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CIRCULAR

**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

**JOINT WORKING:
AUDIT AND INSPECTION**

Cheylesmore House
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To

Principals of colleges
Chairmen of college corporations
Chairmen of college audit
committees

Circular type

Information

Summary

Procedures to be followed by the Council's auditors and inspectors during college inspections from September 1997. Extension of guidelines on self-assessment and inspection included in Circular 97/12, *Validating Self-assessment*

Reference number: 97/22

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97/22

JOINT WORKING: AUDIT AND INSPECTION

INTRODUCTION

1 This circular informs colleges of the procedures which will be followed by the Council's audit service and inspectorate in working together on inspections which take place from September 1997.

BACKGROUND

2 In Circular 97/12, *Validating Self-assessment*, the Council indicated its commitment to making arrangements for the Council's auditors and inspectors to work together in future. This commitment followed an announcement made at the Council's annual conference in February 1997 in response to issues raised by principals and college governors about the degree of overlap in the work of these two services, particularly with respect to their assessment of management and governance. The procedures in this circular have been drawn up after receiving advice from the Council's audit committee and taking account of pilot exercises carried out by the audit service and the inspectorate during the last year.

JOINT WORKING

3 Procedures for joint work by the Council's auditors and inspectors are set out in the annex. These aim to rationalise and lighten the burden of external assessment on colleges by improving the planning and co-ordination of visits to colleges; eliminating duplicated work being carried out by auditors and inspectors; and consolidating the judgements made by auditors and inspectors about the quality and effectiveness of management and governance in colleges. At the same time, the procedures seek to ensure that each of these services can fulfil their duties to assure the Council that the assessment of provision in colleges meets its needs and obligations.

4 The procedures set out in the annex should be considered in conjunction with Circular 97/12 and cover:

- inspection planning and the development of agendas for inspection
- the assessment of provision during college inspections, including criteria for making judgements and grading

- feedback of inspection and audit findings to college staff, including written reports and the publication of assessments
- follow-up to inspections.

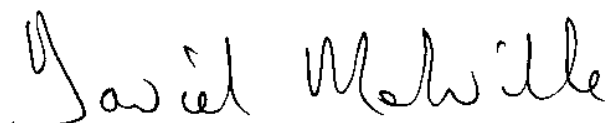
TAKING ACCOUNT OF THIS CIRCULAR DURING SELF-ASSESSMENT

5 Circular 97/12 includes guidelines which are intended for use by colleges undertaking self-assessment and by inspectors. The effect of this circular is to extend these guidelines by the addition of two 'quality statements' which are set out in the appendix. Colleges to be inspected from September 1998 are asked to take account of these additional quality statements when carrying out self-assessments. Colleges due to be inspected in 1997-98 are invited to do the same; however, the Council recognises that this may not be possible if procedures for self-assessment have already been finalised for the year and the process of self-assessment is under way. In such cases, inspectors and the audit service will not expect self-assessment reports prepared for inspections in 1997-98 to include judgements based on the guidance contained in this circular.

OTHER ACTIVITIES OF THE AUDIT SERVICE

6 Wherever possible, all audit service activity will be timed to coincide with college inspections. However, as with the inspectorate, there are activities carried out by the audit service which may necessitate visits to colleges outside this timetable. Visits may take place: at the request of colleges; as part of evaluations of the effectiveness of colleges' internal auditors; to assess colleges' external auditors' compliance with Council guidance on the audit of final funding unit claims; and to follow up issues associated with colleges in difficulty.

7 As a result of the arrangements for closer working set out in this circular, the Council's audit committee will review the terms of reference of the audit service in the autumn of 1997. The Council will publish these soon after the review has taken place.



PROCEDURES FOR JOINT WORK BY AUDITORS AND INSPECTORS

1 The following paragraphs set out procedures for joint work by the audit service and inspectorate in planning and carrying out college inspections, with particular regard to the assessment of management and governance. These fulfil the Council's intention that inspectors and auditors will work more closely together in future while taking account of the requirements governing the work of each service.

INSPECTION PLANNING

2 Each college inspection team will include an auditor who will contribute to the planning of inspections by considering with inspectors: the self-assessment report provided by the college and its findings; previous inspection and audit evidence; and briefing material provided by other teams in the Council. The aim of this planning exercise will be to draw up an agenda for the college's inspection. The auditor will, in particular, contribute to the agenda for assessing management and governance. This will identify the scope and focus of the work necessary to satisfy both audit service requirements, and those of the inspectorate in validating a college's self-assessment. Particular regard will be paid to eliminating duplication in the work of the auditor and inspectors.

