colleges is quite common, but concluded that Halton College made extensive use of them, and did not have adequate controls in place to ensure that they were justified in advance or that they offered value for money. The College has spent £100,400 on 'awaydays' during the last five years, on events including strategic planning sessions and management issues. Some £69,000 was spent on 'awaydays' at three hotels. The investigations found that the hotel used by the College was not owned by the group by whom the governor was employed.

Allegation 12

College funds were being misused for overseas trips.

4.10 The Funding Council concluded that, in the absence of a business plan or proper evaluation, the level of overseas and other activity by the College had been unacceptable; and that the duration, expense and geographical range of overseas trips had been out of proportion to any benefits. The investigations found that, during the last five years, the Principal and Deputy Principal between them had spent nine days short of a whole year out of the College on College business and spent some £210,000 on travel and subsistence during this period. The Principal and Deputy Principal had accompanied each other on almost all trips abroad, so that at these times the two most senior managers had both been absent from the College. Other staff and governors had gone on overseas trips too.

4.11 The Board's control over these trips was poor. There had not always been a business justification or an explicit cost-benefit analysis for the overseas trips. Although the Principal had noted the trips in his weekly newsletters to the Board, the Board had not given prior authorisation for the trips and there appeared to be no control over the reasonableness of expenditure. The Principal authorised his own expenditure as well as that by the Deputy Principal and other staff or governors. The governors defended these arrangements. They expected the Principal to promote the College overseas as part of the College's strategy to generate overseas students and contracts, and they believed that he could and should be trusted to make decisions about such matters in the best interests of the College. The College has since changed its financial regulations to include the requirement that the Principal's travel claims should be approved by the governors.

4.12 The Funding Council was concerned that some expenditure appeared extravagant. The number and frequency of some of these items rendered the Principal's explanation that these were "one-off expenditure" untenable. The Funding Council accepted that the College's financial regulations refer to reasonableness but do not define it. Nevertheless, the investigations identified a number of items of expenditure which were clearly not reasonable, such as wine, restaurant bills and overnight stays in expensive hotels.

Allegation 13

Public funds were being misused to purchase presents with the College credit cards.

4.13 The investigations identified only three purchases, totalling £3,139, which might have been presents. Two of these were items of video equipment purchased abroad, and the other was a purchase of mobile phones by the Director of Finance. The Funding Council accepted that all these purchases were for College or staff use.

4.14 However, the investigations found that there were inadequate authorisation procedures for expenditure on credit cards and insufficient checks to ensure that expenditure was reasonable. Receipts were not always provided to support credit card expenditure, especially that on hotel bills. Expenditure was not always approved by a senior officer, and the justification for expenditure was not always clear.

Allegation 14

Staff were given the opportunity to shred confidential documents.

4.15 This allegation was of concern because it raised the possibility that documentation supporting other allegations had been destroyed. The investigations found that shredding of documents had occurred, but no evidence was uncovered that this operation had been anything other than a routine disposal of documents.

Purchase of prints for £31,000

4.16 The College's financial regulations gave the Principal delegated authority for spending up to £100,000. The Funding Council found that the Principal had proceeded with the purchase of prints to the value of £31,000 without reference to others at the College and without professional advice. Although the Principal had referred to the matter in his weekly newsletters, the Board had not been formally advised about the proposed acquisition. The Funding Council considered that the purchase breached the College's financial regulations which required competitive tendering for purchases over £20,000, and that there was no evidence that the purchase represented value for money. The Principal, however, considered that competitive tendering would have been inappropriate for such a purchase. The Funding Council concluded that the purchase and the procedures that led to it fell short of acceptable minimum standards.

Financial controls at Halton College and in the rest of the sector

Some of the weaknesses in financial controls at Halton College may exist in a minority of all colleges.

4.17 In seeking to determine whether the weaknesses in financial control at Halton College are characteristic of other colleges, we took account of the results of our survey of colleges (paragraph 1.9). We also took account of the results of the Funding Council Audit Service's 1996-97 and 1997-98 reviews of colleges' governance, management and internal audit arrangements. The Audit Service's reviews involved visits to colleges and internal audit providers. The 1997-98 review was based on a sample of 108 colleges and 52 visits to auditors who were responsible for the internal audit of 104 colleges. This section sets out our findings on audit committees and internal audit services, as well as procurement, overseas travel and use of college credit cards.

Audit Committees

4.18 The Funding Council Audit Service reviewed Halton College in January 1996. Although it concluded that the Audit Committee had been operating effectively, it was concerned that the Committee had made decisions which should have been made by the Board, such as appointing auditors and approving their terms of reference and audit plans. Another concern was that the Principal and the Deputy Principal had attended almost all the Committee's meetings. The Audit Service considered that it is important for audit committees to be seen to maintain their independence and that therefore the Principal and Deputy Principal should only attend at the request of the Committee. Evidence provided by the College in August 1996 indicated that the College had made good progress with all the recommendations. The Audit Service reviewed the College's Internal Audit again in October 1998. Following guidance issued by the Funding Council in May 1998, the College has now incorporated in its Action Plan a task of further developing Audit Committee arrangements to meet the requirements of the Funding Council's new Audit Code of Practice.

4.19 The Funding Council Audit Service found serious problems with the operation of audit committees throughout the sector in 1993 and subsequently carried out regional seminars for audit committee chairmen. However, the situation has improved; the percentage of ineffective audit committees identified during Audit Service visits fell from 45 per cent to 12 per cent between 1993-1994 and 1996-97. Specific weaknesses included:

- membership of the audit committee was inappropriate or gave rise to conflicts of interest (19 per cent of colleges examined by the Audit Service in 1996-97); and,
- inadequate monitoring of the performance of internal audit (32 per cent of colleges examined by the Audit Service in 1996-97).

Internal Audit

4.20 The Funding Council Audit Service reviewed Internal Audit at Halton in January 1996 and concluded that reliance could not be placed on it. The key deficiency they identified was that crucial changes in college work – particularly, the significant increase in franchising – had not been reflected in the Audit Plan. They also noted that audit resources were relatively small, given the size and complexity of the College. In addition, they noted that the same firm carried out some assignments in addition to both the internal and external audit functions and

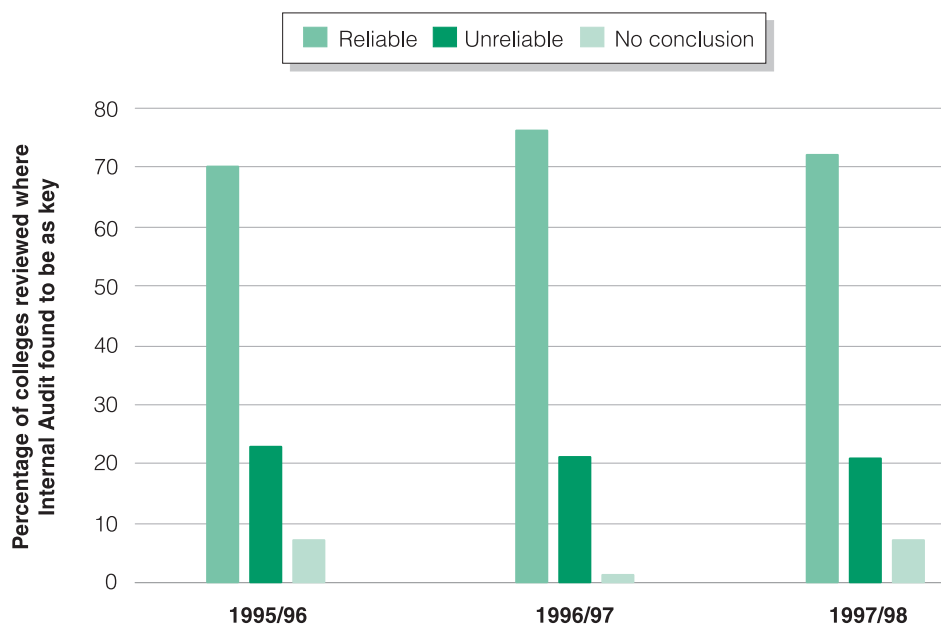
that the College needed to take action to ensure that the firm's independence was maintained. An action plan arising from the audit was implemented by the College. This included additional audits in respect of franchised provision.

