

AUDIT COMMITTEE REPORT 00-07: COLEG GWENT

The Cabinet of the National Assembly's response to the Report and Recommendations of the Audit Committee, following the presentation of their report on 1 December 2000

The Cabinet of the National Assembly is grateful for the report, which covers an area of great importance to the Assembly's agenda for education and training. We welcome the findings and offer the following response to the concluding comments and to the 21 recommendations in the report.

Concluding Comments

The Further Education Funding Council for Wales (the Council) is pleased to report on the continuing recovery of Coleg Gwent (the College). The recovery is not complete and the Council continues to support the College in tackling its identified shortcomings and to monitor closely aspects of the College's activity and performance. The Council agrees that the College should be playing a prominent role in European funded projects and looks to a well-managed re-entry into such activity. Many lessons have been learnt from the experiences at Coleg Gwent, and the National Assembly and the Council are ensuring that these lessons are shared with the whole sector.

Financial Health of Coleg Gwent and European Funding Issues

Recommendation (i)

We look to the College to maintain its financial position by continuing to be vigilant in its financial management.

At its meeting on 28 November 2000, the Corporation approved the College Annual Report and Accounts for the year ending 31 July 2000. The financial position evidenced by the accounts shows a significant further improvement, with an operating surplus of £796k despite an increase in capital investment to £2 million from £553k in 1998/99. A particularly important financial indicator, given the past problems at the College, is pay costs. These were maintained at 60% of turnover, even though staff received a pay increase which was greater than the 3% recommended for the sector. The pay increase at Coleg Gwent of either 4% or 5% (depending on the contractual arrangements of individual staff) came after two years during which a pay increase could not be afforded.

The Historic Cost Surplus as a percentage of turnover increased from 1.8% to 5.2%, while net cash generated increased from £468k in the previous year to £3.512million in 1999/2000.

The audited Five Year Financial Forecast, which was approved by the Corporation in July 2000 and submitted to the Council, shows that the financial health of the College is expected to continue to strengthen, with significant operating surpluses being forecast each year. Levels of capital expenditure will be maintained at around £3.5 million each year without borrowing, even after repaying ESF of nearly £1 million in each of the next three years.

The College recognises that this healthy financial position can only be maintained through sustained vigilance and sound management at all levels in the organisation.

Recommendation (ii)

We look to the College to improve the fabric of its estate as quickly as possible and to keep a close eye on health and safety issues while backlog maintenance is being addressed.

The lack of investment in the estate is being addressed as a key issue, now that the financial position of the College is strengthening. The corporate plan that the Corporation approved in July 2000 identified investment in the estate as a priority, and the Five Year Financial Forecast includes proposed expenditure to address that priority. The budgeted expenditure on the estate during 2000/2001 is just under £4.85million, which includes £1.1million on maintenance. Much of this expenditure was recommended in the property condition survey which the College commissioned during the previous year.

Therefore, whilst recognising that the significant neglect of the past cannot all be addressed at once, the College has a sound plan, informed by external expertise, to improve the fabric of its estate.

Health and safety issues form an integral part of the improvement plan for the estate. A separate budget of £350k is allocated to address compliance issues and the College has developed a Health and Safety Policy and associated management procedures that reflect best practice. The College Health and Safety Manager provides regular reports for the Corporation and its Estates Strategy Committee.

Recommendation (iii)

Given its position as the largest further education institution in Wales, Coleg Gwent

must take immediate action to ensure that it is able to maximise its use of the funding available under Objective 1.

The College has recognised for some time the priority it must give to maximising Objective 1 funding, but until the European Social Fund (ESF) repayment issue had been settled and a clean bill of health given by the Department for Education and Employment to the College's audit procedures, it was not possible for the College to apply for ESF money. This situation has now been resolved and the College is actively involved in a number of collaborative projects seeking Objective 1 (and Objective 3) funding. The recent appointment of an External Funding Accountant to oversee all of the financial matters relating to ESF funding, and the imminent appointment of a European Officer, will greatly strengthen the College's ability to seek such funding. The involvement by the College in five Community Consortia for Education and Training is proving to be particularly significant in assisting the College to play its part in ESF related projects.

