

Halton College

*A Report of the Investigation into
Alleged Financial Irregularities at
Halton College*

*A Report by Professor David
Melville, Chief Executive of the
Further Education Funding Council*

April 1999

**THE
FURTHER
EDUCATION
FUNDING
COUNCIL**

THE FURTHER EDUCATION FUNDING COUNCIL

The purpose of the FEFC is to secure further education provision which meets the needs and demands of individuals, employers and the requirements of government in respect of the location, nature and quality of provision.

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Halton College

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Foreword

This report represents the outcome of my investigation into alleged financial irregularities at Halton College (the college). The Further Education Funding Council (the Council) is responsible to parliament for the distribution of public funds to further education institutions in England, of which the college is one. As accounting officer for the Council, I am responsible for the propriety and regularity of the expenditure of the public funds for which I am answerable; for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in my charge. This report fulfils my responsibilities in a number of those areas.

The report is divided into three parts. Part 1 contains:

- background information on the scope and the three stages of the investigation
- the findings of the investigation and my specific conclusions on the concerns raised during the investigation of each allegation
- the Council's overall conclusions as a result of the investigation
- the Council's requirements of the governing body as a result of the investigation.

Part 2 contains:

- the action taken, and proposed, by the college and by the Council, as a result of the outcomes of the investigation
- the lessons to be learnt by the further education sector and for the Council as a result of the investigation.

Part 3 contains the progress report of the joint Council-college investigation of the college's individualised student record returns and funding claims.

It should be noted that parts 1 and 3 of this report were completed in December 1998. Part 2 of this report has been produced since then, and contains an update on the outcomes of the investigation.



Professor David Melville
Chief executive
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Part 1

Background

1 A letter dated 17 November 1997, was received by the then chairman of the Further Education Funding Council (the Council), Sir Robert Gunn, and copied to others, including the Comptroller and Auditor-General at the National Audit Office (NAO). Attached to this letter was a copy of a letter dated 7 November 1997 to the board of governors (the Board) at Halton College (the college).

2 The letter, and the copy letter attached, contained a series of issues concerning the salary of the principal and deputy principal and the refurbishment of the principalship's office. A second letter, dated 28 November 1997, to the clerk to the corporation at Halton College copied to the Council and the NAO, contained other issues relating to the principal of Halton College, the deputy principal and other members of the college's senior management team (SMT).

3 The college responded to the issues raised in the correspondence dated 7 November 1997 and 28 November 1997 in letters to the author dated 18 November 1997 and 12 December 1997. Subsequently, however, a number of more specific allegations of irregularities were made in correspondence to the NAO, which were then brought to the Council's attention. These 'new' allegations were developed further in interviews conducted by Council staff and the NAO 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 further. The remaining allegations, in so far as they then appeared to merit further investigation, are summarised at paragraph 4 below. The college became aware of these 'new' allegations upon receipt of a letter dated 25 March 1998 from the Council's North West regional director to the principal.

Summary of Allegations

4 The allegations upon which the investigation focused were as follows:

- i. the college had claimed Council funding for students who lived in Scotland, knowing them to be ineligible;
- ii. the college claimed funding for 1,200 – 1,300 students on a course entitled ‘introduction to further education’ and counted each participant as 0.4 weighted full-time equivalent¹ (which would now be equivalent to at least 60 hours of guided learning²) when in fact the course lasted only 3 to 4 hours;
- iii. the college claimed for 8,000 catering students as loadband 6³, when in fact 1,000 should have been loadband 1, and 7,000 should have been loadband 4; it is also alleged that these students did not receive the necessary learning packages and support;
- iv. the college and its external auditors relied on returns from franchised⁴ providers and failed to check that the students were registered on the course;
- v. ineligible Scottish students were registered on franchised courses;
- vi. the college was increasing the loadband of courses year-on-year to meet targets for student numbers and income;

¹ Full-time equivalent – a former measure of student numbers in which full-time full-year students were counted as one full-time equivalent, but part-time and part-year students were included as fractions that broadly reflected their attendance as a proportion of full-time, full-year provision. Weighted full-time equivalent students took into account whether the student was classroom-based (weighted 1.0) or workshop-based (weighted 1.4).

² The concept of ‘guided learning’ was introduced to the funding arrangements in 1994-95. It is defined as all times when a member of staff is present to give specific guidance towards the qualification or module being studied on a programme. This includes lectures, tutorials, and supervised study in, for example, open learning centres and learning workshops. It also includes time spent by staff assessing students’ achievements, for example, in the assessment of competence for NVQs. It does not include hours where supervision or assistance is of a general nature and is not specific to the study of students.

³ The value of on-programme units which are available for all programmes not individually listed in the funding tariff, may be determined by assigning the programme in question to one of six loadbands. The loadbands are defined by the number of guided learning hours allocated to the programme for each year. The ‘on-programme’ element of funding is defined as all activities of learning and accreditation of achievement, including assessment, general and specific student support services, and enrichment activities.

⁴ Franchising (also known as off-site collaboration provision) is an arrangement in which another organisation provides teaching or training under the control of the college. Provision is generally provided away from the college by a private training provider, voluntary group or employer (the franchisee). Students are enrolled by the college which then claims funding for the course and, in some cases, passes on a proportion to the franchisee for providing the course.

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- vii. the college bought Apple Macintosh computers from a local firm when alternative personal computers (PCs) were cheaper; it was also alleged that a college governor was an education marketing manager for Apple computers at this time;
 - viii. in conjunction with a large private company, the college has set up private companies in China using public funds, and members of the SMT are on the board of the companies;
 - ix. the college has established a multimedia company using public funds, this company has been wound up with losses totalling £500,000;
 - x. public funds have been misused during the refurbishment of the principalship's offices;
 - xi. public funds have been misused on 'away days' for management/staff/governors of the college at a hotel; it was also alleged that the college used a hotel within the group which employs one of the college governors;
 - xii. college funds were being misused for overseas trips;
 - xiii. public funds were being misused to purchase presents with the college credit cards;
 - xiv. staff were given the opportunity to shred confidential documents.

Scope of the Investigation

5 Following consultation with the NAO and the Department for Education and Employment (DfEE), I considered that the allegations were sufficiently serious to warrant further investigation and it was agreed that a two-stage approach would be adopted. Firstly, initial enquiries would seek to establish whether or not there was a factual basis to the allegations. If that proved to be the case, then a second, more detailed investigation would examine individual allegations in depth.

6 In a letter dated 25 March 1998, the Council's North West regional director informed the principal of: the allegations; the Council's intention to investigate the allegations; and the approach the Council intended to take.

7 Upon notification of the allegations, the college assured me of its full co-operation. During what has undoubtedly been a difficult time for all concerned, the Board and members of staff at the college have responded positively and immediately throughout the investigation to requests for information, reviews and access to staff. I have been informed that full Board meetings took place almost weekly throughout June to September 1998, and this level of time and commitment has continued.

8 I should wish to emphasise that the allegations raised, and the conclusions reached, do not cast any doubt on the quality of the provision at Halton College. The judgements made by the Council's inspectorate in 1996 (Report No. 25/97, published in May 1997) regarding the quality of the provision for students remain unchanged by this investigation. The remit of the investigation team was, from the outset, the alleged financial irregularities at the college.

9 A number of the allegations associated with franchised provision (sometimes referred to as off-site collaborative provision) were at a time when franchising was a new and a continually developing mode of delivery for colleges and the Council. The Council's early guidance to the sector on franchised provision was contained in a range of publications and letters. In response to changes to this type of provision, the guidance has developed over time. In addition, colleges, including Halton, had access to Council staff with whom they could, and did, discuss their interpretation of the guidance.

The Investigation

Stage 1 Initial investigation

10 The issues referred to in the letters dated 7 and 28 November 1997, and the 'new' allegations brought subsequently to the attention of the NAO and then the Council, were developed further in interviews with Council staff, a representative of the NAO and the author of the letters and others. Council officers then undertook an initial review of the individualised student record (ISR) and the funding claims for the college to cross-check the validity, or otherwise, of some of the allegations against information held by the Council. On completion of this exercise, an initial investigation team, comprising Council officers and a representative of the NAO, visited the college on 2 April 1998.

On 14 April 1998, the Council and the NAO met to consider the outcomes of the Council's internal review of the ISR and funding claims for the college and the visit to the college on 2 April 1998. On 20 April 1998, I informed the then chair of the Board that the initial investigation had found sufficient basis in fact to a number of the allegations to warrant further investigation. The Board, at its meeting on 22 April 1998, made a commitment to undertake its own investigation into the allegations. At the Council's request, this work was postponed as it was considered inappropriate for two sets of forensic accountants to be on-site at the college simultaneously. On 12 June 1998, KPMG, a firm of accountants, were appointed on behalf of the college to undertake the work (outlined at paragraph 14 below).

Stage 2 Main investigation

11 I appointed the Council's legal advisers, Beachcroft Stanleys, to oversee the main investigation. They commissioned Robson Rhodes as forensic accountants (the investigation team) to investigate, in detail, each allegation as summarised in paragraph 4. The investigation team was present in the college from 27 April 1998 to 8 May 1998. Subsequent visits were made to complete their investigation. During the investigation, the investigation team interviewed members of staff at the college, the SMT and members of the Board, including the then chair, principal and deputy principal.

12 A summary of the draft emerging conclusions of the investigation was forwarded to the college, the principal and deputy principal on 21 May 1998 and I met with the Board of the college on 22 May 1998 to discuss the summary. At this meeting I confirmed the measures the Council would wish the college to take, including reviewing the effectiveness of governance and management at the college, its systems of authorising funding claims to the Council and all its systems of financial control, with particular regard to the principal's powers to incur expenditure. At this stage, the Board took the decision to suspend the principal and the deputy principal, until the final outcome of the investigation became known and agreed to implement the reviews I had requested. It also initiated a fourth review into reporting and decision-making processes for capital expenditure.

Stage 3 Follow-up work to the main investigation

13 The report of the Robson Rhodes' investigation team was finalised and forwarded to the college, the principal and deputy principal on 29 July 1998, together with a copy of such conclusions as I would be minded to make in the light of the facts as they then appeared. A copy of the Council's report of its internal investigation of the ISR data and funding claims for the college, referred to in paragraph 10 above, was also forwarded to the college, the principal and the deputy principal.

14 The Council's director of education and institutions met the Board on 30 July 1998 to discuss the progress with the reviews I had requested of them on 22 May 1998. KPMG, in addition to assisting the college in undertaking these reviews, also reviewed the college's 1996-97 and 1997-98 student records. The Board provided the Council with weekly reports outlining progress with the reviews.

15 At this meeting, the director of education and institutions suggested that the college and the Council undertake a joint investigation of the college's ISR returns and funding claims in order to determine the extent of the overclaim that was becoming apparent.

16 During the work of the investigation team a number of members of Council staff were appointed to act as a contact point for Robson Rhodes. These members of Council staff, who had not been involved with Halton College in the past, were able to answer queries from the investigation team and to act as moderators in the joint Council-college investigation.

Format of the Report

17 Part 1 of this report consists of an introduction, followed by 14 sections on the detailed findings arising from the investigation into each allegation. Each allegation constituted the starting point, but not the limit, of the investigation. The investigation team followed up any causes for concern that were found which related to the use of public funds. One cause for concern did not arise from any of the specific allegations and this is given a section of its own. The next section deals with other issues arising as a result of the investigation, in particular, the work of the joint Council-college investigation and the college's reviews. The final sections include the Council's overall conclusions and the Council's requirements of the college's Board arising from this report.

Circulation of the Reports

18 The college, the principal and the deputy principal have been given an opportunity to comment on the factual accuracy of the Robson Rhodes' report. Their respective responses, received on 11 September 1998, have been analysed by the investigation team and internally within the Council, and have been considered in preparing this report. The responses are specifically referred to where I consider it appropriate to do so. In this report, the principal and the deputy principal are referred to as the principalship. They and the college have been informed separately of such factual corrections as have been made to the findings of the investigation team.

19 The college, the principal and the deputy principal responded formally to part 1 of this report by 27 November 1998. The principal and deputy principal were also asked to respond to the report of the outcomes to date of the joint Council-college investigation of the college's ISR returns and funding claims. The responses are specifically referred to where I have considered it appropriate to do so.

Conclusions on Specific Allegations

Scottish Students: Provision made in Scotland

Allegation (i)

20 Between August 1994 and July 1995 the college delivered training in social and life skills to 81 students with learning difficulties and/or disabilities. These students lived in Scotland. The college learnt that this provision was not eligible for Council funding but still claimed the £186,000 involved. The claim was met by the Council. It was also alleged that the college misled its external auditors.