4.21 The Funding Council Audit Service's extensive programme of visits to other colleges has found that the internal audit service could not be relied upon in about a fifth of all colleges (Figure 8). Similarly, Halton College was not alone in spending a relatively small amount on audit - our survey of colleges indicated that on average colleges paid their internal auditors about £9,300 in 1997-98 and 42 per cent of the colleges paid less than £7,000. The Funding Council Audit Service recognises that although there is strong competition for internal audit services, colleges pay relatively little for such work. As a result, they are often assigned junior and less experienced staff by the audit firms.

Audit Service conclusions on colleges' internal audit services

Figure 8

Figure 8 shows that in each year between 1995-96 and 1997-98, most colleges reviewed had reliable internal audit services but more than a fifth had not.



Source: Further Education Funding Council's Chief Auditor's annual reports

4.22 Halton College, like half of the colleges we surveyed, used the same organisation as internal and external auditors. Each of those colleges, however, reported that the roles of internal and external audit were clearly and separately set out. We recognise that the Funding Council's guidance does permit colleges to use the same firms for internal and external audit, so long as there is independence

between the teams involved. We were concerned, however, that six per cent of the colleges responding to our survey reported that the same audit teams were carrying out the internal and external audit functions; at one college the same management was involved in the two functions.

Procurement

4.23 At Halton College the Funding Council had found a clear vision for the procurement of information technology but no clear documented strategy approved by the governors. Our survey showed that this was common amongst colleges – 40 per cent reported not having a procurement strategy for information technology, but some commented that it formed part of the overall business plan for the college.

4.24 The overwhelming majority of the colleges we surveyed had financial regulations setting out comprehensive procedures for the authorisation of procurement. However, at more than half the colleges we surveyed, financial regulations allowed expenditure of more than £20,000 without competitive tendering and a quarter allowed expenditure of over £30,000 without competitive tendering (Figure 9 overleaf). Six colleges had financial regulations which allowed expenditure of up to £20,000 without requiring at least two written quotes. In addition, 11 per cent of colleges surveyed said that they had carried out procurements over £5,000 which were not in line with their strategy documents, and eight per cent of colleges said approval to do this was given by the Director of Finance, not the governing body.

Overseas travel

4.25 Overseas travel by senior staff and governors at Halton College was substantial: about £70,000 in 1997-98. Our survey showed that there was a wide variation in the amount of overseas travel undertaken by other colleges in the sector. We understand that the variation largely reflects the different missions of colleges. Some 16 per cent of colleges reported no foreign travel at all, but 17 per cent spent more than £20,000 on foreign travel a year. More than half, however, did not or could not easily say how much they were spending on foreign travel. Some 61 per cent of colleges told us that financial regulations did not specify who should authorise travelling expenses for the principal, and 44 per cent are not specific on who should authorise claims for senior management team members.

Level of expenditure requiring formal competitive tendering

Figure 9

Figure 9 shows that more than half the colleges responding to National Audit Office's survey permitted expenditure up to £20,000 without requiring competitive tendering.



Source: National Audit Office Survey

4.26 In June 1998, the Funding Council Chief Executive copied to all colleges the National Audit Office report on investigation of misconduct at Glasgow Caledonian University. He highlighted the need for colleges to set limits on travel and subsistence expenditure and to decide what level of expenditure was reasonable. In doing so, he recommended that colleges should have regard to the rates that apply to other organisations substantially in receipt of public funds. A number of colleges had sought further advice, and in July 1998, the Funding Council issued examples of such rates to all colleges.

College credit cards

4.27 Credit cards are used by less than half of the colleges we surveyed, although seven per cent were unable to say whether or not they had any. Each of the 43 colleges using credit cards in our survey reported that expenditure was checked to ensure it had been incurred on college business. Five colleges, however, said that they did not require receipts, and the same number said that they did not check that items of expenditure were reasonable. In our view, the absence of checks must make it difficult for colleges to ensure that they were receiving value for money.

Part 5: Governance and management

5.1 Investigation of the allegations at Halton College highlighted a number of weaknesses in some aspects of the management of the College, but in particular, the insufficient supervision by the Board of the management of the College and the activities of the Principalship. This part of the report addresses: the role of the governing body in supervising the College management; the role of the Principal as Accounting Officer; and the role of the Clerk to the Board. Under each of these topics, we consider the facts at the time of the investigations at Halton College and, through our survey of colleges (see paragraph 1.9), the extent to which similar circumstances may exist in other colleges.

The Funding Council concluded that the Principal of Halton College had not properly discharged his duties as Accounting Officer and the Board had failed to supervise adequately the management of the College and the activities of the Principalship.

Role of the Governing Body

5.2 The responsibilities of a college's governing body are set out in the college's instrument and articles of government and financial memorandum with the Further Education Funding Council. The articles include the governing body's legal responsibility "for the effective and efficient use of resources, the solvency of the institution and the Corporation and for safeguarding their assets". The Funding Council Chief Executive concluded that the investigation of Halton College indicated that the College's governing body, the Board, had failed to ensure that:

- it was properly informed by the Principalship of what was happening at the College;
- it exercised sufficient supervision of the Principalship;
- appropriate approval mechanisms, reporting structures and systems were in place; and,
- the then Chairman, and those members of the Board involved, did not participate in inappropriate foreign travel or hospitality.

5.3 The Funding Council has asked the Board to review the conduct of the Board and individual members including the then Chairman (who retired from the Board in January 1999) and advise the Chief Executive of any actions it may choose to take above those already taken.

Role of the Principal as Accounting Officer

5.4 The responsibilities of the principal are set out in a college's articles of government and its financial memorandum with the Further Education Funding Council. Although the governing body is ultimately legally responsible for the proper use of all public funds paid to it by the Funding Council, the principal has personal responsibility for the management of the college's budget and resources and in particular the management and stewardship of public funds provided to the college. In his report on Halton College, the Funding Council Chief Executive concluded that the Principal, as Accounting Officer, had failed to:

- put in place and ensure the exercise of proper and appropriate controls to ensure that the College's Individualised Student Record returns and claims to the Funding Council for funding were accurate and properly reflected the Funding Council's advice on such matters;
- operate within his delegated authority for incurring expenditure upon behalf of the College and failed to ensure that the College's governors received proper reports and financial information to monitor such expenditure; and,
- ensure that there was propriety and value for money in the expenditure of public funds by the College.

5.5 The Funding Council considered that the Principal of Halton College had not properly discharged his duties as Accounting Officer and that there were sufficient reasons for the Board to review his conduct with a view to deciding whether he should remain in post. The Board has established a Special Committee to consider this matter. This Committee has the power to recommend dismissal if appropriate.

5.6 To ensure that the role of the Accounting Officer can be discharged properly in future, the Board of Halton College is revising the financial regulations, is increasing the frequency of Board meetings and undertaken an overview of College activities. In addition, all returns to the Funding Council will be fully explained by the Principal to the Board before being sent to the Funding Council.

Role of the Deputy Principal

5.7 The Funding Council Chief Executive concluded that the Deputy Principal of Halton College had been directly implicated in some of the allegations, and had failed to stop or attempt to stop others. The Funding Council considered that the Board should also investigate the conduct of the Deputy Principal and the manner and effectiveness by which she had discharged her College-wide duties. The Board's Special Committee (paragraph 5.5) is also considering her position.

Role of the Clerk to the Governing Body

5.8 The clerk is a governing body's only regular source of independent professional support. Funding Council guidance issued in March 1996 says that the clerk must have the knowledge and status within the college to act independently of college management and as the servant of the governing body. The clerk must also ensure that the governing body operates within its powers and abides by proper procedures.

5.9 Halton College's Clerk is also College Secretary and Director of Estates. Although the allegations did not refer to the role of the Clerk, in our view, the Board's lack of sufficient supervision of the Principalship, and the fact that the Principal was able to make some decisions without the proper authority of the Board, raises questions about the effectiveness of the arrangements.