Recommendation (iv)

We look to the Assembly to put proper procedures in place for the oversight of European Social Funds received in Wales and to discharge this new responsibility with regard to the need for regularity and propriety.

The Chief Executive of the Welsh European Funding Office has been appointed as the Accounting Officer for European Structural Funds in Wales, including the European Social Fund for the 2000-2006 Programmes, and will ensure that the funds are managed with due regard for regularity and propriety.

Governance and Management

Recommendation (v)

We recommend that the Governing Body of every institution in the sector should undertake a detailed skills audit of its requirements and look to amend its membership in accordance with the findings.

23 institutions now have written procedures for selecting governors. The selection procedures being used range from public advertisement to the targeting of relevant organisations, with a few institutions making use of their web-site to invite interested individuals to contact the Clerk. The new requirements regarding the composition of governing bodies brought about by the August 1999 modifications to the Instrument and Articles, are ensuring greater representation

from the local community and colleges are steadily progressing towards the required composition. A number of colleges have now developed comprehensive skills matrices to identify particular gaps in their membership, including the achievement of gender and ethnic balance. The Council, through the work of its Audit Service, is spreading this good practice throughout the sector. As part of this process, the Audit Service will collect data to monitor institutions' progress.

Increased governor training is also resulting in more effective contributions by governors to the strategic direction and management of institutions. Governor training materials which will be issued by the Council early in the New Year, include a module on the Search Committee, a committee that all FE corporations are required to have under their Articles of Government. The module contains advice on undertaking skills audits and drawing up person specifications.

Recommendation (vi)

We recommend that other institutions in the sector take note of the way Coleg Gwent has managed its latest restructuring.

A circular letter will be issued by the Council in January 2001, commending the Audit Committee's report to the sector and highlighting the way Coleg Gwent has successfully managed its latest restructuring.

Recommendation (vii)

It concerns us that the College still faces difficulties in producing management information on the number of students that it enrolls. The Committee looks for confirmation of an early resolution to this problem.

Key issues in relation to student information are being actively addressed as one of the main priorities in the Institution's corporate plan. The College is pleased to report that good progress has been made in producing more accurate data returns on student enrolments. Evidence of this progress is provided by the unqualified audit opinion given by the College's external

auditors, PricewaterhouseCoopers, when they undertook the end of year audit for 1999/2000.

In July 2000, the College completed the implementation of a new Student Information System and a new Finance System. These two new systems are designed specifically to improve the ability of the College to produce accurate and timely information on student numbers and related funding. The total investment in these systems was £250k and included a significant amount of staff training. The College recognises that this is a critical area and has made use of the Council's Governance and Management Development Fund to provide additional training for staff. The appointment of a new Head of Information Services is imminent; this person will have a key role in ensuring that the staffing and organisational arrangements throughout the College are effective in maximising the benefits from these new computer systems.

The Council considers that the College has taken, and continues to take, the right actions to improve the quality of its student data. The investment in new software, together with better procedures and additional expertise, should place the College's student data on a sound basis for future funding from the Council. The Council will monitor the College's progress on these matters.

Recommendation (viii)

We seek confirmation that the Principal underwent a full appraisal process at the end of his second year in post.

Recommendation (ix)

Coleg Gwent needs to formalise its appraisal process for its four senior post holders as quickly as possible and extend it to the remainder of the staff when this is practicable.

The Principal was given a formal appraisal at the end of his second year in post. This was undertaken by the Chairman of the Corporation under a formal "*Appraisal Process for the Principal and other Senior Postholders*" which was approved by the Corporation in July 2000. The four Senior Postholders have also all been formally appraised under this process. One outcome from the appraisal of the Principal and the Senior Postholders was the setting of targets for each and these targets have been reviewed and formally approved by the Corporation.