Findings

21 Upon receipt of the allegation, the college revisited the question of Scottish students, uncovered the ineligible students and informed the representatives of the Council and the NAO during their visit on 2 April 1998. The college believed that it had deleted all such students but accepted on 2 April 1998 that they were not deleted.

22 The SMT and principalship argue that the Council's guidance was unclear prior to March 1995. However the college and principalship accept that they had been aware that the students were ineligible before the 1994-95 funding claim was made. The principal instructed the heads of division to delete the students from the 1994-95 funding claim but regrettably this did not occur in all cases. Instead, it was requested that the group of students referred to in the allegation be withdrawn, rather than deleted. The college and principalship claim that this was an incorrect instruction given by a middle manager. The principalship argues that this was an isolated error and not a deliberate act. I have found no evidence to support the claim that the college misled its external auditors.

23 The principal states that he sought and received assurances from line managers that ineligible students had been removed from the 1994-95 funding claim. Managers accepted that the principal sought assurance that the funding claim was accurate. None of the line managers questioned remember being asked for, or giving, specific assurance about the Scottish students.

Conclusions

24 *I accept that the college and the principal did intend to delete the students, but it is clear that they were not removed from the claim. I find it unacceptable that these students were included in the 1994-95 claim. The college knew that they were ineligible and effective action should have been taken to delete them and then to check the authenticity and reasonableness of the final claim. As the college's accounting officer,*

the principal has a duty to ensure that all funding claims made to the Council are accurate. This requires ensuring active supervision of those preparing the claims. The college's Financial Memorandum with the Council imposes personal responsibilities on the principal. Given that the principal was aware that a specific error had been made, reliance on general assurances that the funding claims were correct does not discharge these responsibilities. I am not persuaded that the principal obtained specific assurance from the line managers regarding the ineligible Scottish students, that might have been expected in these circumstances.

25 The issue of provision delivered in Scotland has been considered further as part of the investigation undertaken jointly by the Council and the college. The outcomes of this work are contained at part 3 of this report. The college has now accepted that 35,715 units were claimed in 1994-95 for ineligible provision. This includes the ineligible provision which is the subject of this allegation and that referred to later in allegation (v). The college has also discovered that 1,528 units were claimed for similar ineligible provision in 1995-96 and 1,829 in 1996-97. Following the confirmation of its external auditors, a total recovery of funds by the Council of £253,968 is likely for allegations (i) and (v). This level of recovery was agreed by the college's finance and general purposes committee at its meeting on 26 October 1998. The Board confirmed, at its meeting on 15 November 1998, the recommendation from the finance and general purposes committee that the college pay back this sum to the Council immediately.

Day Centre Students

Allegation (ii)

26 Between February and June 1994, the college delivered advice and guidance programmes entitled 'introduction to further education' to over 1,100 students with learning difficulties and/or disabilities. The students were registered at eight different day centres.

27 The college claimed that these were 0.4 weighted full-time equivalent (WFTE) students (which would now be equivalent to at least 60 hours of guided learning⁵) and were funded accordingly by the Council. It is alleged that these courses lasted only 3 to 4 hours and that some students did not exist.

⁵ The concept of 'guided learning' was introduced to the funding arrangements in 1994-95. It is defined as all times when a member of staff is present to give specific guidance towards the qualification or module being studied on a programme. This includes lectures, tutorials, and supervised study in, for example, open learning centres and learning workshops. It also includes time spent by staff assessing students' achievements, for example, in the assessment of competence for NVQs. It does not include hours where supervision or assistance is of a general nature and is not specific to the study of the students.

Findings

28 The college records suggest that 1,094 students were enrolled on this course. I accept that these students existed and do not doubt that the enrolment forms are genuine. The course appears to have been a market research programme and was registered as being of four weeks' duration and of, at least, 15 hours a week. The course was delivered mainly at eight day centres.

29 The main provision was delivered by one lecturer, with the help of a care assistant, some part-time staff and some support from other teaching staff. It would have been extremely difficult for these programmes to have been delivered with so few resources, even taking into account that the course was an early example of franchised provision. Robson Rhodes have spoken to the managers of three day centres and found evidence of only very limited provision by day centre staff. The college has subsequently visited a further three day centres.

30 The principalship asserts that if some, or all, of these programmes were not 0.4 WFTE, then the line manager responsible for these programmes deliberately misled the college. I have found no evidence to support this assertion.

31 The principalship claims that the college did not overclaim because the funding was based on a target number of students and the college was holding back a sum of money in case of under-achievement. However, no sums were in fact repaid to the Council and this assertion does not therefore address the issue.

Conclusions

32 *I am satisfied that these students did exist but the weight of evidence suggests that they did not receive a programme of 0.4 WFTE (which would now be equivalent to at least 60 hours of guided learning). Consequently, I am satisfied that the course has been overclaimed.*

33 *This was a new mode of delivery. This made it incumbent upon the principal to exercise an even greater degree of supervision than might otherwise have been necessary. The disparity between the claim and the provision to which it relates should have been discovered. The principal should have taken appropriate steps to have satisfied himself that all claims for funding made to the Council were accurate. I regard this as a failure of his duty to ensure the proper use of public funds.*

34 *This issue of franchised provision delivered to day centres has been considered as part of the investigation undertaken jointly by the Council and the college. The outcomes of this work are contained at part 3 of this report. The college has now accepted that the available audit evidence is insufficient to support the claim of 0.4 WFTE for 1,094 part-year full-time students made in 1993-94. Provided that the college can provide evidence that the student activity exceeded 9 hours (the threshold for Council funding), then 0.15 WFTE will be claimed. The college is to discuss these changes with its external auditors. Once the discussions are complete, a recovery of funds by the Council of £146,281 is likely. Although this overclaim equates to an overpayment of £206,766, the sum which would be recovered, in accordance with the funding agreement for 1993-94 which limited the recovery of funds to 3% of the college's main allocation, would be £146,281. This level of recovery was agreed by the college's finance and general purposes committee at its meeting on 26 October 1998. The Board confirmed, at its meeting on 15 November 1998, the recommendation from the finance and general purposes committee that the college pay back this sum to the Council immediately.*

Catering Students

Allegation (iii)

35 It was alleged that in 1994-95 the college claimed for 8,000 catering students as loadband 6 when in fact 1,000 were loadband 1 and 7,000 were loadband 4. The 1,000 students were following assessor training courses (D32/33/34) and the 7,000 students were following vocational courses. The students following the assessor courses then assessed the students following the vocational courses. It was also alleged that these students did not receive the necessary learning packages and support.

Findings

36 The franchised catering students studying for National Vocational Qualifications (NVQ) levels 1, 2 and 3 catering-related qualifications were assessed by the college as loadband 3 or 4 and not loadband 6 as referred to in the allegation. The college's records show that the number of catering students at the college was overstated in the allegation.

37 The loadbands applied to the assessor students studying NVQs in training and development (D32/33/34) were 1 to 4 and not loadband 6 as referred to in the allegation. The Council's internal investigation of ISR has found that, compared to all other further education colleges in 1994-95, the college recorded significantly higher median total guided learning hours for NVQs in training and development, other than those delivered by open learning. For example, for the City and Guilds NVQ in training and development level 3, the median was 210 guided learning hours at Halton College compared to 30 guided learning hours at other colleges. For the Hotel and Catering Training Council NVQ in training and development, the median was 313 guided learning hours at Halton College compared to 30 guided learning hours at other colleges.

38 The college's direct contribution to these learning hours, aside from the on-site company staff employed by the college, extended only to initial training courses for assessors and visits by learning consultants every four to six weeks. The exception was a cleaning services contract where a learning consultant was on-site full-time.

39 Once assessor students had received initial training from learning consultants, they assessed NVQ students as part of their study. I consider it appropriate that such assessment should form part of the assessor training programme, provided that the assessment of the students undergoing the process was carefully monitored by the college, taking into account the trainee status of the assessors.

Conclusions

40 *The SMT and principalship rely heavily on the fact that the college's 1994-95 demand-led element (DLE) claim⁶ was subject to a review by the Council at the time the claim was made and was subsequently accepted. Colleges are required to provide the necessary audit evidence to support their funding claims. The Council relies on the existence of an external auditor's unqualified report in considering colleges' claims for funding. Whilst the Council carries out credibility checks, if it subsequently becomes aware that claims do not reflect the Council's guidance, despite the existence of an external auditor's unqualified report, it will reconsider the original claim made by the college. This is the case with Halton College. The Council has a duty to reopen this issue in the light of the findings of the investigation and so I disregard the submissions made on this point.*

41 *Robson Rhodes considered that it would not be unreasonable for the college to claim loadbands 3 or 4 for the catering NVQs. This is equivalent to up to 248 guided learning hours of provision. The claim appears to reflect the Council's guidance provided to the college in autumn 1996, that it would not expect this type of delivery to exceed loadband 4. This was, of course, a maximum, and I am not satisfied that the college undertook the necessary checks to assure itself that the guided learning hours for each course were properly calculated and delivered.*

42 *Neither am I persuaded that hindsight is necessary to realise that a maximum loadband of 2 or 3 was appropriate for the training and development NVQs. I am not satisfied that the college devoted sufficient resources to servicing the assessor training to justify assigning the course loadband 4. Consequently my conclusion is that the college overclaimed with respect to students on the assessor and the NVQ courses.*

43 *The funding claims for work-based NVQs and assessor training have been considered as part of the investigation undertaken jointly by the Council and the college. The outcomes of this work are contained at part 3 of this report. The Council's internal investigation has analysed the guided learning hours claimed by the college for a number of assessor training courses. It was noted that these had generally been delivered directly, rather than by franchising. There was no difficulty with those delivered by open learning where a standard loadband 3 could be claimed. The analysis showed differences in the claiming patterns, in some instances, by the college and also differences in the claims made by the college for the same qualification. The college agreed to undertake a thorough review of the guided learning hours and*

⁶ *Under the Council's funding arrangements from 1994-95 and 1996-97, colleges were able to claim additional funds at the marginal rate of £6.50 for any extra units of student activity actually delivered above the target number of units for which they received funding through their annual funding allocation.*

claims for these qualifications. The Council has asked the college to review the claims made following the Council's guidance to the college that it would not expect work-based programmes to exceed loadband 4. The Council has asked the college to consider whether this had been interpreted in some parts of the college as an entitlement to claim, rather than a ceiling.

Checks on Franchised Providers

Allegation (iv)

44 It is alleged that the college, and its external auditors, relied on records from franchised providers and failed to check that the students were registered on the course.

Findings

45 Robson Rhodes looked at the four largest hotel/cleaning contracts in 1994-95. I am satisfied that students did actually exist at the May 1995 census date⁷ and participated in the training programmes.

46 Robson Rhodes found that one hotel's assessor and NVQ training programmes did not commence until after the census date. In addition, the college has not demonstrated that all the cleaning services students had commenced their training programme before the census date. The principalship and SMT have said that all these students were enrolled and had received 'guidance and counselling' and in some cases had received an 'NVQ awareness session'. It is also said that they had 'undertaken induction in readiness for the first training session'.

47 The Council's internal investigation of the ISR included a comparison of start and end dates at Halton College with other colleges. An analysis was undertaken of start and actual end dates for students with an expected end date of 2 November 1994. It was discovered, in the case of Halton College, that a number of qualifications of 25 guided learning hours or fewer which were started in the autumn term 1994 had actual end dates in summer 1995 or were continuing into 1995-96.

48 The college verified the existence of students on franchised provision by requesting that the company's head office training officers certified a return at each census date. For one hotel and a cleaning services contract, these returns were signed by the employee who had signed the franchise contract on behalf of the company. There was no independent verification of student numbers by the college other than

⁷ Under the Council's funding arrangements, funding is claimed during the year for students wholly or partly completing one or more tri-annual periods. The tri-annual periods are: 1 August to 31 December; 1 January to 30 April; and 1 May to 31 July. Students are counted as having wholly or partly completed a period where they are enrolled and attending the institution on the associated census date (1 November, 1 February and 15 May). There are special arrangements for programmes which start and finish between the two census dates.

when college learning consultants visited the sites. The purpose of the visit was to provide training and support and not to undertake a comprehensive check of student numbers active at census dates — the check was limited to those students currently working on a shift, not all the students enrolled at the site.

Conclusions

49 *I am concerned that the college did not carry out sufficient independent checks to ensure that the funding claim accurately reflected the number of students active on the course.*

50 *The Council's internal investigation of the ISR was considered as part of the joint Council-college investigation and, as a result, the college has produced a statement which explains their pattern of start and end dates and details its strategy, in the early days of the ISR, for recording students studying on flexible programmes with rolling enrolments⁸. I consider the explanation to be reasonable and acceptable. The incorrect recording of students' start and end dates in this manner did not affect the funding claim for the college.*

More Scottish Students

Allegation (v)

51 It is alleged that the college enrolled ineligible students on provision in Scotland as part of the franchised course leading to Hotel and Catering Council levels 1 and 2 qualifications.