5.10 Some 66 per cent of colleges in our survey told us that the clerk is the deputy principal or director of finance. Funding Council guidance recognises that colleges may wish to appoint senior managers to hold the post of clerk. However, in our view, this practice may compromise the clerk's independence because of the scope for the clerk to be influenced by the principal as his or her line manager. There is also a risk that a clerk might have an interest in concealing from governors, or misrepresenting to them, matters for which he or she had managerial responsibility. In this context, we note that the Committee of Public Accounts (8th Report 1997-98) considered that the appointment of the Deputy Principal as Clerk at Swansea Institute of Higher Education had been inappropriate because he was insufficiently independent and that this may have been a key factor in the serious problems which had arisen at the Institute.

5.11 A further six per cent of colleges we surveyed reported that the clerk was the personal assistant to the principal. This, again, raises questions of independence. We note that plans formulated by the Department of Education and Employment include a requirement that all matters relating to the appointment of

the clerk should be the sole responsibility of the governing body. The proposal makes clear that the governing body must ensure that its arrangements secure a sufficient degree of independence. This independence is one of a range of measures that the governing body should take to ensure that it is able to carry out properly its responsibility for the oversight of the college. The Secretary of State for Education and Employment is likely to make a direction to all colleges requiring them to make the necessary modifications to their articles of government with effect from 1 August 1999.

Governance and management more generally at Halton College and in the rest of the sector

5.12 In our survey, which was conducted before we knew the main conclusions of the Funding Council's investigations, we focused our questions on governance and management on: how colleges monitor their financial position; the structure of governing bodies; codes of conduct for governors; registers of interest; the role of the clerk to the governing body; and arrangements for whistleblowing. We confirmed our findings against those of a survey conducted by the Department for Education and Employment in March 1998 as part of its consultation with the sector (paragraphs 1.10 and 5.9). We also took account of findings from the Funding Council Audit Service's reviews of colleges (paragraph 4.17). The Funding Council Audit Service concluded that 91 per cent of colleges had at least adequate governance arrangements and 92 per cent of colleges had at least adequate financial management.

Monitoring of financial and management position

5.13 The Funding Council's guidance says that a governing body should monitor financial performance as the year progresses. KPMG, in their review of organisation and management undertaken for Halton College (paragraph 2.5 refers) focused on the Principal's responsibility to provide information to the governing body and on financial regulations. KPMG found that monitoring information provided to the Board was broadly compliant with Funding Council guidelines. However, they concluded that there was scope for the Principal to improve the reporting arrangements to governors and managers. Their main concern was that financial information was highly aggregated and did not help governors and managers to understand the key activities of the College about which they are required to make decisions and then monitor outcomes. They recommended that the College governors should receive income and expenditure summaries by faculty and by type of provision. The College has since amended the

form and content of the monthly management accounts and other financial forecasts, and is making reports to governors more systematic, showing a clear link to key issues and key targets.

5.14 Inadequacies in the information provided to governors may be paralleled at other colleges in the sector. The Funding Council Audit Service found that management accounts did not include all the information needed for governors to understand the financial position of the college: this was so in at least 28 per cent of colleges visited in 1996-97 and 31 per cent in 1997-98. Our survey showed that only six per cent received reports on key financial indicators (including budget outturn, income and expenditure, cashflow and balance sheet) less than once a term. Eleven per cent of the colleges did not receive written reports on student and staff numbers and their financial impact.

Adequacy of the structure of college committees

5.15 The Funding Council's guidance reminds colleges of the views of the Committee of Public Accounts (Session 1993-94, Eighth Report, "Proper Conduct of Public Business") which include the need for public bodies to ensure that they have appropriate standards for maintaining the conduct of public business. This includes not only the business transacted by full meetings of the governing body but also by its committees. The Funding Council Audit Service's 1996 review of Halton College's governance and management found the following:

- insufficiently frequent meetings of the Finance and General Purposes Committee (only three times a year); and
- non-specific terms of reference for the Finance and General Purposes Committee.

5.16 Following the audit the College implemented the necessary changes. Since KPMG's review of the College's governance and management arrangements, the Board is revising the terms of reference and composition of all sub-committees and has set up a new Quality and Curriculum Sub-Committee.

5.17 The Funding Council Audit Service found that 64 per cent of colleges visited in 1997-98 had an appropriate committee structure. However, 44 per cent had no standing orders; and at 28 per cent, the terms of reference for the finance and general purposes committee did not adequately reflect the committee's role. The Funding Council requires all colleges to rectify such shortcomings within a specified period.

Codes of conduct for governors

5.18 Funding Council guidance issued in May 1994 recommends the use of a code of conduct for governors. A code enables a clear indication to be given to governors about their role and responsibilities. The Board of Halton College had adopted a code of conduct in 1996. KPMG however reported to the College in September 1998 that the code fell short of good practice in some respects: it did not have a statement of aims and values; and it did not have a statement on the College's obligations to its stakeholders. The College has since adopted a revised code of conduct. Our survey results showed that 98 per cent of colleges have, or are developing, written codes of conduct for governors. These findings are consistent with the findings of the survey carried out by the Department of all colleges in the sector (paragraph 5.12).

Registers of interest

5.19 A register showing the interests of governors and senior managers contributes to the accountability of the governing body and helps ensure that conflicts between the interests of governors or managers and the interests of the college are, and are seen to be, properly handled. In May 1996, the Committee on Standards in Public Life strongly recommended that registers should be kept and that they should be open to public inspection. The Department for Education and Employment is proposing legislation making a register of financial interests a legal requirement from 1 August 1999.

5.20 Our survey showed that, like Halton College, all but three per cent of colleges have a register of interests, suggesting a very high degree of compliance with good practice. Our findings are consistent with those of the Department's survey of colleges (paragraph 5.12). All record the interests of the governors in them, but the results also showed that:

- registers did not include entries in respect of all senior post holders (22 per cent of registers) or all members of the senior management team (31 per cent of registers), nor did they include declarations of the interests of relatives of the subscribers (37 per cent of registers);
- seven per cent of registers were not being updated annually;
- subscribers were not required to confirm or update entries (eight per cent of registers);

Whistleblowing

5.21 In May 1996 the Committee on Standards in Public Life recommended that colleges should have codes of practice on whistleblowing, which would encourage staff to raise genuine concerns confidentially, and would enable the concerns to be dealt with inside the college. This would mean problems could be identified and resolved at an early stage rather than remaining unaddressed for a long time or being raised, if at all, with outside bodies or anonymously – which can make investigation difficult.

5.22 At the time of the investigations, Halton College had not developed a procedure for whistleblowing, but a Whistleblower's Charter has since been adopted, in November 1998. Our survey showed that 36 per cent of colleges had a written whistleblowing policy. Six per cent did not have one at all, and 57 per cent had one under development, and one per cent of respondents were not sure. In view of the governing body's responsibilities for the oversight of the activities of the college, effective whistleblowing and complaints procedures should be considered an essential element of their oversight arrangements.

Appendix 1: Methodology

Investigation

In April 1998, following receipt of copies of correspondence, the National Audit Office and the Further Education Funding Council jointly carried out a preliminary review of the issues raised. As a result, a list of 14 allegations was formulated. The Funding Council, through its solicitors Beachcroft Stanleys, employed specialist advisers to investigate the allegations in detail. In the meantime, the Funding Council set up a Working Group to examine student data records and requested Halton College to set up three Review Groups. The Funding Council and the College subsequently set up a Joint Working Group to take forward investigations on student data. Representatives of the Funding Council and the College met regularly to monitor progress. The Funding Council Chief Executive issued his final report to the College in December 1998, taking account of comments on earlier drafts by the College and the Principalship and their respective advisers.