A key target in the human resources area of the latest corporate plan is to develop and implement an appraisal process for all staff. The College recognises that the absence of such an appraisal process is a significant weakness in the College's human resources strategy but, given the turbulent climate in employee relations until June 2000, it has not been possible to progress such a scheme. It is intended to begin implementing an appropriate appraisal process during the 2000/01 academic year and through the 2001/02 academic year.

Recommendation (x)

We recommend that the whole sector should adopt formal appraisal processes for senior post-holders as quickly as possible.

Formal appraisal for senior post-holders is now well established at 18 colleges. The Council will ensure that the remainder have appraisal schemes in place by the end of the 2000/01 academic year. The models being used vary across the sector and the Council believes that it is appropriate for the Governing Body of each institution to determine which model is best suited to its own needs and circumstances. The Association of Colleges has undertaken a survey of appraisal systems at colleges in England and Wales and the findings and conclusions have been circulated to the sector in order to foster good practice.

Financial Management

Recommendation (xi)

We consider that it is vital that all institutions have the appropriate level of qualified finance staff.

It is a fundamental requirement for all institutions in the sector to have an appropriate level of qualified finance staff. The precise need will vary from institution to institution and will be determined by the size of the organisation, the range of its activities and the nature of its management structure. Inevitably smaller institutions find it difficult to afford the numbers of skilled and qualified finance, and other, staff which they might like to employ.

The Council continues to have concerns about some of the smaller institutions particularly with regard to segregation of duties. Its procedures for monitoring financial health pay close attention to this aspect. Through the work of its Audit Service, the Council is seeking to ensure that the level of expertise of finance staff is adequate, principally by examining the quality of management accounting information and reviewing the budgetary control process.

Recommendation (xii)

We recommend that the Audit Committees of all institutions across the sector adopt the approach Coleg Gwent has employed for monitoring the implementation of recommendations made by all auditors.

A circular letter from the Council will be issued in January 2001, commending the Audit Committee's report and highlighting the approach that the Coleg Gwent Audit Committee has adopted to monitor the implementation of all audit recommendations.

A similar approach is already in place at many institutions. However, the Council's Audit Service, as part of its cycle of visits to institutions, also check that each Audit Committee has introduced a robust mechanism to ensure that all audit recommendations are implemented effectively.

External Monitoring and Accounting Issues

Recommendation (xiii)

In light of the work that the College still has to undertake in a number of key areas such as strategic planning, we are surprised at the Funding Council's decision to re-categorise the College's financial health. We urge the Funding Council to continue to monitor the College particularly closely.

The decision to re-categorise the financial health of Coleg Gwent was taken in recognition of the significant improvements which had been achieved in the College's procedures and performance. The re-categorisation, however, did not result in any reduction in the level of monitoring which the Council continues to exercise. The key elements of its ongoing monitoring include:

- receiving copies of the monthly management accounts. Any queries arising from the Funding Council's examination of the accounts are raised with the College;
- maintaining the requirement for forecasts to be examined and certified by the College's external auditors; and
- receiving copies of the minutes of the meetings of the College governing body and its sub-committees.

Furthermore, the strategic plan received from the College in July 2000 was much improved from that received in 1999. In October 2000 the Principal was informed that the plan was re-categorised from high to medium risk. Detailed feedback, covering the Council's evaluation of the strengths and shortcomings of the plan has been provided to the College and the Council continues to support the College's work in the further development of the plan through institutional planning visits which will be undertaken as part of the second phase of the Council's Governance and Management Development Programme.

Recommendation (xiv)

We recommend that all Governing Bodies take note of the powers which are now available to them to hold to account individuals who have been negligent, and use them when necessary.

A circular letter from the Council will be issued in January 2001, commending the Audit Committee's report to the sector and reminding Governing Bodies of the new powers available to further education corporations as a result of the modifications to their Instrument and Articles of Government. These powers are not available to the governing bodies of three

designated institutions which, because of their status, cannot be included in the modifications to the Instrument and Articles; those in respect of the remaining two designated institutions are currently being modified to include the new powers. The circular will set out the Council's expectations that the powers should be used in appropriate circumstances, having regard to relevant employment, human rights and other legislation.