Findings

52 I accept that the software provided by the Council to the college required that a postcode be entered onto each student enrolment form and it was not possible to leave this field blank. The Council was aware and accepted the college's decision to insert its own postcode for students who had not provided their actual postcodes.

53 However, the college was aware at the time of the need to eliminate from the claim before it was submitted, those ineligible Scottish students for whom the college's postcode had been entered. I accept that the college did intend to do this, but it is clear that the students were not removed from the claim.

Conclusions

54 *It is the duty of the principal as accounting officer to ensure that the claims made to the Council are accurate. As with allegation (i), the college was aware that action was needed to correct the claim. This action was not taken. The accounting officer is under a duty to maintain a proper system of management and control so that when a mistake or inaccuracy in the funding claim is identified, it is rectified.*

⁸ *Rolling enrolments are those where students may enrol any time or at specific periods throughout the teaching year. This contrasts with traditional programmes which generally have a start date at the beginning of the teaching year in September and an end date in the summer of the next or succeeding years.*

55 *The issue of provision delivered in Scotland has been considered as part of the investigation undertaken jointly by the Council and the college and is dealt with at paragraph 25.*

Increasing Loadbands

Allegation (vi)

56 The college was allegedly increasing the loadband of courses year-on-year in order to meet targets for student numbers and income.

Findings

57 The investigation found no evidence to support this allegation.

Conclusions

58 *This allegation has not been substantiated.*

59 *However, in the course of the investigation some concerns have come to light regarding the significant changes in the guided learning hours for some qualifications, and in particular the ENTRA NVQs in engineering from 1994-95 to 1996-97. These and other concerns, in particular the proof of actual guided learning hours and identification of any auditable evidence to support 'additionality'⁹ for training delivered in the workplace in 1996-97 and 1997-98, have been considered as part of the investigation undertaken jointly by the Council and the college. The Council has written to the college asking it to raise these issues specifically with its auditors as part of the review needed before the 1996-97 audit of final funding unit claim and ISR data can be cleared by the Council and the final funding unit claim settled. Any implications for previous years would be considered in the light of those discussions. The outcome of these discussions and the financial consequences, if any, are not yet known.*

Computer Procurement

Allegation (vii)

60 It was alleged that the college had purchased Apple Macintosh computers (Macs) from a local firm which were significantly more expensive than alternative personal computers (PCs). It was further alleged that a member of the Board was an education marketing manager for Apple computers.

⁹ *Additionality – the Council will only fund provision over and above what is already provided by an employer in the context of its own training.*

General findings

61 The member of the Board of the college implicated in this allegation became a member of the Board after he had left Apple computers. The computers in question were procured some nine months after he joined the Board. There is no reason to believe that he has acted in any way improperly. On 8 June 1998, I wrote to the governor concerned to explain that this aspect of the allegation had not been upheld.

62 The investigation gave cause for concern regarding the college's general approach to computer procurement. I accept that the college has a clear information technology (IT) vision based on its learning strategy. However, the translation of this vision into a procurement strategy lacks documentation, authorisation and due processes.

63 The principalship refers to the college's implementation plan. This is couched in very general terms and does not amount to a procurement strategy. The SMT states that the college does have a process underpinning significant technology purchases but there is no evidence that the college has issued written guidelines setting out the process to be followed for significant IT procurement.

64 The investigation covered five significant computer purchases.

Apple purchase

65 The average price of the Mac computers was just over £1,000 each and I understand that the college could, at that time, acquire suitable PCs for around £1,400 each, although a lower price may have been achieved for such a large order.

66 There was no formal process or decision to determine whether the college's needs were best met by PCs or Macs. The SMT states that the decision was taken after a discussion at SMT meetings and the debate was not restricted to the principal and the director of information systems. The college states that the principal, deputy principal, the director of information services and an assistant director were informed of the advantages of Macs by a representative of the Apple centre who arrived at the college to attend a meeting which had been arranged to coincide with the delivery of the Apple centre's quotation. No corresponding input was sought from a PC supplier.

67 The college's financial regulations require that expenditure of over £100,000 be approved by the Board. No such approval was sought or given in this case. The expenditure exceeded £100,000 because the SMT member responsible for procurement and the director of finance grouped four separate projects together on the same order form. I accept that this was done without the knowledge of the principal. However, in substance, this was one procurement exercise.

68 I accept that the offer for Macs came from Apple computers and was only routed through the Apple centre and so the price would not

vary between Apple dealers. However, there is no evidence that this contract was subject to a competitive tender for which PC suppliers could enter. The principalship claim that there was an open competition against quotes from PC suppliers and they state that there is evidence for this. I have been provided with no such evidence and so discount this claim.

Apple rental agreement

69 The college entered into an agreement with a company to rent 102 Apple Powerbooks. I am satisfied that the decision to use Macs rather than PCs was not properly considered. No PC suppliers were asked to submit rival bids. Acting on the word of an Apple representative was not appropriate and is insufficient to establish that the purchase price was competitive.

70 There was no Board approval for the expenditure despite the fact that the purchase was greater than £100,000.

71 It is accepted that the decision to lease equipment rather than to purchase was evaluated by the director of finance, although this was a rough calculation rather than a full appraisal.

Media Vault Ltd

72 In July 1997, the college purchased computer equipment from the Apple centre for the subsequent transfer to Media Vault Ltd (also referred to at allegation ix). The Board had approved the business plan for the college company Media Vault Ltd but they had not approved this particular expenditure. This purchase was above the £100,000 limit but again no Board approval was obtained and the chair of the finance and general purposes committee told Robson Rhodes that he only became aware of the breach shortly before their investigation. The Board's approval of the business plan does not suffice for approval of individual purchase orders.

73 One of the assistant principals has stated that the purchases were made without any influence or involvement of the principal. Even if this were the case, the principal signed the purchase order and should have maintained a proper control over expenditure.

Computer system

74 The Robson Rhodes' report identifies two agreements made with a firm of computer suppliers for a network and a range of applications, one signed on 12 July 1996, the other on 2 August 1996. The existence of two agreements and the date of 12 July 1996 for the signing of the first is confirmed by the SMT. The principalship maintain that there was only one contract which was signed on 2 August 1996 but two financial agreements. The college and the principalship state that the computer

suppliers were appointed as integrators¹⁰ but Robson Rhodes found no evidence to support this assertion.

75 The finance and general purposes committee approved the purchase effected by the first agreement at a maximum cost of £800,000 but the actual price paid was £1,194,907. The excess was not approved by the Board. Yet again the principalship relied on the Board's approval of the business plan to justify the purchase.

76 The process of selection of a supplier fell short of good practice in that it was not fully documented and there is only a limited record of the justification for not choosing the lowest bid. I accept the evidence provided by the principalship that the contract to finance this arrangement was the subject of a competitive tender but this is a separate matter.

77 The principal was a guest of the computer supplier at the British Open Golf Championship in Lytham St Anne's on 18 and 19 July 1996. This was before the second computer supplier's agreement was signed. It was also before the trip to a subcontractor to view the operation of a system that would form part of the computer supplier's agreement. It is not known when the principal accepted the invitation, but this would have been before the details of the second agreement were agreed and before the contract was signed on 2 August 1996. The principal has said that he saw no conflict in accepting this hospitality because he had distanced himself from the decisions and negotiations involving the computer supplier, which were led by the director of information systems. The director of information systems was on annual leave when the computer supplier submitted their proposal, made a presentation to the SMT and the agreement was signed.

78 The financial regulations were again breached as no Board approval was obtained for this purchase.

Conclusions

79 *No evidence has been found of any impropriety on the part of the governor named in the allegation and I can confirm that he has been fully exonerated by the Council's investigation. The evidence suggests that the Apple computers were less expensive than suitable PCs.*

80 *The college has incurred expenditure of large sums of money with IT suppliers without the necessary procedures to demonstrate need, value for money, probity and propriety. Due process has not been followed with the result that significant sums of money have been spent with suppliers without proper competition and in breach of financial regulations. Finally, Board approval has not been sought for significant IT purchases.*

¹⁰ *Information technology projects often require different products and services to be brought together, for example, the purchase of hardware and software and service contracts for their installation and maintenance. A firm of integrators may therefore be employed to ensure that the different suppliers work together to resolve any difficulties during and following the installation.*

81 I find the college's approach to this transaction unacceptable in terms of stewardship of public funds. In particular, I am concerned about the lack of explicit propriety in the procurement process. I consider that there was a failure to ensure and demonstrate the value for money of the purchase and the appropriateness of the purchase, both at the time and in retrospect in relation to the college's needs. The Board should have been aware that it had not given its approval for most of these major IT procurements. I am very concerned that several hundreds of thousands of pounds were spent without the necessary Board approval. I note that this was not drawn to the attention of the Board by those members of the college's SMT who had been aware of the situation for some time.

82 The expenditure associated with Media Vault Ltd I find of particular concern. I am concerned that a large sum of public money was invested in what is essentially a commercial venture and that the Board did not supervise the progress of this venture. I accept the college's claim that the Board did act properly in ensuring that this new venture was established as a separate company with limited liability status and that accountancy and legal advice were taken on the implications of this. It is essential, however, that business start-ups engaged in by colleges are backed up by a sound business plan which analyses risks and ensures a return on the funds invested. The Board appears to have believed that its approval of a business plan meant that it had met its responsibility to ensure that the plan was implemented in such a way that the venture was cost-effective, necessary and a proper use of public money. I consider that in properly discharging its duty, the Board should have required regular reports from the principalship and SMT, thereby enabling it to maintain a very close awareness of expenditure on the company. Consequently, I conclude that the Board acted without due consideration and has neglected its supervisory duty and failed to ensure that public funds were not unduly at risk.

83 The breaches of the financial regulations with regard to the £100,000 spending limit are of great concern, particularly given the high spending authority that the principal had when compared to many other colleges. The college's financial and audit arrangements should have brought any breaches of this limit to the Board's attention. Whilst I consider that the Board has not shown due consideration in this regard, I recognise however that it was not provided with information that would have identified and enabled it to have investigated the reasons for any such breaches. I note that, as an interim measure, at its meeting on 1 June 1998 the Board took action to review the financial regulations and reduced the principal's spending limit to £25,000.

84 The principal and deputy principal have been directly involved in these transactions, several of which breach the college's financial regulations. I consider that a casual approach has been adopted to assessing how best to meet the college's needs and to interpreting the

financial regulations and that this falls below the standards of practice I expect from the accounting officer/principal and the deputy principal of a body in receipt of public funds.

85 I find that there were two agreements for the network and the range of applications and that the principal was closely involved in the negotiation of both agreements. There is no evidence that the principal's acceptance of hospitality from the computer supplier affected the then ongoing negotiations with them.

86 An accounting officer should, at all times, avoid any occasion for suspicion and appearance of improper conduct. The acceptance of significant hospitality from potential suppliers is inappropriate at any time. The acceptance of such hospitality was an error of judgement at a time when the principal was in discussions which soon after led to his signing agreements for a total value of nearly £1.7 million.

Companies in China

Allegation (viii)

87 The college has set up private companies in China using public funds. Members of the SMT are on the Boards of these companies.

Findings

88 There is no evidence that these allegations are correct.

89 The college is actively seeking out business opportunities in China, including recruitment of students to study in Widnes and joint venture arrangements. The college has contracted with two agents in China to recruit students for the college. These arrangements have required some five trips to China by the principal and three by the deputy principal.

Conclusions

90 There is evidence of the recruitment of Chinese students. The college and the principalship believe that the initiative in China has already paid for itself yet considerable expenditure has been made on this venture and there is no evidence of a business plan, risk analysis or rationale for recruitment of Chinese students or justification for the number of trips involved. The Board should review this operation to determine the net income received. I consider that the Board should have required the principalship to have ensured that a proper business plan was in place and a risk analysis had been carried out before the initiative commenced.

Multimedia Company

Allegation (ix)

91 The college has established a multimedia company (Media Vault Ltd) using public funds, which has been wound up with losses totalling £500,000.

Findings

92 The college set up a multimedia company in September 1997, which was forecast to make losses of £220,000 or less in its first year of operation.

93 The Board authorised the creation of the company and an investment of £500,000 in it. Not all of this sum is anticipated trading losses, as a portion relates to the expenditure on computer equipment.

94 Robson Rhodes concluded that the business plan should be reviewed to consider whether the forecast profitability in year three was still a reasonable expectation.