In reaching conclusions on the investigation of the allegations and the action being taken by the Funding Council and the College we reviewed:

- the draft and final reports by the specialist advisers, Robson Rhodes;
- a summary by the Funding Council Chief Executive of the emerging conclusions as at 21 May 1998;
- a summary of the Funding Council Chief Executive's provisional conclusions as at 29 July 1998;
- reports produced by three internal Review Groups established by the College, together with associated reports prepared by the College's consultants, KPMG;
- the Funding Council Chief Executive's draft report as at 5 November 1998;
- the Funding Council Chief Executive's report to the College produced on 5 December 1998;

- evidence supplied to the Funding Council and us by Dibb Lupton Alsop, solicitors acting for the Principal and Deputy Principal.

In considering whether any weaknesses in control at Halton College were characteristic of the sector as a whole, we issued a questionnaire to 117 colleges in August 1998, representing over 25 per cent of all colleges. The sample was selected randomly. Some 113 responded (including four late replies). We compared our findings to those of a survey undertaken by the Department for Education and Employment in March 1998 as part of a wider consultation on accountability in the further education sector. Where appropriate, we also had regard to the Funding Council's conclusions relating to audit and inspection of colleges including the reviews of internal and external audit. In addition, we took account of our previous work on governance issues, and relevant recommendations made by the Committee of Public Accounts as well as recommendations made by the Committee on Standards in Public Life.

Questionnaire

The aim of the survey was to identify the extent to which:

- a) college governance and expenditure control arrangements represent good practice;
- b) some of the weaknesses occurring at Halton College might be occurring elsewhere.

In preparing the questionnaire, we took account of guidance issued by the Further Education Funding Council for England as well as recommendations of the Committee on Standards in Public Life. Only four colleges did not respond, two of which informed us in advance.

The questionnaire covered the following areas: governing body and committees; audit management; audit of student data; procurement; expenses; and credit cards. The findings were as follows:

Governing Body and Committees

Meetings

Governing Bodies meet on average five times for ordinary meetings, and 66 (61%) have at least one special meeting.

Ordinary meetings almost always receive minutes of the meetings of the Audit Committee (104 colleges, 95%) and Finance Committee (102 colleges, 94%). Most governing bodies also receive regular reports on financial progress, but 6 colleges (6%) of governing bodies receive financial information less than termly or not at all.

87 colleges (80%) reported that it is publicly stated that minutes and papers of the governing body are open to inspection.

Audit Committees

104 colleges (95%) have at least one member with financial or audit expertise.

Clerk to the Governing Body

At 85 colleges (78%) the Clerk holds a paid position within the college. 24 colleges reported the Clerk is also Assistant/Deputy/Vice Principal and a further 15 colleges reported the Clerk as also Director of Personnel/Finance/Administration/Resources.

Codes of conduct

Some 106 colleges (98%) have, or are developing, written codes of conduct for governors and 101 (92%) have one for appointment of governors, but 43 (39%) have no such code, nor plans to develop one for senior post holders. The Funding Council's inspection teams had highlighted weakness in codes of conduct for governors in five cases.

Registers of interests

106 colleges (97%) reported having register of interests, all of which contain details of governors' interests. 81 registers (76% of colleges with a register) record the interests of senior post holders to register their interests, and only 64 (60% of those with a register) record the interests of relatives. Two colleges did not have a register of interests, or had no plans to develop one. Seven colleges (7%) reported that they do not update the register annually and eight (8%) claimed that they do not require individuals to update their entries.

Of the 106 colleges that had registers of interests, 93 (88%) explicitly require individuals to disclose details of paid employment, and 90 (85%) require directorships to be disclosed. Some 71 (67%) require membership of professional bodies to be disclosed, 62 (58%) require details of external committees and the same number require details of associations with voluntary bodies.

Eight colleges (8%) reported that the Funding Council's inspection had identified weaknesses in their registers of interests, either that the register was incomplete or out of date, or that the coverage of issues should be extended.

73 colleges (69% of colleges with a register) publicly state that the register is open to inspection.

Whistleblowing policy

39 colleges (36%) already have a written whistle-blowing policy, and 62 (57%) have one under development. Seven colleges (6%) do not have one at all.

Audit arrangements

54 colleges (50%) surveyed use the same organisation as internal and external auditors, a situation much more prevalent among smaller colleges. In every case, colleges reported that the roles of internal and external audit were clearly and separately set out, but in one case, a college reported that the same partner/manager is responsible for both. The same personnel were involved in six colleges. 104 colleges (95%) reported that the Head of Internal Audit has direct access to the Chair of the Audit Committee.

Colleges surveyed spent an average of £9,300 in 1997-98 on internal audit, ranging from under £4,000 for the smallest colleges to £20,000 for the largest.

In 16 colleges (15%), the governing body minutes recorded concerns about the standard or coverage of internal or external audit reports. 5 colleges (5%) reported that either their auditors or the audit committee had concerns about compliance with financial regulations, and 5 (5%) had concerns about procurement procedures.

continued ...

Audit of Student Data

This exercise was not completed on time at 47 colleges (43%); those with the largest budgets were significantly worse – 10 of the 13 colleges with budgets over £20 million were late. Of the late returns, 9 blamed software errors and 10 blamed the external auditors.

Procurement

In all but two colleges (2%), financial regulations set out the procedures for authorisation of procurement.

In 59 colleges (54%) surveyed there is no requirement in the financial regulations for a strategy document to be prepared. Some 44 colleges (40%) do not have a procurement strategy for information technology.

The range of expenditure requiring at least 2 written quotes ranged from under £1,000 (in 9 colleges, 8%) to £20,000 (in 6 colleges, 6%), with the average at £4,000.

There was also a big range of expenditure above which competitive tendering is required: 1 college said under £1,000; 35 claimed £20,000-£39,999 and 20 said over £50,000.

Expenses

In 67 colleges (61%), financial regulations do not specify who should authorise travelling expenses for the Principal, and 44 are not specific for senior management team members.

Some 6 (6%) of college Principals sign their own travel claims, and 4 (4%) of Chairmen of the Governors authorise their own.

17 colleges (16%) reported no foreign travel. 15 (16% of those with some foreign travel) reported that the governing body never receives written reports of the outcome of foreign visits. 12 colleges (13% of those with foreign travel) sometimes receive reports on foreign travel.

Credit cards

Credit cards are used by 43 colleges, ranging from 9 of the 13 colleges sampled with budgets over £20 million to 3 of the 12 colleges with budgets less than £2.5 million. The average number of cards, for those colleges using them at all, is four, with annual expenditure of £12,000 (£3,000 per card) and a typical credit limit of just under £2,000. In 30 of the 43 colleges using credit cards, financial regulations do not cover how the cards should be used.

Appendix 2: Summary of audit arrangements at further education colleges

Overall framework

The financial memorandum between the Department for the Education and Employment and the Further Education Funding Council for England requires the Funding Council to issue an Audit Code of Practice (the Code) which establishes the audit framework for colleges. In turn the Funding Council, through its financial memorandum with colleges has required colleges to put in place audit arrangements. These arrangements concern:

- the establishment of audit committees by colleges;
- appointment of an internal audit service; and,
- the provision of internal and external audit in accordance with guidance from the Funding Council, embodied in the Code.

College audit committee

The Code requires that there should be at least three members of the committee and that the majority of the members should be governors. The governing body can co-opt external members, with relative expertise, to the committee. In order to ensure independence and objectivity members of the committee must not have executive authority in the college. Membership must not include the chair of governors, the principal, senior members of staff, nor members of the finance committee or equivalent.

The governing body must set terms of reference for the committee. The Code provides model terms of reference. These are:

- to advise the governing body on the effectiveness of the college's whole system of internal control, including controls for securing economy, efficiency and effectiveness (value for money);
- to advise the governing body on the appointment, reappointment, dismissal and remuneration of the external auditor and the internal audit service;

- to advise the governing body on the scope and objectives of the work of the external auditor and the internal audit service;
- to ensure co-ordination between the internal audit service and external auditor;
- to consider and advise the governing body on the audit needs assessment and strategic and annual internal audit plans for the internal audit service;
- to advise the governing body on internal audit assignment reports and annual reports and on control issues included in the external auditor's management letters, and management's response to these;
- to consider and advise the governing body on relevant reports by the National Audit Office and the Funding Council, and where appropriate, management's response to these;
- to monitor, within an agreed timescale, the implementation of agreed recommendations relating to internal audit assignment reports, internal audit annual reports and external auditors' management letters;
- to establish, in conjunction with college management, relevant performance measures and indicators and to monitor the effectiveness of the internal audit service and external auditor through these measures and indicators; and,
- to produce an annual report for the governing body which includes the committee's advice on the effectiveness of the college's system of internal control. The report should incorporate any significant matters arising from the work of the internal audit service and external auditor.