3 Before the inspection a meeting will be arranged by the reporting inspector with the college principal (or the principal's nominee) to confirm the agenda for inspection, including arrangements for assessing management and governance. During this meeting the proposed activities of the auditor and inspectors will be discussed.

JOINT WORKING DURING INSPECTIONS

4 Inspections will normally be carried out over a five-day period. During a college's inspection, the auditor and inspectors will carry out assessment activities, jointly consider evidence and participate in moderation meetings. The aim of this process will be to reach an agreed judgement about the college's management and governance. In contributing to this work the auditor will be guided by the 'quality statements' and indicative evidence set out in the appendix and, where appropriate, those included in Circular 97/12.

Grading

5 Through the process of considering and moderating inspection and audit evidence, agreed summary judgements about the overall quality of management and governance will be reached. These judgements will be expressed using the five-grade scale and grading criteria included in the inspection framework, Circular 97/12.

Reporting Back to the College

6 It is normal procedure for both inspectors and auditors to feedback their findings verbally to college staff. This practice will continue, with the findings of the auditor being included in detailed feedback during the team inspection week.

WRITTEN CONFIRMATION OF FEEDBACK

7 The *Government Internal Audit Manual*, which guides the Council's audit service in its work, requires auditors to present their findings with recommendations and requires that agreed recommendations are followed up. Practice to date has been to write for each audited college an 'exception' report containing a conclusion, a summary of the main findings and a detailed action plan to which the college principal is requested to respond. Audit reports have been confidential to the audited college and the Council. Colleges have had to seek the Council's authority to release information in reports more widely.

8 In contrast, inspection practice is to provide a summary of curriculum area feedback in a letter to the principal and to consider the published inspection report as the record which includes cross-college findings. Inspection reports, published or otherwise, do not include recommendations but identify strengths of provision and raise issues which colleges should address.

9 In order to rationalise these communications:

- the inspectorate will revise the structure of published inspection reports to include distinct sections on each curriculum area inspected and therefore discontinue the practice of providing separate written feedback on curriculum provision by letter
- all published inspection reports will include an expression of the judgements made by the auditor included in the inspection team in the form of summary audit opinions covering management and governance

- auditors will continue their current practice of presenting separate reports of audit findings but review the level of detail that needs to be included in the reports
- the Council will not normally publish audit reports on individual colleges, but colleges receiving these reports in future may make their contents known without seeking the Council's permission.

10 This approach will mean that an inspection will result in two documents:

- a published inspection report which always includes a summary statement of the auditors' opinions
- a report detailing audit findings including recommendations.

11 The responsibility for signing off the final text of the published inspection report will lie with the chief inspector. To meet requirements related to the independence and reporting standards of the audit service, the chief auditor will liaise with the chief inspector to ensure that inspection reports include an adequate expression of auditors' opinions.

FOLLOW UP TO INSPECTION

12 Both the inspectorate and the audit service follow up action plans drawn up by colleges to improve their operation and provision. Inspectorate practice is to use college inspector visits after inspection to follow up a college's progress in fulfilling its action plan. In future, these visits will be co-ordinated with visits by auditors to ensure that actions taken by the college in response to inspection and audit findings are followed up by the appropriate Council officer.

GUIDELINES FOR SELF-ASSESSMENT AND INSPECTION

The following 'quality statements' and indicative sources of evidence which relate to audit activity will be considered during inspection, in addition to those set out in the appendix to annex B of Council Circular 97/12, *Validating Self-assessment*.

MANAGEMENT

Quality statement

The financial management of the college is effective.

Indicative sources of evidence

- management structures and internal communications
- financial planning arrangements; targets and performance indicators, financial forecasts and budget, cashflow forecasts, risk analysis, recovery plans
- financial monitoring arrangements; reports to governors and managers, management accounts and other financial information
- financial and information systems; staff responsibilities and expertise
- financial regulations and procedures, including those for the prevention and detection of fraud
- procedures to ensure value for money
- returns to the Council
- external and internal audit arrangements

GOVERNANCE

The corporation conducts its business in accordance with the instrument and articles of government and fulfils its responsibilities under its financial memorandum with the Council.

- instrument and articles of government and financial memorandum
- composition of corporation
- operation of the corporation and delegation to its committees
- clerking arrangements
- decision-making procedures, including public access to information and openness
- procedures for determining the college's educational character and mission
- strategic planning procedures
- procedures for ensuring the solvency of the college and safeguarding its assets
- financial monitoring, including financial targets, financial forecasts, cashflow forecasts, risk analysis and performance indicators, and consideration of the financial consequences of decisions

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