Conclusions

95 I have found no evidence to support the allegation that the multimedia company was wound up with losses totalling £500,000. I am concerned however that a large sum of public money is being invested in what is essentially a commercial venture and also at the size of the first-year losses. It is essential that business start-ups engaged in by colleges are backed up by a sound business plan which analyses risks and ensures a return on the funds invested.

Refurbishment

Allegation (x)

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

Findings

97 The cost of refurbishing the college's reception area and the corporate offices, which include those of the principalship, was £260,777 (excluding Value Added Tax).

98 Furniture to the value of £25,600 was purchased with only one tender, and not the five required by the college's financial regulations. The college explains that only one tender was sought because there was only one supplier for the preferred range of furniture. The college confirms that it received a second quotation for a similar range of furniture in order to compare costs. This explanation is inadequate unless it can also be explained why only this range of furniture would do.

Conclusions

99 *The decision to invest this money in a refurbishment of the college reception area and the corporate offices is within the college's normal operational remit. Some of the specific claims in the original allegation have proved false.*

100 *Again, in isolation, the failure to comply with the financial regulations might simply be taken as an unfortunate lapse, but this should be seen against a pattern of other failures in financial control.*

Away Days

Allegation (xi)

101 Public funds have been misused on away days for college staff. A particular governor is alleged to be an employee of the group which owns one of the hotels used by the college.

Findings

102 I have found no evidence to support the allegation in so far as it relates to the particular governor. On 8 June 1998, I wrote to the governor concerned to explain that this aspect of the allegation had not been upheld.

103 Aspects of this allegation relating to a specific hotel group connected to one of the governors have proved to be without foundation.

104 The college does make extensive use of away days, without formal evaluation of the cost and benefit of such days. The principalship state merely that 'the appropriate person' approves away days in advance, but makes no comment on the criteria applied to evaluate whether an away day should take place.

105 Significant sums of college money are spent on these away days. Some of this money is spent on personal expenses such as bar bills and telephone bills. The principalship assert that the director of finance was responsible for seeing that these personal costs were reimbursed, but they have not provided information to confirm whether reimbursement was sought or occurred in all cases. The total sampled expenditure on these events was £35,458, of which £2,450 was spent on bar costs and 'other extras'. The 'other extras', which amounted to £351, included personal bar bills and telephone calls. Robson Rhodes have subsequently been provided with evidence that, of the £351, £150 has been reimbursed. The principalship assert that part of the £351 was expenditure for business purposes.

Conclusions

106 *No evidence has been found of any impropriety on the part of the governor named in the allegation and I can confirm that he has been fully exonerated by the investigation.*

107 *The use of away days is not uncommon in the further education sector, but this college does not have adequate controls in place to ensure that away days are justified in advance, or that they offer value for money.*

108 The college has not satisfied me that public funds have not been used to pay for an unacceptable level of personal expenses such as bar bills.

Overseas Trips

Allegation (xii)

109 College funds are being misused in connection with overseas trips, mostly by the principal and deputy principal.

Findings

110 The principal and deputy principal have accompanied each other on almost all trips. The principal has spent 114 days away from the college on overseas trips in the last five years, and 77 days away from the college on United Kingdom trips, a total of 191 days, or the equivalent of over 38 working weeks. Of these 191 days, 161 were spent away in the company of the deputy principal (and, often, other staff or governors.) (The principalship challenge the accuracy of the figure of 77 days away from the college in the United Kingdom by the principal.) The same figures for the deputy principal are 94 and 69 days, giving a total of 163 days absent. Between them the principalship have spent 11 days short of a calendar year away from the college in the last five years. This is a huge investment of time, and therefore cost, for the two most senior members of the college management.

111 The principalship challenge aspects of Robson Rhodes' analysis of the overseas trips, in particular, how many days of those trips were connected with college business. Having studied the principalship's comments, I am satisfied that Robson Rhodes' conclusions, based on the evidence available, are not materially inaccurate. For example, Robson Rhodes record that in October 1997 the principal and deputy principal embarked on a 19-day 'round the world' trip to Hong Kong, Australia and Toronto, at a total cost of some £15,688, a trip which included only five or seven business days. Having studied the principalship's account of this trip, including the fact that the £15,688 included certain other expenses for four colleagues who joined the principalship in Canada, I am satisfied that it does not change Robson Rhodes' conclusions. In the principalship's account: three days are taken up with travel to Hong Kong and preparation for meetings there, including a 'jetlag recovery day'; four days are assigned to travel between Hong Kong and Melbourne, including a 'jetlag recovery day' (Melbourne is only two hours earlier than Hong Kong); four days are assigned to travel to Toronto from Melbourne and recovery from jetlag; and an additional day is given for travel to the United Kingdom. Only seven days are given over unambiguously to college activities, even on this analysis.

112 Again, notwithstanding the principalship's comments, it is still a fact that the principal and deputy principal travelled to Paris at college expense to look at the Pompidou Centre. The explanation given, that the project manager for a college new build project, a chartered surveyor, recommended that they should do so, is absurd.

113 The principalship assert that all overseas travel is paid for from the college's 'business revenue' and not from the public purse. Even if such a distinction could be properly drawn, no evidence is provided to support this claim.

114 Similarly, Robson Rhodes have reviewed the comments made by the principalship on their analysis of trips and have confirmed that their conclusions still stand.

115 Moving from the extent of the overseas travel, the facilities enjoyed during many of the trips were excessive. Some of the instances identified by Robson Rhodes are argued to have been isolated cases (for example, the principal and deputy principal incurring room rates of £290 each for a stay in a Mayfair hotel). However, a series of 'isolated cases' can begin to look like a pattern of behaviour.

116 None of the transactions identified by Robson Rhodes has been challenged as incorrect, although various explanations and mitigation have been offered. It is, for example, accepted that the then chair, principal and deputy principal incurred a bill for two bottles of wine of £51 and a bill of £30 for other drinks with the meal, whilst dining in a restaurant at college expense. Bar expenses added a further £61, although the principalship assert that this was for corporate hospitality. Without a record of the clients entertained, I can give little weight to this. (The college has now introduced systems to correct this shortcoming.)

117 During the two/three day trip to France in March 1995, a Lexus car was hired for the then chair, principal and deputy principal to travel from Widnes to France at a cost of £1,016. On three occasions on the same trip, the then chair and the principalship incurred bills for meals costing in total £141, £138, and £240, all at college expense. The explanation for this last item, that there was only one set meal available in the hotel and the party did not want to seek out another restaurant, is unacceptable.

Conclusions

118 I accept that a reasonable level of trips within the United Kingdom, and, possibly to a lesser extent, internationally, can be valid and useful for colleges. Indeed, the college identifies developing international contacts, developing IT-based learning and technology and recruiting overseas students as part of its international strategy. I am concerned, however, about the extent and expense of these trips, the nature of some of the trips, and the fact that the principalship habitually find it necessary to embark on these trips together (whether or not they are

also accompanied by other college staff). I am surprised to find that, at the time, the Board did not require that prior approval be sought from it for all overseas trips; nor did it monitor the outcome of such activities. I do note, however, that the Board has now amended the financial regulations so that prior approval will be required in the future.

119 It has not been and cannot be seriously challenged that the college has spent a great deal of money, and invested a great deal of staff time, in trips, particularly overseas trips, for certain college staff and, in some cases, governors. I acknowledge that some of these trips may well have been worthwhile and have produced tangible benefits for the college. Nevertheless my conclusion is that the number, duration, expense and geographical range of these trips is out of all proportion to any of the benefits the college claims to have derived from them. I conclude that, at the very least, there has been no adequate systematic analysis of the benefits of this expenditure. For example, even if the business days of the principalship's 'round the world' trip in October 1997 were productive, I question whether they can have been worth the investment of 12 other days of travel and other time.

120 In addition, I find it unacceptable that so many of these trips involve the principal and deputy principal together. The principalship argue that they operate as an indivisible team, and hence it is necessary for them to travel together on trips. I do not accept that it is reasonable for both of the college's most senior managers to be away from the college together on a regular basis. The attendance of the deputy principal on so many trips taken by the principal (and vice versa) has greatly increased the cost to the college, the additional benefit of which has not been demonstrated. Governors have also been involved. Twenty-three members of the college staff and governors attended the League of Innovation conference in Kansas in 1995. In the course of compiling this report, it transpires that a further 13 members of staff, and governors, attended the League of Innovation in Miami in 1998. The Board has informed me that the League of Innovation conference in October 1995 produced real benefits for the college. Whilst I accept that certain trips will have had worthwhile outcomes, I have serious doubts as to whether this level of activity is acceptable, and indeed, whether any level of activity is acceptable without appropriate and proper evaluation procedures in place.

121 I have also identified a number of inappropriately extravagant items of expenditure on certain trips. The number and frequency of these is such that I find the principalship's explanation of each as a 'one off', explicable by reference to this or that exceptional circumstance, untenable. The evidence shows the principalship, accompanied on occasions by the then chair of the Board, staying in expensive hotels, eating in restaurants with costly food and wine, and incurring excessive or unnecessary expense. None of this expense has been properly related to the benefit of the college.

College Credit Cards

Allegation (xiii)

122 College credit cards are being used to purchase presents, and the bills are being settled with public funds.

Findings

123 There is no evidence that college credit cards are being used to purchase presents. However, I do not consider that the use of college credit cards was adequately controlled at this time.

124 Two expensive pieces of video equipment were purchased with college credit cards, one during a trip by the principalship to Hong Kong in October 1997, the other during a trip in March 1996. I accept that this equipment is in the college, but it is difficult to understand why these purchases were made in this way or how value for money might have been secured.

125 Not all transactions on college credit cards are supported by receipts, but there is no evidence that any of these transactions relate to personal gifts. The majority appear to be hotel bills.

Conclusions

126 I find that the original allegation is in substance incorrect.

127 I am concerned that the purchase of video equipment during overseas trips by senior college staff does not have the appearance of probity. I do not know whether the need for this equipment was identified in advance of these trips, or why it was not acquired by more conventional means. There is no evidence of wrongdoing, but the college is clearly exposed to adverse comments in the way in which it acquired these items.

128 I find that expenditure on college credit cards was not adequately controlled. I am pleased to note that the college has now amended the financial regulations to state that the use of college credit cards should be reduced to an absolute minimum and that expenditure on credit cards should be claimed with the same receipting procedures and with the same frequency as any other expenses claim.

Confidential Documents

Allegation (xiv)

129 In February 1998, college staff were offered the opportunity to shred confidential documents.

Findings

130 No evidence that this was other than a routine disposal of documents was uncovered.

Conclusions

131 There is no suggestion that the college or the principalship have acted improperly in this regard.

Miscellaneous

Concern

132 That the principalship initiated the purchase of etchings, using some £31,000 of college funds, as an 'asset' for the college. This was a matter which came to light in the course of investigations into the allegations originally made.

Findings

133 On 20 February 1998, the principalship committed the college to purchasing 18 etchings for £31,019. There appears to have been no advance discussion of this purchase with any other person at the college. The principal asserts that he 'raised the subject of purchasing prints' with the chair of the finance and general purposes committee. He may well have done so. On the issue of the value of the etchings, the principal states that 'an amount was not specifically discussed'. It is clear to me from Robson Rhodes' discussions with the chair of this committee that he was unaware that a purchase of anything approaching this value was contemplated.

134 Both the then chair and the vice-chair of the college were surprised to be told of this purchase during the investigation. However, in the principal's report to the Board dated 20 February 1998, members were informed that some artwork had been ordered for the corporate offices which were good value and would be realisable assets if required in the future.

135 The principalship asserts that 'it is common practice among higher education institutions to purchase works of art for display either in university galleries or in campus buildings'. Be this as it may, and whether or not this is common practice in the further education sector, my concerns relate to the size of this purchase and the way in which it came about.

136 No professional advice was sought prior to the purchase of these etchings, although I am informed that the deputy principal's husband drew on his experience as a senior lecturer in art to advise generally on how to purchase etchings. The principalship assert that the galleries from which the etchings were purchased 'indicated that in their professional opinion the etchings represented value for money'. If I am asked to believe that this can constitute proper, independent investment advice I find it exceptionally naïve at best. I wholly discount this 'advice' as being a proper basis for approving such purchases.

137 The amount of the purchase was within the principal's delegated authority, but the college's financial regulations, which required five competitive tenders for purchases over £20,000, were not followed. The principalship assert that the financial regulations were not breached, although they do not substantiate this claim. The principalship further assert that the etchings were purchased from 'college revenues, and not public funds'. Even if this were demonstrated to be the case, it does not remove the obligation to fulfil the requirements of the financial regulations.