The governing body must not add to these terms of reference responsibilities that require the audit committee to adopt an executive role.

Internal audit service

The Code requires that the internal audit service must be distinct from the college's external auditor, separate from college management and without any executive, management, or operational responsibilities outside internal audit.

The primary responsibility of the internal audit service is to provide assurance on the adequacy and effectiveness of the whole system of internal control at the college. The Code requires that the operation of the internal audit service must comply with the standards of internal audit which have been promulgated by HM Treasury and included in the Government Internal Audit Manual.

The internal audit service reports to the governing body through the audit committee. It must produce an annual internal report on the adequacy and effectiveness of operation of the whole system of internal control at the college.

External audit

The Further and Higher Education Act 1992, requires colleges to produce annual accounts and appoint external auditors to audit and report on them. The basic role of the external auditor is to report on the truth and fairness of the income and expenditure for the year and the financial position of the college and any subsidiary companies shown in the financial statements. The Companies Act 1995, also requires the external auditor of limited companies to form an opinion as to whether proper accounting records have been kept, whether the accounts are in accordance with those records and to state that the accounts comply with the disclosure requirements of the Companies Act 1985. The external auditor must also be concerned with the requirements of the Funding Council to report on:

- the regularity of transactions, that is that any terms and conditions attached to the funds provided to colleges have been complied with; and,
- the accuracy of certain statistical returns, that is the audit of final funding unit claims and on the individualised student record data.

The Code provides guidance that external auditors should produce a management letter, addressed to the governing body through the audit committee, reporting any significant matters arising from the audit and recommending improvements. Separate management letters may be produced in respect of interim audits and the audit of final funding unit claims.

Funding Council Audit Service

The Funding Council Audit Service is responsible for giving assurance to the Funding Council's Chief Executive, as Accounting Officer, on the financial and other control arrangements over the funds disbursed to colleges. The Chief Auditor provides an annual report to the Chief Executive and the Funding Council Audit Committee, which includes her assessment of the extent to which the Chief Executive can rely on the internal control system of the Funding Council and those of colleges.

The Funding Council Audit Service assesses the adequacy and effectiveness of the system at internal control at colleges by performing reviews of college's governance and management arrangements. It aims to minimise duplication of audit effort by seeking to rely upon the work of colleges' internal audit services. It also evaluates the effectiveness of colleges' audit committees. The Funding Council Audit Service has rights of access to all college records, information and assets, including internal and external auditors' working papers.

The Funding Council Audit Service visits colleges and internal audit providers over a four year cycle. The former reviews are carried out together with colleagues from the Funding Council's Inspectorate. The Funding Council Audit Service also undertakes risk-based reviews outside this cycle. It also carries out an annual sample of examinations of colleges' external auditors' audit of final funding unit claims and individualised student record data. Each year, the Funding Council Audit Service monitors all colleges' external audit management letters and internal audit annual reports. The Funding Council Audit Service follows up its work with further visits to colleges, as appropriate.

The National Audit Office

The Comptroller and Auditor General is head of the National Audit Office. He and his staff have access to the accounts of colleges and have powers to undertake examinations of colleges' economy efficiency and effectiveness.

Appendix 3: National Audit Office reports on governance issues in the further and higher education sectors

Further education

Managing to be Independent: Management and Financial Control at Colleges in the Further Education Sector (HC179 Session 1994-95, published February 1995). This dealt with planning and decision-making; budget creation and management; financial control; and audit arrangements at a sample of 15 colleges. It found that colleges had responded well to the challenges of independence. There were numerous examples of colleges implementing good practice as regards propriety and achieving value for money, but strategic planning and financial management were still relatively limited, and there was scope for colleges to tighten up procedures. The Committee of Public Accounts held a hearing in March 1995 (HC 309, 36th Report, Session 1994-95).

The Further Education Funding Council for England (HC 223, Session 1996-97, published February 1997). This report addressed the impacts of the funding methodology on the objectives of growth in student numbers, widening participation and efficiency; whether the Funding Council had been successful in securing sufficient and adequate facilities for further education and promoting improvements; and the financial position of the sector and the Funding Council's monitoring of colleges.

The Management of Growth in the English Further Education Sector (HC 259 Session 1997-98, published October 1997). This covered the projected and actual extent and patterns of growth in the further education sector; and colleges' progress as regard improvement in retention and achievement by students. The Committee of Public Accounts held a hearing in March 1998 (HC 665, 63rd Report, Session 1997-98).

Strategies to Achieve and Manage Growth (HC260 Session 1997-98, published October 1997). This report was about colleges' strategies for achieving and managing growth and focussed on their approaches to planning for growth, curriculum review and development; marketing and student support mechanisms to improve student retention and achievement.

Corporate Governance and Financial Management in the Scottish Further Education Sector (HC682 Session 1997-98, published April 1998). This dealt with the extent to which governance arrangements reflected best practice; developments in planning and financial management arrangements.

Higher education

In addition, some National Audit Office reports on the higher education sector include conclusions and recommendations which apply equally to the further education sector. These reports are:

Governance and the Management of overseas courses at the Swansea Institute of Higher Education (HC 222 Session 1996-97, published January 1997). This dealt with concerns about the management of the institute's courses taught overseas, and its arrangements for governance. It also covers the severance terms for the former principal.

Investigation of Misconduct at Glasgow Caledonian University (HC 680 Session 1997-98, published April 1998). This dealt with the conduct and outcome of into allegations of misconduct by the principal and the subsequent action to reinforce governance within the university. It includes recommendations on whistleblowing, severance, monitoring and control of overseas activity and control of subsidiary companies.

Overseas Operations, Governance and Management at Southampton Institute (HC 23 Session 1998-99, published December 1998). This report, which arose from allegations concerning the overseas activities of the Institute, examined the planning, management and control of overseas course provision and other aspects of governance and management at the Institute.

Appendix 4: Summary of recent relevant reports and the recommendations made by the Committee of Public Accounts

| PAC concern | PAC recommendation (sector-wide in bold) | Treasury Minute response |
|---|---|--|
| Governance and management | | |
| <p><i>Managing to be Independent: Management and Financial Control at Colleges in the Further Education Sector (36th Report 1994-95, HC 309, paragraphs 3 (v), (vi), (vii) & 16)</i></p> <p>Governors are required to disclose any conflicts of interest... but ... governing bodies are not currently required to establish registers of the business interests of their members.</p> | <p>We recommend that the Funding Council consider whether the establishment of a register of interest should become a condition of funding.</p> | <p><i>36th Report 1994-95, Cm 3031, paragraphs 169, 170 & 171</i></p> <p>The Funding Council considers that in the first instance governing bodies should be encouraged to establish registers voluntarily ... The Funding Council intends to monitor the introduction of registers. Depending on the extent of the voluntary introduction of registers of interests the Funding Council will consider whether it is necessary to enforce their adoption through the conditions for funding.</p> |
| <p>At the colleges they visited, the National Audit Office found that clear terms of reference had not always been established.</p> | <p>It seems to us important that clear terms of reference should be determined for each committee of the governing body, including the audit committee who have responsibility for ensuring propriety in the use of funds.</p> | <p>The Funding Council ... will ensure that advice to this effect is included in ... guidance. ... In addition, the Funding Council's Audit Service, in its programme of audit visits to colleges, reviews the terms of reference of committees of governing bodies, makes recommendations to the colleges as appropriate, and follows up the implementation of its recommendations. It is planned to have made an audit visit to all colleges by the end of the 1995-96 academic year.</p> |
| <p>The National Audit Office highlighted weaknesses in the strategic planning processes, including lack of governing body involvement. ...[The] Funding Council ...acknowledged that there was room for further improvement.</p> | <p>We consider it important that the Funding Council work closely with individual colleges to ensure that the required improvement is achieved.</p> | <p>The Funding Council ...will continue to advise colleges about their strategic planning processes by means of general guidance to the sector, by examining colleges' planning as part of the inspection process, and by providing feedback to each college on their strategic plan. The Funding Council issued revised guidance to the sector for the current round of plans ... and is piloting a systematic method of feedback designed to assist colleges to evaluate and develop their own planning processes.</p> |
| continued ... | | |