Recommendation (xv)

We urge the College vigorously to pursue the issue of taking cost effective legal action for redress against Deloitte & Touche.

As a first step, the College has taken similar action to that taken by the National Assembly (paragraph 42 in the Audit Committee Report) and has complained to the Professional Standards Office of the Institute of Chartered Accountants in England and Wales, who are investigating the complaint. When the outcome of the complaint is known, the College will again consider the issue of possible legal action.

Recommendation (xvi)

We consider it timely to review and strengthen the audit arrangements for further education institutions in Wales. We see considerable merit in appointing the Auditor General for Wales as the external auditor of each further education institution in Wales or, alternatively, making him responsible for such external audit appointments and thereby enable him to oversee the consistency of audit standards across the sector.

The Cabinet agree that it would be timely to consider this issue. At present the Auditor General for Wales, under his remit as set out in the Government of Wales Act 1998, is the statutory auditor of the Further Education Funding Council for Wales. He therefore has access to the sector's financial transactions and is able to undertake value for money studies by following

the audit trail of the Council's allocations of public funds to the providing institutions.

There are a number of aspects of this recommendation which need very careful consideration and the Assembly will wish to consult widely on the proposal before coming to a firm view.

Wider Implications for the FE Sector

Recommendation (xvii)

We recommend that the Assembly Minister for Education and Life Long Learning, in consultation with the corresponding Subject Committee, should examine whether the model established for the further education sector of colleges as independent self-governing bodies remains appropriate.

The Assembly Minister for Education and Lifelong Learning will consider this in consultation with the Education and Lifelong Learning Committee in due course.

Recommendation (xviii)

We would welcome information from the National Assembly in due course on the outcomes achieved from part one of the Governance and Management Development Programme and the main aims, objectives and targets which have been set for the next part of this programme.

The Assembly will report to the Committee in February 2001 on the achievements of the first phase of the Council's Governance and Management Development Programme and on the aims, objectives and targets of the second phase.

Recommendation (xix)

We recommend that the Funding Council should establish a register of all units with an entrepreneurial remit and companies at all institutions and should monitor their activities using internal audit.

The guidance on audit needs assessment issued by the Council's Audit Service in December 1999 requires internal auditors to include college subsidiary companies and other commercial activities within the scope of their audit. Following consultation, guidance on international activities will be issued to the sector in January 2001. The Council also plan to issue guidance on the management and control of related companies in Spring 2001.

The Audit Service will monitor compliance with this guidance. Taken together these arrangements will establish the existence of all such activities and should ensure their effective monitoring and control.

Recommendation (xx)

We recommend that all institutions should ensure they have a users' guide to assist staff in understanding how their whistleblowing policy operates.

Colleges need to proceed with care in developing separate "users' guides" to their whistleblowing policy. It is better to have a whistleblowing policy that is a stand-alone document but which is clearly and effectively communicated to staff, informing them of the scope of the policy and how they can access it. The policy itself should contain advice and guidance to staff on how to invoke the policy. This is a very complex area and institutions need to consult with their legal advisers on their existing policies. Some current legal advice is suggesting that the legal status of separate user guides is confusing. Furthermore, recent legislation, in particular the 1999 Public Interest Disclosure Act and the 2000 Human Rights Act, will require all institutions to re-examine their whistleblowing policies.

The Council, in consultation with its legal advisers and the Association of Colleges, will consider the development of a model policy and then, through the work of its Audit Service, ensure that there is appropriate communication of the policy to all staff. This will be undertaken in Spring 2001.

Recommendation (xxi)

Because of the wider relevance of the events at Coleg Gwent, we recommend that the Funding Council should arrange for this report to be considered by every FE College in

Wales.

Copies of the Audit Committee's report will be circulated to all sector institutions in January 2001 accompanied by a covering letter from the Council drawing attention to the Committee's particular concerns.