138 The principalship assert that the etchings are an 'asset' and not an 'investment'. I find this to be only a semantic distinction, and if this is intended to suggest that lower standards of care and probity apply, I cannot agree.

Conclusions

139 I find it unacceptable that a purchase of this size and type could be initiated by the principalship apparently without material reference to any other person in the college. I also find it unacceptable that a purchase of this size should be carried through without tenders being sought. No worthwhile independent advice was sought before this purchase was carried through, as would have been expected for a specialist purchase of this type. It is questionable whether this is a reasonable use of some £31,000 of the funds of a publicly funded college, although I acknowledge that it is for the college to determine, reasonably, what it should do with funds which may be surplus to immediate requirements. Whether an investment or an asset, I find that this purchase and the processes surrounding it fell short of acceptable minimum standards of conduct.

Other Issues Arising from the Investigation

Joint Council–College Investigation

140 In July 1998, following receipt of the report of the investigation team and the Council's internal review, it was agreed that the Council and the college would jointly carry out a detailed review of the college's ISR returns and funding claims. This joint investigation team has reported formally to the Council and the college's Board and has reached the stage whereby it has been established and agreed between the parties that the college has overclaimed units and that this has been due, in part, to misinterpretations of the Council's funding guidance. The college and the Council have agreed the extent of the overclaim in some instances and these amounts will be repaid by the college in full. The principalship have not been involved in this investigation and dispute the application of the funding methodology agreed between the college and the Council.

141 In particular, the joint Council–college investigation has verified, as part of its review of the college's 1996-97 and 1997-98 student records that, for 1997-98, the college had incorrectly reclassified a number of qualifications from franchised provision to direct provision in contradiction of the Council's published advice on franchising. The college has agreed that this was incorrect and the outcome of this review is likely to lead to the return of approximately £0.9 million from the college's 1998-99 allocation. The full report of the joint investigation is at part 3 of this report and indicates the further sums likely to be clawed back in addition to those relevant to the original allegations. The college's Board is currently investigating the circumstances for the decision to submit a revised all-year unit estimate for 1997-98.

142 Issues arising from the investigation of allegations (i), (ii), and (v) are also likely to lead to the return of a sum in the region of £400,000 to the Council. The finance and general purposes committee, at its meeting on 26 October 1998, agreed to recommend to the Board that a sum in the region of £1.3 million be clawed back as a result of the joint work in relation to allegations (i), (ii), and (v) and the reclassification of franchised provision. The Board confirmed, at its meeting on 15 November 1998, the recommendation from the finance and general purposes committee that the college pay back this sum to the Council. Investigations continue into detailed aspects of the college's ISR and funding claims and practices.

143 The college has all too often misinterpreted and misapplied the Council's funding advice and guidance resulting in a potentially significant overclaim. The college has argued that the early advice given by the Council was unclear. This is not the issue in question. The advice on specific issues and cases given to the college at that time should have

left it in no doubt as to the Council's position and guidance. The interpretation then placed upon this guidance by the college has been found to be untenable and significantly out of line with that made by other institutions at the time.

College Reviews

144 The college has produced, with the assistance of KPMG, action plans in the light of the three reviews requested by me in May 1998 into governance and management, financial and audit systems, management information systems and student record systems and a fourth review into reporting and decision processes for capital expenditure (referred to in paragraph 12 above). The review of management information systems and student record systems was subsumed, in part, by the joint Council-college investigation. These reviews have resulted in the implementation of an action plan of improvements to standards of governance and management at the college. It should be noted that KPMG has recorded much good practice in the college and that the governing body has acted positively and swiftly to address the issues identified in the report and arising from these reviews.

145 I am grateful for the prompt action taken by the college's Board to implement the recommendations arising from these reviews but, in my view, many of these are issues that should have been addressed in the normal course of the college's operations and brought to the attention of the Board. In addition, I am concerned that the Board, until now, has not considered, in the depth that might be expected, curriculum issues and academic developments and strategies; nor has the college, until now, attempted to integrate its management information systems with its finance function. I am pleased to note that action is now being taken to address these issues.

Overall Conclusions

General

146 At the time of the investigation, Halton College was financially strong and can demonstrate much success in the quality of its provision and some good practice. For this, due credit must be given for the roles played by the principalship and the Board.

147 However, on the basis of the findings of the Robson Rhodes' report, some of which are currently in the process of being quantified by the joint Council-college investigation, there appears to have been a significant shortfall in, firstly, the standards required for the proper stewardship of public funds and, secondly, in the overall supervision of the college's activities.

148 Some of the allegations have proved to be without foundation; for example, no evidence has been found to support allegation (vi) regarding increasing loadbands or allegation (xiv) concerning the improper shredding of documents. Two members of the college's Board have been fully cleared in relation to allegations (vii) and (xi).

149 Many of the concerns that this investigation has examined have, however, been substantiated in whole or in part.

150 In considering the findings of these investigations, I have endeavoured to identify such lessons as might be learnt for the benefit of other colleges and such advice as the Council may, from time to time, issue on the provision of ISR returns and funding claims in particular. These are included within part 2 of my report.

Principal and accounting officer

151 The principal is the accounting officer for the college. The two posts are indivisible and constitute a single appointment. The principal is, therefore, legally responsible for the proper use of all public funds paid to the college by the Council. Although all governors and officers of the college have duties with regard to the safeguarding of public funds, the final and overall responsibility is that of the principal. This is why the principal is required to sign funding claims to the Council.

152 The investigation has demonstrated that the standards required of the principal acting in his capacity as accounting officer for the proper stewardship of public funds have not been met. In particular, the college's principal and accounting officer has failed to:

- a. put in place and ensure the exercise of proper and appropriate controls to ensure that the college's ISR returns and claims to the Council for funding were accurate and properly reflected the Council's advice on such matters;
- b. operate within his delegated authority for incurring expenditure on behalf of the college and failed to ensure that

the college's governors received proper reports and financial information to monitor such expenditure;

- c. ensure that there was propriety and value for money in the expenditure of public funds by the college.

153 As the accounting officer for the Further Education Funding Council, with my own responsibilities to parliament for the proper expenditure of public funds, it is essential that I have confidence in the integrity, inclination and ability of the accounting officers of those institutions to which the Council provides funds to properly discharge their responsibilities.

154 The findings of these investigations indicate that the principal has not properly discharged his duties as accounting officer of the college, and therefore raise sufficient doubt for the Board to consider his future as principal of the college.

Deputy principal

155 Although the deputy principal is not the accounting officer for the college, she is the next most senior member of the college's staff and a member of the college's Board. She is directly implicated in some of the inappropriate activities and failed to stop or attempt to stop others. The college's Board may also wish to review the effectiveness and the manner in which her college-wide responsibilities have been discharged, in the light of her extensive absences from the college.

College board

156 The respective responsibilities of the college's Board and principal are set out in the college's instrument and articles of government. The role of the Board is: to set objectives for the college; to determine the limits of the principal's discretion to act; to monitor the performance of the college, the principal and themselves; and to be accountable to the college's stakeholders. The investigation has indicated failures by the Board to ensure that:

- a. it was properly informed by the principalship of what was happening in the college;
- b. it exercised sufficient supervision of the principalship;
- c. appropriate approval mechanisms, reporting structures and systems were in place;
- d. the then chair, and those members of the Board involved, did not participate in inappropriate foreign travel or hospitality.

157 I am grateful for, and must emphasise, the prompt and determined manner in which the college's Board has co-operated with Robson Rhodes and members of my staff in all aspects of these investigations; and for its strong commitment and determination to complete and implement the recommendations arising from the reviews I requested be undertaken, the joint Council-college investigation and its own extensive

enquiries into these matters. I am aware that this has involved a heavy time commitment which individual members of the college's Board have accepted readily and which has resulted in a range of comprehensive and determined activities which should help to ensure the college achieves and maintains the highest standards of governance and management in the future.

158 On the basis of the concerns outlined above, my understanding is that the Board will agree to the requirements as set out in paragraph 159. Although the then chair of the Board has stepped down from that position, it would be appropriate in the light of particular references to him in this report, for the Board to consider whether it wishes to take further specific action¹¹. The Board's draft response to this report indicates that it has accepted the concerns outlined at paragraph 156 above. At each stage of the investigation, it has acted promptly, in particular in working with the Council to identify the full extent of the clawback.

Requirements of the College's Board

159 Subject to consultation, the Council may, under section 5 of the *Further and Higher Education Act 1992*, give financial support to the governing body of any institution within the further education sector upon such terms and conditions as the Council sees fit. I am required by the secretary of state to satisfy myself that institutions within the further education sector in receipt of Council funding have appropriate arrangements for financial management and accounting and that the uses to which the Council's payments to those institutions are put are consistent with the purposes for which they have been given. So that I may be satisfied on these matters, the Council's requirements of the college's Board are that it should urgently:

- a. investigate the conduct of the principal and whether it is appropriate that he should remain in post;
- b. take appropriate action including, in particular, demonstrate how it can offer me assurance that the role of accounting officer will be properly and effectively discharged;
- c. investigate the conduct of the deputy principal and the manner and effectiveness by which she has discharged her duties;
- d. review the conduct of the Board, and other individual members, in particular the then chair, in relation to this report and advise me as soon as possible of such actions it may choose to take in addition to those it has already agreed to implement;

¹¹ *The then chair retired from the board in January 1999. On 19 March 1999, the Board announced that it would stand down in July 1999.*

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- e. satisfy itself that the college's instrument and articles of government are, and will continue to be, properly discharged and that the college has in place appropriate systems and reporting mechanisms to enable the Board to satisfy itself that the college is operating within the provisions of its Financial Memorandum with the Council;
 - f. complete, as a matter of urgency, the work of the joint Council-college investigation in order to identify any further sums to be returned to the Council;
 - g. produce an action plan containing the action already under way, completed or proposed as a result of the college's own reviews and supporting reviews by KPMG, the findings of this report and the Council-college investigation in order to satisfy me in relation to points (a) to (f) above.

Part 2

Introduction

- 1 Part 2 of my report confirms:
 - a. the actions taken, and proposed, by Halton College (the college) and the Further Education Funding Council (the Council) as a result of the outcomes of the investigation;
 - b. the lessons to be learnt by the further education sector and for the Council as a result of the investigation.

Background

2 Part 1 of my report contains the findings of the investigation into alleged financial irregularities at the college and my overall conclusions as a result of the investigation. The allegations are summarised at paragraph 4 of part 1 of my report. Part 2 of my report should be read with particular reference to the Council's overall conclusions and the Council's requirements for the board of governors (the Board) at the college, outlined at paragraph 159 of part 1.

3 I am satisfied that there has been a significant shortfall at the college in, first, the standard required for the proper stewardship of public funds and, secondly, the overall supervision of the college's activities.

Actions Taken, and Proposed, by the College's Board

4 From the outset of these investigations, the Board has indicated to me its determination to co-operate fully with the investigation and to take whatever actions are necessary to restore confidence in the college's governance and management arrangements, student records and management information systems and its finance and audit arrangements.

5 The college has also co-operated fully in the joint Council-college investigation. The outcomes to date are summarised at paragraphs 140 to 143 of part 1 of my report and reproduced in full at part 3 of my report. Paragraphs 6 to 8 below provide an update to those figures referred to in parts 1 and 3 of this report.

6 The Council and the college are currently reviewing the extent to which funding allocations to the college from 1995-96 to 1998-99 need to be recalculated. This is to take account of both the reduced amount of activity eligible for funding purposes and the college's expected under-achievement of its target activity in 1998-99.

7 It is estimated, subject to audit, that the financial implications for the college will be as shown in table 1.

Table 1. Halton College: Financial implications

Year	Clawback attributable to overclaiming (£ million)	Clawback attributable to allocation changes (£ million)	Clawback attributable to achievement below funding agreement (£ million)	Total clawback (£ million)
1993-94	0.15	—	—	0.15
1994-95	1.16	—	—	1.16
1995-96	0.83	0.58	—	1.41
1996-97	1.94	0.91	—	(0.40)*
1997-98	2.32	1.19	—	3.51
Subtotal	6.40	2.68	—	5.83
1998-99	0.90 [†]	2.21	1.67	4.78
Total	7.30	4.89	1.67	10.61

* the Council imposed additional checks on colleges claiming high growth (above 30%) from 1994-95 and further checks where such growth resulted from a rapid expansion of franchising. These checks have resulted in the Council withholding some £3.25 million for 1996-97. The unaudited reassessment of the 1996-97 claim suggests a clawback of £2.85 million resulting in a net underpayment of £0.4 million for this year

† the overclaiming of £0.9 million in 1998-99 is as a result of the college's reclassifying much of its franchised provision as direct provision

8 The revised funding claims for 1993-94, 1994-95 and 1995-96 are being re-audited alongside the final claims for 1996-97 and 1997-98. The estimated cash position up to 1998-99 is that the college will owe the Council £10.61 million (not including the £3.25 million already held back).