| PAC concern | PAC recommendation (sector-wide in bold) | Treasury Minute response |
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| Governance and management <i>continued</i> | | |
| <p><i>Governance and the Management of Overseas Courses at Swansea Institute of Higher Education (8th Report 1997-98, HC 393, paragraphs 4(vii), (viii), (ix), (x), (xi) &(xviii))</i></p> <p>We are...concerned that the [Welsh] Funding Council did not recognise the seriousness of the problems in the governance and management of Swansea Institute at an earlier stage. We acknowledge, however, that the [Welsh] Funding Council acted promptly after the Comptroller and Audit General received allegations from a Member of Parliament.</p> | <p>We welcome the [Welsh] Funding Council's intention to circulate guidance on the management of overseas activities on the basis of what has emerged from the report. We look to the Funding Council's counterparts in England and Scotland to take similar action.</p> | <p><i>8th Report 1997-98, Cm 3894, paragraphs 26, 27, 29 &37</i></p> <p>A copy of the National Audit Office report has been issued to all further and higher education institutions in Wales and the [Welsh] Funding Council's audit service will monitor the implementation of the planned guidance to ensure these problems do not arise in future.</p> <p>...The [Welsh] Council is in the process of agreeing the framework of the guidance which will be developed to meet the needs of both the further and higher education sectors. Other Funding Councils, the Welsh Office and representative organisations will be consulted as part of this process and guidance will be issued to higher education institutions in June 1998. [The Scottish and English Funding Councils for Higher Education will also] disseminate the framework document.</p> |
| <p>[The] Funding Council consider that the problems at the Swansea Institute arose from a combination of factors including ... a desire to use independence to expand the Institute's activities, including those overseas, at a pace which was beyond due care.</p> <p>We consider that the appointment of the Institute's Vice-Principal as Clerk to the Governors was inappropriate in that he had insufficient detachment from the day-to-day management of the Institute to be able to give the Governing Body independent advice, and that this may have been a key factor in the problems at the Institute.</p> | <p>We look to the Funding Council to ensure that institutions are aware of the importance of a properly constituted governing body and note that, in conjunction with the Welsh Office, they have issued guidance on the role of clerks to governors of higher education corporations along the lines of guidance already existing for further education.</p> | <p>The Welsh Office and the Funding Council share the Committee's view of the importance of having a properly constituted governing body serviced by an effective clerk. A new <i>Guide for Clerks to Governors of Higher Education Corporations</i> has been published by the Funding Council in consultation with the sector. This has been issued to all higher education institutions in Wales and provided to the [Scottish and English Higher Education Funding Councils].</p> |

continued ...

| PAC concern | PAC recommendation (sector-wide in bold) | Treasury Minute response |
|---|--|--|
| Governance and management <i>continued</i> | | |
| <p><i>Governance and the Management of Overseas Courses at Swansea Institute of Higher Education (8th Report 1997-98, HC 393, paragraphs 4(vii), (viii), (ix), (x), (xi) &(xviii))</i></p> <p>We recognise that higher education institutions are independent bodies, but that the Funding Council can intervene where there is evidence of public money being misused or of a risk to financial health. We note that it is the view of the Welsh Office that giving the Secretary of State statutory powers to intervene in the affairs of institutions may not be the best way to address the sort of issues this case has raised.</p> | <p>We note also that the Committee of Vice-Chancellors and Principals are considering a system of independent, external arbitration. We will be interested to see how this proposal develops.</p> | <p><i>8th Report 1997-98, Cm 3894, paragraphs 26, 27, 29 &37</i></p> <p>The Welsh Office notes the Committee's view concerning statutory powers to intervene.</p> |
| <p><i>Severance Payments to Senior Staff in the Publicly Funded Education Sector (28th Report 1994-95, HC242, paragraph 3 (xx))</i></p> <p>We welcome the Advice on University Governance issued by the Committee of University Chairmen in December 1994 ... [The] Scottish Higher Education Funding Council intend to undertake a survey on governance, and to disseminate good practice to their sector. We are concerned ... that the Higher Education Funding Councils have no powers to enforce compliance.</p> | <p>We encourage the Funding Council to monitor compliance and consider making it a condition of grant for those institutions which do not comply.</p> | <p><i>28th Report 1994-95, Cm 3013, paragraph 55</i></p> <p>The [Higher Education] Funding Councils note the Committee's concern and intend encouraging their respective sectors to follow the best practice set out in the guides for governing bodies.</p> |
| Financial control of colleges | | |
| <p><i>Managing to be Independent: Management and Financial Control at Colleges in the Further Education Sector (36th Report 1994-95, HC 309, paragraphs 3 (ix), (x), (xiii), & (xvi))</i></p> <p>We are concerned that the external auditors at a significant number of colleges gave a qualified opinion on the 1993-94 financial statements, mainly for legal or technical reasons.</p> | <p>We endorse the action points that the National Audit Office has listed in their Report for improving financial control at college level [through improved asset procedures, documentation, monitoring and the separation of duties].</p> | <p><i>36th Report 1994-95, Cm 3013, paragraphs 174, 177 &180</i></p> <p>The Funding Council shares the Committee's conclusion and acted promptly to bring the National Audit Office's report to the attention of all colleges.</p> |
| <p>We note with concern the inadequacies in the effectiveness of some audit committees</p> | <p>[We] recommend that the Funding Council takes steps to encourage colleges to ensure that they have established audit committees which have a proper degree of independence and influence on the governing body.</p> | <p>The effectiveness of college audit committees is subject to regular review by the Funding Council's Audit Service which makes and follows up recommendations to individual colleges. In addition this area will be covered in the Funding Council's forthcoming guidance on financial management.</p> |

continued ...