9 The Council will consider the timing of the return of all the funds due to be repaid in the context of a financial recovery plan which will take account of the Council's statutory responsibilities to secure sufficient and adequate facilities for the provision of further education for the Halton area.

10 The Board has forwarded to the Council its action plan which has been produced as a result of the implementation of recommendations arising from the reviews I requested be undertaken, the joint Council-college investigation and the college's own extensive enquiries into these matters. In particular, the Board has also responded to the Council's requirements set out in paragraph 159 of part 1 of my report. It has confirmed that a number of action points have been completed and the remainder are being implemented, or are due to be completed, in the near future. A summary of the Board's response is reproduced as an annex to this part of my report.

11 In my opinion, the Board is responding properly to the issues that have arisen. I am satisfied that the actions and improvements initiated by the Board have put the college on the right course to achieve and maintain high standards in its governance and management arrangements. The action plan should enable the college to maintain and build upon the success it has achieved in the quality of its provision.

12 I do not believe that the deficiencies identified at Halton College are representative of the further education sector in its implementation of the advice and guidance that the Council has issued to colleges. Nevertheless, there are always lessons to be learned and these offer an opportunity to improve working practices for the sector as a whole and inform the Council's guidance.

Key Guidance Issued to the Sector and Procedures in Place

13 From the outset the Council has sought to put in place a robust accountability framework based on funding, strategic plans, audit and inspection. As would be expected, the Council has kept under regular review its guidance and ways of working in the light of developments in the funding and delivery arrangements of provision of education and training. Examples of key guidance and strengthening of procedures are identified below.

Funding and data collection

- funding guidance is issued annually to the sector and also deals with any issues requiring clarification, thus providing the sector with regular and up-to-date information. This guidance is supplemented by funding seminars to which all colleges are invited
- the introduction of the individualised student record (ISR) and comprehensive validation checks and supporting software. Since 1994-95, the Council has validated all ISR data prior to finalising any funding claims. The validation software, issued to all colleges and external institutions since 1994, is intended to ensure that the data returned to the Council meet the published funding guidance, and performs some 300 checks to ensure the internal consistency of data
- the role of the Council's regional offices in validating returns has been strengthened, covering, for example, the detection of significant changes in student numbers outside typical ranges or large-scale transfers from franchised to direct provision

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- the removal of generic qualification codes¹² from 1997-98 has reduced the proportion of qualifications funded through the loadbands each year from 40% in 1994-95 to less than 20% in 1998-99, thereby reducing the scope for inaccurate claiming
 - comprehensive and detailed checks made by inspectors on, for example, the accuracy of achievement data provided by colleges prior to college inspection, were introduced in September 1998. A survey of registers and awarding body returns was introduced in 1995-96.

Governance

- the publication of the *Guide for College Governors* in May 1994, the *Guide for Clerks* in March 1996, *Governance and Management of Colleges* in June 1996 and *Notes for Governing Bodies on Financial Monitoring, Strategic Planning, Quality Assurance and Governance* in November 1996
- the bringing together of the work of audit and inspection activity during college inspections from September 1997 and the separate reporting and grading of governance and management in order to ensure greater coverage of both
- extended reinspection arrangements to cover governance and management were introduced to cover inspections from September 1997
- my letter of 12 June 1998 to all principals and chairs of governors (attached to which was the report of the Comptroller and Auditor-General, *Investigation of Misconduct at Glasgow Caledonian University*) informed them of the NAO's advice regarding putting in place 'whistleblowing' procedures, evaluating practice relating to overseas visits, applying these practices in the oversight and control of subsidiary companies and determining limits on travel, subsistence and other expenditure
- the issue of guidance on 17 July 1998, in a letter from the Council's director of finance and corporate services to all principals and chairs of governors, on travel and subsistence arrangements referring to the practice of other public bodies
- the establishment of the good governance group in February 1999. The group is considering issues of probity and the effectiveness of governance, and will offer guidance and examples of good practice; build upon the general issues for

¹² In the years up to 1996-97, institutions could return information to the Council in their ISR about Council-funded qualifications using a qualification code from a list of 50 which provided little detailed information about the qualification. These codes were intended to be used where the institution did not know the correct code for the qualification. These 50 codes were known as generic qualification codes. They were withdrawn for 1997-98.

the further education sector outlined in this report and in the *Review of Complaints Against St Austell College* undertaken by Professor Howard Newby (published by the Department for Education and Employment in June 1998) and taking account of the publication of proposals in March 1998 by the government to strengthen accountability in further education (*Accountability in Further Education: A consultation paper*).

Inspection and Audit

- since 1993-94, the Council has required colleges' external auditors to do additional checks on student record data. For 1993-94 and subsequent funding claims, the Council has required external auditors to certify that funding claims have been properly compiled in accordance with the Council's guidance. In addition, seminars are held annually for external auditors on key issues of concern. A working party was established in 1993 which meets twice a year with external auditors and college representatives to discuss the guidance and its interpretation
- in 1997-98 the Council's audit service began a regular annual review of the work of the colleges' external auditors in auditing final funding claims and the data underpinning them. Where weaknesses were identified, these were communicated to the external audit provider and the college, and recommendations were made for improvement
- the publication of Circular 92/07 on the role of the audit committee and the selection of external auditors. Circular 92/12 advised on the selection of internal auditors. The guidance in these circulars was updated by the publication of the *Audit Code of Practice* for further education colleges in May 1998. The *Audit Code of Practice* provides a sound basis for securing audit arrangements in colleges
- the Council's audit service has updated its approach to its college reviews each year: for example, in May 1995, following the NAO report, *Managing to be Independent*, and in July 1997 in preparing for joint working with the inspectorate
- since 1993-94, the Council's audit service has reviewed the work of colleges' internal auditors to assess the extent of compliance with Treasury standards and the implementation of agreed recommendations
- 'Value for Money' and 'Good Practice Guides' were commissioned in association with the NAO on college *Procurement, Estate Management, Marketing, Facilities Management* and, currently in preparation, on the appointment and use of consultants and providers of professional services

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- a new inspectorate framework has been established which gives emphasis to and introduces self-assessment by colleges of their own provision, including governance and management, and the requirement that these assessments be shared with college inspectors
 - the publication, since February 1997, of three years of individual college performance indicators for the 1994-95, 1995-96 and 1996-97 teaching years.

Organisational review

14 In February 1998, I informed the sector at the Council's annual conference that the Council's regional structure would be enhanced to develop further the relationship with the sector and deliver more effective support to colleges. The organisational review brought together, within the education and institutions directorate, the regional directors, regional property advisers, regional finance directors and regionally based staff as 'regional teams'. The regional teams receive advice from and are augmented, as appropriate, by inspectors and auditors who were also brought together into one directorate — inspectorate and audit. The regional teams now share all college information, to ensure that colleges requiring additional support and guidance are identified at the earliest opportunity; and to contribute effectively to the Council's regional review process which is described in more detail below.

Regional review process

15 The regional review process enables the Council to identify and work with colleges requiring additional support, that is, support which is in addition to that provided by Council staff through normal working procedures. A process has been in place since 1994 but was developed further, strengthened and publicised in Circular 98/12 *The Council's Approach to Identifying Colleges Requiring Additional Support*, following consultation on the approach with the sector.

16 Each of the Council's regional teams, chaired by regional directors and including the inspectorate and audit service, meet regularly (a minimum of three times each year) to share information and to ensure that colleges requiring additional support are identified at the earliest opportunity. Team members are able, through their experience of working with the sector, to identify some key 'early warning' signs that colleges may be causing concern or experiencing difficulties. Possible options for action by both the college and the Council are discussed, and recommendations are made which are subsequently put in writing to the principal, and in some cases to the chair of governors. Colleges requiring exceptional support are brought to the attention of the Council's executive team and a 'lead director' is appointed for each college. Regular case conferences are held to monitor progress on agreed action points.

17 The approach is designed to ensure that the following objectives are achieved:

- the Council is able to focus its resources appropriately
- colleges which require the minimum of additional support from the Council, and therefore a 'lighter touch', are identified
- issues of concern, identified by the Council, perhaps following inspection, audit or other visits, or from data returns, are identified at an early stage and in a consistent way
- information is shared with colleges at an early stage
- Council staff are working collaboratively to support colleges
- appropriate and timely action is taken by the Council's staff and colleges
- for colleges requiring exceptional support, that consideration of appropriate action to be taken is agreed by the Council's executive team, and a lead director is assigned.

Lessons for the Further Education Sector

18 A number of issues have been identified in the course of the Council's investigations which are relevant to the activities of all colleges in the further education sector. These relate to the compilation, submission and audit of funding claims and ISR returns; the purchasing of capital equipment and letting of contracts; United Kingdom and overseas travel; the establishment of subsidiary companies; and governance and management. These are dealt with in more detail in paragraphs 19 to 27 below.

Funding claims and data collection

19 The investigation highlights the need for college principals to ensure that every care is taken in the compilation of funding claims and ISR returns. Identifying mismatches between data returned to the Council and the reality in the college is primarily the responsibility of the college and, to a certain extent, its external auditors. Whilst the Council undertakes credibility checks, and is available to assist colleges with any queries they may have, it is the principal and accounting officer's responsibility to ensure that funding claims are accurate. It is essential that the principal takes responsibility for the compilation of claims and returns and is satisfied that appropriate procedures and controls are in place to ensure the accuracy of claims and returns, including reasonableness checks. The investigation also highlights the importance of maintaining proper links between register records and colleges' central management information systems. This was highlighted in the Council's chief inspector's report for 1997-98. If in any doubt about any aspects of their returns, colleges are strongly advised to consult the

Council and not make arbitrary changes to their interpretation of definitions or procedures. Thorough audit checks are also vital.

20 The Council has issued extensive guidance to the sector on the regulation of franchised provision, specifically, Circular 99/06 and Circular 96/32. It issued Circular 99/09 in February 1999 updating this guidance, including a follow-up to issues raised by the committee of public accounts, the select committee on education and employment and the *National Survey Report on Collaborative Provision*, conducted by the Council's inspectorate. It includes measures to tighten controls on governance and management in relation to franchised provision, and guidance on reducing risks involved where organisations engage in contracts with more than one college. In the light of the results of the study of the relative costs of franchised and direct provision commissioned by the Council from KPMG, Circular 99/09 sets out proposals for a reduction of one-third to the funding tariff for franchised provision.

Purchase of capital equipment and the letting of contracts

21 Colleges must ensure that proper and transparent procedures are in place to deal with the purchase of capital assets, tendering procedures and the letting of contracts, and capital expenditure and procurement issues in general. As indicated in paragraph 13 above, the Council, in association with the NAO, has commissioned a series of good practice guides on various aspects of college's activities. One of these publications is *Procurement: A guide to good practice* (The Stationery Office, 1997) which contains Her Majesty's Treasury's seven-point guide to ensuring regularity and propriety:

- *Don't bend or break the rules*
- *Put in place and follow clear procedures*
- *If approval is needed, get it first*
- *Don't allow a conflict of interest to affect, or appear to affect, decisions*
- *Don't use public money for private benefit*
- *Be even handed*
- *Record the reasons for decisions.*

22 Colleges are strongly advised to ensure that their procedures and transactions follow these rules and that major capital purchases or the leasing of, for example, IT hardware and software are part of an overall college strategy approved by the college's governing body. It is also strongly recommended that colleges take account of advice in the good practice guides and, in particular, that on purchasing. Of specific interest relevant to the issues raised by this investigation are chapters 7 and 8 on tendering and evaluation which state that tendering 'should be

used for significant purchases where an audit trail is required for public accountability considerations' and chapter 12 on ethics which states that 'lavish or expensive entertainment of any form should be refused'.

United Kingdom and overseas travel

23 A college may have various reasons why staff, and from time to time governors, have reason to travel in the United Kingdom and overseas. It is important that such trips are properly justified and evaluated against pre-defined business objectives and are approved in advance by the principal, or in the case of travel by the principal, the governing body, or perhaps the chair of governors if this responsibility has been delegated by the governing body. Proper procedures should be in place for approving expenditure on travel and hotel costs and for the approval of individuals' expenses with clear distinctions between legitimate college expenditure and private expenditure. Colleges should ensure that only the minimum number of people necessary make such trips to achieve the college's business objectives. The level of accommodation or class or means of travel, whilst appropriate to business needs, should not be capable of being regarded as lavish. In addition, colleges should ensure that the use of college credit cards is covered by their financial regulations and monitored carefully. In particular, only in exceptional circumstances should college credit cards be used for personal (rather than college incurred) travel expenses. Colleges should ensure that they take account of the Council's guidance to the sector on travel and subsistence, in the form of letters dated 12 June 1998 and 17 July 1998, which are referred to in paragraph 13 above.

Subsidiary companies

24 The establishment of subsidiary companies may be appropriate for certain college activities, for example, a trading activity where limited liability may offer the college protection or, perhaps, for joint ventures, where the purpose of the company should be clearly defined. The college's governing body should approve the establishment or acquisition of such companies and monitor their progress against a proper business plan. Colleges should ensure that the establishment of subsidiary companies, and the activities those companies undertake are, and remain, within their statutory powers.

25 The Council has commissioned KPMG to undertake a review of college companies and to produce a circular and a good practice guide. *Circular 99/14 College Companies, Joint Ventures and Overseas Operations*, published in April 1999, outlines the approaches and safeguards which should be adopted by colleges creating, or already using, college companies and joint ventures. The good practice guide is due to be published in the near future.

Governance and management

26 Colleges are expected to apply and ensure the highest standards of governance and management to their activities and can expect to be the subject of intense public scrutiny if they do not. Governing bodies should ensure that proper arrangements are in place to ensure that:

- a. they are properly informed by the principal and his or her senior management teams of what is happening in the college;
- b. they exercise sufficient supervision of the principal;
- c. appropriate approval mechanisms, reporting structures and systems are in place, which are reviewed periodically, to ensure that the decision-making processes operate as intended with reference to relevant standing orders;
- d. college governors receive appropriate training and development in order to carry out their roles effectively;
- e. the clerk provides the members of the governing body with independent advice and information on the exercise of their duties;
- f. they are provided with regular financial reports to ensure that they are able to monitor the financial position and performance of the college and meet the Council's requirements for the governing body to approve financial forecasts and budgets;
- g. the college's instrument and articles of government are, and will continue to be, properly discharged;
- h. the college is meeting the recommendations of the committee on standards in public life, with particular regard to maintaining registers of interests and ensuring that whistleblowing procedures are in place;
- i. college governors and senior managers are fully conversant with the financial memorandum between individual colleges and the Council.

27 The Council published a new Financial Memorandum on 7 September 1998 (Circular 98/30) following consultation with the sector. The new Financial Memorandum sets out the requirements placed on governors and principals. It reminds principals that they are the accounting officer for the college. In that role, the principal may be required to appear before the committee of public accounts, alongside the chief executive of the Council, on matters relating to funds paid by the Council to the college and the use made by the college of such funds. The Financial Memorandum is also explicit about the need for the principal to uphold regularity and propriety. The principal is responsible for advising the governing body in writing if any action or policy under consideration by them is incompatible with the terms of this memorandum or would infringe the requirements of regularity or propriety.

Lessons for the Council and Action Proposed

28 In the course of the investigation, the Council has reviewed its guidance and funding arrangements and considered whether or not there are lessons to be learnt for the Council in the way in which it operates with the colleges it funds. Since incorporation, the Council has sought to find ways of improving its communication with the sector, ensuring that the guidance it provided was timely, accurate and comprehensive and it has constantly reviewed its procedures in order to improve the quality of its work. As a result of the investigation, I have identified opportunities for further guidance, for changes to working practices and procedures, and for clarification. I have therefore initiated the following actions.

Funding and data collection

- with effect from 1998-99, colleges will be required to use the validation software before submitting their claims to the Council
- a review of funding and ISR validation and verification procedures has led to a new check introduced for 1998-99 returns to highlight colleges with significant numbers of non-English postcodes. This check will ensure that students resident in Scotland, Wales or Northern Ireland are only funded in colleges close to the borders of England and that the numbers do not increase over time. In the meantime, the Council has identified all colleges receiving funding for 100 or more Scottish, Welsh or Northern Irish students. I am satisfied that most of the 20 or so colleges could reasonably be receiving funding for these students. I have asked the Council's chief statistician to undertake further checks on the remaining colleges and the Council will recover any overclaims identified
- a new check has been introduced for 1998-99 returns of the number of funding units per full-time student and advice has been issued to the sector on acceptable ranges
- Council officers are undertaking work focusing on colleges which appear to have similar growth characteristics to Halton College, that is rapid growth of provision largely attributable to franchised provision, where much of this provision is out of the local catchment area. Any such colleges which have not been subject to a recent inspection or a special study, will have further reviews of their funding claims undertaken. If any concerns arise, the Council will require the college to set up a joint review with the Council

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- Council officers have 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. Six colleges appear to have done so and Council staff are undertaking follow-up checks with the colleges to establish whether the reclassification was valid
 - unrealistic, unsubstantiated or abnormal guided learning hours and poor retention and achievement are to be scrutinised in greater detail during inspections and reported to the Council's chief statistician for clarification.

Governance and management

- advice and guidance will be issued to all principals (with copies to chairs of governors) reminding them of their duties and obligations as the college's accounting officer. This topic is now covered at the briefing days which the Council holds for new principals. I shall be asking the good governance group whether they consider this role should be explicitly written into principals' contracts of employment with their governing bodies
- the good governance group is considering rewriting the guidance the Council has issued on the role of the clerk to the corporation. I shall be asking the group to consider whether, in the light of the NAO's report on the investigation into alleged irregularities at Halton College, the proposed new guidance will clarify the means by which the college clerk may maintain his or her independence when advising the college's governing body on matters of the college's governance and management
- the terms of reference for the good governance group embrace the need to include advice as to the additional training for governors that may be required
- following publication of the Comptroller and Auditor-General's reports *Overseas Operations, Governance and Management at Southampton Institute* (December 1995) and *Financial Management and Governance at Gwent Tertiary College* (March 1999), the Council will consider whether to issue further guidance to the sector on the issues contained in the reports.

Inspection and audit

- in my response to the Council on the chief auditor's annual report, I asked the Council's audit service to conduct more reviews of the work of the external auditors. Should standards not meet the Council's expectations, I will ask the audit

committee to advise me on the ways in which the Council should take a more active role in approving the appointment of external auditors of colleges

- the development of further guidance to external auditors on audits of final funding unit claims will be undertaken
- the organisation of additional programmes of seminars for external auditors
- the establishment of a quality improvement unit in November 1998, with a remit to investigate and support colleges as necessary where academic quality is at risk
- audit follow-up visits will to be undertaken more promptly as resources permit
- the introduction by this government of a standards fund from April 1999 will enable further measures to strengthen governance and management. It is planned that part of this fund will be used to create new training programmes for college principals and prospective principals, whilst other parts will be used to support the assessment and improvement of governance, including governor training.

Conclusion

29 As a result of all of the above, I believe the Council has the necessary procedures in place to continue to ensure propriety and regularity of the expenditure of public funds and the early detection of issues similar to those at Halton College. The further work identified in paragraphs 19 to 28 above should ensure that, as the Council's accounting officer, I can also meet my responsibilities for the keeping of proper accounts; for prudent and economical administration; for the avoidance of waste and extravagance; and for the efficient and effective use of all the resources in my charge.

Response by the Board to the Actions Required of Them Following the Investigation of Alleged Financial Irregularities at the College (Reproduced)

At a Board meeting on 21 December 1998, the Board accepted without qualification the recommendations and actions required. These can be summarised as follows, in sequence with the paragraphs listed under paragraph 159 of part 1 of David Melville's report:

- a. *Board response to requirement (a) – investigate the conduct of the principal and whether it is appropriate that he should remain in post;*

The Board has employed the services of an Employment Law adviser and established a special committee of Board Members in accordance with the Articles to investigate and pursue disciplinary proceedings as appropriate against the Principal.

- b. *Board response to requirement (b) – take appropriate action including, in particular, demonstrate how it can offer me the assurance that the role of accounting officer will be properly and effectively discharged;*

To ensure that the role of the accounting officer can be discharged properly and effectively, the Board is revising the Financial Regulations to ensure greater control and regulation. It has increased the frequency of Board meetings, undertaken a greater overview of college activities, determined that all major returns to FEFC will be fully explained by the Principal to the Board before submission to the FEFC and arranged that senior/appropriate managers will be required to attend Board and subcommittee meetings as deemed necessary. The Board has also designated the post of Clerk and Director of Finance as 'senior postholders' with direct access to the Board.

- c. *Board response to requirement (c) – investigate the conduct of the deputy principal and the manner and effectiveness in which she has discharged her duties;*

The Board has employed the services of an Employment Law adviser and established a special committee of Board members, in accordance with the Articles, to investigate and pursue disciplinary proceedings as appropriate against the Deputy Principal.

- d. *Board response to requirement (d) – review the conduct of the Board, and other individual members, in particular the then chairman, in relation to this report and advise me as soon as possible of such actions it may choose to take in addition to those it has already agreed to implement;*

Following the appointment of a new Chairman, the outgoing Chair, Mr B J Thomas, retired from the Board in January 1999. The Board completed an initial Self Assessment review, which is being updated in May, in readiness for the college inspection scheduled for October 1999.

- e. *Board response to requirement (e) – satisfy itself that the college’s instrument and articles of government are, and will continue to be, properly discharged and that the college has in place appropriate systems and reporting mechanisms to enable the Board to satisfy itself that the college is operating within the provisions of its Financial Memorandum with the Council;*

The Board notes the recommendations of KPMG relating to Governance and Management and has taken the following actions:

- *Quality and Curriculum Sub-Committee has been formed*
- *revision of the terms of reference and composition of all sub-committees is already in progress*
- *revised standing orders and code of conduct formulated from best practice in the sector have been adopted, as has a Whistleblowers Charter*
- *it has responded to the DfEE Accountability in FE Document and is holding open current vacancies to move into line with the likely requirements. Staff membership of the Board has already been increased from one to two.*

- f. *Board response to requirement (f) – complete, as a matter of urgency, the work of the joint Council–college investigation in order to identify any further sums to be returned to the Council;*

The Board has already indicated its willingness to repay any overclaim where agreement on the amounts have been reached.

- g. *Board response to requirement (g) – produce an action plan containing the action already under way, completed or proposed as a result of the college’s own reviews and supporting reviews of KPMG, the findings of this report and the Council–college investigation in order to satisfy me in relation to points (a) to (f) above.*

Action plans have been identified relating to:

- *individualised student record returns and funding claims*
- *governance and management*
- *reporting and decision-making – capital and development.*

These actions together with other actions subsequently identified by the Board will be combined into a single action plan, which will then be monitored by the Board.

The Board has endeavoured to inform the FEFC at all times and at all levels of the actions that have been and are being undertaken to strengthen college systems, together with management and governance operations.

Part 3

Joint Council–College Investigation of Halton College’s ISR Returns and Funding Claims: Progress Report

Background

1 At the meeting of the board of governors (the Board) at Halton College (the college) on 30 July 1998, the Council’s director of education and institutions made a proposal for an immediate joint Council–college investigation into the college’s individualised student record (ISR) returns and funding claims. The investigation would take into account both the findings of the Robson Rhodes’ report and the conclusions of the Council’s preliminary investigation into the college’s ISR returns, together with any relevant recommendations from the study of the student records for 1996-97 and 1997-98 which the college had commissioned through KPMG. This proposal was confirmed in a letter dated 3 August 1998 from the director of education and institutions to the then chair of the Board. The college’s agreement was set out in a letter from the then chair to the director of education and institutions dated 12 August 1998.

Conduct of the Joint Investigation

2 The review has been managed on the Council’s behalf from the North West regional office by the regional director and a regional education officer. The North West regional team has been supported by specialist colleagues in the Council’s research and statistics, education policy and funding teams. In order to ensure objectivity, three other members of Council staff have acted in a moderating role, and have reviewed the work, having had no involvement with Halton College prior to the inquiry.

3 From the college, the director of information services and the director of finance have led the work. A governor, who is also the chair of the management information systems (MIS) governors’ review group, provides the link with the Board. The acting principal has been involved as appropriate.

Terms of Reference

4 The terms of reference for the joint investigation are attached as an annex to part 3 of this report.

Activity to Date

5 Meetings between the Council and the college have been held as follows:

- 24 August 1998 – a preliminary meeting to discuss terms of reference and scope
- 4 September 1998 – a major meeting to finalise terms of reference and agree the actions needed to complete the investigation
- 21 September 1998 – an update and progress meeting
- 14 October 1998 – a major meeting with key Council staff to discuss the issues recommended by KPMG for discussion with the Council and to decide future actions
- 14 October 1998 – an update and progress meeting
- 21 October 1998 – a major meeting to consider remaining issues for joint consideration by the Council and the college and to decide future actions to inform David Melville's report and the Board's response to that report.