| PAC concern | PAC recommendation (sector-wide in bold) | Treasury Minute response |
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| Financial control of colleges <i>continued</i> | | |
| <p><i>Managing to be Independent: Management and Financial Control at Colleges in the Further Education Sector (36th Report 1994-95, HC 309, paragraphs 3 (ix), (x), (xiii), & (xvi))</i></p> <p>We are concerned that about half of colleges visited by the National Audit Office... had weaknesses in financial reporting to governors.</p> | <p>We are glad to note that the Funding Council now requires colleges to provide to them twice-yearly financial forecasts, and that these, along with strategic plans and annual accounts must be seen by the governors</p> | <p><i>36th Report 1994-95, Cm 3013, paragraphs 174, 177 & 180</i></p> <p>The Funding Council welcomes the Committee's acknowledgement of the existing monitoring arrangements and intends to maintain these requirements.</p> |
| <p><i>Governance and the Management of Overseas Courses at Swansea Institute of Higher Education (8th Report 1997-98, HC393, paragraph 4(vi))</i></p> <p>The problems in the overseas activities of Swansea Institute had been of long standing, and are concerned that they were not challenged earlier by the Institute's Director of Finance or auditors. We note also that the Funding Council consider that the quality of internal audit in particular was not initially as high as might have been hoped for, but that it was improving.</p> | <p>We look to the Funding Council to ensure that this improvement is maintained.</p> | <p><i>8th Report 1997-98, Cm 3894, paragraph 25</i></p> <p>The Welsh Office and the [Welsh] Funding Council share the Committee's concerns in respect of the long-standing nature of the problems...</p> |
| Funding claims and Individual Student Record data | | |
| <p><i>Managing to be Independent: Management and Financial Control at Colleges in the Further Education Sector (36th Report 1994-95, HC 309, paragraphs 3 (xi), & (xii))</i></p> <p>Effective recording and tracking of student attendance and activity are now fundamental to correct funding of colleges. We are concerned at the weaknesses found by the National Audit Office and by colleges' auditors in the systems for producing these data.</p> | <p>We stress the importance of the Funding Council and colleges ensuring that systems are in place which produce accurate and reliable student data and ensure that franchised courses are properly managed and controlled.</p> | <p><i>36th Report, Cm3013, paragraph 175</i></p> <p>The Funding Council...is continuing to put pressure on colleges to develop their information systems as rapidly as possible to meet the increased requirements of incorporation. The Funding Council is providing assistance through guidance, the provision of data specifications and certain software, and liaising with software houses.</p> |
| Franchised provision | | |
| <p><i>The Management of Growth in the English Further Education Sector (63rd Report, 1997-98, HC 665, paragraphs 6 (xi), (xii))</i></p> <p>We note the rapid expansion of franchised provision to deliver off-site training ... We are concerned that franchising gives rise to serious risks as regards regularity and financial control.</p> | <p>We urge the Funding Council to maintain tight oversight over franchised provision and ensure that the highest standard of financial control and accountability are applied to expenditure incurred in this way.</p> | <p><i>63rd Report 1997-98, Cm 4069, paragraphs 89 & 90</i></p> <p>The Funding Council has carried out a national inspection survey of franchised provision and has commissioned a survey of the comparative costs of franchised and direct provision. The Funding Council plans to issue further guidance to the sector in [Autumn 1998] in the light of the weaknesses identified in the inspection report.</p> |

continued ...

| PAC concern | PAC recommendation (sector-wide in bold) | Treasury Minute response |
|--|--|---|
| Franchised provision <i>continued</i> | | |
| <p><i>The Management of Growth in the English Further Education Sector (63rd Report, 1997-98, HC 665, paragraphs 6 (xi), (xii))</i></p> <p>Our concerns about the financial and out-reached programmes were brought into focus by the situation that developed at Halton College subsequent to our hearing.</p> | <p>We will wish to be fully informed about the outcome of the Funding Council's investigations into the funding claims of [Halton College] as they relate to franchised programmes; and we will wish to be assured that the lessons from that case have been promulgated throughout the sector.</p> | <p><i>63rd Report 1997-98, Cm 4069, paragraphs 89 & 90</i></p> <p>The Funding Council and [the National Audit Office] are working closely together to investigate the concerns about financial controls as they relate to franchised provision at this college. The Funding Council will produce a formal report outlining action to be taken as a result of the investigation. This report will be published by the National Audit Office. It is the Funding Council's intention to publicise any lessons to be learnt.</p> |
| Monitoring and control of overseas activities | | |
| <p><i>Governance and the Management of Overseas Courses at Swansea Institute of Higher Education (8th Report 1997-98, HC 393, paragraphs 4(iii), (iv, & (v))</i></p> <p>As a result of the many deficiencies in the Institute's financial controls relating to their overseas activities, the Institute may have received less income and incurred more expenditure than they should have done.</p> | <p>We look to higher education institutions to apply the same high standards of management and control to overseas activities as they do to their other activities.</p> | <p><i>8th Report 1997-98, Cm 3894, paragraphs 20,21 & 24</i></p> <p>This requirement was specifically raised with institutions when the [Welsh] Funding Council distributed the National Audit Office report to all Welsh further and higher education institutions in February 1997.</p> |
| <p>The provision of higher education courses overseas is not a proper use of Funding Council grants. ... [Where] there are inadequate procedures for costing and pricing overseas courses ... there is a risk that the Funding Council may inadvertently be financing such provision.</p> | <p>We recommend that the [Welsh] Funding Council use their Audit Service to confirm that institutions have adequate systems for costing and pricing such activities. We look to the Funding Councils in England and Scotland to take similar action in their audit of English and Scottish higher education institutions.</p> | <p>The Funding Councils have issued general guidance on costing procedures to all higher education institutions. The guidance encompasses all areas of institutions' operations. Further guidance on pricing is being developed by a joint working party of the three Funding Councils and sector representatives and specific funding has been allocated for 1998-99 onwards to aid the implementation of such guidance.</p> <p>The Higher Education Funding Council for England will further support the work of auditors in this area by developing guidance on a suitable approach to overseas activity. The Scottish Higher Education Funding Council will similarly consider what guidance can be developed in this area.</p> |

Appendix 5: Summary of Halton College's action plan

| Planned Actions | Status |
|---|---------------------------|
| <i>Management Information Systems/Student Records</i> | |
| 1. Identify the definitions used by the College to classify its educational provision for 1996/97 and 1997/98. Confirm that these definitions applied to the College in those years. | Completed in July 1998. |
| 2. Establish whether or not the definitions used by the College throughout the four-year period ending 31 July 1998 were consistent. For any changes identified, consider the rationale and evidence in support of each change. | Completed in July 1998. |
| 3. Consider the findings from the reports prepared by the College's internal and external auditors, Deloitte and Touche, on their work on student records, Management Information Systems and funding claims. Identify any areas the auditors considered to be weak. Examine - as part of the other Actions - any weaknesses identified. | Completed July 1998. |
| 4. Obtain details of student provision classified by the College as loadbands 5 and 6 or equivalent for listed courses for 1996/97 and 1997/98. From this information, select a sample of high loadbanded provision. Obtain evidence from the College to support the loadbanding of this sample. | Completed in July 1998. |
| 5. Compare the definitions used by the College for 1996/97 and 1997/98 to classify educational provision with those used by the Funding Council. Identify any areas of clear divergence, and perform further testing in these areas. If none exists, select a sample of claims made by the College for 1996/97 and 1997/98 for significant amounts of funding units. Obtain evidence from the College to support the accuracy of these claims. | Completed in July 1998. |
| 6. KPMG to review the evidence from Actions 4 and 5 to ascertain whether claims made by the College for 1996/97 and 1997/98 are substantiated and comply with the College's own definitions and those set out in the Funding Council's Funding Methodology. | Completed in August 1998. |
| 7. Discuss with Robson Rhodes their work relating to allegations 1 to 6 (see Figure 1). Identify what controls the College can put in place to prevent any alleged failings arising. | Completed in July 1998. |
| 8. Discuss with the Funding Council whether they have any specific concerns about the College's claims for funding since 1994/95. Take these concerns into account as part of Actions 4 and 5 above. | Completed in July 1998. |
| 9. Consider what management information is provided to management and governors to enable them to analyse the level of funding units claimed from the Funding Council. Consider how far this information helps management and governors to monitor the performance of the College and make decisions. In particular, consider how the College uses its Financial Information System and its Management Information System and how these two systems relate to each other. | Completed in August 1998. |

continued ...