Range of Issues Considered and Methods of Investigation

6 The issues for consideration and investigation fell into three broad categories. These were:

- a. issues which had been identified by KPMG (some were identified by the college) as requiring discussion with the Council. These included in particular:
 - the delivery framework for national vocational qualifications (NVQs) in the workplace (1997-98 and thereafter)
 - the audit evidence required to prove the delivery of guided learning hours
 - the audit evidence required to prove 'additionality';
- b. issues to be considered jointly by the Council and the college. These included in particular:
 - the reasonableness or otherwise of the comparator qualifications used by the college to claim for qualifications gained through accreditation of prior learning (APL)
 - the reasonableness or otherwise of the claims made by the college for assessor training in 1993-94 and 1994-95
 - the reasonableness or otherwise of the claims made by the college for other qualifications where the Council investigation had shown disparities with the claims made by other colleges

(for example the Merseyside Open College (MEROCF) certificate level 1) or where KPMG had suggested that comparators appeared high (for example, some engineering qualifications).

It was agreed to consider these issues in the light of:

- an agreed framework which recorded the chronology of funding guidance and actions taken by both the college and the Council which had led to the college's funding claims for 1994-95 to 1996-97
 - the college's rationale for claiming what it had
 - ISR analysis which compared the claims made by Halton College not only with the median for the sector but with the claims for other individual colleges, including those with high proportions of off-site collaborative provision (OCP);
- c. issues to be progressed within the college in the first instance

It was agreed that a number of issues identified by KPMG, Robson Rhodes and the Council's preliminary investigation of the ISR returns would be taken forward in the first instance by the college. These included:

- investigation of students with Scottish, Welsh and Northern Ireland postcodes (allegations (i) and (v) in the Robson Rhodes' report)
- 1993-94 part-year full-time students (allegation (ii) in the Robson Rhodes' report)
- the differences in start and end date patterns set out in the report of the Council's initial investigation — this explanation would include specific reference to the other concerns arising from the Council's investigation
- college classification of direct and OCP for 1996-97 and 1997-98 (raised by KPMG)
- ensuring that guided learning hours excluded lunch and homework times (reference contract drawn to KPMG's attention by the college and referred to in the KPMG report).

It was noted at the start of the investigation that much of the work was already under way. The college would explain the investigations carried out, state the conclusions and outcomes and share these with the Council. Ultimately, the college's external auditors would need to confirm and sign off agreed changes to any of the ISR returns and funding claims which had already been audited by the college's external auditors and sent to the Council.

Main Outcomes to Date and Next Steps

1993-94 full-time part-year students (allegation (ii) in the Robson Rhodes' report)

7 The college has now accepted that the available audit evidence is insufficient to support the claim of 0.4 weighted full-time equivalent (WFTE) for 1,094 part-year full-time students made in 1993-94. Provided that the college can provide audit evidence that the student activity exceeded 9 hours (the threshold for Council funding), then 0.15 WFTE will be claimed. The college is to discuss these changes with its external auditors. Once the discussions are complete, a recovery of funds by the Council of around £146,281 is likely. Although this equates to an overpayment of £206,766, the sum which would be recovered, in accordance with the funding agreement for 1993-94 which limited the recovery of funds to 3% of the college's main allocation, would be to £146,281. The recovery was agreed by the Board at its meeting on 15 November 1998.

Ineligible provision delivered in Scotland (allegations (i) and (v) in the Robson Rhodes' report)

8 The college has now accepted that 35,715 units were claimed in 1994-95 for ineligible provision delivered in Scotland. This is the provision referred to in allegations (i) and (v) in the Robson Rhodes' report. It has also discovered that 1,528 units were claimed for similar ineligible provision in 1995-96 and 1,829 in 1996-97. Following the confirmation of its external auditors, a recovery of funds by the Council of £253,968 is likely. The recovery was agreed by the Board at its meeting on 15 November 1998.

Definition of direct and OCP provision (KPMG finding)

9 The term 'off-site collaborative provision' (OCP) refers to arrangements in which an institution makes a contractual agreement with another organisation to deliver on behalf of the institution, provision funded by the Council. Collaborative provision will normally be delivered away from the institution's premises. The Council's requirements of collaborative provision are set out in the annual funding guidance and in specific circulars, in particular Circular 96/06 and Circular 96/32. In confirmation of verbal reports made to the Board on 30 May 1998, members of the SMT reported to the finance and general purposes committee on 18 June 1998 that, during 1997-98, the college had reclassified a number of qualifications from OCP to direct provision on the basis that a contract would only be classified as OCP if the contract involved working with a third party and *paying* that third party for its services. If no payment was made to the third party, the provision was classified by the college as direct, even though the provision was delivered by another organisation with which the college had a contractual agreement and thus accorded with the definition of OCP.

10 The KPMG report states that this decision arose because the senior management team were advised that 'The definition of OCP in Circular 96/08 *Guidelines for Auditors* involved working with a third party and paying that third party for their services. If not, these should *not* be considered as OCP.' KPMG stated that this was incorrect and should not have been done. During June 1998, the college accepted KPMG's statement, reviewed this reclassification and amended it back to the original form using the definitions it had applied in 1996-97. The Board are currently investigating the circumstances for the decision to submit a revised all-year unit estimate for 1997-98.

11 Following the major meeting between the college and the Council on 14 October 1998, which provided the college with some clarification of the distinctions between direct provision and OCP, the college is further reviewing the basis of the division included in the college's all-year unit estimate return to the Council for 1997-98. The significance of the distinction for Halton College is that the units reported as direct provision in the all-year unit estimate for 1997-98 were all uprated to the convergence ALF of £16.20 for the 1998-99 funding allocation, while the OCP units remained frozen at £14.00. The outcome of this review is likely to lead to a return to the Council of funds of approximately £0.9 million from the 1998-99 allocation.

Audit evidence to support claims for guided learning hours and 'additionality' (KPMG)

12 At the major meeting on 14 October 1998, the Council provided guidance to the college on a number of issues which had been raised in the KPMG report, in particular on the proof of actual guided learning hours and identification of auditable evidence to support 'additionality' for training delivered in the workplace in 1996-97 and 1997-98. The Council wrote to the college on 28 October 1998 asking it to raise these issues specifically with its auditors as part of the review needed before the 1996-97 audit of student numbers can be cleared by the Council and the final funding claim settled. Any implications for previous years would be considered in the light of those discussions. The outcome of these discussions and the financial consequences, if any, are not yet known.

Assessor training (allegation (iii) in the Robson Rhodes' report and highlighted for further scrutiny in the preliminary investigation by the Council)

13 At the meeting held on 21 October 1998, the Council produced a number of graphs which showed the guided learning hours claimed by Halton for a number of assessor training courses. It was noted that these had generally been delivered directly rather than by OCP. There was no difficulty with those delivered by open learning where a standard loadband 3 could be claimed. The graphs showed differences in the claiming patterns, in some instances, by Halton College and also differences in the claims made by Halton for the same qualification. The

college agreed to undertake a thorough review of the guided learning hours and claims for these qualifications. The Council has asked the college particularly to review the claims made following the confirmation, at the meeting on 14 October 1998, of the Council's guidance that it would not expect work-based programmes to exceed loadband 4. The Council has asked the college to consider whether this guidance had been interpreted in some parts of the college as an entitlement to claim, rather than a ceiling.

Accreditation of prior learning (APL) issues (KPMG)

14 The Council's ISR analysis of 1995-96 and 1996-97 showed that Halton College and one other college in the sector had delivered a much higher percentage (around 23%) of qualification aims by APL than most other colleges. The next highest proportion was around 6.5%. KPMG had not raised any concerns about the legitimacy of APL delivered by the college; however there were some issues which needed to be reviewed. These issues, together with the action proposed to resolve them, are set out below.

Definition of APL as direct provision

15 The major meeting on 14 October 1998 had confirmed that the definition by the college of all APL as direct provision was incorrect. The college has agreed to review the qualifications delivered by APL in the light of the confirmation of the Council's guidance at the meeting.

'Work-based' APL

16 The college had taken the view that APL was a process and not 'work-based' and therefore not subject to the general limitation of loadband 4 for work-based provision on employers' premises. The Council has confirmed, at the meeting on 14 October 1998, that the provision was work-based if it took place on employers' premises during normal working hours and involved the working activities in which the individual would normally be engaged during those working hours. The college has accepted this confirmation and guidance.

The comparator qualifications used as the basis for claiming qualification aims delivered by APL

17 This issue had been raised by KPMG. The Council has produced analyses which show that, for some qualification aims, the guided learning hours claimed by Halton College were out of line with those claimed by other colleges. The Council reminded the college of the requirement to keep the evidence of portfolio building associated with APL, and stated in particular that it would be important for that evidence to be proportionate to the claim for a full-time comparator. The college has agreed that it should take into account the previous educational achievement of the student. The college has agreed to review its claims in the light of this advice.

MEROCF certificate level I (the Council's preliminary investigation)

18 At the meeting on 21 October 1998, the college produced evidence which showed that students' action plans included several credits and programmes to be undertaken. Sample learning agreements showed that candidates were taking 19 or 10 credits. The programme was constructed from a bank of credits available under the MEROCF programme. The college suggested that the number of guided learning hours for other colleges were the number associated with each individual credit award, rather than the aggregate for the programme which was constructed at Halton College. The Council has accepted this rationale for the difference.

19 The Council has suggested that the audit evidence to support the claim for the guided learning hours needed to be reviewed in the light of the clarifications provided at the major meeting on 14 October 1998. While accepting that the accreditation offered through the MEROCF certificate represented additionality in comparison with the previously uncertificated programme offered in the social services day centres, the Council has also expressed concerns about the apparent simultaneous status of the individuals receiving the programme as being day centre clients and full-time Halton College students at the same time for such a significant proportion of the week. The college has agreed to review the claims for the programmes bearing these points in mind.

Start and end dates and other items raised in the Council's initial investigation

20 The college has produced a statement which explains the pattern of start and end dates (detailing their strategy, in the early days of the ISR, for recording students studying on flexible programmes with rolling enrolments) and other items raised in the Council's initial investigation of ISR. The incorrect recording of students' start and end dates in this manner did not affect the funding claim for the college. The Council considers the explanations to be reasonable and acceptable.

Timescales

21 The college aims to undertake the various reviews agreed as quickly as possible, following the meetings of 14 and 21 October 1998.

22 The Council and the college have estimated a total clawback of around £6 million. Approximately £0.4 million refers to the outcome of the investigations contained within part 1 of the report and referred to at paragraphs 7 and 8 above. Approximately £0.9 million is as a result of the incorrect reclassification of a number of qualifications from franchised provision to direct provision referred to at paragraphs 9 to 11 above. The remainder of the sum is the college's estimate as a result of the joint Council-college investigation, the reviews by KPMG and its own extensive enquiries into these matters. This figure is subject to the verification of individual student records. The college is currently discussing the detail with the Council and its external auditors.

Terms of Reference of the Joint Investigation

In the light of the findings of the Robson Rhodes' report commissioned by the Council, the first stage of the Council's internal review of the college's ISR returns and funding claims and the outcome of the internal reviews commissioned by the college through KPMG, the Council and the college have agreed to undertake a joint investigation of the college's ISR returns and funding claims to report by mid-October. The work will be carried out by senior management and technical staff of the Council and the college. The Council and the college will jointly agree the scope, specification and processes for the work, which will be carried out in a spirit of mutual openness and trust and with sensitivity. The joint investigation will:

- a. identify the amount by which the college's funding claim for 1993-94 might be reduced in respect of students in day centres on the full-time part-year four-week programmes considered in the Robson Rhodes' report;
- b. identify the respects in which the college's ISR returns and funding claims from 1994-95 to 1996-97 may not accord with the Council's guidance;
- c. prioritise for further investigation those differences which may have led to unjustified claims for funding by the college;
- d. undertake such relevant further investigations within the college, within the Council and with employers and students as are feasible before mid-October;
- e. estimate the individual and cumulative effect of any claims by the college which may be unjustified;
- f. report regularly on progress to the director of education and institutions at the Council and the college's senior management and governors;
- g. make recommendations to the Council and the college to reflect such agreements between the Council and the college on changes in ISR returns and/or funding claims (including any compensating underclaims by the college) that need to be made as a result of the joint work;
- h. specify the nature, extent and key elements of any differences in interpretation between the Council and the college which have a bearing on possible changes in ISR returns and/or funding claims in the light of the joint work;
- i. identify whether there are any remaining areas for further work after mid-October.

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