Investigation of alleged irregularities at Halton College

| Planned Actions | Status |
|--|--|
| 10. Based on the findings from the above Actions, make recommendations to improve systems and procedures at the College. | Completed in August 1998. |
| <i>Governance and management</i> | |
| 11. Amend the Code of Conduct. | Completed in July 1998. Code of Conduct adopted by the Board in November 1998. |
| 12. Prepare detailed standing orders. | Completed in August 1998. Standing orders adopted by the Board in November 1998. |
| 13. Review the system of Executive Committee decision making and strengthen formal procedures and guidelines for its operation. In the light of any changes made as a result, review the Committee's terms of reference. | Reviewed as part of Action 14. The Board has reviewed the sub-committee structure. The sub-committees' terms of reference will take account of the results of the review. |
| 14. Review the structure and function of management at the College. In particular, consider the role of the Principal both as chief executive and as accounting officer. Identify how the Principal's responsibility as accounting officer can reasonably be discharged through the use of a devolved management structure. Include comparison with other colleges in the sector as part of this work. | Completed in August 1998. Report on this Action prepared and delivered to the College. The Board will be considering a revised structure at the March 1999 meeting. |
| 15. Develop Audit Committee arrangements to meet the requirements of the new Code of Audit Practice. | Awaiting further discussion with auditors and other parties before full implementation. |
| 16. Consider the need for formal communication of academic matters to the Corporate Board (through channels other than the Principal and Deputy Principal). | The Search Committee recommended that the Board should set up a separate Quality and Curriculum Sub Committee. The Board agreed this in November 1998, and the committee is now operating. |
| <i>Finance</i> | |
| 17. Revise College financial regulations. (Governors and Management had already begun to do this when the Action was raised.) | Expected to be completed in April 1999. |
| 18. Revise the procedure notes for each of the main College financial systems, giving priority to the systems for expenses, travel abroad, hospitality and the use of College credit cards. | Expected to be completed in April 1999. |
| 19. Revise the Finance Committee's terms of reference to include a requirement that the Committee should recommend the finance statements for Corporate Board approval. | Expected to be completed in April 1999. |

continued ...

| Planned Actions | Status |
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| 20. Amend the format and content of the monthly management accounts to the Finance Committee, the Senior Management Team and budget holders. (Management had already begun to do this when the Action was raised.) | Expected to be completed in April 1999. |
| 21. Revise the presentation of financial forecasts to Governors to make clear the key issues and key actions, which Governors should consider. | Expected to be completed in April 1999. |
| 22. Revise monitoring reports to Governors to show a clear link to key issues and key targets. | Expected to be completed in April 1999. |
| 23. Review the reporting and decision making processes which exist between the Principal/Corporate Board and the Funding Council for the approval of capital expenditure and development projects. | Completed November 1998. |
| <i>Reporting</i> | |
| 24. Report, at regular intervals, on the progress made against the Action Plan. | Ongoing. |
| 25. At regular intervals, meet the Funding Council's Review Team responsible for dealing with Halton College. | Ongoing. |
| 26. If any significant matters arise during the course of the work, report these immediately to the Governors and the Funding Council. | Ongoing. |

Appendix 6: Chronology of events

| | |
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| January 1992 | Principal and Deputy Principal were appointed. |
| April 1993 | Halton College was vested as a corporate institution under the Further and Higher Education Act 1992. |
| July 1994 | The Principal and the Deputy Principal visited Paris to review the architecture of the Pompidou Centre in order to get ideas for a proposed new College building. The trip cost the College some £1,200 in expenses. |
| August 1994–July 1995 | The College delivered training to 81 students who lived in Scotland and were therefore ineligible for Funding Council funding. It nevertheless claimed, and received, funding for these students. |
| March 1995 | The Principal, the Deputy Principal and the Chairman of the Board went to Lycée le Castel to discuss joint bids to the European Community for funding projects. |
| November 1995 | <p>The Principal, the Deputy Principal, the Chairman of the Board and 23 other staff and governors went to Kansas to attend the League for Innovation Conference.</p> <p>The Principal, the Deputy Principal and one other member of the College went to Hong Kong for the negotiation and signing of contracts in China.</p> |
| September 1996 | The College ordered 135 Apple Macintosh computers for some £178,000, but did not draw up specifications or carry out competitive tendering or seek the Board's approval for the purchase, as financial regulations required. |
| June 1997 | The Principal signed a three-year agreement to establish an agent's office in Guanzhou (China) to recruit students. He signed a one-year agreement to establish a recruiting agency in Beijing. |
| July 1997–February 1998 | The College carried out work, in two phases, to refurbish the College reception area and corporate offices, including the offices of the Principal and Deputy Principal. |
| September 1997 | The College set up a multimedia company. The Board authorised the College to invest £500,000 in the company. |

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| October 1997 | The Principal and the Deputy Principal embarked on a trip to Hong Kong, Australia and Toronto. The trip cost the College some £16,000 in expenses. |
| November 1997 | The Board of the College received a letter making allegations about the Principal's salary and the refurbishment of his office. Copies of the letter were sent to the National Audit Office and the Further Education Funding Council. |
| December 1997 | The Clerk to the Board received a letter, from the same source as the November 1997 letter about the salaries of the Principal and Deputy Principal. In a second letter, allegations were made about the conduct of the Principal and other members of the College's senior management. Copies of the letters were sent to the National Audit Office and the Funding Council. |
| February 1998 | The Principal and the Deputy Principal committed the College to purchase 18 prints for some £31,000. |
| March 1998 | <p>Representatives of the National Audit Office and the Funding Council interviewed the author of the letters received in November and December 1997.</p> <p>The Funding Council established an internal investigation to estimate whether the college had over-claimed funding from the Funding council and, if so, by how much.</p> <p>The Department for Education and Employment issued a consultation document "Accountability in Further Education", including a short questionnaire on codes of conduct, registers of interest, and appointment of governors.</p> |
| April 1998 | <p>The Funding Council and the National Audit Office visited the College to make a preliminary investigation of the allegations made in the letters received in November and December 1997.</p> <p>The Chief Executive appointed the Funding council's legal advisers, Beachcroft Stanleys, to oversee the further investigation of the allegations. Beachcroft Stanleys commissioned Robson Rhodes as specialist advisers to investigate, in detail, each allegation.</p> |
| May 1998 | The Chief Executive submitted a report on the draft emerging conclusions of the investigation to the College, the Principal and Deputy Principal. A copy was sent to the National Audit Office. The report concluded that the Principal had failed to discharge his responsibilities as Accounting Officer satisfactorily. |

The Chief Executive met the Board of Halton College to discuss his report on emerging conclusions. He asked the College to carry out reviews of the effectiveness of its governance and management, its systems for authorising funding claims to the Funding council and its systems of financial control.

The Board suspended the Principal and the Deputy Principal. With the agreement of the Funding Council, the Board appointed an Acting Principal, Christine Tyler, with effect from 25 May 1998.

June 1998

The College established three Review Groups, each composed of governors and members of the senior management team, to look at governance and management, funding claims and financial control.

The College appointed KPMG to assist each of the Review Groups.

July 1998

The Funding Council's internal investigations on Halton College's funding claims (*see March 1998*) reported, concluding that there had probably been overclaims but that further work was necessary to quantify them. The Funding Council and the College established a joint Working Group to determine the extent of overclaims and agree procedures for them to be recovered.

Dibb Lupton Alsop, solicitors acting for the Principal and Deputy Principal submitted a report on the draft emerging conclusions to Beachcroft Stanleys.

Robson Rhodes submitted their finalised report on the investigation of the allegations to Beachcroft Stanleys. The Funding Council sent a copy of the report and the Chief Executive's emerging conclusions to the College, the Principal and Deputy Principal for comment.

August 1998

The National Audit Office issued a questionnaire to 117 colleges in the sector about their control arrangements.

September 1998

Christine Tyler, Acting Principal, took up appointment as Principal of Eccles College. John Bolton appointed as Acting Principal of Halton College.

KPMG produced a review of the College's organisation and management.

September 1998

KPMG produced a review of the College's student records 1996-97 and 1997-98.

The Funding Council received comments from the College, the Principal and the Deputy Principal on the Robson Rhodes report, the report from the Funding council's internal working group (*see July 1998*) and the Chief Executive's provisional conclusions.

The three College Review Groups (*see May 1998*) reported the results of their investigations and made recommendations for further action.

The Funding Council received a detailed report and supporting evidence on the allegations from Dibb Lupton Alsop.

November 1998

KPMG produced a report for Halton College on Capital and Development Expenditure – Reporting and Decision Making.

The Chief Executive of the Funding Council sent the College his final draft report on the allegations requesting their formal response to the report. He sent a copy to the College, the Principal and the Deputy Principal. Dibb Lupton Alsop submitted a response to the report from the Funding Council.

The Department for Education and Employment issued the results of the consultation on accountability in further education.

The Chairman of the Board resigned as Chairman at the end of his two-year term of office.

December 1998

The Chief Executive sent the College his final report on the allegations. He sent copies to the National Audit Office, the Department for Education and Employment, the Principal and the Deputy Principal.

January 1999

The former Chairman of the Board retired as a governor of the College.